Item 9
Appendix A

POLICE AND CRIME COMMISSIONER FOR LANCASHIRE

STATEMENT OF ACCOUNTS

2018/19

POLICE AND CRIME COMMISSIONER FOR LANCASHIRE

STATEMENT OF ACCOUNTS 2018/19

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NARRATIVE REPORT

Background

Under the Police Reform and Social Responsibility Act (PRSRA) 2011, Police and Crime Commissioners (PCC) and Chief Constables (CC) are deemed to be separate entities (Corporations Sole) and further to this the two entities have been established as Schedule 2 bodies under the Audit Commission Act 1998 (now replaced by the Local Audit and Accountability Act 2014) which means that they are both required to produce accounts which are subject to audit.

The primary function of the PCC is to secure the maintenance of an efficient and effective police force in Lancashire and to hold the Chief Constable (CC) to account for the exercise of operational policing duties under the Police Act 1996.

The CC is, in technical terms, a 100% subsidiary of the PCC and in accounting terms this means that, although the CC is required to produce accounts in his own right, his accounts will also be consolidated with those of the PCC to form a third set of "PCC Group" accounts. The CC's accounts can be found at the following link:

https://www.lancashire.police.uk/about-us/our-performance/statement-of-accounts/

The governance framework reinforces the PCC's position in control of the budget whereby the CC has a budget delegated to him by the PCC against which performance is monitored and reported to the PCC throughout the year. The governance framework can be found at the following link:

http://lancashire-pcc.gov.uk/the-commissioner/my-office/policies-and-procedures/

The Financial Statements of the Police and Crime Commissioner and Chief Constable

The Accounts and Audit (England) Regulations 2015 require authorities to follow "proper practices in relation to accounts" when preparing the accounts. The Code of Practice on Local Authority Accounting in the United Kingdom 2018/19 (the Code), which is based on International Financial Reporting Standards (IFRS) constitutes a "proper accounting practice" in England and Wales under the terms of Section 21 (2) of the Local Government Act 2003. The 2018/19 Statement of Accounts is also prepared in accordance with the Code.

The accounts reflect the current legislative framework as well as the local arrangements operating in practice.

Contents of the Statement of Accounts

The statement gives the reader an overall impression of the finances of the PCC and the PCC Group for the financial year ended on 31 March 2019 (referred to as 2018/19).

The various sections contained within the consolidated financial statements are:

> **Comprehensive Income and Expenditure Statements for the PCC and the PCC Group**
> These statements show the accounting cost in the year of the PCC and PCC Group providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. The PCC raises taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the movement in reserves statement.
>
> **Movement in Reserves Statement for the PCC and the PCC Group -** The statement shows the movement from the start of the year to the end on the different reserves held by the PCC, analysed into 'usable reserves' (ie those that can be applied to fund expenditure or reduce local taxation) and other 'unusable reserves'. This statement shows how the

movements in year of the PCC's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to council tax for the year. The Net Increase/Decrease line shows the statutory General Fund Balance movements in the year following those adjustments. During 2018/19 total reserves of the Group reduced by £269.6m (PCC reduced by £11.1m): a reduction in usable reserves of £7.8m (PCC also £7.8m) and a significant reduction in unusable reserves of £261.8m (PCC reduced by £3.3m).

Balance Sheets for the PCC and the PCC Group– These statements show the value as at the balance sheet date of the assets and liabilities recognised by the PCC and the PCC Group. Net assets (assets less liabilities) are matched by the reserves held by the PCC.

Cash Flow Statements for the PCC and the PCC Group– These statements show the changes in cash and cash equivalents of the PCC during the reporting period. The statements show how the PCC generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The statements show an increase in cash and cash equivalents during 2018/19 from £1.9m at 31 March 2018 to £35.7m at 31 March 2019 which, whilst this is a snapshot at a point in time, does include the £25m long-term borrowing that was taken at the end of March 2019.

Auditor's Report – This sets out the opinion of the PCC's external auditor on whether the Accounts present a true and fair view of the financial position and operations of the PCC and the PCC Group for 2018/19.

Annual Governance Statement – This is a statement by the PCC which states his position on governance issues, and which provides assurances on the systems of control which are maintained and on the way he conducts his business.

As the PCC Group position presents the most meaningful picture, from a reader's perspective, of the activities of the PCC and the CC, where there is a separate statement or note for the PCC and the PCC Group the order of presentation will be the PCC Group followed by the single entity PCC statement or note.

Review of 2018/19

Holding the Chief Constable to Account

It is the role of the PCC to hold the Chief Constable to account for the work of the force delivering the policing priorities. The PCC has achieved this in 2018/19 as follows:

- Through a number of planned and ad hoc meetings during the year attended by the PCC himself, members of his office and members of the Constabulary workforce both at officer and staff officer level.
- Formal meetings include quarterly scrutiny meetings and joint management boards. The notes of the meetings and the reports tabled can be found on the PCC website at www.lancashire-pcc.gov.uk/meetings-and-decisions
- The PCC also holds regular one to one meetings with the Chief Constable for direct discussion on performance
- The PCC (and members of his office) sits on strategic working groups ensuring that the Police and Crime Plan priorities are reflected in day to day operational delivery of policing across the force.

Complaints

It is the responsibility of the PCC to consider complaints against the Chief Constable. Complaints against other ranks are dealt with by the Professional Standards Department within Lancashire Constabulary in line with their published policy.

In 2018/19 the Office of the Police and Crime Commissioner (OPCC) received 19 complaints comprising of 33 allegations against the Chief Constable. All complaints were considered in accordance with the Police Reform Act 2002 and the Statutory Guidance issued by the Independent Office for Police Conduct.

Complaints against the Police

Complaints against the police are dealt with by the Professional Standards Department within Lancashire Constabulary in line with the statutory rules. Whilst there are proposals contained within the Policing and Crime Act to transfer responsibility for complaints to the Office of the PCC, this is not currently the case.

The complaints process is detailed on Lancashire Constabulary's website. If a complaint is upheld then appropriate action is taken. Where a complaint is not upheld, then the complainant can refer the issue to the Independent Office for Police Conduct (IOPC) for further consideration.

Delivering the Police and Crime Plan priorities

The priorities contained within the Police and Crime Plan for Lancashire are based on extensive engagement with stakeholders, residents and Constabulary that took place in the first few months of the PCC's administration. They have been constantly examined since through regular engagement by the PCC, his office and through specialist research to ensure they remain relevant and appropriate.

The four priorities are:

- Protecting local policing
- Tackling crime and re-offending
- Supporting vulnerable people and victims
- Developing safe and confident communities

The performance of the PCC against these priorities is reported in the PCC's Annual Report.

A summary of this performance is given below.

Priority - Protecting Local Policing

Achieved by:

- Continued consultation with the public about funding for the police which saw more than 60% of respondents backing an increase in the council tax precept.
- Maintaining pressure on the Government to ensure fairer funding of the police which reflect the change in demands and increased pressure as a result of cuts to partner services.
- Increased presence in the Constabulary's Contact Management Centre to address the growing number of calls into the service and increasing length of call-times due to the complexity of issues from the public.
- Recognising that frontline is more than 'just' neighbourhood and recognising that policing services are provided by a range of teams across the force.
- The 'Place based policing' review that has changed the way in which services are delivered across the county whilst ensuring every inch is covered 24 hours a day 7 days a week.
- The use of mobile technology that enables officers to spend more time in the communities they serve rather than in a station.
- Maintaining the budget commitment for Police Community Support Officers (PCSOs) to minimise the impact of partner reductions for community safety work and promote visibility within communities across Lancashire.

Priority – Tackling crime and reoffending

Achieved by:

- Training for police officers and partner agencies in the new and emerging areas of serious crime such as human trafficking and modern slavery. This action helps such activity to be recognised and detected and therefore reduced.
- Leading the national portfolio for Cybercrime on behalf of the APCC, developing national strategy and programmes to address the growing area of technology based crime activity.
- Publicity and engagement that highlights the success of the Constabulary in detecting and preventing crime and in turn prevent further criminality occurring.
- Investment in substance misuse programmes across the county to support users through peer and mentor support.
- Engagement with and supporting the multi-agency Lancashire Reducing Reoffending Board and the individual projects the Board has funded.

Priority –Supporting Vulnerable People and Victims

Achieved by:

- The commissioning of a victim's support service from Lancashire Victim Services that provides the necessary support directly and through partners to the victims of crime in Lancashire.
- The addition of further specialist support services to enhance the service provided by Lancashire Victims Service.
- Supporting Lancashire Constabulary's restorative justice programme that encourages engagement between the victim and the perpetrator of a crime to resolve issues for the victim and also educate the offender in a way that discourages reoffending.
- Running dedicated campaigns to promote awareness of Lancashire Victim Services' specialist support available to those affected by domestic abuse, hate crime, modern slavery as well as dedicated service for young victims.
- Develop and bring together a new suite of educational materials for schools and youth workers addressing child sexual abuse through the Nest Lancashire service.

Priority – Developing Safe and Confident Communities

Achieved by:

- Awarded more than £100,000 of grants through the Community Action Fund to small organisations working to keep their communities safe.
- Support Lancashire Road Safety partnership in delivering road safety awareness programmes to over 10,000 16-18 year olds as well as the roll-out of average speed cameras on the County's most dangerous roads.
- Delivering economic and social benefits back into Lancashire via the shared Social Value Policy with Lancashire Constabulary which covers over £40m of annual spend by the police. This involves working alongside the Constabulary to ensure that any procurement or commissioning activity carried out maximises the social, economic and environmental benefit for Lancashire while still delivering value for money.
- Developing and establishing the Lancashire Volunteer Partnership (LVP) with top tier council partners, drawing together a cohort of over 4,000 volunteers across Lancashire. This has also delivered a platform on the internet that draws together community based organisations in a single place – "Our Lancashire"

Financial performance of the Group

Revenue Budget

The PCC for Lancashire's spending power in respect of 2018/19 was agreed at £271.878m and, after taking account of specific grants, the net budget requirement was set in February 2018 at £267.755m funded as follows:

	£m	
Police grant	190.024	71%
Council Tax	77.731	29%
	267.755	

Funding received from central government in 2018/19 was unchanged from 2017/18 at £190.024m.

This left £77.731m to be raised from the council tax. A surplus on collection of council tax was achieved in 2017/18 contributing £1.005m to the 2018/19 budget leaving £76.726m to be raised through the council tax charged to the residents of Lancashire in 2018/19. This represents £177.45 for each Band D property in the County, an increase of £3.23 (7.25%) over the 2017/18 charge.

The 2018/19 Revenue Outturn

The 2018/19 revenue budget for the PCC was set at £267.755m in February 2018 and after taking into account the planned use of balances (£1.404m) by budget holders in order to meet known pressures was increased during the year to £269.159m. The year-end position shows spending of £270.062m giving an overspend of £0.903m (0.34%). The table below sets out a summary position for the budget:

Position as at 31 March 2019				
	Budget £m	**Spend £m**	**Variance £m**	**%**
Chief Constable:				
Staff costs	205.768	206.970	1.202	0.58%
ACC Territorial Operations	10.361	11.947	1.586	15.31%
ACC Specialist Operations	2.791	3.067	0.276	9.89%
Deputy Chief Constable	4.618	4.745	0.127	2.75%
Director of Resources	19.061	18.559	-0.502	-2.63%
Head of Change	1.760	1.810	0.050	2.84%
Sub total	244.359	247.098	2.739	1.12%
Non-DFM budget	17.934	17.125	-0.809	-4.51%
Total Constabulary Budget	**262.293**	**264.223**	**1.930**	**0.74%**
PCC:				
Office of the PCC	1.398	1.372	-0.026	-1.86%
Communications	0.120	0.099	-0.021	-17.50%
Reducing Crime and Reoffending	0.837	0.757	-0.080	-9.56%
Community Safety	0.859	0.912	0.053	6.17%
Victim and Domestic Abuse services	0.181	0.184	0.003	1.66%
Sub total	3.395	3.324	-0.071	-2.09%
Non-DFM	3.471	2.515	-0.956	-27.54%
Total PCC	**6.866**	**5.839**	**-1.027**	**-14.96%**
TOTAL BUDGET	**269.159**	**270.062**	**0.903**	**0.34%**

The detailed year-end report can be found on the PCC website.

The year-end position reflects the ongoing pressure in respect of the management of the anti-fracking protests delivered through Operation Manilla. In 2018/19 'additional' costs of £2.786m have been incurred, of which £2.368m has been funded by special government grant. The remaining £0.418m has been met from the Operational Policing Reserve.

The year-end position is an overspend of £0.903m made up of a number of pressures and savings, the main elements of the position are:

Over/(Under) spend	Reason
£1.5m	Overspend on overtime reflecting the impact of increased demand in general for policing services and the stretch on resources resulting from major investigations and incidents alongside the impact of operation Manilla.
£1.2m	Planned overspend on pay costs reflecting the decision to forward recruit new officers to ensure resilience over the year and to meet increasing demand.
£0.7m	Impact of service reviews including one-off costs of redundancies, pension strain, additional training requirements and accommodation.
£0.5m	Additional costs associated with injury awards/gratuities and additional ill health retirements (2) more than budgeted (30).
£0.3m	Under recovery of PoCA income
(£1.5m)	Savings identified through the annual zero based budget approach taken from departmental budgets and held centrally.
(£1.0m)	Saving on the budget for costs of borrowing realised due to the level of borrowing taken being considerably lower than forecast for the year
(£0.3m)	Reflects revenue costs associated with capital investment not incurred as a result of the lower level of capital expenditure than planned in 2018/19.
(£0.2m)	Savings within VMU (£0.081m) and in Estates (£0.092m) from savings on Energy costs and backdated charges for use of premises.
(£0.1m)	Mainly relates to recovery of VAT on seized vehicles.
(£0.1m)	Relates to additional course fee income

The PCC has agreed to meet the overspend position by taking a contribution of £0.903m from the General Reserve

2018/19 year-end position for reserves

The general reserves (DFM and general fund) as at 31 March 2019 are £10.175m and represent around 3.56% of the 2019/20 budget of £286.085m. Other earmarked reserves total £20.195m including £14.783m held in the transition reserve to provide investment for the PCC's capital programme in 2019/20 and future years.

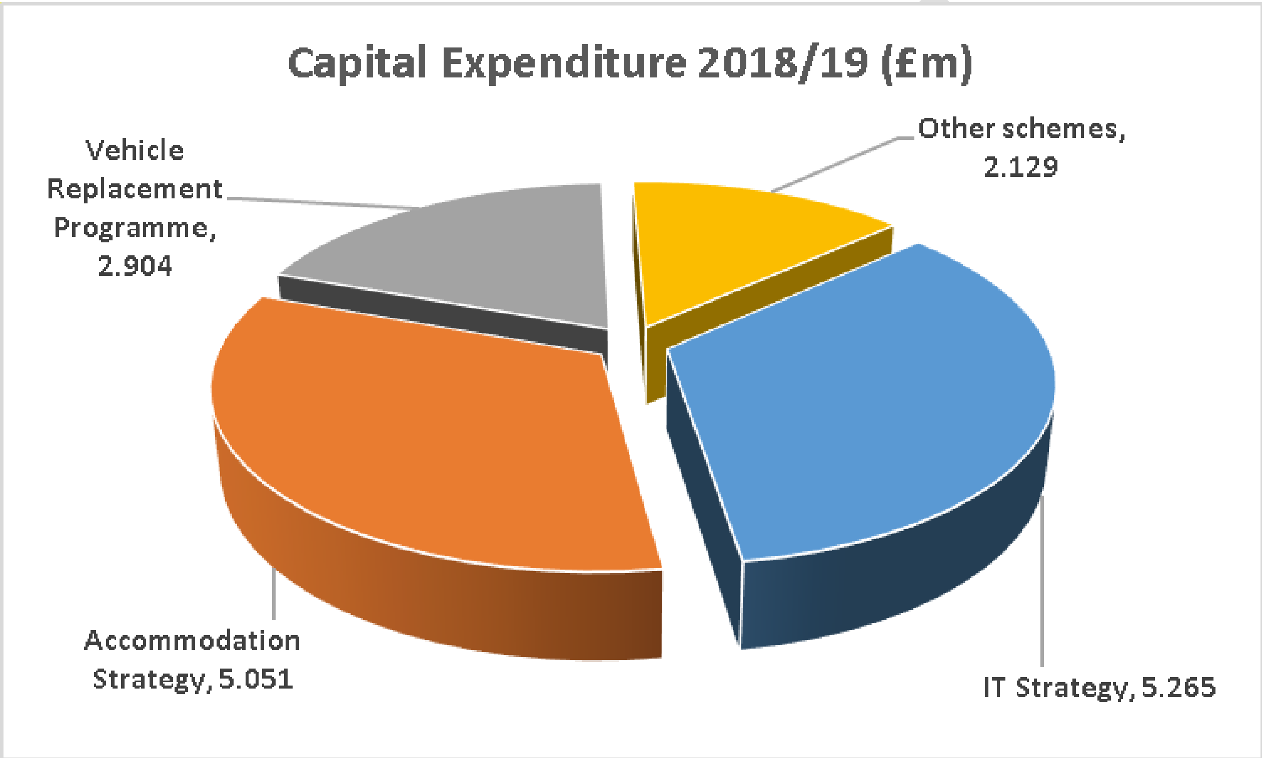
The PCC's Chief Finance Officer believes that the level of reserves remains appropriate in the context of the "Futures" programme and the increasing levels of demand and cost pressures forecast for future years. In particular the level of general reserves is considered sufficient to meet any unexpected or unusual financial issues during the financial year 2019/20.

Further detail on movement in reserves can be found in the movement in reserves statement and in Notes 8 and 9 to the accounts.

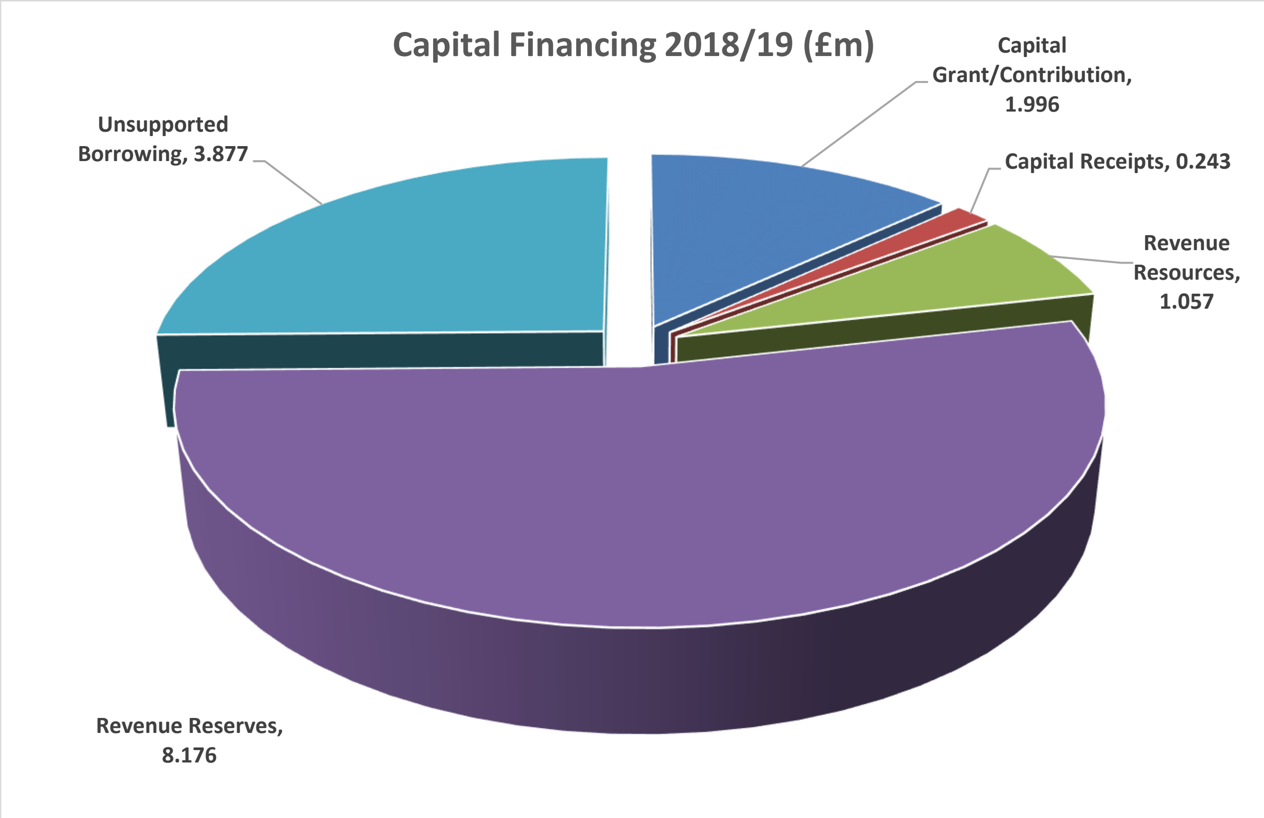
Capital Funding

The 2018/19 Capital Programme was finalised for the year at £18.761m. A total of £15.349m was spent against this budget, £3.412m less than planned. Slippage of £3.429m has been carried forward to 2019/20 to enable the schemes to be completed. After allowing for depreciation, impairment and the disposal of assets, the value of long term assets held at 31 March 2019 is estimated at £195m

The major areas of capital spending during 2018/19 were:



The 2018/19 capital expenditure was financed through a mix of grant, revenue contributions and borrowing, as follows:



The capital expenditure is partially funded from borrowing The PCC needs to pay the cost of this borrowing out of his own resources and therefore must ensure such borrowing is prudent, sustainable and affordable in the long run. The borrowing is met by a mixture of long and short term loans and the use internal cash balances. All of the long term loans have been taken with the PWLB and are taken in line with long term need. The borrowing strategy is outlined in the 2018/19 Treasury Management Strategy, a copy of which can be found on the PCC's website at the following link:

https://lancashire-pcc.gov.uk/wp-content/uploads/2018/03/2017-50.pdf

The PCC maintains a rolling five year capital forecast and resources are set aside to finance future capital expenditure. As at 31 March 2019 the PCC has set aside £15.573m in earmarked reserves to support capital expenditure.

Investing for the future

In order to preserve the operational integrity and capability of the force in future years, whilst delivering the savings required, the PCC must consider a number of proposals that will change how the service operates.

It is recognised that, in order to deliver savings proposals to meet the funding gap faced by the PCC in future years, the way the police service is delivered will need to change significantly. It is also recognised that improving the efficiency in which assets such as buildings, infrastructure, IT networks, IT equipment and staff are used, is crucial if the level of service being provided is to be maintained whilst the way it is delivered changes.

In order to improve the efficiency of the service it has been identified that significant investment is therefore needed in these assets which is recognised in both the ICT and the Asset Management strategies.

These strategies have identified a number of projects that will ensure frontline policing is protected and made as efficient as possible in future years. These projects have been brought into the PCC's capital programme for 2019/20 and future years and include:

- The replacement of IT systems that ensure policing services can continue to be delivered in a secure and sustainable way
- Replacement of IT equipment to enable front line officers to operate as efficiently and productively as possible
- Reconfiguration of the accommodation used by the Constabulary in order to ensure it is used as efficiently and cost effectively as possible
- The programmed replacement of vehicles to ensure the fleet available to the Constabulary provides the most effective support for the delivery of policing service in Lancashire

This investment will help to deliver the permanent savings in the revenue budget that are required in future years to ensure that the PCC can provide policing services in Lancashire within the resources he has available.

The level of new resources available for capital is not sufficient to meet the scale of investment envisaged and therefore options for funding the investment programme have been considered. The PCC has therefore, as part of his long term financial strategy, set aside a significant proportion of his earmarked reserves to provide one off investment funding for proposals within the capital programme that will assist the Constabulary to deliver services in a secure and sustainable way.

The Commissioner's reserves strategy is reviewed each year considering the level of general reserves and the level of earmarked reserves available for investment in the capital programme.

This process ensures that all future investment decisions are considered against the resources available for investment each year and this in turn informs the Medium Term Financial Strategy and the setting of the annual revenue budget.

Police Pension Account

The police pension account administers all of the police pension schemes (the 1987, 2006 and the new 2015 schemes). Under the Police Reform and Social Responsibility Act 2011, the account is to be administered by the CC and the accounts for 2018/19 follow the main statements.

Benefits payable are funded by contributions from employees and employers and any difference between benefits payable and contributions receivable is funded by an additional contribution by the PCC from the Police General Fund. Prior to 2015/16 this additional contribution was financed in full by a top-up grant from the Home Office received by the PCC.

From 1 April 2015 the actuarial valuation changed the employer contribution rate from 24.2% to 21.3%. However, the benefit of this reduced contribution rate was not passed on to policing bodies which means that, although the deficit on the Police Pension Account is still met by an additional contribution from the Police Fund, not all of this additional contribution is now met from Home Office Grant; an amount equivalent to 2.9% of pensionable pay is funded from the PCC's own resources. The amount of additional contribution required from the PCC in 2018/19 was £60m (£53m in 2017/18) with £57m (£50m in 2017/18) financed from Home Office grant and the balance being funded from within the budget allocated to the CC.

Pension Liabilities

Pension costs are reported in line with International Accounting Standard 19 (IAS19). The pensions' liabilities shown on the PCC Group balance sheet reflect the underlying commitment that the PCC has in the long term to fund retirement benefits. Although recognition of these liabilities has a considerable impact on the net worth of the PCC Group, statutory arrangements for funding the deficit mean that the financial position of the PCC Group remains healthy.

At 31 March 2019 the net pensions' liability of the PCC Group, calculated by the actuary, is £3,472m, (an increase of £258m over the previous year's figure of £3,214m). The net liability is split between the Local Government Pension Scheme (£126m) and the Police Pension Schemes (£3,346m) the police schemes are unfunded, i.e. no investments or other assets exist to offset future liabilities

The share of the net pensions' liability relating to the PCC's office as at 31 March 2019 is £1.4m (£1.3m at 31 March 2018).

Other elements affecting the change in liability are shown in detail in Note 28 to the accounts.

Financial outlook

The PCC, in conjunction with the CC, has developed a multi-year financial strategy to continue the process of good financial planning which has ensured that, over the current period of financial austerity, managing the reductions in government funding has been delivered in a secure and planned way. It is clear that the period of austerity will continue for a number of years and a total of more than £100m of savings are likely to be required over the period 2011/12 – 2021/22 of which £83m has already been delivered.

The longer term financial position is reviewed on a regular basis based on best estimates of the likely level of cost pressures, grant income and council tax receipts. However the lack of multi-year funding settlements make this difficult to estimate with precision and in itself presents a significant risk. Based on this environment and further savings of c £20m are currently forecast to be required for the period to 2021/22. This is a significant challenge for the PCC and the Constabulary and work is already underway to develop plans on how these can be achieved. The PCC and the Constabulary have a proven track record, as recognised by both HMIC and external audit reports, in their ability to identify and deliver financial savings and it is anticipated that this will continue. However, as the economic position becomes more difficult, it will be increasingly challenging to find savings on the scale required.
The level of funding and demand pressures for 2019/20 and future years remains uncertain.

Specific Risks include:

- ***Impact of Comprehensive Spending Review (CSR 2019)***

Funding for policing services beyond 2019/20 will be set out in the findings of the Comprehensive Spending Review that is scheduled to take place during the summer of 2019. Until these are published the level of funding available for PCCs remains uncertain.

- ***Partner Funding for PCSOs***

Some funding for PCSOs is received from partners across Lancashire and is match funded by the Commissioner. Several partners have already removed or reduced their funding for PCSOs and a number have yet to confirm their commitment beyond 2019/20. The PCC remains committed to ring-fencing police budgets that currently fund PCSOs however the overall funding available will be dependent upon the continuation of partner funding.

- ***Emergency Services Network (ESN) - Replacement of Airwave***

The emergency services communications network 'Airwave' programme has already 'slipped' by more than two years. There is a financial consequence of a delay in moving over to the new network that is not yet clear. There is also a separate capital requirement that will be required to operate on the new system that will impact upon future years' capital programme. The financial impact of these is not yet known and an estimated impact is reflected in the capital investment programme based upon the best information currently available. When further information is received from the Home office the MTFS and the capital programme will be amended accordingly.

- ***Impact of cuts to Local Government funding***

The impact of cuts to Local Authority budgets continues to increase the demands faced by policing services particularly in relation to individuals with mental health issues. The impact of these changes is extremely difficult to measure but it has been identified that nearly 80% of calls received by the police relate to incidents that are not recorded as 'crime' with the vast majority relating to individuals with mental health issues that have reached a crisis point.

- ***Changing nature of Police demand***

The demand on police services is changing with a reduction in traditional high volume crimes. However, as recognised by the National Audit Office (NAO) crime levels are a limited measure of demand and do not show the full range of work carried out by the police. This situation is echoed in Lancashire, where recorded crime does not include all types of crime, it does not take account of complexity, nor does it take into consideration those emerging more complex risks and threats such as cyber-crime and child sexual exploitation, which have historically been under-reported. This changing profile within the context of continuing austerity requires the Constabulary to ensure that it places emphasis on driving out efficiencies wherever possible to increase the capacity to meet the challenge.

- ***Managing the anti-fracking protests***

The anti-fracking protests are set to continue in to 2019/20 and the level of resource required to deliver this is entirely dependent upon the level of protest activity taking place. The revenue budget continues to meet all 'normal time' costs relating to the operation plus 15% of all additional costs. Special grant from the Home Office meets the remaining 85% of additional costs. This, therefore, remains a significant pressure on the policing budget.

Steve Freeman

Steve Freeman CPFA
CFO to the Police and Crime
Commissioner for Lancashire

28 May 2019

STATEMENT OF RESPONSIBILITIES

The Police and Crime Commissioner's Responsibilities

The Police and Crime Commissioner is required to:

- make arrangements for the proper administration of the financial affairs of the Office of the Police and Crime Commissioner and to secure that one of its officers has the responsibility for the administration of those affairs. In this instance, that officer is the chief financial officer.
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- approve the Statement of Accounts.

I approve these Statements of Accounts for the year-ending 31 March 2019

The PCC will sign the accounts after audit

Police and Crime Commissioner for Lancashire

The Chief Financial Officer's Responsibilities

The Police and Crime Commissioner's Chief Financial Officer is responsible for the preparation of the Statement of Accounts of the Police and Crime Commissioner (PCC) and the PCC Group in accordance with proper practices as set out in the CIPFA/LASAAC *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code).

In preparing this Statement of Accounts, the PCC's CFO has:

- selected suitable accounting policies and then applied them consistently
- made judgements and estimates that were reasonable and prudent
- complied with the local authority Code.

The PCC's CFO has also:

- kept proper accounting records which were up to date
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that this Statement of Accounts is that upon which the auditor should enter a certificate and an opinion. It presents a true and fair view of the financial position of the Police and Crime Commissioner for Lancashire (PCC) and the PCC Group and their transactions as at 31 March 2019 and for the year then ended.

Steve Freeman

STEVE FREEMAN CPFA
CFO to the Police and Crime Commissioner for Lancashire

28 May 2019

PCC GROUP COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

This statement shows the accounting cost in the year of providing services for the Group in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in accordance with regulations: this may be different from the accounting cost. The taxation position is shown in the movement in reserves statement

2017/18 (re-stated)				2018/19		
Gross Exp £000	Gross Inc £000	Net Exp £000		Gross Exp £000	Gross Inc £000	Net Exp £000
			Chief Constable:			
243,135	-	**243,135**	Centralised Pay Budgets	235,921	-	**235,921**
18,628	(1,205)	**17,423**	Director of Resources*	20,700	(1,586)	**19,114**
13,363	(1,885)	**11,478**	ACC-Territorial Ops.*	13,976	(1,999)	**11,977**
4,093	(763)	**3,330**	ACC-Specialist Ops.*	3,990	(917)	**3,073**
4,504	(127)	**4,377**	Deputy Chief Constable*	4,855	(104)	**4,751**
2,730	(734)	**1,996**	Head of Change*	2,752	(935)	**1,817**
35,539	(13,918)	**21,621**	Constabulary Non-Devolved budgets*	34,349	(17,030)	**17,319**
			PCC:			
1,337	-	**1,337**	Office of the PCC	1,551	-	**1,551**
1,052	-	**1,052**	Community Safety & Partnerships	760	(3)	**757**
748	(3)	**745**	Reducing Crime & Reoffending	915	(3)	**912**
3,051	(2,473)	**578**	Victims and Witnesses	2,679	(2,482)	**197**
16,359	(132)	**16,227**	PCC Non-Devolved budgets*	15,042	(125)	**14,917**
344,539	**(21,240)**	**323,299**	**Net Cost of Services**	**337,490**	**(25,184)**	**312,306**
		(49,778)	Other operating Income & expenditure (Note 11)			**(57,715)**
		92,042	Financing & investment income & expenditure (Note 12)			**86,161**
		(263,885)	Taxation & non-specific grant income (Note 13)			**(268,838)**
		101,678	**(Surplus)/Deficit on Provision of Services**			**71,914**
		(12,232)	(Surplus)/deficit on revaluation of property, plant & equipment assets			**(724)**
		(572,932)	Re-measurements of pension assets/liabilities			**198,384**
		(585,164)	**Other Comprehensive (Income) & Expenditure**			**197,660**
		(483,486)	**Total Comprehensive (Income) & Expenditure**			**269,574**

The areas of responsibility covered by these budget holders changed from 1 April 2018. The revised responsibilities are listed below and the 2017/18 analysis has been restated for comparability (see Note 4):

Director of Resources	*Estates, Fleet & Facilities Management, Finance, procurement & Transactional Services, ICT, Legal*
ACC-Territorial Ops.	*West, South, East, Specialist Operations, Contact Management*
ACC-Specialist Ops.	*Local Investigations, Serious Crime*
DCC	*Custody, PSD*
Head of Change	*Corporate Communications, Corporate Development, HR, L& D, Organisation Development*
CC Non-Devolved	*Includes collaboration, injury pensions, grant funded projects and other miscellaneous items*
PCC-Non-devolved	*In the main relates to revaluation gains/losses on the assets owned by the PCC which are used to provide the police and crime services to the public*

PCC COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices for the Office of the PCC, rather than the amount to be funded from taxation.

2017/18 Gross Exp £000	2017/18 Gross Inc £000	2017/18 Net Exp £000		2018/19 PCC Gross Exp £000	2018/19 PCC Gross Inc £000	2018/19 PCC Net Exp £000
1,326	-	**1,326**	Office of the PCC	1,541	-	**1,541**
1,045	-	**1,045**	Community Safety & Partnerships	746	(3)	**743**
653	(3)	**650**	Reducing Crime & Reoffending	843	(3)	**840**
2,868	(2,473)	**395**	Victims and Witnesses	2,679	(2,482)	**197**
1,551	(132)	**1,419**	PCC Non-Devolved budgets	748	(125)	**623**
340,450	-	**340,450**	Funding provided by PCC to CC (Note 16)	356,259	-	**356,259**
	(18,632)	**(18,632)**	Income managed within Constabulary budgets	-	(22,571)	**(22,571)**
347,893	**(21,240)**	**326,653**	**Net Cost of Services**	**362,816**	**(25,184)**	**337,632**
		(49,778)	Other operating Income & expenditure(Note 11)			**(57,715)**
		628	Financing & investment income & expenditure (Note 12)			**782**
		(263,885)	Taxation & non-specific grant income (Note 13)			**(268,838)**
		13,618	**(Surplus)/Deficit on Provision of Services**			**11,861**
		(12,232)	(Surplus)/deficit on revaluation of property, plant & equipment assets			**(724)**
		(323)	Re-measurements of PCC pension assets/liabilities			**(42)**
		(12,555)	**Other Comprehensive (Income) & Expenditure**			**(766|**
		1,063	**Total Comprehensive (Income) & Expenditure**			**11,095**

PCC GROUP MOVEMENT IN RESERVES STATEMENT 2017/18 & 2018/19

This statement shows the movement in the year on the different reserves held by the PCC Group, analysed into usable reserves (those that can be applied to fund expenditure or reduce local taxation) and other reserves. The surplus or (deficit) on the provision of services line shows the true economic cost of providing the PCC Group's services, more details of which are shown in the comprehensive income & expenditure statement. These are different from the statutory amounts required to be charged to the General Fund balance for council tax setting purposes. The net increase/(decrease) before transfers to earmarked reserves line shows the statutory General Fund balance before any discretionary transfers undertaken by the PCC Group.

	Notes	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total PCC Group Reserves £000
Balance at 31 March 2017		**46,741**	**363**	**-**	**47,104**	**(3,571,648)**	**(3,524,544)**
Movement in reserves during 2017/18:							
Total Comprehensive Income & (Expenditure)		**(101,678)**	**-**	**-**	**(101,678)**	**585,164**	**483,486**
Adjs between accounting basis & funding basis under regulations	8	**92,885**	**(130)**	**765**	**93,520**	**(93,520)**	**-**
Net Increase/(Decrease) in 2017/18		**(8,793)**	**(130)**	**765**	**(8,158)**	**491,644**	**483,486**
Balance at 31 March 2018		**37,948**	**233**	**765**	**38,946**	**(3,080,004)**	**(3,041,058)**
Movement in reserves during 2018/19:							
Total Comprehensive Income & (Expenditure)		**(71,914)**			**(71,914)**	**(197,660)**	**(269,574)**
Adjs between accounting basis & funding basis under regulations	8	**64,336**	**383**	**(591)**	**64,128**	**(64,128)**	**-**
Net Increase/(Decrease) in 2018/19		**(7,578)**	**383**	**(591)**	**(7,786)**	**(261,788)**	**(269,574)**
Balance at 31 March 2019		**30,370**	**616**	**174**	**31,160**	**(3,341,792)**	**(3,310,632)**

NOTE: The General Fund Balance is held by the PCC in reserves that are earmarked for specific purposes or in a general reserve, as follows:

	Earmarked £000	General £000	Total £000
31 March 2019	20,195	10,175	30,370
31 March 2018	26,166	11,782	37,948
31 March 2017	34,326	12,415	46,741

PCC SINGLE ENTITY MOVEMENT IN RESERVES STATEMENT 2017/18 and 2018/19

This statement shows the movement in the year on the different reserves held by the PCC analysed into usable reserves (those that can be applied to fund expenditure or reduce local taxation) and other reserves. The surplus or (deficit) on the provision of services line shows the true economic cost of providing the PCC services, more details of which are shown in the comprehensive income & expenditure statement. These are different from the statutory amounts required to be charged to the General Fund balance for council tax setting purposes. The Net increase/(decrease) before transfers to earmarked reserves line shows the statutory General Fund balance before any discretionary transfers undertaken by the PCC.

	Notes	General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000	Total Usable Reserves £000	Unusable Reserves £000	Total PCC Group Reserves £000
Balance at 31 March 2017		**46,741**	**363**	**-**	**47,104**	**130,137**	**177,241**
Movement in reserves during 2017/18:							
Total Comprehensive Income & (Expenditure)		**(13,618)**	**-**	**-**	**(13,618)**	**12,555**	**(1,063)**
Adjs between accounting basis & funding basis under regulations	8	**4,825**	**(130)**	**765**	**5,460**	**(5,460)**	**-**
Net Increase/(Decrease) in 2017/18		**(8,793)**	**(130)**	**765**	**(8,158)**	**7,095**	**(1,063)**
Balance at 31 March 2018		**37,948**	**233**	**765**	**38,946**	**137,232**	**176,178**
Movement in reserves during 2018/19:							
Total Comprehensive Income & (Expenditure)		**(11,861)**	**-**	**-**	**(11,861)**	**766**	**(11,095)**
Adjs between accounting basis & funding basis under regulations	8	**4,283**	**383**	**(591)**	**4,075**	**(4,075)**	**-**
Net Increase/(Decrease) in 2018/19		**(7,578)**	**383**	**(591)**	**(7,786)**	**(3,309)**	**(11,095)**
Balance at 31 March 2019		**30,370**	**616**	**174**	**31,160**	**133,923**	**165,083**

PCC GROUP BALANCE SHEET

The balance sheet shows the value as at the balance sheet date of assets and liabilities recognised by the PCC Group. The net assets (assets less liabilities) are matched by the reserves held by the Group.

31 March 2018		Notes	31 March 2019
£000			**£000**
190,523	Property, Plant & Equipment	18	191,921
462	Investment Property		534
3,452	Intangible Assets		2,929
194,437	**Long Term Assets**		**195,384**
385	Assets Held for Sale		-
995	Inventories		1,328
27,600	Short Term Debtors	20	23,386
1,853	Cash and Cash Equivalents	22	35,675
1,682	Payments in Advance		3,319
32,515	**Current Assets**		**63,708**
(6,100)	Short Term Borrowing	27	(27,100)
(28,426)	Short Term Creditors	21	(27,955)
(1,556)	Short-Term Provisions		(1,571)
(769)	Receipts in Advance		(674)
(36,851)	**Current Liabilities**		**(57,300)**
(1,434)	Long-Term Provisions		(824)
(15,954)	Long Term Borrowing	27	(39,854)
(236)	Long Term Creditors –General		-
(3,213,535)	Pensions' Liability	28	(3,471,746)
(3,231,159)	**Long Term Liabilities**		**(3,512,424)**
(3,041,058)	**Net Assets**		**(3,310,632)**
38,946	Usable Reserves		31,160
(3,080,004)	Unusable Reserves	10	(3,341,792)
(3,041,058)	**Total Reserves**		**(3,310,632)**

PCC SINGLE ENTITY BALANCE SHEET

The balance sheet shows the value as at the balance sheet date of assets and liabilities recognised by the PCC as a single entity. The net assets (assets less liabilities) are matched by the reserves held by the PCC.

31 March 2018		Notes	31 March 2019
£000			
190,523	Property, Plant & Equipment	18	191,921
462	Investment Property		534
3,452	Intangible Assets		2,929
194,437	**Long Term Assets**		**195,384**
385	Assets Held for Sale		-
995	Inventories		1,328
27,600	Short Term Debtors	20	23,386
1,853	Cash and Cash Equivalents	22	35,675
1,682	Payments in Advance		3,319
32,515	**Current Assets**		**63,708**
(6,100)	Short Term Borrowing	27	(27,100)
(23,453)	Short Term Creditors	21	(22,633)
(1,556)	Short-Term Provisions		(1,571)
(769)	Receipts in Advance		(674)
(31,878)	**Current Liabilities**		**(51,978)**
(1,434)	Long-Term Provisions		(824)
(15,954)	Long Term Borrowing	27	(39,854)
(236)	Long Term Creditors		-
(1,272)	Pensions Liability	28	(1,353)
(18,896)	**Long Term Liabilities**		**(42,031)**
176,178	**Net Assets**		**165,083**
38,946	Usable Reserves		31,160
137,232	Unusable Reserves	9	133,923
176,178	**Total Reserves**		**165,083**

PCC GROUP CASH FLOW STATEMENT

The cash flow statement shows the changes in cash and cash equivalents of the PCC Group in the reporting period. The statement shows how the Group generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Group are funded by way of taxation and grant income or from the recipients of services provided by the Group. Investing activities represent the extent to which cash flows have been made for resources which are intended to contribute to the Group's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (ie borrowing) to the Group.

2017/18 £000		2018/19 £000
101,678	Net (surplus)/deficit on the provision of services	71,914
(110,164)	Adjustments to net (surplus)/deficit on the provision of services for non-cash movements (Note 23)	(76,582)
3,096	Adjustments for items included in the net (surplus)/deficit on the provision of services that are investing & financing activities (Note 24)	2,030
(5,390)	**Net cash flows from Operating Activities**	**(2,638)**
29,929	Investing activities (Note 25)	13,478
(3,663)	Financing activities (Note 26)	(44,662)
14,876	**Net (Increase)/Decrease in cash & cash equivalents**	**(33,822)**
16,729	**Cash & cash equivalents at beginning of the reporting period**	**1,853**
1,853	**Cash & cash equivalents at the end of the reporting period (Note 22)**	**35,675**

PCC SINGLE ENTITY CASH FLOW STATEMENT

The cash flow statement shows the changes in cash and cash equivalents of the PCC in the reporting period. The statement shows how the PCC generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the PCC are funded by way of taxation and grant income or from the recipients of services provided by the PCC. Investing activities represent the extent to which cash flows have been made for resources which are intended to contribute to the PCC's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the PCC.

2017/18 £000		2018/19 £000
13,618	Net (surplus)/deficit on the provision of services	**11,861**
(22,104)	Adjustments to net (surplus)/deficit on the provision of services for non-cash movements (Note 23)	(16,529)
3,096	Adjustments for items included in the net (surplus)/deficit on the provision of services that are investing & financing activities (Note 24)	2,030
(5,390)	**Net cash flows from Operating Activities**	**(2,638)**
23,929	Investing activities (Note 25)	13,478
(3,663)	Financing activities (Note 26)	(44,662)
14,876	**Net (Increase)/Decrease in cash & cash equivalents**	**(33,822)**
16,729	Cash & cash equivalents at beginning of the reporting period	**1,853**
1,853	**Cash & cash equivalents at the end of the reporting period (Note 22)**	**35,675**

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1. EXPENDITURE AND FUNDING ANALYSIS

The Expenditure and Funding Analysis shows how annual expenditure is used and funded from resources e.g. government grants and council tax by local authorities in comparison with those resources consumed or earned by authorities in accordance with generally accepted practices. It also shows how this expenditure is allocated for decision-making purposes between budget areas. Income and expenditure accounted for under generally accepted practices is presented more fully in the Comprehensive Income and Expenditure Statement.

PCC GROUP
2018/19

	Outturn position as reported to management £000	Adjustments to arrive at net amount chargeable to Police General Fund* £000	Net expenditure chargeable to Police General Fund £000	Adjustments between the funding and accounting basis* £000	Net expenditure Comprehensive Income & Expenditure Statement £000
Chief Constable:					
Centralised Pay Budgets	**206,970**	**-**	**206,970**	**28,951**	**235,921**
Director of Resources	**18,559**	**555**	**19,114**	**-**	**19,114**
ACC-Territorial Ops	**11,947**	**30**	**11,977**	**-**	**11,977**
ACC Specialist OPs	**3,067**	**6**	**3,073**	**-**	**3,073**
Deputy Chief Constable	**4,745**	**6**	**4,751**	**-**	**4,751**
Head of Change	**1,810**	**7**	**1,817**	**-**	**1,817**
Constabulary Non-Devolved Budgets	**17,125**	**54,471**	**71,596**	**(54,277)**	**17,319**
PCC:					
Office of the PCC	**1,471**	**-**	**1,471**	**80**	**1,551**
Community Safety & Partnerships	**757**	**-**	**757**	**-**	**757**
Reducing Crime and Re-offending	**912**	**-**	**912**	**-**	**912**
Victims and Witnesses	**184**	**(1)**	**183**	**14**	**197**
PCC Non-Devolved Budgets	**2,515**	**(2,640)**	**(125)**	**15,042**	**14,917**
Net Cost of Services	**270,062**	**52,434**	**322,496**	**(10,190)**	**312,306**
Other Income and Expenditure	**0**	**(314,918)**	**(314,918)**	**74,526**	**(240,392)**
(Surplus)/Deficit on provision of services	**270,062**	**(262,484)**	**7,578**	**64,336**	**71,914**
Opening General Fund Balance			**(37,948)**		
In-year (surplus)/deficit			**7,578**		
Closing General Fund Balance			**(30,370)**		

**Further details are shown in tables that follow*

2017/18 (re-stated)

	Outturn position as reported to management £000	Adjustments to arrive at net amount chargeable to Police General Fund* £000	Net expenditure chargeable to Police General Fund £000	Adjustments between the funding and accounting basis* £000	Net expenditure Comprehensive Income & Expenditure Statement £000
Chief Constable:					
Centralised Pay Budgets	201,142	-	201,142	41,993	243,135
Director of Resources	16,916	507	17,423	-	17,423
ACC-Territorial Ops	9,026	2,452	11,478	-	11,478
ACC Specialist OPs	6,342	(3,012)	3,330	-	3,330
Deputy Chief Constable	5,769	(1,392)	4,377	-	4,377
Head of Change	0	1,996	1,996	-	1,996
Constabulary Non-Devolved Budgets	18,165	48,803	66,968	(45,347)	21,621
PCC:					
Office of the PCC	1,254	-	1,254	83	1,337
Community Safety & Partnerships	995	57	1,052	-	1,052
Reducing Crime and Re-offending	1,052	(307)	745	-	745
Victims and Witnesses	561	-	561	17	578
PCC Non-Devolved Budgets	3,278	(3,410)	(132)	16,359	16,227
Net Cost of Services	**264,500**	**45,694**	**310,194**	**13,105**	**323,299**
Other Income and Expenditure	0	(301,401)	(301,401)	79,780	(221,621)
(Surplus)/Deficit on provision of services	**264,500**	**(255,707)**	**8,793**	**92,885**	**101,678**
Opening General Fund Balance			**(46,741)**		
In-year (surplus)/deficit			8,793		
Closing General Fund Balance			**(37,948)**		

**Further details are shown in tables that follow*

PCC SINGLE ENTITY
2018/19

	Outturn position as reported to management	Adjustments to arrive at net amount chargeable to Police General Fund*	Net expenditure chargeable to Police General Fund	Adjustments between the funding and accounting basis*	Net expenditure Comprehensive Income & Expenditure Statement
	£000	£000	£000	£000	£000
Office of the PCC	1,471	(10)	1,461	80	1,541
Community Safety & Partnerships	912	(72)	840	-	840
Reducing Crime and Re-offending	757	(14)	743	_	743
Victims and Witnesses	184	(1)	183	14	197
PCC Non-Devolved Budgets	2,515	(16,934)	(14,419)	15,042	623
Funding provided to the CC	-	356,259	356,259	-	356,259
Income collected by the CC	-	(22,571)	(22,571)	-	(22,571)
Net Cost of Services	5,839	316,657	322,496	15,136	337,632
Other Income and Expenditure	0	(314,918)	(314,918)	(10,853)	(325,771)
(Surplus)/Deficit on provision of services	5,839	1,739	7,578	4,283	11,861
Opening General Fund Balance			(37,948)		
In-year (surplus)/deficit			7,578		
Closing General Fund Balance			(30,370)		

**Further details are shown in tables that follow*

2017/18

	Outturn position as reported to management £000	Adjustments to arrive at net amount chargeable to Police General Fund* £000	Net expenditure chargeable to Police General Fund £000	Adjustments between the funding and accounting basis* £000	Net expenditure Comprehensive Income & Expenditure Statement £000
Office of the PCC	1,254	(11)	1,243	83	1,326
Community Safety & Partnerships	995	(345)	650	-	650
Reducing Crime and Re-offending	1,052	(7)	1,045	-	1,045
Victims and Witnesses	561	(183)	378	17	395
PCC Non-Devolved Budgets	3,278	(18,218)	(14,940)	16,359	1,419
Funding provided to the CC	-	340,450	340,450	-	340,450
Income collected by the CC	-	(18,632)	(18,632)	-	(18,632)
Net Cost of Services	**7,140**	**303,054**	**310,194**	**16,459**	**326,653**
Other Income and Expenditure	-	(301,401)	(301,401)	(11,634)	(313,035)
(Surplus)/Deficit on provision of services	**7,140**	**1,653**	**8,793**	**4,825**	**13,618**
Opening General Fund Balance			**(46,741)**		
In-year (surplus)/deficit			8,793		
Closing General Fund Balance			**(37,948)**		

**Further details are shown in tables that follow*

Adjustments to arrive at net amount chargeable to Police General Fund

These adjustments relate to items that are included within departmental budgets but excluded from the cost of services in the comprehensive income and expenditure statement.

PCC GROUP
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2017/18 re-stated					2018/19		
Adjustments relating to other income & expenditure £000	**Adjustments relating to transfers to & from reserves £000**	**Impact of 2018/19 structure changes £000**	**Total Adjustments £000**		**Adjustments relating to other income & expenditure £000**	**Adjustments relating to transfers to & from reserves £000**	**Total Adjustments £000**
				Chief Constable			
-		-	-	Centralised Pay Budget	-	-	-
293	214	-	507	Director of Resources	289	266	555
-	28	2,424	2,452	ACC – Territorial Ops	-	30	30
-	15	(3,027)	(3,012)	ACC – Specialist Ops	3	3	6
-	1	(1,393)	(1,392)	Deputy Chief Constable	-	6	6
-		1,996	1,996	Head of Change	-	7	7
49,504	(701)	-	48,803	Constabulary Non-Devolved Budgets	57,297	(2,825)	54,472
				PCC			
-		-	-	Office of the PCC	-	-	-
-	(250)	-	57	Community Safety & Partnerships	-	-	-
-		-	(307)	Reducing Crime & Re-offending	-	-	-
-		-	-	Victims & Witnesses	-	-	-
(10,043)	6,633	-	(3,410)	PCC Non-Devolved Budgets	(10,423)	7,783	(2,640)
39,754	**5,940**	**-**	**45,964**	**Net Cost of Services**	**47,164**	**5,270**	**52,434**
(301,401)	-	-	(301,401)	Other Income & Expenditure	(314,918)	-	(314,918)
(261,647)	**5,940**	**-**	**(255,707)**	**(Surplus)/Deficit on Provision of Services**	**(267,754)**	**5,270**	**(262,484)**

PCC SINGLE ENTITY

2017/18 re-stated					2018/19			
Adjs relating to other inc & exp £000	**Adjs relating to transfers to & from reserves £000**	**Adjs relating to the funding of the CC**	**Total Adjs £000**		**Adjs relating to other inc & exp £000**	**Adjs relating to transfers to & from reserves £000**	**Adjs relating to the funding of the CC**	**Total Adjs £000**
-	-	(11)	(11)	Office of the PCC	-	-	(10)	(10)
-	(250)	(95)	(345)	Community Safety & Partnerships	-	-	(72)	(72)
-	-	(7)	(7)	Reducing Crime & Re-offending	-	-	(14)	(14)
-	-	(183)	(183)	Victims & Witnesses	(1)	-	-	(1)
(10,043)	6,633	(14,808)	(18,218)	PCC Non-Devolved Budgets	(10,423)	7,783	(14,294)	(16,934)
-	-	340,450	340,450	Funding provided to the CC	-	-	356,259	356,259
-		(18,632)	(18,632)	Income collected by the CC	-	-	(22,571)	(22,571)
(10,043)	**6,383**	**306,714**	**303,054**	**Net Cost of Services**	**(10,424)**	**7,783**	**319,298**	**316,657**
(301,401)	-	-	(301,401)	Other Income & Expenditure	(314,918)	-	-	(314,918)
(311,444)	**6,383**	**306,714**	**1,653**	**(Surplus)/Deficit on Provision of Services**	**(325,342)**	**7,783**	**319,298**	**1,739**

Adjustments between the funding and accounting basis

The tables below provide a more detailed breakdown of the main technical adjustments to Net Expenditure Chargeable to Police General Fund to arrive at the amounts in the Comprehensive Income and Expenditure Statement. An explanation of what these adjustments represent follows these notes.

PCC GROUP

2017/18					2018/19			
Adjs for capital purposes (Note A)	**Net change for pensions adjs (Note B)**	**Other statutory adjs (Note C)**	**Total Statutory Adjs**		**Adjs for capital purposes (Note A)**	**Net change for pensions adjs (Note B)**	**Other statutory adjs (Note C)**	**Total Statutory Adjs**
£000	**£000**	**£000**	**£000**		**£000**	**£000**	**£000**	**£000**
-	42,150	(157)	41,993	Centralised Pay Budgets	-	28,630	321	28,951
-	(45,333)	(14)	(45,347)	Constabulary Non-Devolved budgets	-	(54,304)	27	(54,277)
-	83	-	83	Office of the PCC	-	75	5	80
-	-	-	-	Community Safety & Partnerships	-	-	-	-
-	17	-	17	Victims and Witnesses	-	13	1	14
16,356	3	-	16,359	PCC Non-Devolved budgets	15,039	3	-	15,042
16,356	**(3,080)**	**(171)**	**13,105**	**Net Cost of Service**	**15,039**	**(25,583)**	**354**	**(10,190)**
(12,028)	91,450	358	79,780	Other income and expenditure from Expenditure and Funding Analysis	(11,206)	85,410	322	74,526
4,328	**88,370**	**187**	**92,885**	**Difference between General Fund deficit and CIES Deficit on Provision of Services**	**3,833**	**59,827**	**676**	**64,336**

PCC SINGLE ENTITY

2017/18					2018/19			
Adjs for capital purposes (Note A)	**Net change for pensions adjs (Note B)**	**Other differences (Note C)**	**Total Adjs**		**Adjs for capital purposes (Note A)**	**Net change for pensions adjs (Note B)**	**Other differences (Note C)**	**Total Adjs**
£000	**£000**	**£000**	**£000**		**£000**	**£000**	**£000**	**£000**
-	83	-	83	Office of the PCC	-	75	5	80
-	17	-	17	Victims and Witnesses	-	13	1	14
-	-	-	-	Community Safety & Partnerships	-	-	-	-
16,356	3	-	16,359	PCC Non-Devolved budgets	15,039	3	-	15,042
16,356	**103**	**-**	**16,459**	**Net Cost of Service**	**15,039**	**91**	**6**	**15,136**
(12,028)	36	358	(11,634)	Other income and expenditure from Expenditure and Funding Analysis	(11,206)	31	322	(10,853)
4,328	**139**	**358**	**4,825**	**Difference between General Fund deficit and CIES Deficit on Provision of Services**	**3,833**	**122**	**328**	**4,283**

Note A – Adjustments for Capital Purposes

Adjustments for capital purposes –this column adds in depreciation, amortisation of intangible assets and revaluation gains and losses in the service lines and for:

- Other Operating Income and Expenditure – adjusts for capital disposals with a transfer of income on disposal of assets and the amounts written off for those assets. Also any change in the fair value of assets held for sale is reflected in this note;
- Financing and investment income and expenditure – the statutory charges for capital financing ie Minimum Revenue Provision and other revenue contributions are deducted from other income and expenditure as these are not chargeable under generally accepted accounting practices;
- Taxation and non-specific grant income and expenditure – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted for those receivable in year to those receivable without conditions or for which conditions were satisfied throughout the year. The taxation and Non-Specific Grant Income and Expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

Note B - Net Change for the Pensions Adjustments

Net change for the removal of pension contributions and the addition of IAS19 *Employee Benefits* pension related expenditure and income.

- For services this represents the removal of the employer pension contributions made by the PCC and CC as allowed by statute and the replacement with current and past service costs;
- For Financing and investment income and expenditure the net interest on the defined benefit liability is charged to the CIES.

Note C – Other Differences

Other differences between amounts debited/credited to the Comprehensive Income and Expenditure Statement and amounts payable/receivable to be recognised under statute.

- For services this represents the change in accrued employee benefits such as annual leave and time off in lieu;
- The charge under Taxation and non-specific grant income and expenditure represents the difference between what is chargeable under statutory regulations for council tax that was projected to be received at the start of the year and the income recognised under generally accepted accounting practices in the Code. This is a timing difference as any difference will be brought forward in future Surpluses or Deficits on the Collection Fund.

2. EXPENDITURE AND INCOME ANALYSED BY NATURE

The PCC Group's expenditure and income is analysed by nature as follows:

	2018/19 £000	2017/18 £000
Expenditure		
Employee expenses	274,803	282,244
Other service expenses	47,672	45,958
Depreciation and amortisation	14,294	14,809
Revaluation losses	745	1,548
Interest expenses	86,395	92,249
Reduction in FV of assets held for sale	-	72
Write out of NCA sold in year	544	447
Impairment allowance	47	-
Total expenditure	**424,500**	**437,327**
Income		
Fees, charges and other service income	(15,470)	(13,834)
Interest and investment income	(209)	(207)
Income from council tax	(77,410)	(71,265)
Increase in FV of investment assets and assets held for sale	(72)	-
Receipts from sale of non-current assets	(951)	(812)
Government grants and contributions	(258,474)	(249,531)
Total Income	**(352,586)**	**(335,649)**
DEFICIT ON PROVISION OF SERVICES	**71,914**	**101,678**

The PCC's Single Entity expenditure and income is analysed by nature as follows:

	2018/19 £000	2017/18 £000
Expenditure		
Employee expenses	917	876
Other service expenses	4,919	5,039
Revaluation losses	745	1,548
Interest expenses	1,016	835
Reduction in FV of assets held for sale	-	72
Write out of NCA sold in year	544	447
Impairment allowance	47	-
PCC funding of CC	356,259	340,450
Total expenditure	**364,447**	**349,267**
Income		
Fees, charges and other service income	(15,470)	(13,834)
Interest and investment income	(209)	(207)
Income from council tax	(77,410)	(71,265)
Increase in FV of investment assets and assets held for sale	(72)	-
Receipts from sale of non-current assets	(951)	(812)
Government grants and contributions	(258,474)	(249,531)
Total Income	(352,586)	**(335,649)**
DEFICIT ON PROVISION OF SERVICES	**11,861**	**13,618**

3. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

Accounting policies are set out in notes to the accounts. In applying the accounting policies, the PCC Group has to make certain judgements about complex transactions or those involving uncertainty about future events.

The critical judgements made in the statement of accounts are:

- There remains a significant degree of uncertainty about future levels of funding for local government and police and crime commissioners. However, the PCC has determined that this uncertainty is not sufficient to provide an indication that the assets of the PCC might be impaired as a result of a need to close facilities and reduce levels of service provision.

- The PCC has to determine whether there is a group relationship between the PCC and other entities. The accountants have assessed each relationship that exists between the PCC and other entities in accordance with the accounting standards and the finance guidance provided by the Chartered Institute of Public Finance and Accountancy (CIPFA). The most significant of those relationships is the relationship with the CC of Lancashire who has been assessed as being a 100% subsidiary of the PCC and is included in the PCC Group accounts. The PCC's relationships with other entities can been found in Note 29. It has been determined that there are no further material group relationships that require incorporation into the PCC Group accounts.

- The PCC's valuer is required to exercise judgement in determining the carrying value of land and buildings on the PCC/PCC Group's balance sheet. The valuations are undertaken by appropriately qualified professionals who follow best practice. In addition to valuations which are undertaken in year consideration has been given to the local market conditions and available national data to assess whether there have been changes which would require a review of all asset values held at 31 March 2019. It was not considered that there was any such need in 2018/19.

4. PRIOR PERIOD ADJUSTMENTS

From 1 April 2018 the management reporting structure at the Constabulary changed and, as a consequence, the segments reported in the Comprehensive Income and Expenditure Statement also changed. Details of the revised responsibilities are shown at the foot of the Comprehensive income and Expenditure Statement. Although the structure was not in place during 2017/18, in order to assist comparability, the accounts have been adjusted to reflect the changes as if they existed at that time. The changes made to the Comprehensive Income and Expenditure Statement do not impact Net Cost of Service but impact individual lines as follows:

	Original Net Exp 2017/18	**Re-stated Net Exp 2017/18**	**Adjustment**
	£000	**£000**	**£000**
Impact on individual lines:			
Chief Constable:			
ACC Territorial Ops	9,040	11,478	+2,438
ACC Specialist Ops	6,371	3,330	-3,041
Deputy Chief Constable	5,770	4,377	-1,393
Head of Change	-	1,996	+1,996
Impact on Net Cost of Service	**323,299**	**323,299**	**-**

These changes do not impact any of the other financial statements.

5. ACCOUNTING STANDARDS THAT HAVE BEEN ISSUED BUT HAVE NOT YET BEEN ADOPTED

The following amendments have been made to accounting standards or new accounting standards that have been issued on or before 1 January 2019 but not yet adopted by the Code:

- Amendments to IAS40 *Investment Property: Transfers of Investment Property:*
- *Annual Improvements to IFRS Standards 2014 – 2016 Cycle;*
- IFRIC 22 *Foreign Currency Transactions and Advance Consideration;*
- IFRIC 23 *Uncertainty over Income Tax Treatments;*
- Amendments to IFRS 9 *Financial Instruments: Prepayment Features with Negative Compensation*

None of the above amendments are not expected to have any material impact on the accounts of the PCC Group

6. ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The statement of accounts contains estimated figures that are based on assumptions made by the PCC Group about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. The items in the PCC Group balance sheet at 31 March 2019 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment	The value of the PPE is dependent upon a professional judgement based on information available at the time of making the valuation. Due to changes in economic conditions a valuation taken on a different date could potentially result in a different valuation	Impossible to quantify as economic changes could lead to an increase or decrease in the value of PPE
Pensions Liability	Estimation of net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the PCC Group with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. Included within the Defined Benefits Note 28 is a sensitivity analysis that looks at the impact on net pensions' deficit of each of the significant actuarial assumptions. For instance, a 1% reduction in the discount rate assumption would result in an increase in the pension liability of the PCC Group of around £773m. During 2018/19, the PCC's actuaries advised that the net pensions' liability had increased by £228m as a result of changes in financial assumptions. This included a reduction of 0.2% in the discount rate of all schemes, which increases the liability, along with increases of 0.1% each in assumptions for inflation, salary and pension increases which result in further increases in liability.

7. EVENTS AFTER THE BALANCE SHEET DATE

Accounting Policy

Events after the balance sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the statement of accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the statement of accounts is adjusted to reflect such events;

- those that are indicative of conditions that arose after the reporting period – the statement of accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the statement of accounts.

The statement of accounts was authorised for issue by the PCC's CFO on 28 May 2019. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2019, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

NOTES TO THE MOVEMENT IN RESERVES STATEMENT

8. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATION

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the PCC in the year in accordance with proper accounting practice to arrive at the resources that are specified by statutory provisions as being available to the PCC to meet future capital and revenue expenditure. The following sets out a description of the reserves that the adjustments are made against.

GENERAL FUND BALANCE

The Police General Fund Balance is the statutory fund into which all receipts are required to be paid and out of which all liabilities are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the General Fund Balance, which is not necessarily in accordance with proper accounting practice. The General Fund Balance therefore summarises the resources that the PCC is statutorily empowered to spend on his services or on capital investment at the end of the financial year.

CAPITAL RECEIPTS RESERVE

The Capital Receipts Reserve holds the proceeds from the disposal of land or other assets, which are restricted by statute from being used other than to fund new capital expenditure or to be set aside to finance historical capital expenditure. The balance on the reserve shows the resources that have yet to be applied for these purposes at year-end.

CAPITAL GRANTS UNAPPLIED

The Capital Grants Unapplied Reserve holds the grants and contributions received towards capital projects for which the conditions have been met that would otherwise require the repayment of the monies but which have yet to be applied to meet expenditure. The balance is restricted by grant terms as to the capital expenditure against which it can be applied and/or the financial year in which this can take place

2018/19

PCC GROUP	Usable Reserves General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000
Adjustments to Revenue Resources			
Amounts by which income and expenditure included in the CIES are different from revenue for the year calculated in accordance with statutory requirements:			
• Pensions costs (transferred to (or from) the Pensions Reserve)	59,827		
• Council Tax (transfers to or from the Collection Fund Adjustment Account	322		
• Untaken leave and Time Off In Lieu (transferred to the Accumulated Absences Account	354		
• Reversal of entries included in the deficit on provision of services in relation to capital expenditure (these items are charged to the Capital Adjustment Account	14,106		
Total Adjustments to Revenue Resources	**74,609**	**-**	**-**
Adjustments between Revenue and Capital Resources			
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(625)	625	
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	(415)		
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	(9,233)		
Total Adjustments between Revenue and Capital Resources	**(10,273)**	**625**	**-**
Adjustments to Capital Resources			
Use of the Capital Receipts Reserve to finance capital expenditure		(242)	
Application of capital grants to finance capital expenditure			(591)
Total Adjustments to Capital Resources	**-**	**(242)**	**(591)**
Total Adjustments	**64,336**	**383**	**(591)**

PCC SINGLE ENTITY	Usable Reserves General Fund Balance £000	 Capital Receipts Reserve £000	 Capital Grants Unapplied £000
Adjustments to Revenue Resources			
Amounts by which income and expenditure included in the CIES are different from revenue for the year calculated in accordance with statutory requirements:			
• Pensions costs (transferred to (or from) the Pensions Reserve)	123		
• Council Tax (transfers to or from the Collection Fund Adjustment Account	322		
• Untaken leave and Time Off In Lieu (transferred to the Accumulated Absences Account	5		
• Reversal of entries included in the deficit on provision of services in relation to capital expenditure (these items are charged to the Capital Adjustment Account	14,106		
Total Adjustments to Revenue Resources	**14,556**	**-**	**-**
Adjustments between Revenue and Capital Resources			
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(625)	625	
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	(415)		
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	(9,233)		
Total Adjustments between Revenue and Capital Resources	**(10,273)**	**625**	**-**
Adjustments to Capital Resources			
Use of the Capital Receipts Reserve to finance capital expenditure		(242)	
Application of capital grants to finance capital expenditure			(591)
Total Adjustments to Capital Resources	**-**	**(242)**	**(591)**
Total Adjustments	**4,283**	**383**	**(591)**

2017/18

PCC GROUP	Usable Reserves General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000
Adjustments to Revenue Resources			
Amounts by which income and expenditure included in the CIES are different from revenue for the year calculated in accordance with statutory requirements:			
• Pensions costs (transferred to (or from) the Pensions Reserve)	88,370	-	-
• Council Tax (transfers to or from the Collection Fund Adjustment Account	358	-	-
• Untaken leave and Time Off In Lieu (transferred to the Accumulated Absences Account	(171)	-	-
• Reversal of entries included in the deficit on provision of services in relation to capital expenditure (these items are charged to the Capital Adjustment Account	14,279	-	765
Total Adjustments to Revenue Resources	**102,836**	**-**	**765**
Adjustments between Revenue and Capital Resources			
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(500)	500	-
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	(402)	-	-
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	(9,049)	-	-
Total Adjustments between Revenue and Capital Resources	**(9,951)**	**500**	**-**
Adjustments to Capital Resources			
Use of the Capital Receipts Reserve to finance capital expenditure	-	(630)	-
Application of capital grants to finance capital expenditure	-	-	-
Total Adjustments to Capital Resources	**-**	**(630)**	**-**
Total Adjustments	**92,885**	**(130)**	**765**

PCC SINGLE ENTITY	Usable Reserves General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Unapplied £000
Adjustments to Revenue Resources			
Amounts by which income and expenditure included in the CIES are different from revenue for the year calculated in accordance with statutory requirements:			
• Pensions costs (transferred to (or from) the Pensions Reserve)	139	-	-
• Council Tax (transfers to or from the Collection Fund Adjustment Account	358	-	-
• Untaken leave and Time Off In Lieu (transferred to the Accumulated Absences Account	-	-	-
• Reversal of entries included in the deficit on provision of services in relation to capital expenditure (these items are charged to the Capital Adjustment Account	14,279	-	765
Total Adjustments to Revenue Resources	**14,776**	**-**	**765**
Adjustments between Revenue and Capital Resources			
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	(500)	500	-
Statutory provision for the repayment of debt (transfer from the Capital Adjustment Account)	(402)	-	-
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	(9,049)	-	-
Total Adjustments between Revenue and Capital Resources	**(9,951)**	**500**	**-**
Adjustments to Capital Resources			
Use of the Capital Receipts Reserve to finance capital expenditure	-	(630)	-
Application of capital grants to finance capital expenditure	-	-	-
Total Adjustments to Capital Resources	**-**	**(630)**	**-**
Total Adjustments	**4,825**	**(130)**	**765**

9. EARMARKED RESERVES

Accounting Policy

All usable reserves belong to the PCC. These include both revenue and capital usable reserves. The PCC sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the Police General Fund balance in the movement in reserves statement. When expenditure to be financed from a reserve is incurred, it is charged against the relevant service line to score against the surplus/deficit on the provision of services in the CIES. The reserve is then appropriated back into the Police General Fund balance in the movement in reserves statement so that there is no net charge against council tax in the year that the expenditure is incurred.

Transfers to/from Earmarked Reserves

This note sets out the amounts set aside from the Police General Fund balances in earmarked reserves to provide financing for future expenditure plans, and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2018/19.

	Comparative Year 2017/18			2018/19			
	Balance at 31 March 2017	Transfers Out 2017/18	Transfers In 2017/18	**Balance at 31 March 2018**	Transfers Out 2018/19	Transfers In 2018/19	**Balance at 31 March 2019**
Earmarked Reserves:	**£000**	£000	£000	**£000**	£000	£000	**£000**
Capital Funding Reserve	**1,458**	(9,049)	7,591	**-**	(9,233)	9,233	**-**
Confiscation & Forfeiture Reserve	**175**	-	91	**266**		33	**299**
Clothing Development Reserve	**623**	(152)		**471**	(162)	75	**384**
Vehicle Maintenance Reserves	**40**	-	-	**40**	-	-	**40**
POCA Equalisation Reserve	**652**	(12)	-	**640**	(93)	-	**547**
Transition Reserve	**19,475**	(4,622)	1,324	**16,177**	(1,394)		**14,783**
Operational Policing Reserve	**2,584**	(2,220)	-	**364**	(506)	2,057	**1,915**
Strategic Investment Reserve	**6,144**	(146)	-	**5,998**	(6,051)	53	**-**
Road Safety Reserves	**3,175**	(1,530)	134	**1,779**	(334)	529	**1,974**
Forensic Academy Reserves	**-**	(168)	574	**406**	(961)	736	**181**
Wellbeing Reserve	**-**	-	25	**25**	(9)	-	**16**
TITAN Reserve	**-**	-	-	**-**	-	56	**56**
Total Earmarked Reserves	**34,326**	**(17,899)**	**9,739**	**26,166**	**(18,743)**	**12,772**	**20,195**

10. Unusable Reserves

Accounting Policy

Certain reserves are kept to manage the accounting processes for non-current assets and retirement and employee benefits and they do not represent usable resources for the PCC; these reserves are explained in the relevant policies below.

PCC			PCC GROUP	
31 March 2018	**31 March 2019**		**31 March 2019 £000**	**31 March 2018 £000**
53,598	53,018	Revaluation Reserve	53,018	53,598
83,401	81,080	Capital Adjustment Account	81,080	83,401
(1,272)	(1,353)	Pensions Reserve	(3,471,746)	(3,213,535)
1,511	1,189	Collection Fund Adjustment Account	1,189	1,511
(6)	(11)	Accumulated Absences Account	(5,333)	(4,979)
137,232	**(133,923)**	**Total Unusable Reserves**	**(3,341,792)**	**(3,080,004)**

Revaluation Reserve

The revaluation reserve contains the gains made by the PCC arising from increases in value of its property, plant and equipment and intangible assets. The balance is reduced when assets with accumulated gains are:

- Revalued downwards or impaired and the gains are lost;
- Used in the provision of services and the gains are consumed through depreciation;
- Disposed of and the gains are realised.

The reserve contains only revaluation gains accumulated since 1 April 2007, the date the reserve was created. Accumulated gains arising before that date are consolidated into the balance on the capital adjustment account.

	PCC/PCC GROUP	
	31 March 2019 £000	**31 March 2018 £000**
Balance at 1 April	**53,598**	**42,384**
Upward revaluation of assets	2,744	12,782
Downward revaluation of assets and impairment losses not charged to the surplus/deficit on the provision of services	(2,020)	(550)
Surplus or deficit on revaluation of non-current assets not posted to the surplus/deficit on the provision of services	724	12,232
Difference between fair value depreciation and historical cost depreciation	(1,229)	(1,031)
Accumulated gains on disposed assets	(75)	-
Other amounts written off to the capital adjustment account	-	13
Amount written off to the capital adjustment account	(1,304)	(1,018)
Balance at 31 March	**53,018**	**53,598**

Capital Adjustment Account

The capital adjustment account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the CIES (with reconciling postings from the revaluation reserve to convert fair value figures to a historical cost basis). The account is credited with the amounts set aside by the PCC as finance for the costs of acquisition, construction and enhancement. The account contains accumulated gains and losses on Investment Assets and also contains revaluation gains accumulated on property, plant and equipment before 1 April 2007, the date that the revaluation reserve was created to hold such gains.

	PCC/PCC GROUP		
	31 March 2019		31 March 2018
	£000	£000	£000
Balance at 1 April		**83,401**	**87,346**
Reversal of items relating to capital expenditure debited or credited to the comprehensive income and expenditure statement:			
Charges for depreciation and impairment of non-current assets	(12,444)		(11,904)
Revaluation losses on property, plant and equipment	(745)		(1,548)
Amortisation of intangible assets	(1,612)		(2,427)
Revenue expenditure funded by capital under statute	(238)		(478)
Amounts of non-current assets written off on disposal or sale as part of gain/loss on disposal to the CIES	(544)		(447)
		(15,583)	(16,804)
Adjusting amounts written out of the revaluation reserve		1,304	1,018
Net written out amount of the cost of non-current assets consumed in the year		**(14,279)**	**(15,786)**
Capital financing applied in year:			
Use of the capital receipts reserve to finance new capital expenditure	242		630
Capital grants and contributions credited to the CIES that have been applied to capital financing	1405		1,832
Application of grants to capital financing from the capital grant unapplied account	591		-
Statutory provision for the financing of capital investment charged against the General Fund balance	415		402
Capital expenditure charged against the General Fund balance	9,233		9,049
		11,886	11,913
Movement in the market value of investment properties and assets held for sale debited or credited to the CIES		72	(72)
Other adjustments			-
Balance at 31 March		**81,080**	**83,401**

Pensions Reserve

The pensions reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits in accordance with statutory provisions. The PCC and PCC Group account for post-employment benefits in the CIES as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the PCC makes the employer's contributions to the pension funds or eventually pays any pensions for which he is directly responsible. The negative balance on the pensions reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

PCC			PCC GROUP	
31 March 2018 £000	**31 March 2019 £000**		**31 March 2019 £000**	**31 March 2018 £000**
(1,456)	**(1,272)**	**Balance at 1 April**	**(3,213,535)**	**(3,698,097)**
323	42	Re-measurements of the net defined benefit (liability)/ asset	(198,384)	572,932
(226)	(214)	Reversal of items relating to retirement benefits debited or credited to the surplus or deficit on the provision of services	(158,410)	(176,932)
87	91	Employer's pensions contribution and direct payments to pensioners payable in the year	98,583	88,562
(1,272)	**(1,353)**	**Balance at 31 March**	**(3,471,746)**	**(3,213,535)**

Collection Fund Adjustment Account

The collection fund adjustment account manages the difference arising from the recognition of council tax income in the CIES as it falls due from council tax payers compared with the statutory arrangements for paying across amounts to the Police General Fund from the collection fund.

	31 March 2019 £000	**31 March 2018 £000**
Balance at 1 April	**1,511**	**1,869**
Amount by which council tax income credited to the CIES is different from council tax income calculated for the year in accordance with statutory requirements	(322)	(358)
Balance at 31 March	**1,189**	**1,511**

Accumulated Absences Account

The accumulated absences account absorbs the differences that would otherwise arise on the Police General Fund balance from accruing for compensated absences earned but not taken in the year, eg annual leave entitlement and police officers lieu time carried forward at 31 March. Statutory arrangements require that the impact on the General Fund balance is neutralised by transfers to or from the account.

PCC			PCC GROUP	
31 March 2018 £000	**31 March 2019 £000**		**31 March 2019 £000**	**31 March 2018 £000**
(6)	**(6)**	**Balance at 1 April**	**(4,979)**	**(5,150)**
6	6	Settlement or cancellation made at the end of the preceding year	4,979	5,150
(6)	(11)	Amounts accrued at the end of the current year	(5,333)	(4,979)
-	(5)	Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(354)	171
(6)	**(11)**	**Balance at 31 March**	**(5,333)**	**(4,979)**

Notes to the Comprehensive Income and Expenditure Statement

11. **Other operating income and expenditure**

	2018/19	**2017/18**
	£000	**£000**
Loss/(Gain) on the disposal of non-current assets	(383)	(345)
Changes in fair value of assets held for sale	0	72
Home Office pension grant	(57,332)	(49,505)
Total	**(57,715)**	**(49,778)**

12. **Financing and investment income and expenditure**

PCC			PCC GROUP	
2017/18	**2018/19**		**2018/19**	**2017/18**
£000	**£000**		**£000**	**£000**
799	984	Interest payable and similar charges	984	799
36	32	Net interest on the defined benefit pensions liability	85,411	91,450
(207)	(209)	Interest receivable and similar income	(209)	(207)
-	(72)	Changes in fair value of investment properties	(72)	-
-	47	Impairment Allowance	47	-
628	**782**	**Total**	**86,161**	**92,042**

13. Taxation and non-specific grant income

Collection Fund Accounting Policy

To reflect that billing authorities act as agents for major preceptors in collecting their share of council tax, council tax transactions and balances will be allocated between billing authorities and major preceptors. Thus, the risks and rewards that the amount of council tax collected could vary from that predicted will be shared proportionately by the billing authorities and major preceptors. The difference between the income included in the CIES and the amount required by regulation to be credited to the General Fund shall be taken to the collection fund adjustment account and included as a reconciling item in the movement in reserves statement. A debtor/creditor position between billing authorities and major preceptors is required to be recognised for the cash collected by the billing council from council tax debtors that belongs proportionately to the billing authorities and the major preceptors. This is because the net cash paid to each major preceptor in the year will not be its share of cash collected from council taxpayers. The effect of any bad debts written off or movement in the impairment provision are also shared proportionately.

Taxation and non-specific grant income included in the CIES is as follows:

	2018/19 £000	2017/18 £000
Council tax income	(77,410)	(71,265)
Capital grants and contributions	(1,404)	(2,596)
Non ring-fenced government grants	(190,024)	(190,024)
Total	**(268,838)**	**(263,885)**

14. Government grants and contributions

Accounting Policy

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the PCC/PCC Group when there is reasonable assurance that the Group will comply with the conditions attached to the payments, and the grants or contributions will be received.

Amounts recognised as due to the PCC Group are not credited until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the balance sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable to revenue grants and contributions) or taxation and non-specific grant income (non-ringfenced revenue grants and all capital grants) in the CIES.

Where capital grants are credited to the CIES, they are reversed out of the Police General Fund balance in the movement in reserves statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the capital grants unapplied reserve. Where it has been applied, it is posted to the capital adjustment account. Amounts in the capital grants unapplied reserve are transferred to the capital adjustment account once they have been applied to fund capital expenditure.

The PCC/PCC Group credited the following grants and contributions to the CIES in 2018/19:

	2018/19 £000	2017/18 £000
Credited to Taxation and Non-Specific Grant Income:		
Police Grant	(190,024)	(190,024)
Capital Grant and contributions	(1,404)	(2,596)
Total	**(191,428)**	**(192,620)**
Credited to Other Income and Expenditure:		
Home Office grant payable towards the cost of retirement benefits	**(57,332)**	**(49,505)**
Credited to Services:		
Counter Terrorism	(1,418)	(1,889)
Police Innovation Fund	-	(575)
Ministry of Justice Victims Funding	(1,726)	(1,733)
Policing of Fracking Protests	(4,425)	(1,470)
Share of grant funding received by lead forces in collaboration arrangements	(528)	(731)
Other small grants & contributions	(1,617)	(1,008)
Total	**(9,714)**	**(7,406)**

15. Capital Charges and Fair Value Charge to Chief Constable

All assets (land, buildings, equipment etc.) are owned by the PCC. Therefore, the costs of ownership for these assets, such as depreciation, are initially charged to the PCC's statement of accounts. However, it is necessary to reflect the fact that the CC has had use of these assets during 2018/19. Using the principle of 'substance over form', a fair value proxy cost will be included in the CC's CIES to reflect the utilisation of the PCC- owned fixed assets which mirrors depreciation of property, plant and equipment, amortisation of intangible assets and impairment from obsolescence or physical damage.

The following transactions have been made in the PCC's cost of service relating to the movement in balance sheet value of the PCC's property plant and equipment.

	2018/19 £000	2017/18 £000
Depreciation of PPE	12,444	11,904
Amortisation of intangible assets	1,612	2,427
Revenue expenditure funded by capital under statute	238	478
Fair value recharge to CC to reflect his use of the assets to deliver the policing service	(14,294)	(14,809)
Revaluation losses	745	1,548
Total charges in respect of property, plant and equipment & intangible assets	**745**	**1,548**

Revaluation gains and losses remain with the PCC as they are not deemed to reflect cost of use but are more a reflection of the economic conditions, which should remain with the PCC.

16. PCC Funding of the Chief Constable

<u>Accounting Policy</u>

The PCC's funding of CC's expenditure takes the form of "Intragroup funding" and is shown as income in the CC's CIES and expenditure in the PCC's CIES. There is no actual transfer of cash involved in this transaction as all the resources belong to the PCC. The CC is, in effect, consuming the resources of the PCC but, for the purpose of reflecting the arrangement the transactions are reported as such. The accruals concept applies equally to the Intragroup Funding in that revenue is funded upon recognition on the understanding that the PCC has responsibility for working capital balances.

Funding for PCC resources consumed at the request of the CC represents the funding of the in-year costs recognised in the CC CIES and is calculated as follows:

2017/18 £000		2018/19 £000
428,510	Provision of services deficit in CC CIES prior to PCC funding	416,312
(176,706)	Adjustment for net IAS19 pensions charges included in cost of service but funded by CC pensions reserve	(158,196)
88,475	Replace with actual employer contribution funded by PCC	98,492
171	Adjustment for movement in accumulated absence accrual funded by CC accumulated absence reserve	(349)
340,450	**PCC funding for PCC resources consumed at the request of the CC**	**356,259**
	Consisting of:	
14,809	Fair value adjustment for CC consumption of PCC property & equipment	14,294
325,641	Other resources	341,965
340,450	**Total PCC resources consumed at the request of the CC**	**356,259**

17. Officers' Remuneration

<u>Accounting Policy Short term Employee Benefits</u>

Benefits payable during employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Group. An accrual is made for the cost of holiday entitlements (or any form of leave e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year (referred to as accumulated absences). The accrual is made at the salary rates applicable in the following accounting year, being the period in which the employee takes the benefit.

Termination Benefits

Termination benefits are amounts payable to police staff, including PCSOs, as a result of a decision by the PCC Group to terminate a staff member's employment before the normal retirement date or an staff member's decision to accept voluntary redundancy and are charged on an accruals basis to surplus or deficit on the provision of services in the CIES at the earlier of when the PCC Group can no longer withdraw the offer of those benefits or when the PCC Group recognises costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the Police General Fund balance to be charged with the amount payable by the Group to the Pension Fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the movement in reserves statement, appropriations are required to and from the pensions reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

The remuneration paid to the senior employees of the Office of the PCC and the PCC group as a whole is as follows:

Senior Officers and Relevant Police Officers 2018-19

Post Holder Information (Post title only)	Notes	Salary (including allowances)	Bonuses	Expense Allowances	Benefits in Kind	Total Remuneration excl. pension contribs	Pension Contribs.	Total Remuneration
		£	£	£	£	£	£	£
OFFICE OF THE PCC								
Police & Crime Commissioner	Note 1	86,558	-	-	5,525	92,083	12,032	104,115
Deputy Police & Crime Commissioner	Note 2	8,120	-	-	-	8,120	1,129	9,249
Director of the Office of the PCC & Monitoring Officer		89,189	-	-	-	89,189	12,397	101,586
Crime, Re-offending and Criminal Justice Lead		52,617	-	-	-	52,617	7,314	59,931
Governance and Policing Lead		48,155	-	-	-	48,155	6,694	54,849
Procurement and Commissioning Lead		49,252	-	-	-	49,252	6,846	56,098
Victims and Vulnerable People Lead		47,690	-	-	-	47,690	6,694	54,384
Stakeholder Relations & Business Support Lead		44,003	-	-	-	44,003	6,116	50,119
Volunteer and Partnership Manager	Note 3	3,513	-	-	-	3,513	488	4,001
LANCASHIRE CONSTABULARY								
Chief Constable – A Rhodes		163,613	-	-	3,823	167,436	38,910	206,346
Deputy Chief Constable		136,134	-	1,692	5,068	142,894	32,099	174,993
Assistant Chief Constable - Territorial Divisions & Criminal Justice		104,560	-	-	2,211	106,771	25,303	132,074
Assistant Chief Constable - Specialist Operations – A	Note 4	102,254	-	1,251	-	103,505	20,258	123,763
Assistant Chief Constable - Specialist Operations - B	Note 4	19,894	-	-	(1,279)	18,615	4,711	23,326
Director of Resources		112,548	-	-	10,462	123,010	15,757	138,767
Head of Change	Note 5	-	-	-	-	-	-	-

Note 1 The PCC is an elected official and has voluntarily disclosed his remuneration in this note. The annual salary for this post is £86,700 and is set by the Home Office.

Note 2 The Deputy PCC commenced in post in December 2018 on a part-time basis

Note 3 The Volunteer and Partnership Manager commenced in post in February on a part-time basis.

Note 4 Post covered by two officers over the year: A - 1 April 2018 – 31 March 2019; B - 1st April – 3rd June 2018.

Note 5 Head of Change is seconded from HMICFRS. Remuneration costs totalling £36,269 for the period 1st Nov 2018 to 31st March 2019 have been paid direct to Her Majesty's Inspectorate of Constabulary and Fire and Rescue Services (HMICFRS).

Senior Officers and Relevant Police Officers 2017-18

Post Holder Information (Post title only)	Notes	Salary (including allowances)	Bonuses	Expense Allowances	Benefits in Kind	Total Remuneration excl. pension contribs	Pension Contribs.	Total Remuneration
		£	£	£	£	£	£	£
OFFICE OF THE PCC								
Police & Crime Commissioner	Note 1	85,000	-	-	5,427	90,427	11,815	102,242
Director of the Office of the PCC & Monitoring Officer		88,024	-	-	-	88,024	12,235	100,259
Crime, Re-offending and Criminal Justice Lead		51,004	-	5	-	51,009	7,090	58,099
Governance and Policing Lead		45,190	-	723	-	45,913	6,281	52,194
Procurement and Commissioning Lead		49,223	-	-	-	49,223	6,842	56,065
Victims and Vulnerable People Lead		45,190	-	258	-	45,448	6,281	51,729
Stakeholder Relations & Business Support Lead	Note 2	3,635	-	-	-	3,635	455	4,090
LANCASHIRE CONSTABULARY								
Chief Constable - S Finnigan - A	Note 3	46,390	-	-	1,735	48,125	-	48,125
Chief Constable - A Rhodes - B	Note 3	121,056	-	-	6,526	127,582	28,782	156,364
Deputy Chief Constable - A	Note 4	33,314	-	-	1,292	34,606	7,891	42,497
Deputy Chief Constable - B	Note 4	100,772	-	-	11,396	112,168	23,919	136,087
Assistant Chief Constable - Territorial Divisions & Criminal Justice – A	Note 5	35,226	-	-	2,208	37,434	8,257	45,691
Assistant Chief Constable - Territorial Divisions & Criminal Justice – B	Note 5	73,837	-	-	5,462	79,299	17,845	97,144
Assistant Chief Constable - Specialist Operations - A	Note 6	112,410	-	-	5,900	118,310	26,615	144,925
Assistant Chief Constable - Specialist Operations - B	Note 6	8,311	-	-	-	8,311	1,637	9,948
Director of Resources		111,248	-	-	9,566	120,814	15,575	136,389

Note 1 The PCC is an elected official and has voluntarily disclosed his remuneration in this note. The annual salary for this post is £85,000 and is set by the Home Office.

Note 2 The Stakeholder Relations & Business Support Lead commenced in post on 5 March 2018 but was not paid in March payroll. The figure shown are an estimate of her monthly salary and the full year equivalent cost of this post will be reflected in the 2018/19 note.

Note 3 Post covered by two officers over the year: A- 1 April - 28 June 2017; B - 29th June - 31 March 2018.

Note 4 Post covered by two officers over the year: A- 1 April - 28 June 2017; B - 29 June - 31 March 2018.

Note 5 Post covered by two officers over the year: A - 1 April - 28 June 2017; B - 29 June - 31 March 2018

Note 6 Post covered by two officers over the year: A - 1 April - 31 March 2018; B - 5 March - 31 March 2018. Officer B was a temporary promotion, covering absence

The PCC Group employed an estimated 5,010 full time equivalents during 2018/19 (5,000 in 2017/18). In addition to the senior and relevant officers outlined in the note above, the following employees received remuneration of greater than £50,000 for the year (excluding employer's pension contributions):-

	2018/19			2017/18		
	Police Officers	**Police Staff**	**Total**	**Police Officers**	**Police Staff**	**Total**
£100000 - £104,999	1	-	**1**	-	-	**-**
£90,000 - £94,999	2	-	**2**			
£85,000 - £89,999	2	1	**3**	3	-	**3**
£80,000 - £84,999	9	-	**9**	9	-	**9**
£75,000 - £79,999	7	3	**10**	5	-	**5**
£70,000 - £74,999	8	3	**11**	5	2	**7**
£65,000 - £69,999	4	2	**6**	6	0	**6**
£60,000 - £64,999	19	3	**22**	19	3	**22**
£55,000 - £59,999	130	3	**133**	117	2	**119**
£50,000 - £54,999	218	8	**226**	191	9	**200**
Total	400	23	**423**	355	16	**371**

NB Remuneration includes gross pay, before the deduction of employees' pension contributions, together with benefits declared to HM Revenue and Customs on form P11D and redundancy payments paid in the year. It does not include employers' pension contributions. Senior Officers posts that are included in the officers' remuneration note have been excluded.

The table above includes a number of police staff who appear only as a consequence of a one-off redundancy payment. The numbers and banding affected are shown below:

	2018/19	**2017/18**
£85,000 - £89,999	1	-
£75,000 - £79,999	2	-
£70,000 - £74,999	1	-
£60,000 - £64,999	1	1
£55,000 - £59,999	1	1
£50,000 - £54,999	-	2
	6	4

Included in the tables above are police staff employed directly by the Office of the Police and Crime Commissioner (OPCC). In 2018/19 there are no staff, other than those already disclosed individually by job title in the previous table.

Exit packages

The numbers of exit packages for the PCC Group, with total cost per band and total cost of the compulsory redundancy and other departures, are set out in the table below. It should be noted that the exit package costs shown in the table reflect the total cost to the organisation including, where appropriate, cost of pension enhancements:

Bandings	Number of Compulsory Redundancies	Number of Other Departures	Total cost of exit packages in each band £
£0 - £20,000	-	12	67,418
£20,001 - £40,000	1	6	202,403
£40,001 - £60,000	1	1	118,645
£60,001 - £100,000	-	2	148,991
£100,000 - £150,000	1	1	239,668
Total	**3**	**22**	**777,125**

There are no exit packages included in the above note that relate to the Office of the PCC for 2018/19.

2017/18 Comparators:

PCC Group:

Bandings	Number of Compulsory Redundancies	Number of Other Departures	Total cost of exit packages in each band £
£0 - £19,999	5	10	139,077
£20,000 - £39,999	6	2	236,870
£40,000 - £59,999	2	-	108,851
£60,000 - £100,000	2	-	152,311
Total	**15**	**12**	**637,109**

There are no exit packages included in the above note that relate to the Office of the PCC for 2017/18.

Balance Sheet Notes

18. Property, Plant and Equipment

Accounting Policies

Physical assets that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as property, plant and equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of property, plant and equipment in excess of £15,000 is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the PCC Group and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

Measurement

For assets that are purchased they are initially recognised at cost. The cost comprises:

- the purchase price;
- any costs attributable to bringing the asset to the location and condition necessary for it to be operational.

Assets that are being constructed by the PCC Group will initially be recognised at cost. Only those costs that can be directly attributable to bringing the asset into operation will be capitalised. The PCC does not capitalise borrowing costs incurred whilst assets are under construction.

Assets are then carried in the PCC and PCC Group balance sheets using the following measurement bases:

- assets under construction – historical cost
- all other assets – current value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of current value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of current value.

Where non-property assets, principally furniture, equipment and vehicles that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

All assets held on a valuation basis, as determined by the code of practice, have been reviewed within a three-year period by RICS qualified surveyors at Lancashire County Council to ensure that the carrying amounts are not materially different from fair value at the balance sheet date. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains unless the gain reverses a loss previously charged to a service. In this case the gain up to the amount of the loss will be credited to the CIES.

Where decreases in value are identified, they are accounted for as follows:

- where there is a balance of revaluation gains for the asset in the revaluation reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)

- where there is no balance in the revaluation reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the CIES.

The revaluation reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. The revaluation reserve was created with effect from 1 April 2007 with a zero opening balance. Gains arising before that date have been consolidated into the capital adjustment account.

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall. No impairments were identified in 2018/19.

Depreciation

Depreciation is provided for on all property, plant and equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following bases:

- buildings – straight-line allocation over the useful life of the property as estimated by the valuer

- vehicles and IT equipment, - straight line basis over lives which are assessed individually by professional staff within the Constabulary.

- furniture and equipment other than IT equipment is depreciated over 10 years, unless it is known that a different period is required.

The following useful lives and depreciation rates have been used in the calculation of depreciation:

Property and property components:

- Under 10 years
- 10-14 years
- 15-19 years
- 20-29 years
- 30-39 years
- 40-49 years
- 50 years and over

Depreciation is based on the lower limit. Properties over 50 years are depreciated over a 50 year life, while properties under ten years are depreciated based on an assessment of their actual life. The lives of vehicles, IT assets and intangibles such as software licences are assessed individually by professional staff within the Constabulary. Furniture and equipment other than computer equipment is depreciated over 10 years, unless it is known that a different period is required.

Where an item of property, plant and equipment asset has major components whose costs are significant in relation to the total cost of the item, the components are depreciated separately. In considering whether or not there is a component the policy followed is:

- The land element will continue to be considered as a separate asset with its own valuation which, are not subject to depreciation;
- The asset will be reviewed and any part of the asset which can be identified as a self-contained building will be subject to a separate valuation and asset life. This will ensure that any part of the

overall asset which is not of the same construction quality has a specific use and/or economic life identified;

- For any building with a value above £1m consideration will be given as to whether or not there is any significant part which requires a separate component. This will take into consideration whether there is any aspect of the construction, such as roof, windows, services or any specialist item which has a substantially different asset life. For the purpose of this exercise it is considered that an element that represents more than 25% of the valuation is considered significant;
- Any equipment which is a fixture of the building will be included within the overall asset valuation. There will be a separate valuation if it is likely to exceed 25% of the property value.

Revaluation gains are also depreciated, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Disposals and Non-Current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an asset held for sale. The asset is re-valued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the other operating expenditure line in the CIES. Gains in fair value are recognised only up to the amount of any previous losses recognised in the surplus or deficit on the provision of services. Depreciation is not charged on assets held for sale.

If assets no longer meet the criteria to be classified as assets held for sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as held for Sale, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as assets held for sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the balance sheet (whether property, plant and equipment or assets held for sale) is written off to the other operating expenditure line in the CIES as part of the gain or loss on disposal. Receipts from disposal (if any) are credited to the same line in the CIES also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of the disposal). Any revaluation gains accumulated for the asset in the revaluation reserve are transferred to the capital adjustment account.

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. The balance of receipts is required to be credited to the capital receipts reserve, and can then only be used for new capital investment or be set aside to reduce the Authority's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the reserve from the Police General Fund balance in the movement in reserve statement.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the capital adjustment account from the General Fund balance in the movement in reserve statement.

Charges to Revenue for Non-Current Assets

The PCC and PCC Group CIES are charged with the following amounts to record the real cost of holding non-current assets during the year:

Depreciation attributable to the assets used by the service;

Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the revaluation reserve against which the losses can be written off;

Amortisation of intangible non-current assets attributable to the service.

The PCC is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However, he is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined in accordance with statutory guidance; this is known as the minimum revenue provision (MRP). Depreciation, impairment and revaluation losses and amortisations are therefore reversed to the capital adjustment account via the movement in reserves statement and replaced by the MRP.

Movements in 2018/19:

	Land and Buildings	**Vehicles, Plant, Furniture & Equipment**	**Assets under Construction**	**Total Property, Plant and Equipment**
	£000	**£000**	**£000**	**£000**
Cost or Valuation				
At 1 April 2018	**148,510**	**40,795**	**25,857**	**215,162**
Additions	3,723	9,379	868	13,970
Revaluation increases/(decreases) recognised in the revaluation reserve.	(1,183)	233	-	(950)
Revaluation increases/(decreases) recognised in the surplus/deficit on the provision of services	(904)	-	-	(904)
De-recognition –disposals	(385)	(5,679)	-	(6,064)
Re-classification	26,210	52	(25,825)	437
At 31 March 2019	**175,971**	**44,780**	**900**	**221,651**
Accumulated Depreciation & Impairment				
At 1 April 2018	**(7,601)**	**(17,038)**	**-**	**(24,639)**
Depreciation charge	(4,872)	(7,572)	-	(12,444)
Depreciation written out to the revaluation reserve	1674	-	-	1674
Depreciation written out to surplus/deficit on the provision of services	159	-	-	159
De-recognition - disposals	4	5,516	-	5,520
At 31 March 2019	**(10,636)**	**(19,094)**	**-**	**(29,730)**
Net Book Value				
At 31 March 2019	**165,335**	**25,686**	**900**	**191,921**
At 31 March 2018	**140,909**	**23,757**	**25,857**	**190,523**

Movements in 2017/18:

	Land and Buildings	**Vehicles, Plant, Furniture & Equipment**	**Assets under Construction**	**Total Property, Plant and Equipment**
	£000	**£000**	**£000**	**£000**
Cost or Valuation				
At 1 April 2017	**142,143**	**55,560**	**8,387**	**206,090**
Additions	159	9,930	17,470	27,559
Revaluation increases/(decreases) recognised in the revaluation reserve.	6,097	318	-	6,415
Revaluation increases/(decreases) recognised in the surplus/deficit on the provision of services	221	-	-	221
De-recognition –disposals	(110)	(2,196)	-	(2,306)
De-recognition - other	-	(22,817)	-	(22,817)
At 31 March 2018	**148,510**	**40,795**	**25,857**	**215,162**

Accumulated Depreciation & Impairment				
At 1 April 2017	**(9,335)**	**(34,456)**	**-**	**(43,791)**
Depreciation charge	(4,447)	(7,457)	-	(11,904)
Depreciation written out to the revaluation reserve	5,817	-	-	5,817
Depreciation written out to surplus/deficit on the provision of services	364			364
De-recognition - disposals	-	2,058	-	2,058
De-recognition - other	-	22,817	-	22,817
At 31 March 2018	**(7,601)**	**(17,038)**	**-**	**(24,639)**

Net Book Value				
At 31 March 2018	**140,909**	**23,757**	**25,857**	**190,523**
At 31 March 2017	**132,808**	**21,104**	**8,387**	**162,299**

Capital Commitments

At 31 March 2019 the PCC Group has entered into a number of capital contracts in respect of expenditure to be incurred in 2019/20 and future years, budgeted to cost £2.9m. Similar commitments at 31 March 2018 were £5.9m.

Effects of Changes in Estimates

In 2018/19 the PCC made no material changes to its accounting estimates for property, plant and equipment.

Revaluations

The PCC Group carries out a rolling three year programme that ensures that all property, plant and equipment required to be measured at fair value is re-valued sufficiently regularly to ensure that the carrying amount is not materially different from fair value at the balance sheet date. Revaluations in 2018/19 were carried out by RICS qualified surveyors employed by Lancashire County Council.

Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors .Where non-property assets, principally furniture, equipment and vehicles that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value and these are not therefore subject to revaluation.

The following table shows the progress of the PCC Group's rolling programme for the revaluations of property plant and equipment.

	Land & Buildings	Vehicles, Plant, Furniture & Equipment	Total
	£000	£000	£000
Carried at historical cost	-	44,547	44,547
Valued at fair value as at:			
31 March 2019	43,905	233	44,138
31 March 2018	67,108	-	67,108
31 March 2017	65,762	-	65,762
31 March 2016			
31 March 2015			
Total Cost or valuation	**176,775**	**44,780**	**221,555**

19. Capital Expenditure and Financing

Accounting Policy -Government Grants and Contributions

Where capital grants are credited to the CIES, they are reversed out of the General Fund balance in the movement in reserves statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the capital grants unapplied reserve. Where it has been applied, it is posted to the capital adjustment account. Amounts in the capital grants unapplied reserve are transferred to the capital adjustment account once they have been applied to fund capital expenditure.

The total amount of capital expenditure incurred in the year is shown in the table below together with the resources that have been used to finance it. Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the PCC Group, the expenditure results in an increase in the capital financing requirement (CFR), a measure of the capital expenditure incurred historically by the PCC Group that has yet to be financed. The CFR is analysed in the second part of this note.

	2018/19 £000	2017/18 £000
Opening Capital Financing Requirement	**57,825**	**40,222**
Capital Investment		
Property, plant and equipment	13,970	27,559
Intangible assets	1,141	1,479
Revenue expenditure funded by capital under statute	238	478
Sources of finance		
Capital receipts	(242)	(630)
Government grants & other contributions	(1,996)	(1,832)
Direct revenue contributions	(9,648)	(9,451)
Closing Capital Financing Requirement	**61,288**	**57,825**
Explanation of movements in year		
Increase/(reduction) in underlying need to borrow	3,463	17,603
Increase/(decrease) in Capital Financing Requirement	**3,463**	**17,603**

20. **Debtors**

At 31 March	**31 March 2019 £000**	**31 March 2018 (re-stated) £000**
Trade debtors	5,254	5,915
Share of council tax debtors	5,020	4,130
Other debtors	13,112	17,555
TOTAL	**23,386**	**27,600**

Debtors are reported net of impairment allowance. Billing authorities have confirmed that all overdue council tax debt is considered for impairment.

21. **Creditors**

PCC			**PCC Group**	
31 March 2018 re-stated £000	**31 March 2019 £000**	**At 31 March**	**31 March 2019 £000**	**31 March 2018 re-stated £000**
		Creditors comprise:		
10,525	10,769	Trade creditors	10,769	10,525
2,620	3,831	Share of council tax creditors	3,831	2,620
31	40	Tax & social security	4,383	4,323
2,127	1,712	Other Entities and Individuals	8,972	10,958
8,150	6,281	Intragroup creditor	-	-
23,453	**22,633**	**TOTAL**	**27,955**	**28,426**

Included with the creditors balance is an amount of £1.2m representing cash seized by Police under the Proceeds of Crime Act 2002 (£1.5m at 31 March 2018). This cash is collected on behalf of the Home Office and does not impact on the CIES.

22. Cash and Cash Equivalents

Accounting Policy

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

In the cash flow statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Group's cash management.

The balance of cash and cash equivalents is made up of the following elements:

	31 March 2019 £000	31 March 2018 £000
Cash held	178	168
Bank current accounts	10	123
Short-term deposits under three months	35,487	1,562
TOTAL	**35,675**	**1,853**

23. Cash Flow Statement -Adjustments to Net (Surplus)/Deficit on the provision of services for non-cash movement

PCC			PCC GROUP	
2017/18 £000	**2018/19 £000**		**2018/19 £000**	**2017/18 £000**
(13,929)	(13,427)	Depreciation, REFCUS, impairments and downward valuations	(13,427)	(13,929)
(2,427)	(1,612)	Amortisation	(1,612)	(2,427)
(490)	392	Net (increase)/decrease in revenue creditors	43	(319)
(4,892)	(2,215)	Net decrease in revenue debtors	(2,215)	(4,892)
113	333	Increase in inventories	333	113
(139)	(123)	Pension liability	(59,827)	(88,370)
179	595	Contributions from provisions	595	179
(447)	(544)	Carrying amount of non-current assets sold	(544)	(447)
(72)	-	Movement in value of assets held for sale	-	(72)
-	72	Movement in value of investment property	72	-
(22,104)	**(16,529)**	**Total**	**(76,582)**	**(110,164)**

24. **Cash Flow Statement - Adjustments for items included in the net (surplus)/deficit on the provision of services that are investing and financing activities**

	PCC/PCC GROUP	
	2018/19 £000	**2017/18 £000**
Capital grants and contributions credited to (surplus)/deficit on provisions of services	1,405	2,596
Proceeds from sale of PPE	625	500
Total	**2,030**	**3,096**

25. **Cash Flow Statement – Investing Activities**

	PCC/PCC GROUP	
	2018/19 £000	**2017/18 £000**
Purchase of property, plant and equipment, investment property and intangible assets	15,870	30,532
Proceeds from sale of property, plant and equipment, investments property and intangible assets	(625)	(500)
Proceeds from disposal of short-term investments	-	(5,000)
Other receipts from investing activities	(1,767)	(1,103)
Net cash outflows/(inflows) from investing activities	**13,478**	**23,929**

26. **Cash Flow Statement – Cash Flows from Financing Activities**

	PCC/PCC GROUP	
	2018/19 £000	**2017/18 £000**
Cash repayment of short and long term borrowing	16,100	1,100
Cash receipt of long and short term borrowing	(61,000)	(5,000)
Transferred debt repayment	238	237
Total cash outflows from financing activities	**(44,662)**	**(3,663)**

27. **Financial Instruments**

Accounting Policy

Financial Instruments – Classifications

A financial instrument is a contract that gives rise to a financial asset in one entity and a financial liability in another entity. Non-exchange transactions, such as those relating to taxes and government grants do not give rise to a financial instrument.

Financial Liabilities

A financial liability is an obligation to transfer economic benefits controlled by the PCC and can be represented by a contractual obligation to deliver cash or financial assets or an obligation to exchange financial assets and liabilities with another entity that is potentially unfavourable to the PCC.

All of the PCCs financial liabilities held during the year are measured at amortised cost and comprised:

- long term loans from the Public Works Loans Board;
- short term loans from other local authorities;
- trade payables for goods and services received.

Financial Assets

A financial asset is a right to future economic benefits controlled by the PCC that is represented by cash, equity instruments or a contractual right to receive cash or other financial assets or a right to exchange financial assets and liabilities with another entity that is potentially favourable to the PCC.

The financial assets held by the PCC during the year are all held under the classification of amortised cost (where cash flows are solely payments of principal and interest and the PCCs business model is to collect those cash flows) comprising:

- cash in hand;
- bank current account held with Nat West Bank;
- surplus cash balances held on call with Lancashire County Council;
- trade receivables for goods and services provided.

Expected Credit Loss Model

The PCC recognises expected credit losses on its financial assets held at amortised cost (subject to materiality) either on a 12-month or lifetime basis.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

Lifetime losses are recognised for trade receivables (debtors) held by the PCC, where material.

The Code confirms that local authorities must not recognise a loss allowance for expected credit losses on a financial asset where the counterparty for a financial asset is central government or a local authority for which relevant statutory provisions prevent default. As surplus cash balances are swept from the bank current account daily into a call account with the County Council no loss allowance is recognised for this financial asset.

Fair Values

Financial instruments classified at amortised cost are carried in the Balance Sheet at amortised cost. Their fair values have been estimated by calculating the net present value of the remaining contractual cash flows at 31 March 2019, using the following methods and assumptions:

- Loans borrowed by the PCC have been valued by discounting the contractual cash flows over the whole life of the instrument at the appropriate market rate for local authority loans;
- The fair values of long term loans have been discounted at the market rates for similar instruments with similar remaining terms to maturity on 31 March 2019;
- The fair value of short term instruments, including trade payables and receivables, is assumed to approximate to the carrying amount given the low and stable interest rate environment.

Fair values are shown in the table below, split by their level in the fair value hierarchy:

Level 1	Derived from quoted prices in active markets for identical assets or liabilities, e.g. bond prices
Level 2	Calculated from inputs other than quoted prices that are observable for the asset or liability, e.g. interest rates or yields for similar instruments
Level 3	Determined using unobservable inputs, e.g. non-market data such as cash flow forecasts or estimated creditworthiness

	Fair Value Level	Balance Sheet 31 March 19 £000	Fair Value 31 March 19 £000	Balance Sheet 31 March 18 £000	Fair Value 31 March 18 £000
Financial liabilities held at amortised cost:					
Long term loans from PWLB	2	40,954	44,318	17,054	20,516
TOTAL		**40,954**	**44,318**	**17,054**	**20,516**
Liabilities for which fair value is not disclosed*		39,460		20,067	
TOTAL FINANCIAL LIABILITIES		**80,414**		**37,121**	
Recorded on the balance sheet as:					
Long term borrowing		39,854		15,954	
Short-term borrowing		27,100		6,100	
Short-term creditors		13,460		15,067	
TOTAL FINANCIAL LIABILITIES		**80,414**		**37,121**	

The fair value of short-term financial liabilities held at amortised cost, including trade payables, is assumed to approximate to the carrying amount.
The fair value of financial liabilities held at amortised cost is higher than their balance sheet carrying amount because the PCC's portfolio of loans includes a number of loans where the interest is higher than the current rates available for similar loans as at the Balance Sheet date.

	Balance Sheet 31 March 19 £000	Balance Sheet 31 March 18 £000
Assets for which fair value is not disclosed*	40,928	7,771
TOTAL FINANCIAL ASSETS	**40,928**	**7,771**
Recorded on the balance sheet as:		
Cash and cash equivalents	35,675	1,853
Short-term debtors	5,253	5,918
TOTAL FINANCIAL LIABILITIES	**40,928**	**7,771**

The fair value of short-term financial assets held at amortised cost, including trade receivable and surplus cash balances invested "on-call" with Lancashire County Council, is assumed to approximate the carrying amount.

Income, Expense, Gains and Losses

Gains and Losses on Financial Instruments

The gains and losses during 2018/19 on financial instruments, i.e. the borrowings and investments detailed above, which have been recognised in the deficit on the provision of services in the CIES, are as shown in the following table
.

	2018/19 £000	2017/18 £000
Interest expense	952	799
Total Interest payable	**952**	**799**
Interest income	209	207
Total interest receivable	**209**	**207**

Exposure to Risk in Financial Instruments

There is some risk attached to our holdings of and transactions in financial instruments. The following sections show how we quantify, where possible, and control our exposure to the three main elements of financial risk. These are credit risk, liquidity risk and market risk.

Credit Risk - Trade Receivables

Counterparty credit risk is the risk that a counterparty will be unable to meet its obligations and repay monies owed to the PCC. The risk arises from deposits with banks and financial institutions, as well as credit exposures to the organisation's customers.

With regard to financial institutions, the risk is minimised through the annual investment strategy, which requires that deposits are not made with an institution unless it meets identified minimum credit criteria, as laid down by the three main credit rating agencies. The strategy also imposes a maximum sum and duration with which the PCC can be invested in an institution depending upon the quality of credit rating.

During the 2018/19 financial year the PCC's balances were invested only with Lancashire County Council so that the investment portfolio maintained a very high AA- credit rating.

The following analysis summarises the PCCs trade receivables by due date. Only those receivables meeting the definition of financial assets are included.

	31 March 2019 £000	31 March 2018 £000
Neither past due nor impaired	5,035	5,548
Past due < 3 months	33	22
Past due 3 – 6 months	46	50
Past due 6 – 12 months	33	67
Past due 12+ months	60	90
Individually impaired	47	141
TOTAL RECEIVABLES	**5,254**	**5,918**

Receivables are considered to be in credit risk where they are 60 days or more past due and they are determined to be credit impaired where they are 90 days or more past due. They are collectively assessed for credit risk and the requirement for an impairment loss allowance has been assessed by reference to the PCC's historic experience of ultimate default across the following categories:

- Public Sector - debt has been excluded from this assessment as there are statutory provisions in place to prevent default;
- Football – whilst, a three year average of £6k has been identified as being credit impaired, the amount of debt ultimately written off over that period is nil hence no impairment allowance is considered necessary;
- Individual legal, court costs awarded – the value of debt in default, excluding the cases where successful instalments are being collected, amounts to £47k at 31 March 2019 (£141k at 31 March 2018). Provision has been made to 100% of this debt. No future loss allowance has been considered necessary at this stage as a review of procedures for recovering costs through the courts is currently being undertaken that will assess when court action is taken and also at what stage it is appropriate to recognise the income. If an impairment loss allowance is then deemed appropriate it will be introduced during 2019/20;
- Private Sector and Individual debt – looking at the proportion of impaired debt that has ultimately been written off over the last three years the expected requirement for loss allowance is immaterial and has therefore not been recognised.

Liquidity Risk

Liquidity risk is the danger that, at any time, we will have insufficient funds in our bank account to make the payments necessary to meet our financial obligations. We must manage our financial liabilities and assets in such a way as to mitigate this risk.

In managing our financial liabilities, we seek to achieve a maturity pattern of our borrowings which will ensure that there are no heavy concentrations of maturities in any one year. In fact, the risk is more of a price risk than a liquidity risk as we can always secure replacement loans from the PWLB or other market sources, but would not want to replace too large a proportion of our loans at a time of high interest rates.

The maturity profile of our debt is shown in the table below. This illustrates the spread of maturities into the future and how we have avoided the need for too much debt to be replaced in any one year.

	2018/19 £000	**2017/18 £000**
Under 1 year	**27,100**	6,100
Total short-term borrowing	**27,100**	**6,100**
Maturing in 1 to 2 years	**300**	1,100
Maturing in over 2 but less than 5 years	**2,854**	2,054
Maturing in over 5 but less than 10 years	**13,700**	4,800
Maturing in more than 10 years	**23,000**	8,000
Total long-term borrowing	**39,854**	**15,954**
Total borrowing	**66,954**	**22,054**

With our financial assets a significant proportion are recallable at any time. The PCC's CFO meets on a regular basis with the County Council's treasury management team to discuss cash flow and the appropriate level of balances to keep on call.

The maturity analysis of financial instruments is as follows:

Time to maturity (years)	**31 March 2019**			**31 March 2018**		
	Liabilities £000	**Assets £000**	**Net £000**	**Liabilities £000**	**Assets £000**	**Net £000**
Not over one	40,560	(40,928)	(368)	21,167	(7,771)	13,396
Over one but not over two	300	-	300	1,100	-	1,100
Over two but not over five	2,854	-	2,854	2,054	-	2,054
Over five but not over 10	13,700	-	13,700	4,800	-	4,800
Over 10 but not over 20	13,000	-	13,000	8,000	-	8,000
Over 20 but not over 40	10,000	-	10,000	-	-	-
TOTAL	**80,414**	**(40,928)**	**39,486**	**37,121**	**(7,771)**	**29,350**

Market Risk –Interest Rate Risk

The PCC is exposed to risk in term of his exposure to interest rate movements on his borrowings and investments. Movements in interest rates have a complex impact on the authority. For instance a rise interest rates would have the following impact:

- Borrowings at variable rates –the interest expense will rise;
- Borrowings at fixed rates-the fair value of liabilities will fall;
- Investments at variable rates – the interest income will rise;
- Investments at fixed rate – the fair value of the assets will fall.

Investments are measured at amortised cost and borrowings not carried at fair value, so changes in the fair value will have no impact on the CIES. However, changes in interest payable or receivable on variable rate borrowings and investments will be posted to the Surplus or Deficit on the Provision of Services.

The Treasury Management Strategy aims to mitigate these risks by setting upper limits on the PCC's net exposures to fixed and variable interest rates. At 31 March 2019, £41m of net principal borrowed (i.e. borrowing net of investments) was exposed to fixed rates and £9m net investments to variable rate risk.

If all interest rates had been 1% higher (with all other variables held constant) the financial effect would be:

	31 £000
Increase in interest receivable on variable rate investments	(307)
Impact on (Surplus) or Deficit on the Provision of	**(307)**
Decrease in fair value of fixed rate borrowing*	(5,130)

*No impact on CIES

The approximate impact of a 1% fall in interest rates would be as above but with movements being reversed.

28. Defined Benefit Post-Employment Benefits

Accounting Policies

Police officers and police staff currently belong to one of four separate pension schemes:

- 1987 Police Pension Scheme for Police Officers;
- 2006 Police Pension Scheme for Police Officers;
- 2015 Police Pension Scheme for Police Officers;
- Local Government Pensions Scheme for Police Staff

There are unfunded arrangements for uniformed police officers. They are defined benefit pension arrangements which are governed by statute.

The Lancashire County Pension Fund, which is part of the Local Government Pension Scheme (LGPS), applies to other employees and is administered by Lancashire County Council. The LGPS is a contributory defined benefit pension arrangement for local authorities and related employers, and is governed by statute (principally now the Public Service Pensions Act 2013). Teachers, police officers and firefighters are not included within the scheme as they come within other national pension schemes.

The Fund is administered in accordance with the following secondary legislation:

- the Local Government Pension Scheme Regulations 2013 (as amended)
- the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

The Lancashire County Pension Fund is a multi-employer arrangement, under which each employer is responsible for the pension costs, liabilities and funding risks relating to its own employees and former employees. Each employer's contributions to the Fund are calculated in accordance with the LGPS Regulations, which require an actuarial valuation to be carried out every three years. The latest actuarial valuation of the Fund was carried out at 31 March 2016, and at that date showed a funding level of 90% (assets of £6.0bn against accrued liabilities of about £6.7bn). The weighted average duration of the liabilities of the Fund as a whole is 16 years, measured on the IAS19 actuarial assumptions. The duration of the liabilities for the individual employers which participate in the scheme can be significantly different from this, reflecting the profile of its employees and former employees.

The investments of the Fund are managed by external investment managers, including the Local Pensions Partnership (LPP), a joint venture owned, in equal shares, by Lancashire County Council and the London Pension Fund Authority (LPFA). LPP manages the administration and investment functions on behalf of the two partner authorities.

All the schemes provide index linked defined benefits to members (retirement lump sums and pensions), which are earned as employees work for the PCC Group and determined by the individuals pensionable pay and pensionable service. Details of how the schemes operate can be found on the LCC's "Your Pension Service" website at the link below:

www.yourpensionservice.org.uk

The Local Government Scheme and the police pension schemes are accounted for as defined benefits schemes, as follows:

Local Government Scheme:

Police staff, PCSOs and staff of the Office of the PCC are members of the Local Government Pension Scheme, a funded defined benefit scheme, which is managed by Lancashire County Council. The PCC Group paid an employer's contribution of 14% for employees of the Chief Constable and 13.9% for employees of his Office during 2018/19 along with a cash contribution of £2.004m towards the deficit, being the first of three annual payments (employer's contribution % for 2017/18 the same as 2018/19 with a separate cash contribution of £2.004m). The deficit contribution relating to the staff directly employed by the PCC in 2018/19 was £0.004m (£0.04m in 2017/18).

The liabilities of the Local Government Pension Scheme attributable to the PCC Group are included in the balance sheet on an actuarial basis using the projected unit credit method i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates and projected earnings for current employees.

Liabilities are discounted to their value at current prices, using discount rates which vary according to the duration of the employer's liability, with an average of 2.5% for the staff employed by the PCC and the CC (2.7% in 2017/18), based on the weighted average of "spot yields" on AA rated corporate bonds.

The assets of the Local Government Pension Fund attributable to the PCC Group are included in the balance sheet at their fair value. The valuation at fair value has been classified into three levels according to quality and reliability of information used to determine fair values and in line with the fair value hierarchy. Further detail as to how it was determined which assets were included in each level can be found later in this note on Page 78.

Police Officers:

From April 2015 the 2015 Police Pension Scheme replaced the 1987 and 2006 Police Pension Schemes. With the exception of some officers closest to retirement, who are covered by full or tapered transitional provisions, all police officers have moved to the new scheme. The 2015 Police Pension Scheme is a Career Average Revalued Earnings (CARE) scheme and replaces final salary schemes. It is governed by the Police Pensions Regulations 2015 and related regulations in the Public Service Pensions Act 2013.

As transitional provision is in place, some members will remain in the 1987 and 2006 Police Pension Scheme and, more significantly, the benefits members have accrued will be retained and hence the liabilities reported in the balance sheet will remain with the PCC group.

All the police officer schemes provide defined benefits to members (retirement lump sums and pensions), which are earned as employees work for the PCC Group. The employers' contribution for each serving officer is common to both schemes (21.3% of pensionable pay from 1 April 2015).This is set nationally and is subject to review. A police pension account was set up on 1 April 2006 which administers all of the police pension schemes.
Accrued net pension liabilities have been assessed on an actuarial basis in accordance with IAS19. The net liability and a pensions reserve incorporating both pension schemes have been recognised in the PCC and PCC Group balance sheets, as have entries in the PCC and PCC Group CIES for movements in the asset/liability relating to the defined benefit schemes. Transfers into and out of the schemes, representing joining and leaving police officers are recorded on a cash basis in the police pension account as a result of the time taken to finalise the sums involved. In accordance with the Police Reform and Social Responsibility Act 2011, the police pension account is administered by the CC for Lancashire Constabulary and is included in both the CC and PCC Group statements of accounts

The liabilities of all of the schemes attributable to the PCC Group are included in the balance sheet on an actuarial basis using the projected unit method i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates and projections of earnings for current employees.

Liabilities are discounted to their value at current prices, using a discount rate of 2.5% (2.7% in 2017/18), based on the weighted average of “spot yields” on AA rated corporate bonds.

Injury Awards:

Injury awards are paid to police officers under the Police (Injury Benefits) Regulations 2006 and entitlement is dependent on the salary, service and also degree of disablement of the member at the time the injury is incurred. Accordingly the actuaries have calculated the defined benefit obligation as at 31 March 2019 including allowances for the following:

- the actuarial value of the injury pensions that are currently in payment;
- advance provision for the part of the injury pensions that are accrued up to 31 March 2019 and are not yet in payment, for members still in service, in the same way that provision is made for accrued pensions for members still in service for the 1987, 2006 and 2015 schemes.

In addition, an ongoing "service cost" is also calculated which represents the cost of one year's accrual of injury benefits in relation to members in service. Therefore, in line with the 2018/19' CIPFA Code of Practice Guidance Notes (Module 6, Para. B72) the assumption that such awards are "not usually subject to the same degree of uncertainty as the measurement of post-employment benefits" has been rebutted and injury awards are therefore accounted for, under IAS 19, in the same manner as the main police pension schemes. Liabilities are included on the PCC Group balance sheet within the pensions' liabilities and shown separately in the notes to the accounts.

The change in the net pension liability has to be analysed into the following components:

Service cost, comprising:

- **current service cost**: represents the future service cost to the employer of one year's accrual of pension benefits for active members, calculated on the actuarial assumptions used at the start of the year for IAS19 purposes. The interest on the service cost is included within the service cost - allocated in the CIES across activity areas;
- **past service and curtailments costs**: these are normally the result of increased benefits being awarded in the event of members retiring early during the year. Changes in scheme benefits and any augmentation of benefits for active members would also give rise to past service costs – debited to the surplus or deficit on the provision of services in the CIES as part of non-distributed costs;
- **administrative expenses**: these are the costs of running the fund, attributable to the employer, and does not include any investment management expenses which are allowed for under "Re-measurements". These costs are debited to the surplus or deficit on the provision of services in the CIES;
- **net interest on the net defined benefit liability (asset)**: net interest expense for the PCC Group – the change during the period in the net defined benefit liability (asset) that arises from the passage of time, charged to the financing and investment income and expenditure line of the CIES, This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

Re-measurements, the components of which pass through the Other Comprehensive income and expenditure section of the CIES and are made up as follows:

- ***Re-measurements (assets)*** –these are set out in IAS19 as being the return on assets net of interest on assets, so this is a reflection of the extent to which the investment returns achieved are different from the interest rate used at the start of the year. However, for multi-employer schemes such as LGPS, which do not have asset values which are formally segregated between employers, additional adjustments can arise in the year in which a new set of actuarial valuation results is brought into account for IAS19 purposes. In particular, the approach to calculating the IAS19 assets and liabilities in between full actuarial valuations is approximate in nature. At each valuation, the position is reassessed, with the assets (and liabilities) attributable to each employer being fully recalculated. Following each full actuarial valuation it can therefore be necessary to put through some adjustments to reflect this recalculation. The adjustment is not explicitly catered for under IAS19 and it has been presented as part of the re-measurement on assets and referred to as "experience gain/loss on assets";

Re-measurements (liabilities) –these are subdivided into:

Gain/loss on financial assumptions and gain/loss on demographic assumptions –under the accounting standards the assumptions will normally differ between the start and end of the employer's financial year. Changes in actuarial assumptions show the effect of this difference, calculated at the end of the financial year;

Experience gains/losses on liabilities –as mentioned earlier, the approach to calculating the IAS19 figures in between actuarial valuations is approximate in nature. At each triennial valuation, the position is reassessed, with the assets and liabilities attributable to each employer fully recalculated. The adjustment to the liabilities which arises from this recalculation is known as an "experience gain/loss on liabilities". Experience gain/loss on liabilities is normally zero in between full actuarial valuations.

Contributions paid to the pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense. In the case of the police pension scheme, this includes any contribution made by the PCC to meet the deficit on the pension fund.

In relation to retirement benefits, statutory provisions require the Police General Fund balance to be charged with the amount payable by the PCC/PCC Group to the pension funds or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the movement in reserves statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable to the fund but unpaid at the year-end. The negative balance that arises on the PCC/PCC Group Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Governance and Risk Management:

The liability associated with the employer's pension arrangements is material to the employer, as is the cash funding required. The details in relation to each arrangement, including the relevant provisions for governance and risk management, are set out below.

<u>Lancashire County Pension Fund</u>

Governance:
Management of the Fund is vested in Lancashire County Council as administering authority of the Fund. Lancashire County Council has appointed a Pension Fund Committee (comprised of a mixture of County Councillors and representatives from other employers) to manage the Fund. The Committee is assisted by an investment panel which advises the Committee on its investment strategy and risk management provisions.

Funding the liabilities:
Regulations governing the Fund require actuarial valuations to be carried out every three years. Contributions for each employer are set having regard to their individual circumstances. The Regulations require the contributions to be set with a view to targeting the Fund's solvency, and the detailed provisions are set out in the Fund's investment strategy statement. The most recent valuation was carried out as at 31 March 2016, which showed a shortfall of assets against liabilities of £0.69 billion as at that date, equivalent to a funding level of 90%. The fund's

employers are paying additional contributions over a period of 16 years in order to meet the shortfall.

The weighted average duration of the PCC Group's defined benefit obligation is 21 years for staff employed by the CC and 20 years for staff employed by the PCC, measured on the actuarial assumptions used for IAS19 purposes. The PCC Group anticipates to pay £9.3m contributions to the LGPS in 2018/19. Of this, £0.1m is expected to be paid in respect of the PCCs own staff.

Risks and Investment strategy:
The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). The aim of investment risk management is to balance the minimisation of the risk of an overall reduction in the value of the Fund with maximising the opportunity for gains across the whole Fund portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and keep credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the Fund's forecast cash flow.

Market Risk:
Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. To mitigate market risk, the Fund and its investment advisors undertake appropriate monitoring of market conditions and benchmarking analysis.

Other Price Risk:
Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk). The Fund's investment managers mitigate this price risk through diversification. The selection of securities and other financial instruments is monitored by the Fund to ensure it is within limits specified in the fund investment strategy.

Interest Rate Risk:
The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risks that the fair value of future cash flow of a financial instrument will fluctuate because of changes in market interest rates. The Fund's interest rate risk is routinely monitored by the Investment Panel and its investment advisors.

Currency risk:
Currency risk represents the risk that the fair value cash flow of a financial instrument will fluctuate because of changes in foreign exchange rates. The Fund's currency rate risk is routinely monitored by the Fund and its investment advisors in accordance with the Fund's risk management strategy.

Credit risk:
Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur financial loss. Credit risk is minimised by ensuring that counterparties meet the Fund's credit criteria. The Fund has also set limits as to the maximum percentage of the deposits placed with any class of financial institution.

Liquidity risks:
Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund therefore takes steps to ensure that there are adequate cash resources to meet its commitments, and the Fund has immediate access to its cash holdings.

Other risks:
Actions taken by the government, or changes to European legislation, could result in stronger local funding standards, which could materially affect the employer's cash flow.

There is a risk that changes in the assumptions (e.g. life expectancy, price inflation, discount rate) could increase the defined benefit obligation and/or the liabilities for actuarial valuation purposes. Other assumptions used to value the defined benefit obligation are also uncertain, although their effect is less material. The sensitivity analysis included in the notes below indicates the change in the defined benefit obligation for changes in the key assumptions.

Amendments, curtailments and settlements:
The provisions of the Fund were amended with effect from 1 April 2014. For service up to 31 March 2014 benefits were based on salaries when members leave the scheme, whereas for service after that date benefits are based on career average salary. Further details of the changes are available from the Fund’s administering authority.

Curtailments shown in the accounting figures relate to the cost of providing retirement benefits for members who retire early, to the extent that provision has not already been made for the relevant defined benefit obligations.

Settlements shown in the accounting figures relate to the admission of new employers into the Fund, and who take on part of the employer’s assets and liabilities as a result of employing members who have accrued benefits with the employer.

<u>Police Pensions Schemes</u>

Governance:
These arrangements are managed by the employer, although this essentially involves administering the plan, including managing its cash flows. The requirement to set up Police Pension boards has resulted in the setting up of a North West region Police Pension board which is administered by the Constabulary. The Board comprises employer representatives as well as representatives of the individual scheme managers and carries out a variety of activities to assess governance arrangements.

Funding the liabilities:
Given that the arrangements are unfunded, the contributions payable are simply those which are sufficient to meet the benefit outgo as and when it arises. As mentioned above, this benefit outgo is largely underwritten by central government. The weighted average duration of the liabilities is 18 years in respect of the 1987 scheme, 33 years in respect of the 2006 scheme and 34 years in respect of the 2015 scheme (injury awards have a duration of 24 years), measured on the actuarial assumptions used for IAS19 purposes. The PCC Group anticipates to pay £109.5m contributions to the Police Schemes in 2019/20. This includes an additional £24m which will need to be paid as a result of the increased employer contribution rate of 31% which become payable from 1 April 2019 as a consequence of the recent actuarial revaluation of the police officer schemes.

Investment Risks:
There are no investment risks in relation to these arrangements, given their unfunded nature. The greatest single risk is that the government could change the arrangements for meeting part of the benefit outgo, which could increase the employer’s contributions to them.

Other risks:
There is a risk that changes in the assumptions (e.g. life expectancy, price inflation, discount rate) could increase the defined benefit obligation. Other assumptions used to value the defined benefit obligation are also uncertain, although their effect is less material. The sensitivity analysis above indicates the change in the defined benefit obligation for changes in the key assumptions.

Transactions Relating to Post-Employment Benefits

We recognise the cost of post-employment/retirement benefits in the reported cost of services when they are earned by the employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against council tax is based on the employers' contributions payable in the year, so the real cost of post-employment/retirement benefits is reversed out of the PCC Group General Fund via the movement in reserves statement. The following transactions have been made during the year:

PCC GROUP	Local Government Pension Scheme		Police Officer Pension Schemes		Injury Awards		Total	
	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18
	£000	£000	£000	£000	£000	£000	£000	£000
Comprehensive Income and Expenditure Statement (CIES)								
Cost of Services:								
Service Cost comprising:								
• Current service cost	15,677	15,686	47,810	64,652	8,856	4,566	72,343	84,904
• Curtailment costs	393	336	-	-	-	-	393	336
• Admin. Expenses	263	242	-	-	-	-	263	242
Financing and Investment Income and Expenditure*:*								
• Net Interest expense	2,968	3,268	77,459	84,994	4,984	3,188	85,411	91,450
Total Post-Employment Benefits Charged to the surplus/deficit on Provision of Services in the CIES	**19,301**	**19,532**	**125,269**	**149,646**	**13,840**	**7,754**	**158,410**	**176,932**
Other Post Employment Benefit charged to the Comprehensive Income and Expenditure Statement: Re-measurement of the net defined benefit liability, comprising:								
• Re-measurements (assets)	(29,793)	(3,232)	-	-	-	-	(29,793)	(3,232)
• Experience (gains)/losses on Liabilities	-	-	-	(269,248)	-	78,038	-	(191,210)
• (Gains)/losses on demographic assumptions	-	-	-	(141,537)	-	(10,740)	-	(152,277)
• Actuarial (gains)/losses arising on changes in financial assumptions	30,656	(22,529)	182,834	(188,614)	14,687	(15,070)	228,177	(226,213)
Total Post-Employment Benefits Charged to the Comprehensive Income and Expenditure Statement	**20,164**	**(6,229)**	**308,103**	**(449,753)**	**28,527**	**59,982**	**356,794**	**(396,000)**
Movement in Reserves Statement								
Reversal of net charges made to the (Surplus)/Deficit on the Provision of Services for post-employment benefits in accordance with the Code	(19,301)	(19,532)	(125,269)	(149,646)	(13,840)	(7,754)	(158,410)	(176,932)
Actual amount charged against the General Fund Balance for pensions in the year:								
• Employers' contributions payable to scheme	9,944	9,202	85,472	76,709	-	-	95,416	85,911
• Retirement benefits paid to pensioners	-	-	-	-	3,167	2,651	3,167	2,651

A further breakdown of the LGPS scheme is shown below, which identifies those costs reflected individually in the PCC and CC financial statements.

	PCC		CC		Total	
	2018/19	**2017/18**	**2018/19**	**2017/18**	**2018/19**	**2017/18**
	£000	**£000**	**£000**	**£000**	**£000**	**£000**
Comprehensive Income and Expenditure Statement						
Cost of Services:						
• Current Service Cost	179	187	15,498	15,499	15,677	15,686
• Curtailment costs	-	-	393	336	393	336
• Admin expenses	3	3	260	239	263	242
Financing and Investment Income and Expenditure*:*						
• Net interest expense	32	36	2,936	3,232	2,968	3,268
Net Charge to the Income and Expenditure Account Total Post-Employment Benefits Charged to the Comprehensive Income and Expenditure Statement	**214**	**226**	**19,087**	**19,306**	**19,301**	**19,532**
Other Post Employment Benefit charged to the Comprehensive Income and Expenditure Statement						
• Re-measurements (assets)	(438)	(47)	(29,355)	(3,185)	(29,793)	(3,232)
• Actuarial (gains)/losses arising on changes in financial assumptions	396	(276)	30,260	(22,253)	30,656	(22,529)
Total Post-Employment Benefits Charged to the Comprehensive Income and Expenditure Statement	**172**	**(97)**	**19,992**	**(6,132)**	**20,164**	**(6,229)**
Statement of Movement in the General Fund Balance:						
Reversal of net charges made for retirement benefits in accordance with IAS 19	(214)	(226)	(19,087)	(19,306)	(19,301)	(19,532)
Actual amount charged against Council tax for pensions in the year:						
Employers' contributions payable to scheme	91	87	9,853	9,115	9,944	9,202

Pensions Assets and Liabilities Recognised in the Balance Sheet

	Local Govt Pension Scheme		Police Pension Schemes		Injury Awards		Total	
	31 Mar 2019	31 Mar 2018	31 Mar 2019	31 Mar 2018	31 Mar 2019	31 Mar 2018	31 Mar 2019	31 Mar 2018
PCC GROUP	£000	£000	£000	£000	£000	£000	£000	£000
Present value of the defined benefit obligation	508,021	454,454	3,134,069	2,911,438	211,518	186,158	**3,853,608**	**3,552,050**
Fair value of plan assets	(381,862)	(338,515)	-	-	-	-	**(381,862)**	**(338,515)**
Net liability arising from defined benefit obligation	**126,159**	**115,939**	**3,134,069**	**2,911,438**	**211,518**	**186,158**	**3,471,746**	**3,213,535**

	Local Govt Pension Scheme	
	31 Mar 2019	31 Mar 2018
	£000	£000
SINGLE ENTITY PCC		
Present value of the defined benefit obligation	6,999	6,277
Fair value of plan assets	(5,646)	(5,005)
Net liability arising from defined benefit obligation	**1,353**	**1,272**

The liabilities show the underlying commitments that the PCC Group has in the long run to fund retirement benefits, both in respect of the staff of the Office of the PCC (£1.4m) and the police officers and staff under the direction of the CC (£3,470.4m)
The total liability of £3,472m has a considerable impact on the net worth of the PCC Group as recorded in the balance sheets, resulting in a net liability of £3,311m.
However, statutory arrangements for funding the liability mean that the financial position remains healthy:

- The deficit on the Local Government Pensions scheme will be made good by increased contributions over the remaining working life of the employees, as assessed by the scheme actuary.
- Finance is only required to be raised to cover police pensions and injury awards when the pensions are actually paid.

Assets and Liabilities in Relation to Post-employment Benefits

Reconciliation of the present value of the scheme liabilities:

	Funded Liabilities: Local Govt Pension Scheme					
	PCC GROUP		PCC		CC	
	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18
	£000	£000	£000	£000	£000	£000
1 April	**454,454**	**454,599**	**6,277**	**6,207**	**448,177**	**448,392**
Current Service Costs	15,677	15,686	179	187	15,498	15,499
Interest on pensions liabilities	12,196	11,748	168	161	12,028	11,587
Contributions by scheme participants	3,324	3,048	50	47	3,274	3,001
Actuarial losses –changes in demographic assumptions	-	-	-	-	-	-
Actuarial (gains)/losses –changes in financial assumptions	30,656	(22,529)	396	(276)	30,260	(22,253)
Experience (gains)/losses on liabilities	-	-	-	-	-	-
Benefits paid	(8,679)	(8,434)	(71)	(49)	(8,608)	(8,385)
Past Service/Curtailment Costs	393	336	-	-	393	336
31 March	**508,021**	**454,454**	**6,999**	**6,277**	**501,022**	**448,177**

	Unfunded Liabilities - PCC GROUP			
	Police Pension Schemes		Injury Benefits	
	2018/19	2017/18	2018/19	2017/18
	£000	£000	£000	£000
1 April	**2,911,438**	**3,437,900**	**186,158**	**128,827**
Current Service Costs	47,810	64,652	8,856	4,566
Interest on pensions liabilities	77,459	84,994	4,984	3,188
Contributions by scheme participants	14,228	14,182	-	-
Experience (gains)/losses on liabilities	-	(269,248)	-	78,038
Actuarial gains –changes in demographic assumptions	-	(141,537)	-	(10,740)
Actuarial (gains)/losses –changes in financial assumptions	182,834	(188,614)	14,687	(15,070)
Benefits paid	(99,700)	(90,891)	(3,167)	(2,651)
31 March	**3,134,069**	**2,911,438**	**211,518**	**186,158**

NB: All the unfunded liabilities relate to police officers who are/were under the direction and control of the CC.

Reconciliation of the fair value of the scheme assets:

	Funded Scheme –Local Government Pension Scheme					
	PCC GROUP		PCC		CC	
	2018/19	2017/18	2018/19	2017/18	2018/19	2017/18
	£000	£000	£000	£000	£000	£000
1 April	**338,515**	**323,229**	**5,005**	**4,751**	**333,510**	**318,478**
Interest on plan assets	9,228	8,480	136	125	9,092	8,355
Admin expenses	(263)	(242)	(3)	(3)	(260)	(239)
Employer contributions	9,944	9,202	91	87	9,853	9,115
Contributions by scheme participants	3,324	3,048	50	47	3,274	3,001
Re-measurements (assets)	29,793	3,232	438	47	29,355	3,185
Benefits paid	(8,679)	(8,434)	(71)	(49)	(8,608)	(8,385)
31 March	**381,862**	**338,515**	**5,646**	**5,005**	**376,216**	**333,510**

	Unfunded Schemes –PCC Group			
	Police Pension Schemes		Injury Benefits	
	2018/19	2017/18	2018/19	2017/18
	£000	£000	£000	£000
1 April	**-**	**-**	**-**	**-**
Employer contributions	85,472	76,709	3,167	2,651
Contributions by scheme participants	14,228	14,182	-	-
Benefits paid	(99,700)	(90,891)	(3,167)	(2,651)
31 March	**-**	**-**	**-**	**-**

Local Government Pension Scheme assets for the PCC Group comprised:

	Fair Value Input Level (if relevant)	31 March 2019 £000	31 March 2018 £000
Cash and Cash Equivalents		**2,310**	**(1,413)**
Bonds			
By Sector			
Corporate	1/2	4,476	5,949
UK index-linked	3	13,419	8,077
Overseas Fixed Interest	1	-	327
Sub-Total Bonds		**17,895**	**14,353**
Property			
By Type			
Retail	2	9,191	9,309
Commercial	2	26,393	22,526
Sub-Total Property		**35,584**	**31,835**
Private Equity			
Overseas	3	29,341	24,572
Sub-Total Private Equity		**29,341**	**24,572**
Other Investment Funds			
Overseas Pooled Equity	1	168,288	150,404
Pooled Fixed Income	1	41,526	8,351
Credit Funds	3	27,107	62,374
Infrastructure	3	53,968	42,898
Property	3	5,843	5,141
Sub-Total Other Investment Funds		**296,732**	**269,168**
TOTAL ASSETS*		**381,862**	**338,515**

*At 31 March 2019 the share of these assets that relate to staff of the Office of the PCC are £5.646m (£5.005m at 31 March 2018)

Allocation into Fair Value Hierarchy

Level 1
Level 1 fair value measurements are those derived from unadjusted quoted prices in active markets for identical assets or liabilities. Examples include quoted equity investments, unit trusts, UK pooled fixed income funds, overseas pooled fixed income funds, UK and overseas quoted fixed interest securities. Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2
Level 2 investments are those where quoted market prices are not available, for example where an instrument is traded in a market that is not considered to be active or valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data. Such instruments include bonds secured on affordable housing assets. The technique for valuing these assets is independently verified.

The bonds secured on affordable housing assets are based on long term expectations of interest rates, inflation and credit spreads in the housing association sector.

Level 3
Level 3 portfolios are those where at least one input which could have a significant effect on the instrument's valuation is not based on observable market data. Such instruments include internally managed overseas equity funds, overseas quoted fixed income investments, pooled UK fixed income investments, private equity, infrastructure and indirect overseas property investments, which are valued using various valuation techniques that require significant management judgement in determining appropriate assumptions, including earnings, public market comparatives and estimated future cash flows.

The values of the investment in private equity and infrastructure are based on valuations provided to the private equity and infrastructure funds in which Lancashire County Pension Fund has invested. These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines or equivalent, which follow the valuation principles of IFRS and US GAAP. Valuations are performed annually mainly, and at the end of December. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

The value of the overseas indirect property fund investment is based on valuations provided to the overseas indirect property fund in which Lancashire County Pension Fund has invested. These valuations are at the current open market value, as defined by the RICS Appraisal and Valuation Standards. These valuations are performed monthly.

Property Funds
The properties were valued at open market value at 31 March 2019 by independent property valuers Avison Young in accordance with the Royal Institution Chartered Surveyors' Valuation Standards (9th Edition). The valuer's opinion of market value and existing use value was primarily derived using comparable recent market transactions on arms-length terms.

Cash and cash equivalents
Cash comprises of cash in hand and on demand deposits and includes amounts held by the Fund's external managers. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on the assumptions about mortality rates, salary levels etc. The police schemes, injury benefits and the Local Government Pension Fund liabilities have been assessed by Mercer Human Resource Consulting Ltd, an independent firm of actuaries, estimates being based on the last full valuations of the schemes. The principal assumptions used by the actuary have been:

	Local Govt. Pension Scheme			
	PCC staff		**CC Staff**	
	2018/19	**2017/18**	**2018/19**	**2017/18**
Mortality assumptions:				
Longevity at 65 for current pensioners (LGPS):				
Men	22.8	22.7	22.8	22.7
Women	25.5	25.4	25.5	25.4
Longevity at 65 for future pensioners (LGPS):				
Men	25.1	25	25.1	25
Women	28.2	28	28.2	28
Rate of inflation: CPI	2.2%	2.1%	2,2%	2.1%
Rate of increase in salaries	3.7%	3.6%	3.7%	3.6%
Rate of increase in pensions	2.3%	2.2%	2.3%	2.2%
Rate for discounting scheme liabilities	2.5%	2.7%	2.5%	2.7%

	Police Officers 1987 Scheme		**Police Officers 2006 Scheme**		**Police Officers 2015 Scheme**		**Injury Awards**	
	2018/19	**2017/18**	**2018/19**	**2017/18**	**2018/19**	**2017/18**	**2018/19**	**2017/18**
Longevity at 60 for current								
Men	27.1	27	27.1	27	27.1	27	24.5	24.5
Women	29.1	29	29.1	29	29.1	29	26.5	26.4
Longevity at 60 for future								
Men	29.1	29	29.1	29	29.1	29	26.4	26.3
Women	31.1	31	31.1	31	31.1	31	28.4	28.3
Rate of inflation: CPI	2.2%	2.1%	2.2%	2.1%	2.2%	2.1%	2.2%	2.1%
Rate of increase in salaries	3.7%	3.6%	3.7%	3.6%	n/a	n/a	3.7%	3.6%
Rate of increase in pensions	2.3%	2.2%	2.3%	2.2%	2.3%	2.2%	2.3%	2.2%
Rate of revaluation of CARE pensions	n/a	n/a	n/a	n/a	3.45%	3.35%	n/a	n/a
Rate for discounting scheme liabilities	2.5%	2.7%	2.5%	2.7%	2.5%	2.7%	2.5%	2.6%

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The methods used to carry out the sensitivity analyses presented in the notes below for the material assumptions are the same as those the employer has used previously. The calculations alter the relevant assumption by the amount specified, whilst assuming that all other variables remain the same. This approach is not necessarily realistic, since some assumptions are related for example, if the scenario is to show the effect if inflation is higher than expected, it might be reasonable to expect that nominal yields on corporate bonds will increase also. However, it enables the reader to isolate one effect from another.

Local Government Pension Scheme (PCC & PCC Group):

	Impact on the Defined Benefit Obligation in the Scheme			
	PCC Group		**Single Entity PCC**	
	Increase in Assumption £000	**Decrease in Assumption £000**	**Increase in Assumption £000**	**Decrease in Assumption £000**
Longevity (increase or decrease in 1 year)	9,808	-9,808	135	-135
Rate of inflation (increase or decrease by 1%)	108,470	-108,470	1,390	-1,390
Rate for discounting scheme liabilities (increase or decrease by 1%)	-104,480	104,480	-1,350	1,350
Rate of increase in salaries (increase or decrease by 1%)	21,880	-21,880	210	-210

Police officer pension schemes and injury benefits (PCC Group only – all pension obligations relate to officers employed by the CC):

	Impact on the Defined Benefit Obligation in the Scheme			
	Police Pension Schemes		**Injury Benefits**	
	Increase in Assumption £000	**Decrease in Assumption £000**	**Increase in Assumption £000**	**Decrease in Assumption £000**
Longevity (increase or decrease in 1 year)	85,828	-85,828	5,765	-5,765
Rate of inflation (increase or decrease by 1%)	632,890	-632.890	50,460	-50,460
Rate for discounting scheme liabilities (increase or decrease by 1%)	-619,070	619,070	-49,220	49,220
Rate of increase in salaries (increase or decrease by 1%)	98,430	-98,430	31,900	-31,900

Other Notes

29. Related Parties

The PCC Group is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Group or to be controlled or influenced by the Group. Disclosure of these transactions allows readers to assess the extent to which the Group might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Group.

Central government has effective control over the general operations of the Group: it is responsible for providing the statutory framework within which the Group operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Group has with other parties. Details of transactions with government departments are set out in the subjective analysis in Note 2 (Expenditure and income analysed by nature) and further analysis in Note 14 (Grant Income).

The PCC has direct control over the Group's finances and is responsible for setting the Police and Crime Plan. The CC retains operational independence and operates within the budget set by the PCC, to deliver the aims and objectives set out in the Police and Crime Plan. Section 28 of the Police Reform and Social Responsibility Act 2011 requires that the local authorities covered by the police area must establish a Police and Crime Panel (PCP) for that area. The PCP scrutinises the decisions of the PCC, reviews the Police and Crime Plan and has a right of veto over the precept.

A survey of the related party interests of the PCC, CC and members of both senior management teams and their immediate family members was carried out in preparing the Statement of Accounts. No material related party interests were disclosed.

Jointly Controlled Operations/Collaboration

The PCC Group is party to a number of collaborations (both regional and national). In all instances the Group's accounts reflect their share of income, expenditure and cash flows arising from the structure of the arrangement. As the PCC receives all income and funding, any income receivable from the structure of the arrangement will be credited to the CIES of the PCC. As the CIES of the CC contains the expenditure arising from these collaborations the PCC credits the CC with an equivalent amount through the intra-group funding.

CIPFA Guidance on Accounting for Collaboration has been considered In determining the nature of the relationships and, as most of the north west regional arrangements have joint control through a strategic management board and a general arrangement document has been agreed and signed by all PCC's and CCs in the region, it is considered that most are correctly classified as joint operations.

Some arrangements are of a collaborative nature but are classified as third party payments. Others involve officers from individual forces undertaking tasks and roles on a regional basis but funded by a lead force from grants made by the Home Office or are self -funded from fees and charges.

The following groups the arrangements into:

Collaboration – Joint Operations

Collaboration – Third party payments

Collaboration – Grant/Self-funded.

Collaboration -Joint Operations

The North West Regional Organised Crime Unit (formerly TITAN) was established in April 2009 bringing together the six regional police forces in collaboration to tackle serious and organised crime across the north-west. It encompasses the work of a number of teams with Merseyside as the lead force. The accounts reflect Lancashire's share of the income and expenditure of the various arrangements as follows:

2017/18 PCC Group Net Exp		2018/19		
		Grant Income (PCC CIES)	Expenditure (CC CIES)	PCC Group Net Exp
£000		£000	£000	£000
642	Regional Crime Unit	-	652	652
-	Regional Asset Recovery	(170)	170	-
25	Regional Intelligence Unit	(62)	89	27
467	Confidential Unit	(48)	519	471
491	Technical Surveillance unit	(29)	529	500
331	Protected Persons Service	-	278	278
123	Prisoner Intelligence	(96)	228	132
13	Operational Security Officer	(17)	30	13
322	Operations 2	-	388	388
191	Operations 3	(106)	295	189
140	Business Support	-	131	131
2,745		**(528)**	**3,309**	**2,781**

The PCC is holding a specific earmarked reserve of £0.056m for the NWROCU pending a decision on its use.

Lancashire also contributed £0.027m in 2018/19 (£0.024m in 2017/18) to the cost of a collaboration coordinator post within Merseyside.

The following joint operations have Cheshire as lead force:

2017/18 PCC Group Net Exp		2018/19		
		Income (PCC CIES)	Expenditure (CC CIES)	PCC Group Net Exp
£000		£000	£000	£000
153	Joint Underwater Search Unit	(58)	210	152
256	Motorways and ANPR	-	251	251
69	Firearms Collaboration	-	25	25
55	Emergency Services Network	(4)	71	67
533		**(62)**	**557**	**495**

Lancashire withdrew from the Firearms Collaboration during the year.

The Learning and Development collaboration is a joint operation between Lancashire and Cumbria. Lancashire's share of the costs is £2.6m (£2.8m in 2017/18).

During 2017/18the Constabulary and University of Central Lancashire (UCLAN) entered into a 10 year joint operation partnership agreement to create a Lancashire Forensic Academy based at Police Headquarters. During 2018/19 UCLAN contributed to the following:-

2017/18 Exp		**2018/19 Exp**
		£000
191	Rental of accommodation/facilities	238
333	Staff/student contact	400
43	Operating budget	51
250	Capital contribution towards building works/equipment	250
817		**939**

The Constabulary contributed £0.250m capital to building works/equipment (£0.250m in 2017/18) and £0.051m (£0.043m in 2017/18) to the operating budget and the accounts reflect this contribution.

Assets and Liabilities:

Debtors and creditors in respect of the above arrangements have remained in the balance sheets of the lead forces by mutual agreement of all forces involved, on the basis of materiality. Similarly any debtors, creditors and assets of the Lancashire Forensic Academy remain in the balance sheet of the PCC and Group.

In 2013/14 the PCC for Merseyside purchased and refurbished a building to accommodate the Regional Crime Unit, the Regional Intelligence Unit and the Regional Asset Recovery Team. The cost of this asset was fully funded by a capital grant received from the Home Office. The premises were purchased in the name of and are owned by the PCC for Merseyside and the current value of this asset is included within the balance sheet of the PCC for Merseyside. If the regional arrangements are ever terminated the Home Office has the option of recovering the grant received to fund the building. If this option was not exercised, the sale proceeds would be divided between the participating forces (Cheshire, Greater Manchester, Merseyside, Lancashire, Cumbria and North Wales).

Collaboration – Third Party Payments

The only significant one of these arrangements is the payment made towards the National Police Air Service (NPAS) which was £1.064m in 2018/19 (£1.021m in 2017/18).

Collaboration – Grant/Self-funding

In a small number of collaboration arrangements Lancashire provided seconded officers to support the arrangements and was fully reimbursed by Greater Manchester Police (GMP). GMP were lead force and received grant funding from the Home Office to cover all expenditure. All expenditure and income has been reflected in the Greater Manchester Police CIES with Lancashire's CIES adjusted to show no transactions.

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30. **Publicity**

The PCC Group has spent £0.826m (£0.920m in 2017/18) on certain categories of publicity including communication and consulting with Lancashire residents; this information is published in accordance with section 5(1) of the Local Government Act 1986. The categories and the split between PCC and CC are:

	PCC		CC		Group	
	2018/19 £000	**2017/18 £000**	**2018/19 £000**	**2017/18 £000**	**2018/19 £000**	**2017/18 £000**
Publicity	221	198	594	707	815	905
Advertising - Recruitment	-	-	7	13	7	13
Advertising - Other	4	2	-	-	4	2
	225	**200**	**601**	**720**	**826**	**920**

31. **External Audit Costs**

In 2018/19 the PCC Group incurred the following fees relating to external audit.

	2018/19 £000	**2017/18 £000**
Fees payable to Grant Thornton UK LLP, auditors appointed under the Local Audit and Accountability Act 2014, with regard to external audit services carried out under the C*ode of Audit Practice* prepared by the Comptroller and Auditor General in accordance with s19 of the Local Audit and Accountability Act 2014	39	51
Total Costs	**39**	**51**

Separate charges were made to the PCC and CC; the CC share was £14,438 with the balance falling on the PCC.

32. **Contingent Liabilities**

A contingent liability arises where an event has taken place that gives the PCC/PCC Group a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the PCC/PCC Group. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that the outflow of resources will be required or the amount of the obligation cannot be measured reliably.

As the PCC holds all usable reserves and is the responsible body for assets and liabilities, any contingent assets or liabilities will be recorded within his accounts. Contingent assets and liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

Pensions transition arrangements –age discrimination

The Chief Constable of Lancashire, along with other Chief Constables and the Home Office, currently has around 250 claims lodged against them with the Central London Employment Tribunal. The claims are in respect of alleged unlawful discrimination arising from the Transitional Provisions in the Police Pension Regulations 2015.

Claims of unlawful discrimination have also been made in relation to the changes to the Judiciary and Firefighters Pension regulations and in December 2018 the Court of Appeal (McCloud /Sargeant) ruled that the 'transitional protection' offered to some members as part of the reform to public sector pensions amounts to unlawful discrimination. The Government is seeking permission to appeal this decision. It is envisaged that if this is unsuccessful, the Court will require steps to be taken to compensate employees who were transferred to the new schemes potentially including Police Pension Scheme members. This would to lead to an increase in Police Pension Scheme liabilities and the Government Actuary Department, using specific assumptions, have estimated the potential increase in scheme liabilities as a result of the judgment to be approximately 5.4% of national pension scheme liabilities as at March 2018. This estimate is based on one potential remedy and depending on the outcome of the appeal, the remedy calculation and its applicability to the Police Pension Scheme will need to be revisited in the light of further direction from the courts.

The impact of an increase in scheme liabilities arising from McCloud / Sargeant judgment will be measured through the pension valuation process, which determines employer and employee contribution rates. The next Police Pension valuation is due to take place in 2020 with implementation of the results planned for 2023/24 and forces will need to plan for the impact of this on employer contribution rates alongside other changes identified through the valuation process.

The impact of an increase in annual pension payments arising from McCloud / Sargeant is determined through The Police Pension Fund Regulations 2007.These regulations require a policing body to maintain a police pension fund into which officer and employer contributions are paid and out of which pension payments to retired officers are made. If the police pension fund does not have enough funds to meet the cost of pensions in year the amount required to meet the deficit is then paid by the Secretary of State to the policing body in the form of a central government top-up grant.

Guaranteed Minimum Pension (GMP)

UK and European law requires pension schemes to provide equal benefits to men and women in respect of the service after 17 May 1980 and this includes providing equal benefits accrued from that date to reflect the differences in GMPs. Previously there was no consensus or legislative guidance as to how this might be achieved in practice for ongoing schemes, but the 26 October 2018 Lloyds Bank court judgement has now provided further clarity in this area. However, in response to this judgement, HM Treasury stated that "public sector schemes already have a method to equalise guaranteed minimum pension benefits which is why we will not have to change our method as a result of this judgement", clearly implying that the Government (who have overall power to determine benefits provision) believe the judgement itself will not affect the benefits. Therefore, the natural conclusion for the main public service pension schemes is that it is not appropriate for any provision to be included for the effect of the Lloyds Bank judgement, at least at the present time and so no allowances have been made by our actuaries for any additional liabilities at this stage. However, in due course there may be a further cost to the schemes and to the PCC and CC as employers in connection with equalisation/indexation when the Government confirms the overall approach which it wishes to adopt in this area following its consultation.

OTHER SIGNIFICANT ACCOUNTING POLICIES

i. General

These financial statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Accounts and Audit Regulations 2015. The accounting policies contained in the Code apply International Financial Reporting Standards (IFRS) as adapted for the public sector by the International Public Sector Accounting Standards (IPSAS).

Following the passing of the Police Reform and Social Responsibility Act 2011, Lancashire Police Authority was replaced with two 'corporations sole', the PCC and the CC. Both bodies are required to prepare separate Statements of Accounts. The Financial Statements included here represent the accounts for the PCC as a single entity and also the PCC Group. The financial statements cover the 12 months to 31 March 2019.

The term 'Group' is used to indicate consolidated transactions and policies of the PCC and the CC for the year ended 31 March 2019. The identification of the PCC as the holding organisation and the requirements to produce Group accounts stems from the powers and responsibilities of the PCC under the Police Reform and Social Responsibility Act 2011.

The PCC Group and the PCC have adopted consistent accounting policies, which are detailed below.

The accounts have been prepared on a going concern basis using an historic cost accounting convention modified to account for the revaluation of certain categories of non-current assets.

Notes relating to specific items in the financial statements include corresponding accounting policies. The accounting policies below relate to policies with no accompanying note.

ii. Accruals of Income and Expenditure

Revenue from contracts with service recipients is recognised when (or as) the goods or services are transferred to the service recipient in accordance with performance obligations in the contract.

Supplies are recorded as expenditure when they are consumed –where there is a gap between the date supplies are received and their consumption they are carried as inventories on the balance sheet.

Expenses in respect of services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.

Interest receivable on investments is accounted for as income on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

Where revenue or expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet. Where debts may not be settled, the balance of debtors is written down and, where material, a charge made to revenue for the income that might not be collected.

Whilst all expenditure is paid for by the PCC, including the salaries of police officers and police staff, the actual recognition in the respective accounts of the PCC and CC is based on economic benefit and service delivery.

iii. Fair Value Measurement

The PCC measures some of his non-financial assets such as surplus assets and investment assets at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- in the principal market for the asset or liability, or
- in the absence of a principal market, in the most advantageous market for the asset or liability.

The PCC measurers the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their best interest.

When measuring the fair value of a non-financial asset, the authority takes into account a market participants ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The PCC uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the PCC group financial statements are categorised within the fair value hierarchy, as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the PCC can assess at the measurement date;
- Level 2 – inputs other than quoted price included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3 – unobservable inputs for the asset or liability.

iv. Working Capital

The PCC has the responsibility for managing financial relationships with third parties and has legal responsibility for discharging the contractual terms and conditions of suppliers. All payments are made and income received by the PCC, with no cash transactions taking place in the name of the CC. Hence all working capital balances are retained on the PCC balance sheet with the exception of employee related creditors which are recognised in the first instance in the CC balance sheet but are funded by either unusable reserves or a short term debtor with the PCC.

v. PCC Funding of the Chief Constable's Expenditure

As the Chief Constable has no resources with which to fulfil his devolved responsibilities to provide a policing service, the expenditure is funded by the PCC. The PCC’s funding of the CC’s expenditure takes the form of ‘intragroup funding’ and is shown as income in the CC’s CIES and expenditure in the PCC’s CIES. The intragroup transactions are accounted for on an accruals basis and are eliminated on consolidation in the Group financial statements. There is no actual transfer of cash involved in this transaction as all the resources belong to the PCC

vi. VAT

VAT payable is included as an expense only to the extent that it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

vii. Overheads and Support Services

Overhead budgets are held as separate budgets and reported to management in the same way as operational budget with no ultimate re-apportionment across operating segments.

viii. Transferred Debt

Outstanding debt on assets transferred from Lancashire County Council to the former Police Authority on 1 April 1995 is managed by the County Council. The PCC is now responsible for this debt and is charged an amount to cover interest and principal repayments, and receives grant from central government to cover a proportion of these costs. This debt is being repaid on an equal instalment basis over 25 years.

POLICE PENSION ACCOUNT

The CC administers the Police Pension Fund Account (the Account) on behalf of the PCC, in accordance with the Police Reform and Social Responsibility Act 2011. Amounts debited and credited to the Account are specified by legislation, the Police Pension Fund Regulations 2007 [Statutory Instrument 2007 No 1932], (the Regulations). During the year all payments and receipts are made to and from the Police Fund, which is held by the PCC. This statement shows the income and expenditure for each of the 1987, the 2006 and the 2015 Police Pension Schemes.

POLICE PENSIONS ACCOUNT	NOTES	2018/19 1987 scheme £000	2006 scheme £000	2015 scheme	Total £000	2017/18 1987 scheme £000	2006 scheme £000	2015 scheme	Total £000
Contributions receivable									
Employer contributions at 21.3% of pensionable pay	3	(5,497)	(299)	(16,713)	**(22,509)**	(7,124)	(333)	(14,845)	**(22,302)**
Early Retirements		(2,318)	-	(249)	**(2,567)**	(1,798)	-	(69)	**(1,867)**
		(7,815)	**(299)**	**(16,962)**	**(25,076)**	**(8,922)**	**(333)**	**(14,914)**	**(24,169)**
Officer Contributions		(3,699)	(158)	(10,371)	**(14,228)**	(4,732)	(195)	(9,255)	**(14,182)**
Total Contributions Receivable		**(11,514)**	**(457)**	**(27,333)**	**(39,304)**	**(13,654)**	**(528)**	**(24,169)**	**(38,351)**
Transfers In		**(39)**	**-**	**(651)**	**(690)**	**(60)**	**(127)**	**(1,011)**	**(1,198)**
Benefits Payable									
Pensions		79,650	43	319	**80,012**	75,470	40	167	**75,677**
Commutations and lump sum retirement benefits		20,167	(31)	201	**20,337**	15,728	38	207	**15,973**
Lump sum death benefits		-	6	-	**6**	-	-	-	**-**
Total Benefits Payable		**99,817**	**18**	**520**	**100,355**	**91,198**	**78**	**374**	**91,650**
Payments on Account of Leavers									
Transfer values out		-	-	-	**-**	362	27	-	**389**
Refund of contributions		2	-	33	**35**	-	-	51	**51**
Total Payments on Account of Leavers		**2**	**-**	33	**35**	**362**	27	**51**	**440**
Net amount payable/(receivable) for the year contribution from Police Fund		**88,266**	**(439)**	**(27,431)**	**60,396**	**77,846**	**(550)**	**(24,755)**	**52,541**
Contribution from the Police Fund not met by Home Office grant	**2**	**(748)**	**(41)**	**(2,275)**	**(3,064)**	**(970)**	**(45)**	**(2,021)**	**(3,036)**
Additional contribution from the Police Fund met by Home Office grant		**(87,518)**	**480**	**29,706**	**(57,332)**	**(76,876)**	**595**	**26,776**	**(49,505)**
Net amount payable/(receivable)		**-**	**-**	**-**	**-**	-	-	-	-

NET ASSET STATEMENT

31 March 2018 £000		31 March 2019 £000
(384)	Unpaid pensions benefits	(616)
5,655	Payment in Advance	-
(5,271)	Amounts owed from/(to) PCC's General Fund	616
-	**Net Assets**	**-**

NOTES TO THE FINANCIAL STATEMENT

1. Basis of preparation

The Police Pension Account combines the accounting transactions of three pension schemes; the 1987 Scheme, which was set up in 1987 and the 2006 Scheme which was created by the Home Office under the Police Pension Regulations 2006 and the most recent 2015 Scheme, established under the Police Pension Regulations 2015 .

From April 2015 the 2015 Police Pension Scheme replaced the 1987 and 2006 Police Pension Schemes. With the exception of some officers closest to retirement, who are covered by full or tapered transitional provisions, all police officers have moved to the new scheme. The 2015 Police Pension Scheme is a Career Average Revalued Earnings (CARE) scheme and replaces final salary schemes. It is governed by the Police Pensions Regulations 2015 and related regulations in the Public Service Pensions Act 2013.

This financial statement has been prepared in accordance with the Police Pension Fund Regulations 2007 (SI 2007 No 1932) and CIPFA Code of Practice 2018/19. It summarise the transactions of the Pension Account. It does not take account of obligations to pay pensions and benefits which fall due after the end of the financial year – these obligations are taken into account by the actuary when valuing the schemes liabilities and are reflected in the CIES and balance sheets of the CC and the PCC Group.

This statement does not form part of the Statement of Accounts for either the PCC or the CC but has been audited as a separate statement and is covered by the audit opinion on Page 95

All the pension schemes are unfunded and have no investment assets. Benefits payable are funded by contributions from employees and employers (in this instance the PCC) and any difference between benefits payable and contributions receivable is funded by an additional contribution by the PCC from/to the Police General Fund, which, prior to 2015/16 was financed in full by top-up grant from the Home Office.

2. Actuarial Valuation

From 1 April 2015 the actuarial valuation changed the employer contribution rate from 24.2% to 21.3%. However, the benefit of this reduced contribution rate was not passed on to policing bodies which means that, although the deficit on the Police Pension Account is still met by an additional contribution from the Police Fund, not all of this additional contribution is now met from Home Office Grant; an amount equivalent to 2.9% of pensionable pay is funded from the PCC's own resources. This amount is shown separately in the Pensions Account.

3. Accounting policies

General

The financial statements have been prepared on an accruals basis except for transfers to and from the account and contributions refunded, which are treated on a cash basis.

Employers' Contributions

The employers' contribution rate for all the pension schemes is set nationally, based on a percentage of pensionable pay. The rate is subject to triennial revaluation by the Government Actuary's Department, timed to coincide with the revaluation of the local government pension scheme. The rate for 2018/19 was set at 21.3%.

Employees' Contributions

Police officer contributions are deducted from officer salaries. Contribution rates range between 11% and 15.05% dependent upon on the range the police officer's salary falls into and whether the officer is a member of the 1987, 2006 or the 2015 scheme.

4. Net Asset Statement

The net asset statement does not include liability to pay pensions and other benefits after the 31 March 2019 These liabilities remain ultimately with the PCC Group and have been reflected in the CC and PCC Group Balance Sheets. Details of these liabilities can be found in Note 28 to the main statement of accounts.

The auditor's report will appear here once the accounts have been audited

Police and Crime Commissioner for Lancashire
Annual Governance Statement 2018/19

Scope of Responsibility

The Police and Crime Commissioner for Lancashire (PCC) is responsible for ensuring that business is conducted in accordance with the relevant law and proper standards relating to financial management and corporate governance. The PCC also has a statutory duty to secure value for money in the use of public funds.

The Chief Constable is responsible for operational policing matters, the direction and control of police personnel and for putting in place proper arrangements for the governance of the Constabulary, including the effective exercise of its functions and ensuring appropriate arrangements for the management of risk.

The PCC is responsible for holding the Chief Constable to account for the exercise of those functions. This statement reports on the governance arrangements in place.

A joint PCC and Constabulary 'Code of Corporate Governance' sets out both the broad legislative context and local regulatory framework, within which the PCC and the Chief Constable work to fulfill their statutory function of securing an efficient and effective police force. It also outlines how they will ensure robust and effective governance arrangements to support the exercise of those functions.

In discharging this overall responsibility, the PCC is responsible for putting in place proper arrangements for the governance of his office's affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk. The PCC has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*. A copy of the authority's code of corporate governance is on our website at:

http://lancashire-pcc.gov.uk/the-commissioner/my-office/policies-and-procedures/

Production of the Annual Governance Statement by the PCC is a requirement under the Accounts and Audit Regulations 2015 and ensures that a reliable system of internal controls can be demonstrated

The Governance Framework

A framework of governance and internal control has been established, comprising the systems and processes, culture and values by which the Office of the Police and Crime Commissioner is directed and controlled in order to discharge the two primary statutory duties:

- to secure an effective and efficient local police service; and
- to hold the Chief Constable to account for the exercise of his functions and those of officers and staff under his direction and control.

The system of internal control is a significant part of that framework and is based on an on-going process designed to identify and prioritise the risks to the achievement of the Commissioner and Chief Constable's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The Chartered Institute for Public Finance and Accountancy (CIPFA) has identified the principles of good governance for public services and those specifically relating to policing services are;

1. Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law
2. Ensuring openness and comprehensive stakeholder engagement.
3. Defining outcomes in terms of sustainable economic, social and environmental benefits.
4. Determining the interventions necessary to optimise the achievement of the intended outcomes
5. Developing the entity's capacity, including the capability of its leadership and the individuals within it.
6. Managing risks and performance through robust internal control and strong public financial management.
7. Implementing good practices in transparency, reporting and audit to deliver effective accountability

Delivering Good Governance Framework

1. **Behaving with integrity, demonstrating strong commitment to ethical values and respecting the rule of law.**

The Commissioner has endorsed the Code of Corporate Governance, which provides guidance on expected standards of behaviours to ensure integrity.

The Commissioner has approved the Anti-Fraud, Bribery and Corruption policies. The Joint Audit and Ethics Committee receives reports on how these arrangements have been applied during the year. There is a Whistle Blowing policy in place, which together with declaration of interests from the Commissioner, staff and police officers ensures ethical standards are being monitored and adhered to. Any whistle blowing activities notified are investigated by the Professional Standards Department and appropriate action is taken.

The Section 151 Officer and Monitoring Officer have specific responsibility for ensuring legality, for investigating any suspected instances of failure to comply with legal requirements, and for reporting any such instances to the Commissioner and Joint Audit and Ethics Committee or Police and Crime Panel.

2. **Ensuring openness and comprehensive stakeholder engagement.**

All meetings of the Joint Audit and Scrutiny Panel, Strategic Resources and Performance Panel and the Police and Crime Panel are open to the public. Papers, reports and decisions made by the Commissioner are published on the Commissioners website together with consultation and public surveys.

The Commissioner has a public engagement consultation strategy which sets out how we engage with stakeholders, partners and the public, through a combination of collaborative working, representation on boards, stakeholder consultation meetings and attendance at public community events.

3. **Defining outcomes in terms of sustainable, economic, social and environmental outcomes**

The Police and Crime Commissioner publishes a four year Police and Crime Plan which is refreshed annually. This is informed by the Strategic Policing Requirement, strategic assessments of the force and local partners combining into the Police and Crimes Needs assessment and reflective of emerging priorities for policing in Nottinghamshire.

This plan is used to direct the resources of the Commissioner and Chief Constable. It informs the revenue budget on where resources are most needed and the Capital investment programme to identify the priority needs for investment.

Capital investment must meet the requirements of the prudential code in that they must be affordable. There are regular reports in compliance with the code during the year

4. **Determining the intervention necessary to optimise the achievement of intended outcomes**

All new areas of business require a formal business case to be submitted. These business cases go through an internal approval process within the force before sign off by the Chief Constable or Commissioner depending on the value or public interest.

The same is true of business cases relating to Regional collaborations. The approval process is slightly different in that groups of officers form layers of approval but the end result is the same with the Police and Crime Commissioner signing off the final business cases.

5. Developing capacity and capability

The PCC has agreed an increase to precept that provides funding for additional officers to be recruited in 2019/20. This follows a period of sustained recruitment that has ensured the Force has been able to operate at a capacity level required to meet the demands placed upon it.

Significant investment has been made in new IT systems that will ensure effective and efficient policing I Lancashire. In conjunction with its introduction every officer in the Force has received training in its use to ensure the system is used to its maximum benefit and realise productivity improvements.

The Force works closely with the College of Policing to ensure it maximises investment in officers and staff. This now includes the apprenticeship scheme for new recruits and further development of officers aspiring into senior ranks.

Internally, the Force and OPCC are identifying posts within the staffing structures that could be provided through the apprenticeship scheme.

6. Managing risks and performance

The PCC has an approved governance framework that is reviewed annually in compliance with the OPCC governance framework to ensure it remains fit for purpose.

The Joint Audit and Ethics Committee is responsible for enhancing public trust and confidence in the governance of the PCC and Lancashire Constabulary. It also assists the PCC in discharging statutory responsibilities in holding the Chief Constable to account.

At the start of each financial year, the PCC and the Constabulary agree a programme of internal and external audit work, which is reported back through the Joint Audit and Ethics Committee. It assists the PCC in discharging his statutory responsibility for holding the Chief Constable to account. Minutes of the Committee are published on the PCC website.

Reporting of performance both operational and financial is undertaken on a regular basis and the Commissioner holds formal scrutiny meetings of performance each quarter. The Commissioner also meets with the Chief Constable on a regular basis to challenge where the performance is slipping.

The PCC has established a risk management policy and procedures, which cover not only strategic business risks but also significant organisational and operational risks. Strategic level risks are routinely monitored and reviewed through the corporate decision making process. Controlled risks are documented on a dedicated risk register to ensure appropriate and proportionate monitoring whilst maintaining focus on key issues. The PCC considers risk management in discharging all core functions. The PCC’s strategic risk register and scrutiny log are live documents that are routinely considered at all key meetings.

7. Implementing good practices in transparency, reporting and accountability

All decisions of the Commissioner are published on the website, together with any supporting information to explain why any particular option was taken.

The Police and Crime plan together with financial strategies and internal policies are also published and reviewed regularly.

The PCC decision making process requires oversight by both of the statutory officers (i.e. the Monitoring Officer and PCC Chief Finance Officer). All decisions made are formally recorded and made available on the PCC's website for public information and scrutiny.

The Police and Crime Panel for Lancashire comprising local authority and other local representatives, maintains a supportive check and balance on the Commissioner’s decisions and activity through the year. Part of the role of the Police and Crime Panel is to approve the Commissioner's precept proposals and also the Police and Crime Plan. The Commissioner's statutory requirements in relation to the Police and Crime

Panel were met in full for 2018/19.

The Police and Crime Panel meet regularly to hold the Commissioner to account for the decisions being taken. The minutes of this public meeting are published on the Blackburn with Darwen Council website.

Overall Assurance Summary

No system of internal control can provide absolute assurance against material misstatement or loss.

However, on the basis of the review of the sources of assurance set out in this Statement, we are satisfied that the Police and Crime Commissioner has in place satisfactory systems of corporate governance and internal control which facilitate the effective exercise of their functions and which include arrangements for the effective management of risk.

Review of effectiveness

The PCC has responsibility for conducting, at least annually, a review of the effectiveness of the governance framework, including the system of internal audit and the systems of internal control. The review has been conducted by the Chief Officer team and takes account of comments from both internal and external audit and inspectorate reports.

The review involves gathering examples of effective controls, mitigation of risks and the overall efficiency and effectiveness of the organisation. The evidence gathered is documented in a separate record which is used to support the certificates of assurance signed by each of the chief officer team.

Taking all these factors into account, the PCC and Constabulary systems of internal control for 2018/19 are considered to be both satisfactory and effective.

The roles and processes applied in maintaining and reviewing the effectiveness of the governance framework are outlined below:

ENSURING EFFECTIVE GOVERNANCE OF ORGANISATIONAL RISKS

Area for action identified for 2018/19

1. **Financial Pressures**

Regular updates of the MTFS were presented to the PCC and Chief Constable during the year. The financial settlement announced in December resulting in a balanced budget being agreed by the PCC in February 2018

2. **Demand Pressures - Digital and policing anti fracking protests in Lancashire**

Further investment in digital capability has delivered more effective and efficient support to front line officers.

The development of a Business Intelligence model provides information across the Force on demand and deployments.

A successful bid was made to the Home Office for Special Grant support towards the additional costs of policing the anti-fracking protests. Grant covered 85% of the additional costs.

3. **Staff Capacity, Capability and Condition**

The Workforce Capabilities Board was established to ensure the Constabulary is able to develop the skills and capabilities of officers and staff, with a new PDR system going live in 2018/19. Opportunities for mentoring and coaching continue to be developed together with the introduction of more apprenticeships. Wellbeing continues to be a Force priority.

In line with the Constabulary's purpose and objectives the delivery of Core Services business change realignment was undertaken in 2018.

Areas for Action in 2019/20

1. **Financial Pressures**

The uncertainty on the outcome of the Comprehensive Spending Review, the potential revision to the funding formula and any impact from BREXIT makes forward planning difficult. The future could provide a significant challenge for the PCC and the Constabulary. The development of the Force Management Statement will provide a forward look at demand pressures and investment requirements. The extent of meeting any investment requirement will depend on Government funding and any flexibility afforded to the PCC around Council Tax increases. The PCC and the Constabulary have a proven track record, as recognised by both HMICFRS and external audit reports, in their ability to identify and deliver financial savings and it is anticipated that this will continue. However, as the economic position becomes more difficult, it will be increasingly challenging to find savings.

Action to address: The PCC and Constabulary have a well-established change programme, which has been systematically developing a future policing model for Lancashire. The programme is designed to take account of future resourcing levels, determined by financial scenario planning, and ensures that the Constabulary is configured in such a way that it can sustain a high quality, efficient and effective policing service for the County. The planned improvements to the business planning cycle linked to the FMS and MTFS will be a key initiative for the year. The PCC and Constabulary will also continue to lead public sector services in developing multi-agency working arrangements, which deliver improved outcomes and better value for money

2. **BREXIT**

A no- deal Brexit poses a risk to the public as the UK could potentially lose access to EU-wide security powers and databases with a significant loss of operational capability if the existing arrangement stops. Added to this is the continued uncertainty around the impact on communities, project funding, procurement and wider economic and political issues.

Action to address: Nationally all Forces are scoping out the potential impact on Business Continuity issues and the preparedness to mobilise resources to issues both locally and nationally. The Lancashire Resilience Forum meet regularly with a Gold group established within the Constabulary. If necessary there may also be the need to bulk buy and store essential items to maintain continuity of service.

3. **DEMAND PRESSURES**

It is clear that the demands placed upon the policing service continue to rise. The type of crime being dealt with is increasingly complex and the amount of these types of crime is rising significantly. This combination has increased the pressure on available resources dramatically.

In addition, cuts to services in other areas of the public sector, such as mental health care, mean that more people are committing crimes or presenting a risk of harm to either themselves or other members of the public. This clearly represents a further increase in the demands placed upon policing resources.

In Lancashire there is an established collaborative approach to intervene as early as possible with people at risk of committing crime or harming themselves or others. This is under the 'Early Action' programme which provide a multi-agency approach to dealing with individuals identified as vulnerable, and at risk, and providing pathways to support for them in as efficient way as possible, which in turn reduces the demands placed on the police service.

These, along with the other key risks identified in the risk register, will be monitored closely and regularly reported upon to the Joint Audit and Ethics Committee.

Signed: *To be signed once accounts audited*	**Signed:** *To be signed once accounts audited.*
Clive Grunshaw Police and Crime Commissioner for Lancashire	Angela Harrison Director of the Office of the Police and Crime Commissioner for Lancashire
Date:	**Date:**

GLOSSARY

Accounting Policies
The specific principles, bases, conventions, rules and practices applied by the authority in preparing and presenting financial statements.

Accrual
The concept that income and expenditure are recognised as they are earned or incurred, not as cash is received or paid.

Actuary
An actuary is an expert on pension scheme assets and liabilities. The Local Government Pension Scheme Actuary reassesses the rate of employer contributions to the pension fund every three years.

Actuarial gains and losses
A change in pension fund liability due to the effects of differences between the previous actuarial assumptions and what has actually occurred. Outcomes are better or worse than the actuary had predicted or assumed – for example, because the fund's assets earn more than expected, salaries do not increase as fast as assumed or members retire later than assumed.

Amortisation
An annual charge to the revenue account that spreads the cost of an asset over a period of time.

Appropriation
A contribution to or from a financial reserve.

Assets held for Sale
Assets that are no longer needed by the PCC and which he is selling.

Budget
A statement which reflects the PCC's policies in financial terms and which sets out its spending plans for a given period.

Capital assets
Assets bought through capital expenditure. They are also known as 'capital items' and 'non-current assets'.

Capital expenditure
Spending on buying or improving assets that have a long-term benefit – for example land, buildings and roads. Capital expenditure is also known as 'capital spending', 'capital outlay' and 'capital payments'.

Capital grant
Money received for capital items (see 'capital expenditure' above).

Capital receipts
Proceeds received from the sale of capital assets. The proceeds are set aside in the Capital reserve in order to repay the county council's borrowings or to finance new capital expenditure.

Capital reserves
Amounts set aside to support future capital projects.

Cash balance
Cash available to invest on the money market.

Cash Equivalents
Short term (less than 3 months), highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash transactions
Cash amounts entering or leaving the accounts – for example, to pay for goods or services, or income from fees and charges.

Change in Accounting Estimate
An adjustment of the carrying amount of an asset or liability that results from an assessment of the present status and future benefits or obligations. These changes occur as a result of new information, and are not corrections of errors.

Non-current assets
The classes of non-current assets required to be included in the accounting statements are:

Property Plant & Equipment

- Land and buildings.
- Vehicles, plant, furniture and equipment.
- Assets under construction

CIPFA

The Chartered Institute of Public Finance and Accountants is the accountancy body which recommends accounting practice for the preparation of local authority accounts.

Contingent liabilities
Liabilities relating to a known set of circumstances which may or may not arise. They can also be liabilities which are likely to arise but which are very difficult to measure until future developments make things clearer.

Corporate governance
The authoritative rules and controls in place within an organisation required to promote openness, inclusivity, integrity and accountability.

Council Tax precept
The Council Tax charged by one authority (the precepting authority) which is collected by another authority (the billing authority). The PCC's Council Tax income is charged through a precept on the district councils' collection funds

Creditors
Amounts owed by the PCC for work carried out, goods received or services provided, which had not been paid by the date of the balance sheet.

Current assets and liabilities
Current assets are cash, cash equivalents and items that can be readily converted into cash. Current liabilities are items that are due for payment immediately or in the short term.

By convention these items are ordered by reference to the ease that the asset can be converted into cash, and the timescale in which the liability falls due.

Current service cost (IAS 19)
The increase in the PCC's defined benefit scheme obligation (pension scheme liability) as a result of employees' service during the current year.

Curtailment cost (IAS 19)
Additional pension scheme liabilities as a result of redundancies and efficiency retirements during the year.

Current Value

For land and buildings, the amount that would be exchanged for the asset in its existing use.

Debtors
Amounts owed to the Authority which had not been paid by the date of the balance sheet.

Defined Benefit Scheme
A pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded.

Depreciation
Charges to the income and expenditure account to reflect a decrease in the value of assets as a result of use or ageing.

Discretionary benefits
Retirement benefits which the employer has no legal, contractual or constructive obligation to award and are awarded under the PCC's discretionary powers.

Devolved financial management (DFM)
The PCC's budget management system. The budget is managed by those who make the decisions in each area of responsibility ('accountable officers').

Employer's pension contributions
Payments to the pension scheme made by the Authority for current employees.

Expected return on assets (IAS 19)
The average rate of return expected on investment assets held by the pension scheme.

Fair value
Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

Financing charges
Repayments on amounts loaned to the PCC by external organisations. These charges include interest as well as repayment of the amount borrowed (the 'principal').

Financial instrument

A financial instrument can be a financial asset or a financial liability. A financial asset is a contract such as an investment or loan representing amounts due to the authority. A financial liability is a contract such as borrowing representing amounts owed by the authority.

Non-current assets
Assets intended to be used for several years – for example, buildings, machinery and vehicles.

General Fund
The main revenue fund used to provide police services. Income to the fund consists of the precept on the collection funds, government grants and other income.

Government grants
Assistance by government and inter-government agencies and similar bodies, whether local, national or international, in the form of cash or transfers of assets to an authority in return for past or future compliance with certain conditions relating to the activities of the authority.

Historic cost
The cost of an asset at the time it was bought.

Impairment
This is where the useful working life of an asset is significantly reduced – for example, because of damage to a piece of equipment or changes in technology which mean that a service can be provided more efficiently in other ways. When the amount at which the asset is held exceeds the amount the authority could receive for the asset, an impairment loss is recognised.

Intangible assets
Assets which do not have a physical form. Examples include internally developed systems, computer software, brand names, patents and copyrights.

Interest cost (pensions)
The expected increase in the value of pension scheme liabilities because benefits are one year closer to being paid.

Inventory
Raw materials and consumable goods bought but not yet used at the end of the accounting period.

Investing The acquisition of and disposal of long term assets and other investments not included as part of cash equivalents.

Investment Property
Property which is held solely to earn rentals or for capital appreciation, not as part of service delivery.

Market value
The monetary value of an asset as determined by current market conditions at the balance sheet date.

Materiality
The concept that any omission from or inaccuracy in the statement of accounts should not be so large as to affect the understanding of those statements by a reader.

Minimum revenue provision
The minimum amount (as laid down in statute) that the PCC must charge to the accounts each year in order to meet the costs of repaying amounts borrowed.

Net book value
The amount at which fixed assets are included in the balance sheet, i.e. their historical cost or current value less the cumulative amounts provided for depreciation.

Net pension liability
The amount the pension scheme will have to pay out in the future, less the value of pension fund assets.

Net realisable value
The amount for which an asset can be sold, less the cost of selling it.

Nominal value of a financial instrument

The nominal value of a financial instrument is the amount, exclusive of interest, payable or receivable when the instrument matures.

Non-cash adjustments
Changes in debtors' and creditors' balances over the year.

Non-distributed costs
These are costs that cannot be specifically applied to a service or services and are held centrally, comprising certain pension costs and the costs of unused shares of IT facilities and other assets.

Non-operational assets
Assets which are not in use.

Operating lease
A lease where ownership of the goods remains with the company leasing them to the PCC.

Operational assets
Assets used for day-to-day activities – for example, land, buildings, furniture and equipment.

Past service cost or gain (IAS 19)
The increase or decrease in pension scheme liabilities as a result of changes to benefits earned in previous years – for example, because of early retirement or changes to pension scheme regulations.

Pension enhancements
Additional pension benefits (such as added years on early retirement) awarded to scheme members in line with the PCC's general conditions of employment.

Principal
The amount of money borrowed, not including interest charges.

Principal repayment of debt
Re-payment of a loan, not including interest charges.

Prior period adjustments
Those material adjustments applicable to prior years arising from changes in accounting policies or from the correction of fundamental errors. A fundamental error is one that is of such significance as to destroy the validity of the financial

statements. They do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

Projected unit method (Pensions)
An accrued benefits valuation method in which the scheme liabilities make allowance for the projected earnings. An accrued benefits valuation method is a valuation method in which the scheme liabilities at the valuation date relate to:

(a) the benefits for pensioners and deferred pensioners (i.e. individuals who have ceased to be active members but are entitled to benefits payable at a later date) and their dependants, allowing where appropriate for future increases, and

(b) the accrued benefits for members in service on the valuation date.

The accrued benefits are the benefits for service up to a given point in time, whether vested rights or not.

Provisions
Funds set aside to cover specific past expenses, where the exact cost or timing is still uncertain.

Public Works Loan Board (PWLB)
A government agency which provides longer-term loans to local authorities at interest rates only slightly higher than those at which the government itself can borrow.

Related party
A person or organisation which has influence over another person or organisation.

Reserves
Amounts set aside in one year's accounts which can be spent in later years. Some types of reserve can only be spent if certain conditions are met.

Specific grants
Government grants for a particular purpose.