

**CHIEF CONSTABLE OF LANCASHIRE CONSTABULARY**

**STATEMENT OF ACCOUNTS**

**2018/19**

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## NARRATIVE REPORT

### Background

Under the Police Reform and Social Responsibility Act (PRORA) 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 CC to account for the exercise of operational policing duties under the Police Act 1996.

The CC is, in technical accounting terms, a 100% subsidiary of the PCC and 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 PCC/CC Group accounts can be found at the following link:

<https://www.lancashire-pcc.gov.uk/our-money/spending/audit-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 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 CC 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 Statement (CIES)** - This statement shows the accounting cost in the year of the CC providing services in accordance with generally accepted accounting practices, rather than the amount to be funded ultimately from taxation. The PCC raises taxation to cover expenditure in accordance with regulations and uses this income to provide intra-group funding to the CC. The accounting costs and those costs ultimately funded by taxation may be different. The taxation position is shown in the movement in reserves statement.

**Movement in Reserves Statement** - This statement shows the movement in the year on the different reserves held by the CC. As all usable reserves are retained by the PCC, these reserves are unusable and relate to pensions and short term employee benefits (accumulated absences).

**Balance Sheet**– This statement shows the value as at the balance sheet date of the assets and liabilities recognised by the CC. Whilst the CC does not own any long-term assets he does recognise in his balance sheet, assets and liabilities relating to police officers and police staff under the direction and control of the CC. The net assets of the CC (assets less liabilities) are matched by reserves.

**Cash Flow Statement**– The cash flow statement shows the changes in cash and cash equivalents of the CC during the reporting period. However, under the terms of the funding agreement between the PCC and the CC, all payments are made and income received by the PCC with no cash transactions taking place in the name of the CC. The statement therefore shows how the surplus/deficit on the provision of services recorded in the CIES of the CC is reconciled to show a zero cash balance by adjusting for transactions where there is no movement of cash.

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

**Annual Governance Statement** – This is a statement by the CC and his Chief Finance Officer (CFO) on governance issues, and provides assurances on the systems of control which are maintained and on the way he conducts his business.

In addition to these financial statements, the annual accounts include information on the Police Officer Pension Account, which is managed by the CC, providing statements for pension account income and expenditure, assets and liabilities.

For a full picture of the costs of policing in Lancashire, from a reader's perspective, the PCC Group Accounts are the most useful as they contain all the transactions of the PCC and CC and disregard any technical adjustments between the individual sets of accounts. A link to these Statements has been included above.

### **Financial performance of the Chief Constable**

The PCC sets both the revenue budget and the capital investment programme and he allocates resources to the Chief Constable to provide an efficient and effective policing service to the people of Lancashire.

To assist the Chief Constable in managing the resources allocated, both the revenue budget and capital programme are devolved to officers within the Constabulary who are nearer to the point of policing delivery and therefore can ultimately influence costs. Pay budgets and costs are managed centrally, with an acceptance by the PCC that, although non pay costs would be managed locally, budget holders would not individually be held to account but the Chief Constable's financial performance would be judged against the overall "cash limit" agreed with the PCC.

The PCC budget for 2018/19 was set against a Central Government core grant "flat cash" settlement of £190.024m, as received in 2017/18. The PCC agreed an increase in Council Tax from £165.45 in 2017/18 to £177.45 in 2018/19, equivalent to a £12 per annum (7.25%) increase for a Band D equivalent. This was in line with the government announcement that Police and Crime Commissioners could increase the council tax precept by £12 for a band D property.

The budget allocated to the Chief Constable in 2018/19 was £260.804m compared to £251.952m in 2017/18, equivalent to an increase of £8.852m or 3.5%.

In managing the budget in 2018/19 the non-pay revenue budget continued to be managed by Divisional Commanders and Heads of Departments but overseen by the relevant Chief Officer (Deputy Chief Constable, Assistant Chief Constables, Director of Resources and Head of Change) responsible for specific functional areas. Pay budgets were centralised with decisions on budgeted posts and vacancy management made through Strategic Resourcing Board and Vacancy/Redeployment Panel.

### 2018/19 Revenue Budget and Outturn

The PCC set an initial overall budget of £267.755m for 2018/19 of which £260.804m was allocated to the Chief Constable. In addition, rules for Devolved Financial Management (DFM) allow the Chief Constable to carry forward any unused resources from the previous year to mitigate unforeseen cost pressures. The Chief Constable's share of DFM balances was £2.462m at 1 April 2018, in addition to the allocated budget from the PCC of £260.804m. DFM balances were applied in year to meet the cost of Assistant Investigators (£1.209m) and CONNECT Training (£0.195m). Therefore DFM balances remaining at 31 March 2019 are £1.058m.

During the year £0.090m was transferred from the Office of the Police and Crime Commissioner (OPCC) corporate budget to finance the Head of Change post within the Constabulary with £0.005m transferred from the Chief Constable to the OPCC budget for the capital costs of additional vehicles within Scientific Support.

The following table provides a summary of spend, by Chief Officers' area of responsibility, compared to the revised budget for 2018/19 of £262.293m (after the use, in year, of DFM balances brought forward and utilised by the Chief Constable and sums transferred to/from the OPCC budget):

Responsibility Area	Revised Budget	Actual Spend	Variance
	£m	£m	(- underspend/ + overspend) £m
Centrally Managed Pay Budgets	205.768	206.970	+1.202
ACC Territorial Operations	10.361	11.947	+1.586
ACC Specialist Operations	2.791	3.067	+0.276
Deputy Chief Constable	4.618	4.745	+0.127
Director of Resources	19.061	18.559	-0.502
Head of Change	1.760	1.810	+0.050
<b>Sub Total Chief Constable's Devolved Resources</b>	<b>244.359</b>	<b>247.098</b>	<b>+2.739</b>
Non Devolved resources	17.934	17.125	-0.809
<b>Total Resources Consumed on Behalf of PCC</b>	<b>262.293</b>	<b>264.223</b>	<b>+1.930</b>

The year-end position indicates a total overspend of £1.930m (0.7%), which was mainly attributable to:-

- a decision to forward recruit officers and staff to ensure resilience and core service delivery over the year and to meet increasing demand resulting in a planned overspend of £1.2m;
- the additional cost of overtime across the Constabulary of £1.5m, to meet increasing demands in general for policing services and the stretch on resources resulting from major incidents and special events;
- the overspend on centrally managed pay of £1.2m, from over recruitment, is offset by an underspend on "other income and expenditure", within non-devolved resources, of £1.7m. Monies were retained at budget setting rather than being allocated to budget holders as a result of early transformation savings and a zero based approach in the allocation of budgets;
- the delivery of change programmes through the "Futures" work resulted in implementation costs of £0.7m being incurred mainly in relation to redundancy, training, equipment and accommodation;
- the provision for the cost of capitalisation of police officer ill health pensions and injury awards/gratuities was overspent by £0.5m; the actual number of ill health retirements in the year was 32 compared to the budgeted number of 30;
- the provision for revenue costs associated with capital investment was underspent by £0.3m as a result of a lower level of capital expenditure than planned in 2018/19;
- a shortfall on income of £0.3m through the Proceeds of Crime Act (POCA) scheme;
- savings on a number of collaboration arrangements of £0.2m.

#### Significant Other Operational Costs in 2018/19 and 2019/20

During 2018/19 significant demand was placed upon the Constabulary in relation to Operation Manilla (policing anti-fracking protests) and Operation Bermuda (Investigation at Blackpool Victoria Hospital).

*Operation Manilla* commenced in 2016/17 and a bid was made to the Home Office in 2017/18 for Special Grant Support with £1.470m approved in that year. During 2018/19 further discussions were held with Home Office officials and further grant approval was subsequently agreed based on 85% of additional costs.

Overall the additional cost of the operation is £6.9m. The Home Office have paid grant of around £5.9m with the Constabulary having to find £1m of the additional costs over the years. This has been achieved through the use of the Operational Policing Reserve.

In 2018/19 the additional costs were around £2.8m with the Home Office grant meeting 85% of the cost (£2.4m) and the balance of around £0.4m being contributed from the Operational Policing Reserve.

On a daily basis, the number of officers directly involved in the policing of the operation can vary. As has been demonstrated a number of times when campaigners have carried out 'lock-ons', it was essential to have the number of officers at the site that were allocated to the operation. Public safety

is our main priority and having this number of officers available is essential for ensuring all parties remain safe.

*Operation Bermuda* commenced in January 2019 with additional costs in 2018/19 of £0.4m; costs of £0.3m were met from existing budgetary provision and the balance of £0.1m being met by a contribution from the Operational Policing Reserve.

Both of these Operations will continue into 2019/20 with estimated unbudgeted additional costs of £0.4m for Manilla (assuming Special Grant support continues at 85% of additional costs) and £1.4m for Bermuda. Subject to the approval of the PCC it is anticipated that a contribution from the Operational Policing Reserve will be made of around £1.8m to meet the ongoing costs which will be subject to continuous review.

One of the main uncertainties for the Constabulary during 2018/19 and 2019/20 is the impact of BREXIT. Although there has currently been no significant additional costs incurred in 2018/19 the Constabulary has been planning for BREXIT for some time, at a local, regional and national level. There has been a requirement to ensure relevant training in public order tactics to relevant officers to ensure we can respond to requests for assistance.

### Capital Funding and Outturn 2018/19

The PCC initially approved a capital investment programme for 2018/19 of £23.676m and during the year approved new proposals from the Chief Constable as well as reducing the programme for slippage and underspends identified during the year. This resulted in an amended programme value of £18.761m for 2018/19.

The capital programme continued to reflect the strategic requirements agreed between the PCC and Chief Constable to invest in ICT, the Estate and Vehicle infrastructure. The investment reflects a combination of ensuring that a robust infrastructure is in place as required for an emergency 24/7 service, investment aimed at providing more effective and efficient service delivery and an enabler to achieve revenue savings to assist in meeting the gap over the austerity period.

The capital programme, which primarily covers approved Strategies for ICT, Accommodation and Vehicle Replacement, is managed by the Heads of those Departments.

The following table summarises the position on the capital programme for 2018/19.

	Programme Value £m	Actual Spend £m	Slippage £m	Variance (- underspend/ + £m)
IT Strategy	6.622	5.265	-1.347	-0.010
Accommodation Strategy	6.452	5.051	-1.401	-
Vehicle Replacement	3.173	2.904	-0.269	-
Other Schemes	2.514	2.129	-0.412	0.027
<b>Total</b>	<b>18.761</b>	<b>15.349</b>	<b>-3.429</b>	<b>0.017</b>

Regular reports were provided by the Chief Constable to the PCC which highlighted, throughout the year, those schemes that were at risk of not progressing in year or would be delayed, resulting in a lower level of expenditure in year than originally anticipated. Most were due to contractual negotiations being finalised.

The actual spend in year of £15.3m enabled a number of important investments, particularly around ICT, to be undertaken in respect of the infrastructure supporting front line officers, device upgrade and replacement and the replacement of key systems. In addition, work was finalised on the new West Division HQ in Blackpool which became fully operational during the year.

### Reserves

The usable reserves of the Group are held by the PCC and are available for the CC to utilise in the performance of his duties after consultation and approval of the PCC.

### Pension Liabilities

The pensions' liabilities shown on the CC balance sheet reflect the underlying commitment that the CC has in the long term to pay retirement benefits. Although recognition of these liabilities has a considerable impact on the CC's net worth, statutory arrangements for funding the deficit mean that the financial position of the CC remains healthy.

At 31 March 2019 the net pensions' liability of the CC, calculated by the actuary, is £3,677m (an increase of £465m over the previous year's figure of £3,212m). The net liability is split between the Local Government Pension Scheme (£128m) and the Police Pension Schemes (£3,549m). The police schemes are unfunded, i.e. no investments or other assets exist to offset future liabilities.

Other elements affecting the change in liability are shown in detail in Note 15 to the accounts.

### Police Pension Account

A police pension account was set up on 1 April 2006 and administers all of the police pension schemes (the 1987, 2006 and the 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 (2017/18: £53m) with £57m financed from Home Office grant (2017/18: £50m) and the balance being funded from within the budget allocated to the CC.

### Operational performance and assessment

The Constabulary has maintained its strong track record in managing performance across its services. This was again reflected in the results of our latest HMRCFRS "Police Efficiency, Effectiveness and Legitimacy" PEEL assessment of 'good' in all areas in the latest published HMICFRS reports (March 2018):

Year of report	Efficiency	Effectiveness	Legitimacy
2018	Good	Good	Good



Scrutiny of performance rests with the Police and Crime Commissioner (PCC) and, in holding the Chief Constable (CC) to account, the PCC established priorities for Lancashire Constabulary during 2018/19 that are aligned to the Police & Crime Plan:

1. Protecting Local Policing.
2. Tackling Crime and Re-Offending.
3. Supporting Vulnerable People and Victims.
4. Developing Safe & Confident Communities.

## Protecting local policing

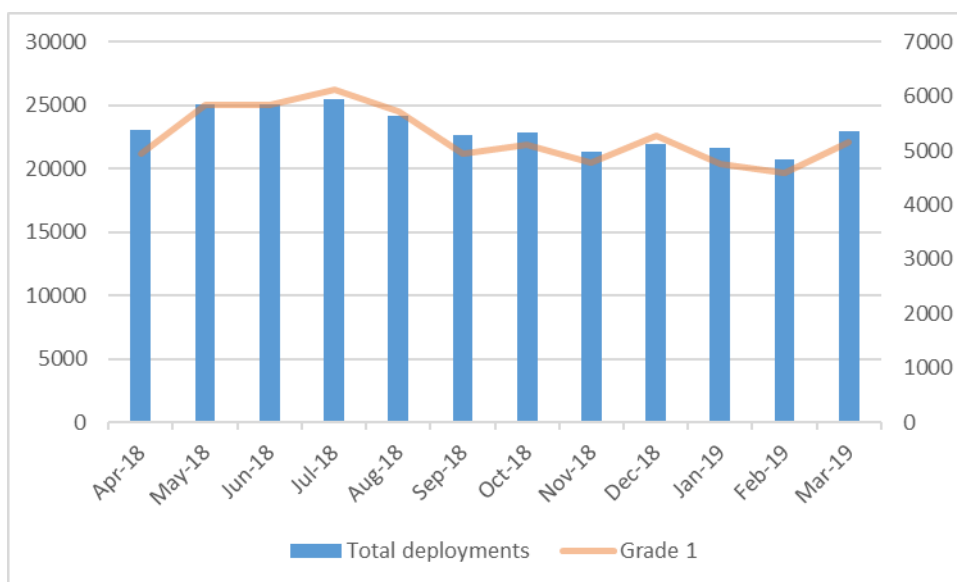
### *Responding to calls for service*

Responding to calls for service is a key priority for the CC and the PCC. Improvements and restructure to the Force Control Room, along with analytical support through Power BI Dashboards that help provide direct access to data through visualisation have helped monitor performance.

The investment in the Force Control Room (FCR) of an additional 50 budgeted posts and the emphasis on core service delivery through over recruitment ensure that performance has improved significantly in 2018/19 in this area.

In the year April 2018 to March 2019 there were 581,000 incidents that resulted in 277,000 deployments. The median time to arrive was 29.3 minutes. In relation to responding to emergency (grade 1) calls, the median time to arrive is 10.1 minutes: the service level aim being to arrive within 15 minutes.

The graph below shows the total number of emergency deployments (Grade 1) compared to all deployments.



### *Special Constabulary*

There is currently an ongoing review of the Special Constabulary that is working towards an establishment of 259 officers; currently there are 280 with six in the process of joining the Regulars in May 2019.

A regular Sergeant role as Special Constabulary Coordinator based within LVP has been established. This ensures that Specials are managed, trained and deployed to maximise their impact on supporting front line policing and protecting our communities.

### *Cadets*

Lancashire Constabulary has 438 Police cadets and an additional 22 junior Cadets aged 10-13. There is capacity for 650 cadets and recruitment is live for several of the units with 122 new applicants for the September term.

Funding has been secured for the development of several junior cadet schemes that will be run by the existing cadet leaders in schools that have met the National VPC criteria to deliver a cadet programme to 11 – 12 year olds. This programme will be delivered to around 120 pupils and it is set to be set up from September 2019.

A Cadet to Specials application has been implemented and 10 cadets are currently within the recruitment system.

### *Lancashire Volunteer Partnership*

Lancashire Constabulary has 370 volunteers, with 33 currently in the application stage and 8 volunteer researchers.

A new post of Cyber Special Cyber Volunteer (CSCV) has been created which is part of a national scheme to utilise volunteers with high levels of technical expertise to assist the police in the fight against cybercrime.

The Constabulary is also recruiting into a new role of Child Exploitation Awareness volunteer, with 36 applicants.

An Emergency Response role has also been developed from the combined cohort of Lancashire Volunteer Partnership (LVP) volunteers with 85 signed up volunteers who could be called upon to attend local Councils rest centres to assist with displaced residents.

## **Tackling Crime and Re-Offending**

### *Recorded Crime*

Recorded crime has continued to rise. There was a 32% increase (from 127,028 to 167,590) in the year April 2018 to March 2019 compared to April 2017 to March 2018. This increase is greater than seen in the region, the most similar group (MSG) and nationally.

Table 1. Recorded crime

AREA	%	Recorded 12 months to March 2018	Recorded 12 months to March 2019
England & Wales	+8%	4,818,524	5,197,083
Most Similar Group	+13%	1,152,492	1,298,858
North West Region	+9%	708,123	774,254
Lancashire	+32%	127,028	167,590

Thirty-eight forces experienced increased recorded crime. In Lancashire violence, public order and acquisitive crime feature as significant rises. Residential burglary has experienced an 11% increase from 7,943 to 8,830 crimes.

Furthermore, recorded anti-social behaviour (ASB) incidents have continued to fall (down 20,289 or 29%). Many ASB incidents are now captured within public order offences. The total number of public order offences was 15,510.

The latest Strategic Assessment (October, 2018), a community safety statutory responsibility, reports that the top five issues for the Constabulary and partners across the County are:

1. Violence against the person,
2. Domestic abuse,
3. Sexual offences including child sexual exploitation,
4. Burglary,
5. Road safety.

The reoffending rate remains around 30%. This is not expected to change in the near future.

As part of the Constabulary's Evidence in Policing Programme research with academic partners has been carried out to better understand the key characteristics driving reoffending and will form part of the Constabulary's prevention strategy going forward.

### **Supporting Vulnerable People and Victims**

**Domestic abuse** (DA) is an issue for all districts of Lancashire. Domestic abuse crimes have shown significant increases, especially assaults. However, serious assaults remain static over the last 3-year period. The number of Multi Agency Risk Assessment Conference (MARAC) cases discussed, repeat cases and number of children in household have increased over the same period – this can have long term effects on the child as they reach adulthood.

**Repeat victimisation** has been recorded at 21% (but could still be as high as 40%). A concern is that the volume of repeat victims is on the increase. Repeat victims are more likely to be re-victimised within 3 months of their previous victimisation. Therefore, crime prevention and victim support are recognised as being essential in reducing the future risk and safeguarding victims and vulnerable people.

**Child sexual exploitation** (CSE) referrals have reduced in the last 2 years. There have been a number of partnership activities undertaken across the county to increase awareness, work with victims and to educate for a better understanding of the issues relating to CSE. Within the Management of Risk within Law Enforcement (MORILE) assessment, CSE/child abuse is a key threat, and remains an area of business where there are knowledge gaps. Continued partnership working is required to obtain a better understanding.

**Hate crime.** There has been significant partnership work undertaken to encourage victims to report such crimes, as these people are often seen as some of the most vulnerable within society, and they have had little or no support with these issues. Hate crime is a 'perception' based crime and it must be seen as a priority to support the victims in these cases. Research with Leeds University has identified pockets of hate incidents and potential community tensions by use of social media. Results from the research using crime data show that 10% of the victims are school pupils or university students, with offenders and victims living in different neighbourhoods and the majority of hate incidents occurring in town centres where the populations meet. Sexual orientation hate crimes have seen the largest increase. This has seen notable step-changes (i.e. increases in recording) in April 2017 and then again in April 2018. 26% (118) of recorded crimes are stalking

and harassment, 37% (173) are public fear alarm or distress, and 23% (107) are violence against the person.

**Modern day slavery.** There have been an increasing number of reports since the beginning of 2018. The east of the County has had the highest number of reports, but it is likely that the numbers correlate to the resources aligned to each area at this moment in time. Increased awareness and education around this area of crime are also likely to have had a direct impact, with increased reporting from partner agencies also noted during the last 12 months.

**Missing from Home (MFH)** reports have increased in recent years. 70% of MFH relates to persons under 18 years of age. 4% relate to those 65 years and over. As Lancashire has an aging population, and with the links to mental health (dementia) deterioration, it is anticipated that elderly MFH's are likely to increase in the coming years. Of note, is that the peak locations of where people frequently go missing from are predominantly children's care homes.

#### *Vulnerable people*

Health issues are becoming more and more apparent as factors relating to community safety (crime and disorder), which is supported by wider research.

Vulnerability for different age groups is a theme throughout issues identified in the strategic assessment of crime and ASB.

A consistent challenge across all age groups is the presence of mental health illness. The Constabulary has carried out research to identify the nature and the pattern of demand. This identified that there were over 52,000 mental health illness related incidents in Lancashire which accounts for almost 1 in 10 of all incidents in 2018. The research also indicated that the demand in the early hours was intense reflecting harm or threat to life which often resulted in extended demand for the Constabulary through the use of Section 136 detentions and hospital bed watch. The resource intensity of the demand has increased and is likely to continue for the Constabulary in 2019/20.

The Constabulary has taken a variety of measures to assist staff to deal with this demand. However, the solution to this does not rest with the Constabulary but with the service providers such as the Lancashire Care Foundation Trust (LCFT). The Care Quality Commission (CQC) has raised significant concerns around service provision in this area and a system wide review is being carried out, which the Constabulary are part of. However, it is unlikely that there will be a fundamental improvement in the short term and the Constabulary will continue to provide intensive support at the crisis point, with the significant impact on already stretched Response capacity.

### **Developing Safe & Confident Communities**

#### *Satisfaction*

Public satisfaction has decreased during 2018/19 compared to 2017/18 for

- burglary offences (down 12%)
- and ASB (down 10%).
- there is no change in satisfaction for victims of violent crime
- and little change to satisfaction for victims of hate crime (down 1%).
- the satisfaction rate for victims of domestic abuse is 78% - there is no previous year comparison at present as the survey commenced in June 2017. However, from June 2017 to March 2018 the DA satisfaction rate was 76%.

*Confidence: Crime Survey of England and Wales (CSEW)*

In the 12-month period to December, overall public confidence in Lancashire Constabulary decreased by 6% from 79% to 73%. This is below the England and Wales rate of 76%. The CSEW also gives a rating of local police and the percentage of people who think that the police are doing an excellent job in their local area. The Lancashire rate is 56% and the rate for England and Wales is 58.2%.

The CSEW also notes that the risk of personal crime in Lancashire is 3.1%, which is lower than the England and Wales rate of 4.1%. The rates for risk of household crime are 10.5% for Lancashire and 11% for England and Wales. The perception of high levels of ASB is similar for Lancashire (8.3%) and England and Wales (8.1%).

The most recent **Living in Lancashire** survey involved sending out 2,916 questionnaires to residents across Lancashire. There was a 68% (1,991) response rate with all community safety, crime and policing questions answered by respondents. Analysis of the results found the following highlights:

- 85% of respondents felt safe in their local area, with the age group of 60 years+ feeling most safe (88%).
- A lack of police presence (14%) was the most significant reason why respondents felt unsafe in their local area.
- More than three-quarters of respondents felt that issues with violence, sexual exploitation and organised crime were not a big problem.
- 38% of respondents felt that burglary, with half of respondents aged 25-44 years, was a problem.
- 53% felt drug dealing was a problem in their area, with respondents aged 25-59 years having most concern.
- Dangerous driving was seen as a big problem for 49% of respondents (increase from previous survey).
- Less than half of respondents felt that the police and other local public services are dealing with crime and ASB successfully. This has been reducing in recent surveys.
- Cleanliness of the streets (34%) and access to green areas (12%) were issues that had increased in dissatisfaction in local communities.

### **Financial Risks going forward**

The Medium Term Financial Strategy (MTFS) is regularly updated to reflect available resources against the committed budgetary requirement. The ensuing “gap” is managed through the 'Futures Programme' which ensures the Force is able to remain efficient and effective within the context of a continuing challenging financial environment. The Chief Constable/Constabulary have an excellent track record in managing resources and this “ethos” together with the close working relationship between the PCC CFO and Chief Constable’s CFO in managing reserves and balances assists in mitigating any financial risk to the overall budget and that of the Chief Constable.

DFM balances of £1.058m were available to the Chief Constable at the end of 2018/19 and will be the first call to mitigate the risk around unbudgeted and unforeseen costs arising in 2019/20. Beyond these resources is the Reserves held by the PCC which are set aside to assist with managing financial risks and pressures.

Allocated budgets are also closely scrutinised before they are finalised with a view to identifying any early non pay savings that can be offset against the “gap” or are available in year to meet unbudgeted costs.

## **Financial Outlook**

The uncertainty on the outcome of the Comprehensive Spending Review (CSR), 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 (FMS) 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.

Since 2011 the Constabulary has delivered savings of £83m and underlying cost pressures and service demands indicate that further savings of over £20m may be required over the period 2020/21 to 2022/23. In the context of significant savings already delivered this presents a challenge to the PCC and the Constabulary and work is already underway to develop plans on how these can be achieved.

**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.

➤ ***Investment to deliver change***

The Constabulary has a clear ambition to transform the way it does business and delivers services. Much of this is based on delivery of an information technology infrastructure which provides a digital capability ranging from interaction with the public through to digital investigation of crime. The ability to fund this investment will become increasingly challenging as the Constabulary draws down on Investment reserves set aside to meet this expenditure. Providing adequate and sustainable sources of finance will require an innovative approach to funding.

➤ ***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.

Ian Cosh

Ian L Cosh MA, CPFA  
Director of Resources and Chief  
Constable's Chief Finance Officer

29 July 2019

## STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

### The Chief Constable of Lancashire Constabulary's Responsibilities

The Chief Constable is required to:

- make arrangements for the proper administration of the financial affairs of Lancashire Constabulary and to secure that one of its officers has the responsibility for the administration of those affairs. In this instance, that officer is the Director of Resources.
- 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

*Andy Rhodes*

ANDY RHODES  
Chief Constable of Lancashire Constabulary  
29 July 2019/30 September 2015

### The Chief Finance Officer's Responsibilities

The Chief Constable's Chief Finance Officer, the Director of Resources, is responsible for the preparation of the Statement of Accounts of the Chief Constable 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 Director of Resources 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 Director of Resources 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 Chief Constable of Lancashire Constabulary and his transactions as at 31 March 2019 and for the year then ended.

*Ian Cosh*

IAN L COSH MA, CPFA  
Director of Resources and the Chief Constable's Chief Finance Officer  
29 July 2019



## COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

This statement shows the accounting cost, in the year, of policing services provided by the CC using the resources of the PCC, in accordance with generally accepted accounting practices.

2017/18 (re-stated) Net Exp £000		Notes	Gross Exp £000	2018/19 Gross Inc £000	Net Exp £000
243,431	Centralised Pay Budgets		236,017	-	236,017
33,436	Director of Resources		34,994	-	34,994
13,363	ACC-Territorial Ops.*		13,977	-	13,977
4,093	ACC-Specialist Ops.*		3,990	-	3,990
4,504	Deputy Chief Constable*		4,854	-	4,854
2,730	Head of Change*		2,752	-	2,752
35,539	Constabulary Non-Devolved budgets		241,700	-	241,700
(340,450)	Funding received by CC from PCC	11	-	(356,259)	(356,259)
(3,354)	<b>Net Cost of Services</b>		<b>538,284</b>	<b>(356,259)</b>	<b>182,025</b>
91,414	Net Interest on Defined Benefit Liability	15			85,379
88,060	<b>Deficit on Provision of Services</b>				<b>267,404</b>
(572,609)	Re-measurements of pension assets/liabilities	9			197,576
(572,609)	<b>Other Comprehensive (Income) &amp; Expenditure</b>				<b>197,576</b>
(484,549)	<b>Total Comprehensive (Income) &amp; Expenditure</b>				<b>464,980</b>

\*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:

Director of Resources	Estates, Fleet & Facilities Management, Finance, Procurement & Transactional Services, ICT, Legal Services.
ACC-Territorial Ops.	West, South, East, Specialist Operations, Contact Management
ACC-Specialist Ops.	Local Investigations, Serious Crime
DCC	Custody, Professional Standards.
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

## MOVEMENT IN RESERVES STATEMENT 2017/18 and 2018/19

This statement shows the movement in the 2017/18 and 2018/19 financial years on the different reserves held by the CC. At present, the only transactions shown in these statements relate to the Pensions Reserve and the Accumulated Absences Reserve (reflecting movements relating to police officers and police staff under the direction and control of the CC). All other reserves are managed by the PCC. The Deficit on the Provision of Services line (within the Comprehensive Income and Expenditure Statement) shows the true economic cost of providing the CC's services

	Note	General Fund Balance £000	Total Usable Reserves £000	Pensions Reserve £000	Accumulated Absences Reserve £000	Total Unusable Reserves £000	Total Reserves £000
<b>Balance at 31 March 2017</b>		-	-	(3,696,641)	(5,144)	(3,701,785)	(3,701,785)
<b>Movement in reserves during 2017/18:</b>							
Total Comprehensive Income & (Expenditure)		(88,060)	(88,060)	572,609	-	572,609	484,549
Adjs between accounting basis & funding basis under regulations:	8	<b>88,060</b>	<b>88,060</b>	<b>(88,231)</b>	<b>171</b>	<b>(88,060)</b>	-
<b>Balance at 31 March 2018</b>		-	-	(3,212,263)	(4,973)	(3,217,236)	(3,217,236)
<b>Movement in reserves during 2018/19:</b>							
Total Comprehensive Income & (Expenditure)		(267,404)	(267,404)	(197,576)	-	(197,576)	(464,980)
Adjs between accounting basis & funding basis under regulations:	8	<b>267,404</b>	<b>267,404</b>	<b>(267,055)</b>	<b>(349)</b>	<b>(267,404)</b>	-
<b>Balance at 31 March 2019</b>		-	-	(3,676,894)	(5,322)	(3,682,216)	(3,682,216)

**BALANCE SHEET**

The Balance Sheet shows the value, as at the balance sheet date, of the assets and liabilities recognised by the CC. The net assets (assets less liabilities) are matched by the reserves held by the CC. The reserves of the CC are not able to be used to provide services.

31 March 2018		Notes	31 March 2019
£000			£000
8,150	Short Term Debtors –Intragroup Debtor		6,281
<b>8,150</b>	<b>Current Assets</b>		<b>6,281</b>
(13,123)	Short Term Creditors	12	(11,603)
<b>(13,123)</b>	<b>Current Liabilities</b>		<b>(11,603)</b>
(3,212,263)	Pensions Liability	15	(3,676,894)
<b>(3,212,263)</b>	<b>Long Term Liabilities</b>		<b>(3,676,894)</b>
<b>(3,217,236)</b>	<b>Net Assets</b>		<b>(3,682,216)</b>
(3,212,263)	Pensions Reserve	9	(3,676,894)
(4,973)	Accumulated Absences Reserve	9	(5,322)
<b>(3,217,236)</b>	<b>Total Unusable Reserves</b>		<b>(3,682,216)</b>

## CASH FLOW STATEMENT

The Cash Flow Statement shows the changes in cash and cash equivalents of the CC during the reporting period. Under the funding arrangement between the PCC and the CC the CC does not engage in investment and financing activities therefore all cash flows are classified as operating activities.

<b>2017/18</b>		<b>2018/19</b>
<b>£000</b>		<b>£000</b>
88,060	Net deficit on the provision of services	267,404
(88,060)	Adjustments to net deficit on the provision of services for non-cash movements (Note 13)	(267,404)
-	<b>Net Cash Flows from Operating Activities</b>	-

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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.

### 2018/19

	<b>Outturn position as reported to management</b>	<b>Adjustments to arrive at net amount chargeable to Police General Fund*</b>	<b>Net expenditure chargeable to Police General Fund</b>	<b>Adjustments between the funding and accounting basis*</b>	<b>Net expenditure Comprehensive Income &amp; Expenditure Statement</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Chief Constable:</b>					
Centralised Pay Budgets	206,970	96	207,066	28,951	236,017
Director of Resources	18,559	16,435	34,994	-	34,994
ACC-Territorial Ops	11,947	2,030	13,977	-	13,977
ACC Specialist OPs	3,067	923	3,990	-	3,990
Deputy Chief Constable	4,745	109	4,854	-	4,854
Head of Change	1,810	942	2,752	-	2,752
Constabulary Non-Devolved Budgets	17,125	71,501	88,626	153,074	241,700
Funding received from PCC	-	(356,259)	(356,259)	-	(356,259)
<b>Net Cost of Services</b>	<b>264,223</b>	<b>(264,223)</b>	<b>-</b>	<b>182,025</b>	<b>182,025</b>
Other Income and Expenditure	-	-	-	85,379	85,379
<b>Deficit on provision of services</b>	<b>264,223</b>	<b>(264,223)</b>	<b>-</b>	<b>267,404</b>	<b>267,404</b>
<b>Opening General Fund Balance</b>			-		
In-year deficit			-		
<b>Closing General Fund Balance</b>			-		

*\*Further details are shown in tables that follow*

CHIEF CONSTABLE OF LANCASHIRE CONSTABULARY 2018/19  
NOTES TO THE ACCOUNTS

2017/18 (re-stated)

	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
<b>Chief Constable:</b>					
Centralised Pay Budgets	201,142	296	201,438	41,993	243,431
Director of Resources	16,916	16,520	33,436	-	33,436
ACC-Territorial Ops	9,026	4,337	13,363	-	13,363
ACC Specialist OPs	6,342	(2,249)	4,093	-	4,093
Deputy Chief Constable	5,769	(1,265)	4,504	-	4,504
Head of Change	-	2,730	2,730	-	2,730
Constabulary Non-Devolved Budgets	18,165	62,721	80,886	(45,347)	35,539
Funding received from PCC	-	(340,450)	(340,450)	-	(340,450)
<b>Net Cost of Services</b>	<b>257,360</b>	<b>(257,360)</b>	-	<b>(3,354)</b>	<b>(3,354)</b>
Other Income and Expenditure	-	-	-	91,414	91,414
<b>(Surplus)/Deficit on provision of services</b>	<b>257,360</b>	<b>(257,360)</b>	-	<b>88,060</b>	<b>88,060</b>
<b>Opening General Fund Balance</b>			-		
In-year (surplus)/deficit			-		
<b>Closing General Fund Balance</b>			-		

\*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.

**2018/19**

	Income reported in PCC CIES	Included in Other Inc & Exp	Movement in reserves-either budgeted or approved in year	PCC funding of Constabulary expenditure, both budgeted and in-year.	Total
	£000	£000	£000	£000	£000
<b>Chief Constable:</b>					
Centralised Pay Budgets	-	-	-	96	<b>96</b>
Director of Resources	1,586	288	267	14,294	<b>16,435</b>
ACC-Territorial Ops.	1,999	-	31	-	<b>2,030</b>
ACC-Specialist Ops.	917	3	3	-	<b>923</b>
Deputy Chief Constable	104	-	5	-	<b>109</b>
Head of Change	935	-	7	-	<b>942</b>
Constabulary Non-Devolved budgets	17,030	57,296	(2,825)	-	<b>71,501</b>
Funding received from the PCC	-	-	-	(356,259)	<b>(356,259)</b>
<b>Net Cost of Services</b>	<b>22,571</b>	<b>57,587</b>	<b>(2,512)</b>	<b>(341,869)</b>	<b>(264,223)</b>



CHIEF CONSTABLE OF LANCASHIRE CONSTABULARY 2018/19  
NOTES TO THE ACCOUNTS

2017/18

	Income reported in PCC CIES (re-stated)* £000	Included in Other Inc & Exp £000	Movement in reserves-either budgeted or approved in year £000	PCC funding of Constabulary expenditure, both budgeted and in-year. £000	Impact of 2018/19 structure changes** £000	Total £000
<b>Chief Constable:</b>						
Centralised Pay Budgets	-	-	-	296	-	296
Director of Resources	1,205	293	214	14,808	-	16,520
ACC-Territorial Ops.	1,885	-	28	-	2,424	4,337
ACC-Specialist Ops.	763	-	15	-	(3,027)	(2,249)
Deputy Chief Constable	127	-	1	-	(1,393)	(1,265)
Head of Change	734	-	-	-	1,996	2,730
Constabulary Non-Devolved budgets	13,918	49,504	(701)	-	-	62,721
Funding received from the PCC	-	-	-	(340,450)	-	(340,450)
<b>Net Cost of Services</b>	<b>18,632</b>	<b>49,797</b>	<b>(443)</b>	<b>(325,346)</b>	<b>-</b>	<b>(257,360)</b>

\*Reflects the impact of the management restructure on income reported in the PCC CIES.

\*\*Reflects the net impact of the structure changes. The gross expenditure impact, reflected in the CIES is shown in Note 4 to these accounts.

### 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.

2017/18				2018/19		
Net change for pensions adjs (Note A)	Other statutory adjs (Note B)	Total Statutory Adjs		Net change for pensions adjs (Note A)	Other statutory adjs (Note B)	Total Statutory Adjs
£000	£000	£000		£000	£000	£000
42,150	(157)	41,993	Centralised Pay Budgets	28,629	322	28,951
(45,333)	(14)	(45,347)	Constabulary Non-Devolved budgets	153,047	27	153,074
<b>(3,183)</b>	<b>(171)</b>	<b>(3,354)</b>	<b>Net Cost of Service</b>	<b>181,676</b>	<b>349</b>	<b>182,025</b>
91,414	-	91,414	Other income and expenditure from Expenditure and Funding Analysis	85,379	-	85,379
<b>88,231</b>	<b>(171)</b>	<b>88,060</b>	<b>Difference between General Fund deficit and CIES Deficit on Provision of Services</b>	<b>267,055</b>	<b>349</b>	<b>267,404</b>

Note A - 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 B – 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;

**2. EXPENDITURE AND INCOME ANALYSED BY NATURE**

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

	<b>2018/19</b>	2017/18
	<b>£000</b>	£000
<b>Expenditure</b>		
Employee expenses	481,237	281,368
Other service expenses	42,753	40,919
Charge for use of assets	14,294	14,809
Pensions interest cost	85,379	91,414
<b>Total expenditure</b>	<b>623,663</b>	<b>428,510</b>
<b>Income</b>		
Funding received from the PCC	(356,259)	(340,450)
<b>Total Income</b>	<b>(356,259)</b>	<b>(340,450)</b>
<b>DEFICIT ON PROVISION OF SERVICES</b>	<b>267.404</b>	<b>88,060</b>

**3. CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES**

Critical judgements for the PCC Group have been made by the PCC. These judgements can be seen in Note 3 to the PCC/PCC Group Statement of Accounts. The critical judgements that impact on the CC 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.

#### 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:

	<b>Original Exp 2017/18 £000</b>	<b>Re-stated Exp 2017/18 £000</b>	<b>Adjustment £000</b>
<b>Impact on individual lines:</b>			
<b>Chief Constable:</b>			
ACC Territorial Ops	10,262	13,363	+3,101
ACC Specialist Ops	7,759	4,093	-3,666
Deputy Chief Constable	6,669	4,504	-2,165
Head of Change	-	2,730	+2,730
<b>Impact on Net Cost of Service</b>	<b>(3,354)</b>	<b>(3,354)</b>	<b>-</b>

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 expected to have any material impact on the accounts of the CC.

#### 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 CC 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
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 15 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 CC of around £812m. However, the assumptions act in a complex way. During 2018/19, the CC'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 the schemes, which increases the liability, along with 1% increases in assumptions for inflation, salary and pension increases which result in further increases.

## 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 CC's CFO on 29 July 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 31st March 2019, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

Adjustments have been made since the accounts were previously authorised in May 2019 to reflect the estimated increase in pension liabilities as a result of the McCloud/Sargent judgement.

### **McCloud / Sargeant judgement**

In December 2018 the Court of Appeal ruled against the government in the two cases of Sargeant and McCloud, relating to the firefighter unfunded pension schemes and the pension arrangements for the judiciary. The Court held that the transitional protections, which were afforded to older members when the reformed schemes were introduced in 2015, constituted unlawful age discrimination. On 27 June 2019 the Supreme Court refused the government's application for permission to appeal the ruling.

In a written statement by the Treasury on 15 July 2019 in respect of public service pensions the government believes that the difference in treatment will need to be remedied across all the schemes including the NHS, civil service, local government, teachers, police, armed forces, judiciary and fire and rescue workers.

This would lead to an increase in Police Pension Scheme liabilities and our actuaries (Mercers), using specific assumptions and applying these across the Police scheme as a whole, have estimated the potential increase in scheme liabilities for Lancashire Police to be approximately 6.5% of pension scheme liabilities or £203.2m. This increase is reflected in the IAS19 Disclosure as a Past Service Cost. The actuaries have highlighted that this estimate is based on one potential remedy, the potential impact of any difference in the profile of the force's membership compared with the scheme as a whole and that the figures are highly sensitive to assumptions around short term earnings growth.

With regard to the LGPS a similar adjustment to past service costs within the IAS19 Disclosure has been made for the McCloud judgment. This corresponds to a 0.8% or £4.2m increase in liabilities.

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.'

Further information is included in Note 15 to the accounts.

**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 CC 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 revenue expenditure. The adjustments are made against the General Fund Balance.

	<b>2018/19</b> <b>£000</b>	<b>2017/18</b> <b>£000</b>
<b>Adjustments to Revenue Resources</b>		
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)	267,055	88,231
• Untaken leave and Time Off In Lieu (transferred to the Accumulated Absences Account)	349	(171)
<b>Total Adjustments</b>	<b>267,404</b>	<b>88,060</b>

**9. Unusable Reserves**

Accounting Policy

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

	<b>31 March</b> <b>2019</b> <b>£000</b>	<b>31 March</b> <b>2018</b> <b>£000</b>
Pensions Reserve	(3,676,894)	(3,212,263)
Accumulated Absences Account	(5,322)	(4,973)
<b>Total Unusable Reserves</b>	<b>(3,682,216)</b>	<b>(3,217,236)</b>

**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 CC accounts 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 employer's contributions are made to the pension funds or any pensions for which the CC is directly responsible are eventually paid. 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.

	<b>31 March 2019 £000</b>	<b>31 March 2018 £000</b>
<b>Balance at 1 April</b>	<b>(3,212,263)</b>	<b>(3,696,641)</b>
Re-measurements of the net defined benefit (liability)/ asset	(197,576)	572,609
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services	(365,547)	(176,706)
Employer's pensions contribution and direct payments to pensioners payable in the year	98,492	88,475
<b>Balance at 31 March</b>	<b>(3,676,894)</b>	<b>(3,212,263)</b>

### 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, e.g. 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.

	<b>31 March 2019 £000</b>	<b>31 March 2018 £000</b>
<b>Balance at 1 April</b>	<b>(4,973)</b>	<b>(5,144)</b>
Settlement or cancellation made at the end of the preceding year	4,973	5,144
Amounts accrued at the end of the current year	<u>(5,322)</u>	<u>(4,973)</u>
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(349)	171
<b>Balance at 31 March</b>	<b>(5,322)</b>	<b>(4,973)</b>



## 10. Officers' Remuneration

### Accounting Policy Short term Employee Benefits

#### ***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. 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 CC, to terminate a staff member's employment before the normal retirement date or a staff member's decision to accept voluntary redundancy and are charged to the CIES at the earlier of when the CC can no longer withdraw the offer of those benefits or when the CC recognises costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the Police General Fund balance to ultimately 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.

CHIEF CONSTABLE OF LANCASHIRE CONSTABULARY 2018/19  
NOTES TO THE ACCOUNTS

The remuneration paid to the senior officers of the Constabulary 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
		£	£	£	£	£	£	£
Chief Constable - A Rhodes		163,613	-	-	3,823	<b>167,436</b>	38,910	<b>206,346</b>
Deputy Chief Constable		136,134	-	1,692	5,068	<b>142,894</b>	32,099	<b>174,993</b>
Assistant Chief Constable – Territorial Operations & Contact Management		104,560	-	-	2,211	<b>106,771</b>	25,303	<b>132,074</b>
Assistant Chief Constable – Specialist Operations A	Note 1	102,254	-	1,251	-	<b>103,505</b>	20,258	<b>123,763</b>
Assistant Chief Constable – Specialist Operations B	Note 1	19,894	-	-	(1,279)	<b>18,615</b>	4,711	<b>23,326</b>
Director of Resources		112,548	-	-	10,462	<b>123,010</b>	15,757	<b>138,767</b>
Head of Change	Note 2	-	-	-	-	-	-	-

Note 1 Post covered by two officers over the year. A – 1<sup>ST</sup> April 2018 - 31<sup>st</sup> March 2019. B – 1<sup>st</sup> April 2018 – 3<sup>rd</sup> June 2018.

Note 2 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).

CHIEF CONSTABLE OF LANCASHIRE CONSTABULARY 2018/19  
NOTES TO THE ACCOUNTS

**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
		£	£	£	£	£	£	
Chief Constable A - S Finnigan	Note 1	46,390	-	-	1,735	48,125	0	48,125
Chief Constable B - A Rhodes	Note 1	121,056	-	-	6,526	127,582	28,782	156,364
Deputy Chief Constable A	Note 2	33,314	-	-	1,292	34,606	7,891	42,497
Deputy Chief Constable B	Note 2	100,772	-	-	11,396	112,168	23,919	136,087
Assistant Chief Constable - Territorial Divisions & Criminal Justice A	Note 3	35,226	-	-	2,208	37,434	8,257	45,691
Assistant Chief Constable - Territorial Divisions & Criminal Justice B	Note 3	73,837	-	-	5,462	79,299	17,845	97,144
Assistant Chief Constable - Specialist Operations A	Note 4	112,410	-	-	5,900	118,310	26,615	144,925
Assistant Chief Constable (temp) - Specialist Operations B	Note 4	8,311	-	-	-	8,311	1,637	9,948
Director of Resources		111,248	-	-	9,566	120,814	15,575	136,389

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

Note 2 Post covered by two officers over the year: A- 1 April - 28 June 2017; B - 29 June - 31 March 2018.

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

Note 4 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 CC employed an estimated 5,000 full time equivalents during 2018/19 (4,980 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
£100,000 - £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
<b>Total</b>	<b>400</b>	<b>23</b>	<b>423</b>	<b>355</b>	<b>16</b>	<b>371</b>

NB Remuneration includes gross pay, before the deduction of employees' pension contributions, together with benefits declared to HM Customs & Excise 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
	<b>6</b>	<b>4</b>

### Exit packages

The numbers of exit packages 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:

**2018/19:**

<b>Bandings</b>	<b>Number of Compulsory Redundancies</b>	<b>Number of Other Departures</b>	<b>Total cost of exit packages in each band £</b>
£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
<b>Total</b>	<b>3</b>	<b>22</b>	<b>777,125</b>

**2017/18:**

<b>Bandings</b>	<b>Number of Compulsory Redundancies</b>	<b>Number of Other Departures</b>	<b>Total cost of exit packages in each band £</b>
£0 - £20,000	5	10	139,077
£20,001 - £40,000	6	2	236,870
£40,001 - £60,000	2	-	108,851
£60,001 - £100,000	2	0	152,311
<b>Total</b>	<b>15</b>	<b>12</b>	<b>637,109</b>

**11. PCC Funding of the Chief Constable**

Accounting Policy

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 ultimate 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	623,663
(176,706)	Adjustment for net IAS19 pensions charges included in cost of service but funded by CC pensions reserve	(365,547)
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)
<b>340,450</b>	<b>PCC funding for PCC resources consumed at the request of the CC</b>	<b>356,259</b>
	Consisting of:	
14,809	Fair value adjustment for CC consumption of PCC property & equipment	14,294
325,641	Other resources	341,965
<b>340,450</b>	<b>Total PCC resources consumed at the request of the CC</b>	<b>356,259</b>

**Note:** The fair value adjustment to reflect the CC's use of PCC property & equipment is broken down as follows:

2017/18 £000		2018/19 £000
4,925	Buildings	5,109
7,457	Vehicles, Plant and Equipment	7,573
2,427	Intangible Assets	1,612
<b>14,809</b>	<b>Net Expenditure</b>	<b>14,294</b>

## 12. Creditors

31 March 2018 (re-stated)* £000		31 March 2019 £000
	Creditors comprise:	
4,291	Tax creditors	4,342
4,973	Other Entities and Individuals –Accumulated Absences	5,322
3,859	-Other employment-related	1,939
<b>13,123</b>	<b>Total</b>	<b>11,603</b>

\*The analysis of creditors has been reviewed in 2018/19 and hence the 2017/18 comparators have been restated.

13. **Cash Flow Statement -Adjustments to Net Deficit on the provision of services for non-cash movement**

<b>2017/18</b>		<b>2018/19</b>
<b>£000</b>		<b>£000</b>
1,478	Net increase/(decrease) in revenue debtors	(1,869)
(1,307)	Net (increase)reduction in revenue creditors	1,520
(88,231)	Pension liability	(267,055)
<b>(88,060)</b>	<b>Total</b>	<b>(267,404)</b>

14. **Related Parties**

The PCC Group (PCC and CC) 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 PCC/PCC Group Statement of Accounts.

The PCC has direct control over the Group's finances, including responsibility for funding of all pensions' liabilities, 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 CC and members of his senior management team 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) £000	Expenditure (CC CIES) £000	PCC Group Net Exp £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
<b>2,745</b>	<b>(528)</b>	<b>3,309</b>	<b>2,781</b>

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	Income (PCC CIES)	2018/19 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
<b>533</b>	<b>(62)</b>	<b>557</b>	<b>495</b>

Lancashire withdrew from the Firearms Collaboration during the year and also gave notice to withdraw from the Motorway arrangement from 1 April 2019.

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 2017/18 the 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
<b>817</b>	<b>939</b>

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 annual 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.

## **15. Defined Benefit Post- Employment Benefits**

### **Accounting Policies**

Police officers and police staff have the option of belonging 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 Pension Scheme for Police Staff

The Police Pension Schemes are unfunded arrangements for uniformed police officers with 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 fire-fighters 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 CC 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.

The Local Government Scheme and the Police Pension Schemes are accounted for as defined benefits schemes, as follows:

**Local Government Scheme:**

Police staff and PCSOs are members of the Local Government Pension Scheme, a funded defined benefit scheme, which is managed by Lancashire County Council. The PCC funded an employer's contribution of 14% during 2018/19 along with a cash contribution of £2m towards the deficit, being the first of three annual payments (14% in 17/18 along with a cash contribution of £2m).

The liabilities of the Local Government Pension Scheme attributable to the staff employed by the CC 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% (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 52.

**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 arrangements are 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 CC.

All the police officer schemes provide defined benefits to members (retirement lump sums and pensions), which are earned as employees work for the CC. 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 all three pension schemes have been recognised in the CC balance sheet, as have entries in the CC 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 and is included in both the CC and PCC Group Statements of Accounts.

The liabilities of all the schemes are attributable to the CC and 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 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 CC 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;

**Administrative expenses:** these are the costs of running the fund, attributable to the employer, and do 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 general fund balance to be ultimately 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 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.

### **Lancashire County Pension Fund**

#### **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. At the last valuation in 2013 the shortfall of assets against liabilities was £1.38bn equivalent to a funding level of 78% with additional contributions over a period of 19 years in order to meet the shortfall.

The weighted average duration of the CC's defined benefit obligation is 21 years, measured on the actuarial assumptions used for IAS19 purposes. The CC anticipates to pay £9.4m contributions to the LGPS in 2019/20.

**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 risk**

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.

## **Police Pension Schemes**

### **Governance:**

These arrangements are managed by the employer, although this essentially involves administering the scheme, 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 20 years), measured on the actuarial assumptions used for IAS19 purposes. The CC 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.

**McCloud / Sargeant judgement**

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. On 27 June the Supreme Court refused leave to appeal on the McCloud case.

In a written statement by the Treasury on 15 July 2019 in respect of public service pensions the government believes that the difference in treatment will need to be remedied across all the schemes including the NHS, civil service, local government, teachers, police, armed forces, judiciary and fire and rescue workers.

In light of this it is envisaged that the Court will require changes to arrangements for employees who were transferred to the new schemes potentially including Police Pension Scheme members. This would lead to an increase in Police Pension Scheme liabilities and our actuaries (Mercers), using specific assumptions and applying these across the Police scheme as a whole, have estimated the potential increase in scheme liabilities for Lancashire Police to be approximately 6.5% of pension scheme liabilities or £203.2m. This increase is reflected in the IAS19 Disclosure as a Past Service Cost. The actuaries have highlighted that this estimate is based on one potential remedy, the potential impact of any difference in the profile of the force's membership compared with the scheme as a whole and that the figures are highly sensitive to assumptions around short term earnings growth.

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 require a police authority 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 police authority in the form of a central government top-up grant.

With regard to the LGPS a similar adjustment to past service costs within the IAS19 Disclosure has been made for the McCloud judgment . This corresponds to a 0.8% £4.2m increase in liabilities. 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.

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 general fund via the movement in reserves statement. The following transactions have been made during the year:

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	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
<b>Comprehensive Income and Expenditure Statement (CIES)</b>								
<b>Cost of Services:</b>								
<b>Service Cost comprising:</b>								
• Current service cost	15,498	15,499	47,810	64,652	8,856	4,566	72,164	84,717
• Past service/Curtailment costs	4,549	336	203,195	-	-	-	207,744	336
• Admin. expenses	260	239	-	-	-	-	260	239
<b>Financing and Investment Income and Expenditure:</b>								
• Net Interest expense	2,936	3,232	77,459	84,994	4,984	3,188	85,379	91,414
<b>Total Post-Employment Benefits Charged to the surplus/deficit on Provision of Services in the CIES</b>	<b>23,243</b>	<b>19,306</b>	<b>328,464</b>	<b>149,646</b>	<b>13,840</b>	<b>7,754</b>	<b>365,547</b>	<b>176,706</b>
<b>Other Post Employment Benefit charged to the Comprehensive Income and Expenditure Statement:</b>								
<b>Re-measurement of the net defined benefit liability, comprising:</b>								
• Re-measurements (assets)	(30,205)	(3,185)	-	-	-	-	(30,205)	(3,185)
• Experience (gains)/losses on Liabilities	-	-	-	(269,248)	-	78,038	-	(191,210)
• Actuarial (gains)/losses arising on changes in demographic assumptions	-	-	-	(141,537)	-	(10,740)	-	(152,277)
• Actuarial (gains)/losses arising on changes in financial assumptions	30,260	(22,253)	182,834	(188,614)	14,687	(15,070)	227,781	(225,937)
<b>Total Post-Employment Benefits Charged to the Comprehensive Income and Expenditure Statement</b>	<b>23,298</b>	<b>(6,132)</b>	<b>511,298</b>	<b>(449,753)</b>	<b>28,527</b>	<b>59,982</b>	<b>563,123</b>	<b>(395,903)</b>
<b>Movement in Reserves Statement</b>								
Reversal of net charges made to the (Surplus)/Deficit on the Provision of Services for post-employment benefits in accordance with the Code	(23,243)	(19,306)	(328,464)	(149,646)	(13,840)	(7,754)	(365,547)	(176,706)
<b>Actual amount charged against the General Fund Balance for pensions in the year:</b>								
• Employers' contributions payable to scheme	9,853	9,115	85,472	76,709	-	-	95,325	85,824
• Retirement benefits paid to pensioners	-	-	-	-	3,167	2,651	3,167	2,651

**Pensions Assets and Liabilities Recognised in the Balance Sheet**

	Local Government Pension Scheme		Police Officer 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
	£000	£000	£000	£000	£000	£000	£000	£000
<b>Present Value of the defined benefit obligation</b>	505,178	448,177	3,337,264	2,911,438	211,518	186,158	<b>4,053,960</b>	<b>3,545,773</b>
<b>Fair value of plan assets</b>	(377,066)	(333,510)	-	-	-	-	<b>(377,066)</b>	<b>(333,510)</b>
<b>Net liability arising from defined benefit obligation</b>	<b>128,112</b>	<b>114,667</b>	<b>3,337,264</b>	<b>2,911,438</b>	<b>211,518</b>	<b>186,158</b>	<b>3,676,894</b>	<b>3,212,263</b>

The liabilities show the underlying commitments that the CC has in the long run to pay retirement benefits in respect of police officers and staff under his direction and control.

The total liability of £3,676.894m has a considerable impact on the net worth of the CC as recorded in the balance sheets, resulting in a net liability of £3,682,216m (including £5.322m for accumulated absences).

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 and as funded by the PCC.
- Finance is only required to be raised to cover police pensions and injury awards when the pensions are actually paid.

**CC share of Assets and Liabilities in Relation to Post-employment Benefits**

**Reconciliation of the present value of the scheme liabilities:**

<b>Funded Scheme –Local Govt Pension Scheme</b>	<b>2018/19</b>	<b>2017/18</b>
	<b>£000</b>	<b>£000</b>
<b>1 April</b>	<b>448,177</b>	<b>448,392</b>
Current Service Costs	15,498	15,499
Interest on pensions liabilities	12,028	11,587
Contributions by scheme participants	3,274	3,001
Actuarial gains –changes in demographic assumptions	-	-
Actuarial (gains)/losses –changes in financial assumptions	30,260	(22,253)
Experience gains on liabilities	-	-
Benefits paid	(8,608)	(8,385)
Past Service/Curtailment Costs	4,549	336
<b>31 March</b>	<b>505,178</b>	<b>448,177</b>

<b>Unfunded Liabilities</b>	<b>Police Pension Schemes</b>		<b>Injury Benefits</b>	
	<b>2018/19</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2017/18</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>1 April</b>	<b>2,911,438</b>	<b>3,437,900</b>	<b>186,158</b>	<b>128,827</b>
Current Service Costs	47,810	64,652	8,856	4,566
Past service costs	203,195	-	-	-
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)/losses –changes in financial assumptions	182,834	(188,614)	14,687	(15,070)
Actuarial gains –changes in demographic assumptions	-	(141,537)	-	(10,740)
Benefits paid	(99,700)	(90,891)	(3,167)	(2,651)
<b>31 March</b>	<b>3,337,264</b>	<b>2,911,438</b>	<b>211,518</b>	<b>186,158</b>

**Reconciliation of the fair value of the scheme assets:**

<b>Funded Scheme –Local Govt Pension Scheme</b>	<b>2018/19</b>	<b>2017/18</b>
	<b>£000</b>	<b>£000</b>
<b>1 April</b>	<b>333,510</b>	<b>318,478</b>
Interest on plan assets	9,942	8,355
Admin Expenses	(260)	(239)
Employer Contributions	9,853	9,115
Contributions by scheme participants	3,274	3,001
Re-measurements (assets)	29,355	3,185
Benefits paid	(8,608)	(8,385)
<b>31 March</b>	<b>377,066</b>	<b>333,510</b>

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Unfunded Schemes	Police Pension Schemes		Injury Benefits	
	2018/19	2017/18	2018/19	2017/18
	£000	£000	£000	£000
<b>1 April</b>	-	-	-	-
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)
<b>31 March</b>	-	-	-	-

**Local Government Pension Scheme assets comprised:**

	Fair Value Input Level (if relevant)	31 March 2019 £000	31 March 2018 £000
<b>Cash and Cash Equivalents</b>		<b>2,280</b>	<b>(1,392)</b>
<b>Bonds</b>			
<u>By Sector</u>			
Corporate	1/2	4,420	5,861
UK index-linked	3	13,251	7,958
Overseas Fixed Interest	1	0	322
<b>Sub-Total Bonds</b>		<b>17,671</b>	<b>14,141</b>
<b>Property</b>			
<u>By Type</u>			
Retail	2	9,076	9,171
Commercial	2	26,060	22,193
<b>Sub-Total Property</b>		<b>35,136</b>	<b>31,364</b>
<b>Private Equity</b>			
Overseas	3	28,972	24,209
<b>Sub-Total Private Equity</b>		<b>28,972</b>	<b>24,209</b>
<b>Other Investment Funds</b>			
Overseas Pooled Equity	1	166,175	148,179
Credit Funds	3	26,767	61,452
Infrastructure	3	53,290	42,264
Property	3	5,770	5,065
Pooled Fixed Income	1	41,005	8,228
<b>Sub-Total Other Investment Funds</b>		<b>293,007</b>	<b>265,188</b>
<b>TOTAL ASSETS</b>		<b>377,066</b>	<b>333,510</b>

## **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 Institute of 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 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:

<b>Local Government Pension Scheme</b>	<b>2018/19</b>	<b>2017/18</b>
Mortality assumptions:		
Longevity at 65 for current pensioners (LGPS):		
Men	22.8	22.7
Women	25.5	25.4
Longevity at 65 for future pensioners (LGPS):		
Men	25.1	25
Women	28.2	28
Rate of inflation: CPI	2.2%	2.1%
Rate of increase in salaries	3.7%	3.6%
Rate of increase in pensions	2.3%	2.2%
Rate for discounting scheme liabilities	2.5%	2.7%

	<b>Police Officers 1987 Scheme</b>		<b>Police Officers 2006 Scheme</b>		<b>Police Officers 2015 Scheme</b>		<b>Injury Awards</b>	
	<b>2018/19</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2017/18</b>	<b>2018/19</b>	<b>2017/18</b>
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	2.5%	2.7%	2.5%	2.7%	2.5%	2.7%	2.5%	2.7%

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:

	Impact on Defined benefit Obligation in the Scheme	
	Increase in Assumption £000	Decrease in Assumption £000
Longevity (increase or decrease in 1 year)	9,665	-9,665
Rate of inflation (increase or decrease by 1%)	107,090	-107,090
Rate for discounting scheme liabilities (increase or decrease by 1%)	-104,870	104,870
Rate of increase in salaries (increase or decrease by 1%)	20,980	-20,980

#### Police Officer Pension Schemes and Injury Benefits:

	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)	91,395	-91,395	5,765	-5,765
Rate of inflation (increase or decrease by 1%)	684,400	-684,400	50,460	-50,460
Rate for discounting scheme liabilities (increase or decrease by 1%)	-656,650	656,650	-49,220	49,220
Rate of increase in salaries (increase or decrease by 1%)	106,360	-106,360	31,900	-31,900



## 16. Expenditure on Publicity

The CC's CIES includes £0.601m (£0.720m in 2017/18) in respect of 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 are:

	2018/19	2017/18
	£000	£000
Publicity	594	707
Advertising –Recruitment	7	13
<b>Total Costs</b>	<b>601</b>	<b>720</b>

## 17. External Audit Costs

In 2018/19 the following fees are included in the CC's CIES relating to external audit.

	2018/19 £000	2017/18 £000
Fees payable to Grant Thornton, auditors appointed under the Local Audit and Accountability Act 2014, with regard to external audit services carried out under the <i>Code of Audit Practice</i> prepared by the Comptroller and Auditor General in accordance with s19 of the Local Audit and Accountability Act.	14	19
<b>Total Costs</b>	<b>14</b>	<b>19</b>

## 18. Contingent Liabilities

As the PCC funds all expenditure incurred by the CC and holds all reserves, the responsibility for disclosing contingent liabilities is his. As at the authorised for issue date there were two contingent liabilities to disclose, as follows:

### 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.

There is a separate wider potential issue in relation to GMP equality in general. At present, the public service schemes are required to provide full CPI pension increases on GMP benefits for members who reach State Pension Age between 6 April 2016 and 5 April 2021. The UK Government may well extend this at some point in the future to include members reaching State Pension Age from 6 April 2021 onwards. In due course there may therefore be a further cost to the LGPS and its employers in connection with this, and we will consider this issue as and when the Government makes any further announcement (albeit our actuaries do not think any additional costs will be substantial). At present we have allowed for the existing provisions of full CPI pension increases on GMP benefits for members who reach State Pension Age between 6 April 2016 and 5 April 2021

## **OTHER SIGNIFICANT ACCOUNTING POLICIES**

### **i. General**

The Statement of Accounts summarises the CC's transactions for the 2018/19 financial year and the position at the year-end 31 March 2019. The 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.

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

Given the funding arrangements in place between the PCC and the CC it is felt appropriate to produce the accounts on a going concern basis.

### **ii. Cost Recognition**

The PCC pays for all expenditure including salaries of police officers, police community support officers and police staff. There is no transfer of real cash between the PCC and CC and the latter does not have a bank account into which monies can be received or paid from. Costs are recognised in the CC's Accounts to reflect the PCC's resources consumed in the direction and control of day-to-day policing at the request of the CC. The Accounts also reflect the CC's utilisation and consumption of PCC owned assets in the delivery of policing with a fair value charge being included that is equivalent to depreciation charges of property, plant and equipment, amortisation of intangible assets, and impairment from obsolescence or physical damage.

### **iii. Accruals of Expenditure**

Activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular:

Supplies are recorded as expenditure when they are consumed.

Expenses in respect of services received (including services supplied by police officers, police staff and police community support officers) are recorded as expenditure when the services are received rather than when payments are made.

### **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.

### **v. Exceptional Items**

When items of income and expenditure are material, their nature and amount will be disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the notes to the accounts, depending on how significant the items are to an understanding of the CC's performance.

**vi. VAT**

All payments are made by the PCC and all income received by the PCC, with VAT reclaims being made by the PCC under the PCC Group VAT registration arrangements. Expenditure recorded in the CC's CIES excludes any amounts relating to VAT.

**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.

CHIEF CONSTABLE OF LANCASHIRE CONSTABULARY 2018/19  
POLICE PENSION ACCOUNT

**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				2017/18			
		1987 scheme £000	2006 scheme £000	2015 scheme £000	Total £000	1987 scheme £000	2006 scheme £000	2015 scheme £000	Total £000
<b>Contributions receivable</b>									
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)
		<b>(7,815)</b>	<b>(299)</b>	<b>(16,962)</b>	<b>(25,076)</b>	<b>(8,922)</b>	<b>(333)</b>	<b>(14,914)</b>	<b>(24,169)</b>
Officer Contributions		(3,699)	(158)	(10,371)	(14,228)	(4,732)	(195)	(9,255)	(14,182)
<b>Total Contributions Receivable</b>		<b>(11,514)</b>	<b>(457)</b>	<b>(27,333)</b>	<b>(39,304)</b>	<b>(13,654)</b>	<b>(528)</b>	<b>(24,169)</b>	<b>(38,351)</b>
<b>Transfers In</b>		<b>(39)</b>	<b>-</b>	<b>(651)</b>	<b>(690)</b>	<b>(60)</b>	<b>(127)</b>	<b>(1,011)</b>	<b>(1,198)</b>
<b>Benefits Payable</b>									
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	-	-	-	-
<b>Total Benefits Payable</b>		<b>99,817</b>	<b>18</b>	<b>520</b>	<b>100,355</b>	<b>91,198</b>	<b>78</b>	<b>374</b>	<b>91,650</b>
<b>Payments on Account of Leavers</b>									
Transfer values out		-	-	-	-	362	27	-	389
Refund of contributions		2	-	33	35	-	-	51	51
<b>Total Payments on Account of Leavers</b>		<b>2</b>	<b>-</b>	<b>33</b>	<b>35</b>	<b>362</b>	<b>27</b>	<b>51</b>	<b>440</b>
<b>Net amount payable/(receivable) for the year contribution from Police Fund</b>		<b>88,266</b>	<b>(439)</b>	<b>(27,431)</b>	<b>60,396</b>	<b>77,846</b>	<b>(550)</b>	<b>(24,755)</b>	<b>52,541</b>
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)
<b>Net amount payable/(receivable)</b>		<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>

## 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
-	<b>Net Assets</b>	-

## 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 63.

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% (17/18 was also 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 15 to the main statement of accounts.



## Independent auditor's report to the Chief Constable for Lancashire

### Report on the Audit of the Financial Statements

#### Opinion

We have audited the financial statements of the Chief Constable for Lancashire (the 'Chief Constable') for the year ended 31 March 2019 which comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies, and include the police pension fund financial statements comprising the Police Pension Fund Account, the Net Assets Statement and notes to the financial statements. The notes to the financial statements include the EFA, Notes to the Core Statements and Policies and Judgements. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Chief Constable as at 31 March 2019 and of its expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

#### Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Chief Constable in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

#### Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Chief Finance Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the Chief Constable's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

#### Other information

The Chief Finance Officer is responsible for the other information. The other information comprises the information included in the Statement of Accounts, the Narrative Report, the Annual Governance Statement, other than the financial statements and, our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.



In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the Chief Constable obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

### **Other information we are required to report on by exception under the Code of Audit Practice**

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls. We have nothing to report in this regard.

### **Opinion on other matter required by the Code of Audit Practice**

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Chief Constable gained through our work in relation to the Chief Constable's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, the Narrative Report and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which we are required to report by exception**

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Chief Constable under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.
- 

We have nothing to report in respect of the above matters.

### **Responsibilities of the Chief Constable and the Chief Finance Officer for the financial statements**

As explained more fully in the Statement of Responsibilities set out on page 15, the Chief Constable is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. That officer is the Chief Finance Officer. The Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2018/19, for being satisfied that they give a true and fair view, and for such internal control as the Chief Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Chief Finance Officer is responsible for assessing the Chief Constable's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Chief Constable will no longer be provided.

The Chief Constable is Those Charged with Governance. Those charged with governance are responsible for overseeing the financial reporting process.

### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

### **Report on other legal and regulatory requirements - Conclusion on the Chief Constable's arrangements for securing economy, efficiency and effectiveness in its use of resources**

#### **Conclusion**

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Chief Constable put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

#### **Responsibilities of the Chief Constable**

The Chief Constable is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

### **Auditor's responsibilities for the review of the Chief Constable's arrangements for securing economy, efficiency and effectiveness in its use of resources**

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Chief Constable has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Chief Constable's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Chief Constable had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Chief Constable put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2019.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to be satisfied that the Chief Constable has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

## Report on other legal and regulatory requirements – Certificate

We certify that we have completed the audit of the financial statements of the Chief Constable for Lancashire in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

### Use of our report

This report is made solely to the Chief Constable, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Chief Constable those matters we are required to state to the Chief Constable in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Chief Constable as a body, for our audit work, for this report, or for the opinions we have formed.

*Robin Baker*

Robin Baker, Key Audit Partner  
for and on behalf of Grant Thornton UK LLP, Local Auditor

Liverpool

29 July 2019

## Lancashire Constabulary Annual Governance Statement 2018 - 19



### Scope of Responsibility

Governance is about how the Chief Constable and PCC ensure that they are doing the right things, in the right way, for the right outcomes, in a timely, inclusive, open, transparent and accountable manner.

Lancashire Constabulary is responsible for ensuring that its business is conducted in accordance with the relevant law and proper standards relating to financial management and corporate governance. It also has a statutory duty to secure value for money in the use of public funds.

The Police Reform and Social Responsibility Act 2011 (PRSR), the Strategic Policing Requirement and the national Policing Protocol Order outline the key roles and responsibilities of the Chief Constable and PCC.

The Chief Constable holds office under the Crown and is appointed by the Police and Crime Commissioner (PCC) for Lancashire.

The Chief Constable is solely responsible for operational policing matters, the direction and control of police personnel and for maintaining appropriate risk management processes, governance arrangements and ensuring there is a reliable system of internal control which support those functions.

The Police and Crime Commissioner (PCC) for Lancashire is responsible for holding the Chief Constable to account for the exercise of those functions. This statement reports on the governance arrangements in place.

Production of the Annual Governance Statement by the Chief Constable 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 Constabulary is directed and controlled, and the activity through which it accounts to and engages with communities. It enables the Constabulary to monitor achievement against the strategic objectives, agreed with the PCC and outlined in the Police and Crime Plan, to consider whether those objectives have delivered efficient, effective services and value for money.

A Code of Corporate Governance has been approved and adopted which outlines how the Chief Constable and PCC will ensure robust and effective governance arrangements to support the exercise of those functions. The Code can be found at the link below:

<https://lancashire-pcc.gov.uk/wp-content/uploads/2016/09/Code-of-Governance-Framework.pdf>

A joint Constabulary and OPCC 'Scheme of Consent/Delegation' is included within the Code of Governance. It sets out both the broad legislative context and local regulatory framework, within which the Chief Constable and PCC will work to fulfil their statutory function of securing an efficient and effective police force.

The system of internal control is a significant part of that framework and is based on an ongoing process designed to provide reasonable (rather than absolute) assurance of the effectiveness of risk management protocols. It is based on a dynamic process designed to identify and evaluate the risks to achievement of

the Constabulary's priorities, aims and objectives and to ensure that they are managed and mitigated in an efficient, effective and economical way.

The governance framework has been in place up to and including the year ending 31 March 2019 and up to the date of approval of the Statement of Accounts.

## **Internal Financial Controls**

Internal financial control systems are in place to minimise the risk of loss and unlawful expenditure and help to deliver value for money.

The key documents that set out the internal financial controls are:-

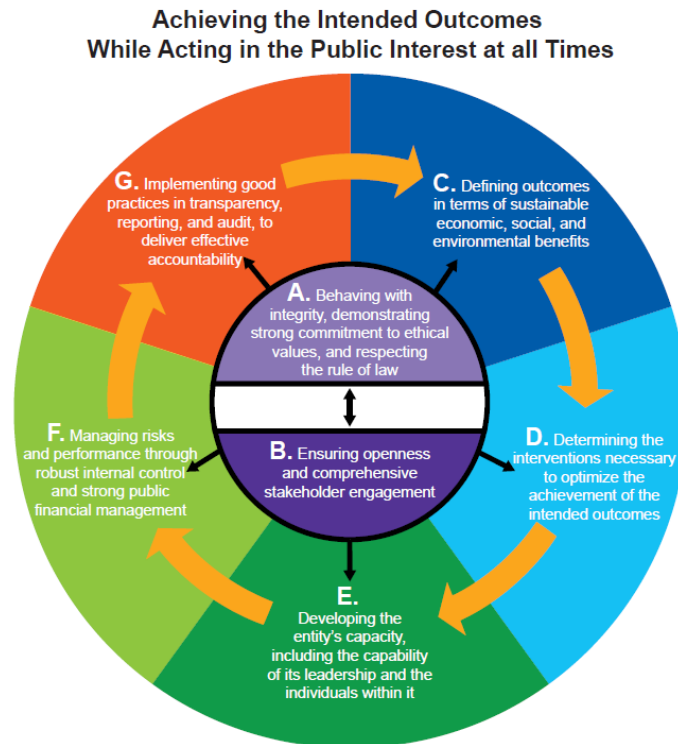
- Financial Regulations – to secure the proper administration of the Chief Constable's financial affairs
- Contract Standing Orders - to ensure procedures are followed in respect of contracts for the supply of goods and services
- Chief Constable's Scheme of Delegation - to assign authority and responsibility to officers and staff to carry out specific activities or functions
- Chief Constable's Financial Instructions – to provide guidance on the operation of specific financial processes

## **Good Governance in the Police Service**

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

The diagram below is taken from the International Framework: Good Governance in the Public Sector and illustrates how the principles relate to each other.



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

The Constabulary has adopted the national Code of Ethics for policing as part of its established overall approach to values led behaviour, supported by the existing standards it has outlined in the code of conduct.

Police Officers and Staff are subject to relevant codes of conduct and the standards of behaviour expected by the Constabulary, in line with its stated values and the College of Policing Code of Ethics.

Code of Ethics training and awareness has been provided to all officers and staff and written into job application forms and statement of particulars.

The Constabulary has adopted the College of Policing's Competency and Values Framework which strongly upholds the principles of the Code of Ethics for use in promotion processes and the PDR/CPD processes for all officers and staff.

The Joint Audit and Ethics Committee provides governance over ethical matters for both the PCC and Chief Constable organisations. The Committee comprises an Independent chair and members to provide independent scrutiny and assurance over the ethics framework, supported by a Tactical Ethics Committee within the Constabulary, which considers and advises on ethical dilemmas.

The Constabulary has a robust complaints process, managed by the Professional Standards Department (PSD), which is responsible for the receipt, recording and investigation of public complaints and misconduct allegations. The PSD also has specific responsibilities to support the Independent Office for Police Conduct (IOPC) (formerly Independent Police Complaints Commission (IPCC)) in discharging their statutory role.

The Professional Standards Department routinely analyses complaints and misconduct data to identify emerging trends and lessons to be learned, which are disseminated to the workforce through a range of internal communications media.

All officers and staff are subject to policies and procedures covering discipline, grievance and standards of conduct and professional behaviour, including access to the Constabulary integrity line (whistle blowing).

The Constabulary has a counter corruption strategy, which defines how it will manage alleged corruption issues within the Force.

The Constabulary also takes part in the National Fraud Initiative which carries out data matching of the Constabulary's data with data from other public sector bodies.

Professional standards matters are monitored by the Constabulary, with an action plan to oversee the implementation of recommendations arising from HMICFRS inspections of integrity and legitimacy.

The Constabulary has established processes for registering business interests and an electronic recording system for gifts and hospitality, which are routinely audited.

The Constabulary has arrangements in place to address fraud and corruption and to enable officers and staff to report any issues of concern in confidence.

The Head of Legal Services is the Chief Constable's Monitoring Officer and advises on the rule of law and ensures decision making is legally sound and compliant with the Governance Framework.

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

The Constabulary has a range of strategies, adapted to ensure the most appropriate and effective communication and consultation is achieved with both the public and partners. This approach embraces a range of traditional and new media, including social media platforms, such as Twitter, Facebook and Instagram.

The Constabulary has a system of online engagement, called 'In the Know' (ITK), which circulates updates on crime and incidents at a very local level. Members of the public can sign up to receive the information most relevant to them, in the format of their choice. There are also ambitious new plans in place to improve digital engagement with the communities, through the external facing website which facilitated much greater self-service and access to information. This has been further enhanced in 2018/19 with the launch of the Public Engagement portal to enable digital services such as reporting crime online, tracking of cases as they progress and uploading of digital evidence to take place.

The Constabulary is a key partner in Community Safety Partnerships (CSPs) in every local area, engaging with partner agencies to ensure best value for public money in delivering community safety outcomes for the public. In addition, the Constabulary has been recognised as a service leader in developing and implementing co-located partnership place based working, to deliver more effective interventions in safeguarding the most vulnerable victims and dealing with the most prolific offenders and challenging families.

Neighbourhood policing teams hold community engagement events to allow members of the community to voice concerns, highlight issues and influence priorities. The Constabulary is also delivering digital engagement opportunities to improve levels of engagement with the community. This information is also included as part of the wider priority setting process for the Force.

In support of the Prevention priority Constabulary has committed to be a pilot in the Modernising Neighbourhood Policing Development Programme.

The Constabulary routinely surveys members of the community and victims of crime to assess levels of satisfaction and confidence with the service provided. Quality of service issues are identified and tracked at both team and individual officer level, to allow remedial action to be taken where necessary. Complaints and Satisfaction and Confidence data are monitored as part of the core performance framework and are routinely reported to the PCC, through the Strategic Scrutiny meeting and the Joint Audit and Ethics Committee.

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

The Constabulary has established a clear Purpose, Objective, and set of values. The Purpose is : **to keep people safe and feeling safe and when needed, we can be trusted to consistently deliver competent and compassionate service 24/7.** The Constabulary has a commitment to its core policing services; Contact and Response, Local Policing and Serious Crime and Investigation and is underpinned by the expectation that officers and staff adhere to a set of values that are outlined in the Code of Ethics.

Value for money is a strategic priority for the Constabulary and the financial context in which the Constabulary operates makes achieving value for money and delivering the necessary savings a critical objective for the force. HMICFRS have consistently found, in their Valuing the Police (VtP) Inspection programme and the PEEL Inspections, that the Constabulary is well prepared to deal with financial challenges.

The budget and medium term financial strategy (MTFS) are set by the PCC, with regular updates around budget monitoring and progress provided throughout the year.

The MTFS sets out the financial assumptions and demands upon the Constabulary and sets out options to address any funding shortfalls to ensure sustainability.

The Business Planning process linked to the Force Management Statement will address the demands on the Constabulary and highlight areas for investment and opportunities to harness efficiencies and productivity gains.

The local policing priorities for the County, on which the Constabulary focuses each year, are determined by the PCC in consultation with the Constabulary, its partners, stakeholders and the communities of Lancashire. In addition, the Constabulary and PCC are required to maintain a regional and national policing capability, in compliance with the Home Office Strategic Policing Requirement.

The Constabulary has a statutory responsibility with Lancashire County Council and Community Safety Partnerships to develop local profiles which form the basis of commissioning opportunities and local partnership plans.

The policing priorities agreed with the PCC form part of the Lancashire-wide community safety priorities, which are identified each year by the Lancashire Community Safety Partnership. The Lancashire County Public Service Board was established to govern the pan-Lancashire approach to community safety and ensure a more co-ordinated effort; the Constabulary is a key partner within that group. There is also a regular series of meetings held with Lancashire local authority chief executives and senior leads from other public sector agencies such as Fire and Rescue and North West Ambulance service, at which information on joint priorities and common issues is shared.

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

At the start of each financial year, the Constabulary and PCC agree a programme of internal and external audit work, which is reported back through the Joint Audit and Ethics Committee, responsible for



enhancing public trust and confidence in the governance of the PCC and the Constabulary. It also assists the PCC in discharging his statutory responsibility for holding the Chief Constable to account. Minutes of the Joint Audit and Ethics Committee are published on the OPCC website.

The Constabulary is subject not only to internal and external audit procedures, but also to an extensive and intrusive inspection regime, through HMICFRS and its fellow criminal justice inspectorates; the results of these inspections are published nationally. The Constabulary responds to any issues highlighted during this process by developing action plans to address areas for improvement and has a governance process to oversee this work and link to continuous improvement.

The Constabulary takes an inclusive, consultative and transparent approach to corporate decision making, with appropriately documented scrutiny around the operational need and organisational implications of decisions taken, including the financial costs and the organisational and operational risks and consequences, in every case. These are published on the Constabulary's intranet sharepoint site.

The Constabulary has an internal scheme of responsibility, which outlines the relevant financial authority to each budget holder. There is an internal process for submitting business cases to the Director of Resources, where amounts exceed approved responsibility limits. Devolved budgets are routinely monitored and reported upon to ensure financial efficacy, and the Director of Resources provides regular updates on the financial position and scenarios for budget planning. In addition, the Chief Constable, as a corporation sole, makes decisions and raises issues in his own right, governed by a similar robust process.

The Constabulary change programme is overseen by the Futures Assurance Board with a bi monthly governance structure that considers risk management and benefits realisation with bespoke programme management attached to the change delivery.

Items outside of the delegated authority of the Chief Constable's CFO are submitted to the Joint Management Board (JMB) for approval by the PCC. In addition, and to strengthen the transparency of decision making, those items approved by the Constabulary's Director of Resources/ Head of Finance, Procurement & Transactional Services are reported to the PCC for information and to ensure that he remains informed of decisions being made under delegated authority.

Statutory accounts, including opinion from External Auditors, are prepared in accordance with relevant legislation and are scrutinised by the Joint Audit and Ethics Committee prior to approval by the Chief Constable and the PCC and publication in July.

## **5. Developing the entity's capacity, including the capability of its leadership and the individuals within it.**

Costed HR Plans are produced by the Constabulary each year which outline the workforce numbers of the organisation and its training provision; it is presented to the PCC on an annual basis. HR data is scrutinised by the PCC at the monthly Management Board Meeting and quarterly at the Strategic Scrutiny meeting.

The Constabulary has a Workforce Development Plan, with a framework of governance meetings that support their implementation, across a range of key people themes. This is designed to ensure that the organisation makes appropriate investment in its people, even as resources are becoming increasingly stretched. A rigorous approach to matching resources to demands is also carried out through detailed resourcing to ensure that sufficient resources are in place to provide capacity to meet operational requirements.

The Constabulary has established a Professional Development Review Programme (PDR), which supports the management of performance and has introduced a new Continuous Professional Development (CPD) process that offers the opportunity for both development and improvement where

these are applicable. This offers value for money in reducing bureaucracy at the frontline, whilst ensuring that performance and quality are appropriately managed and maintained.

A HR Case Management process has been introduced to support managers in challenging and managing under-performance, to ensure that the Constabulary is achieving best value for money from its workforce, whilst providing appropriate support for officers and staff to achieve their best. This is part of an early intervention approach by the constabulary to identify early signs of staff vulnerability and address these before they emerge in more problematic ways.

Training needs analysis informs an annual Costed Learning and Development Plan, which outlines training costs, needs and commitments. Evaluation is undertaken at the point of delivery with service users. The Constabulary is committed to ensuring that leaders at all levels have the right skills to deliver effective leadership in the challenging environment they face and that they can deliver the leadership commitment to **“know your staff, know your stuff, know yourself”**. The Workforce Capabilities Board provides the governance over the future proofing of the workforce.

The Constabulary is continuing to take an innovative approach to supporting both the physical and emotional well-being of its workforce; the Well-being Strategy is designed to support the Constabulary's wider activity in implementing cultural change. Well-being Ambassadors have been introduced across the force, in all divisions and departments, to support officers and staff in need and recent further investment has been agreed for the Health Services function to ensure that the capacity, capability and condition of employees is maintained. The role of the Chief Constable as the national police service lead for Wellbeing ensures the Constabulary is at the forefront of embedding wellbeing support across the organisation.

The Constabulary conducts regular Staff Engagement Surveys and publicises the work it has undertaken and delivered in response to the issues raised in the survey

Internally, the Constabulary has an innovative staff engagement tool known as 'The Buzz'. This provides a forum for staff to raise issues of concern directly to the Chief Constable and other senior leaders across the organisation and gives the opportunity for direct responses in return. It has proved to be a popular platform for myth and rumour-busting on a range of issues and Buzz Ambassadors enable anonymous posting for those who are reluctant to post directly. The Constabulary has also supplemented 'The Buzz' with a 'Buzz-o-meter', a quick annual survey to encourage even more staff to have their say and which gives a comparative position across time.

## **6. Managing risks and performance through robust internal control and strong public financial management.**

The Constabulary has an established risk management policy and procedures. The Corporate Risk Register is reported through all management boards for information and action as appropriate.

The Constabulary works closely with the OPCC in taking forward key areas of business and joint monthly strategic planning meetings are held.

The Chief Officer team of the Constabulary have specific areas of responsibility, including key elements of internal control, which are outlined within job descriptions and reviewed via annual appraisal and Continuous Professional Development (CPD) activities. A review has commenced in 2018/19 of the internal scheme of responsibility, which outlines the financial responsibilities of relevant Constabulary officers.

Performance against priorities is tested through a robust framework, which ensures that the Chief Constable and PCC are kept informed about crime, resource and financial management performance. Performance information is monitored and scrutinised by Chief Officers and the PCC Executive at a

range of forums, including the monthly Operations Board, Strategic Management Board and the quarterly Strategic Scrutiny meeting, at which the PCC formally holds the Chief Constable to account. A record of the Strategic Scrutiny meeting is published on the OPCC website.

The PCC also meets regularly with the Chief Officers of the Constabulary on a less formal basis, to receive updates and discuss issues around organisational and operational performance.

The Strategic Resourcing Board provides organisational direction to ensure the most efficient, effective, flexible and responsive use of officers and staff across the County. The Board receives requests for changes to structures (outside the Futures Programme) and considers the impact of turnover of officers and staff alongside the restructuring required within the organisation and the impact this has on establishment levels.

## **7. Implementing good practices in transparency, reporting and audit to deliver effective accountability**

In accordance with the requirements of the Financial Management Code of Practice, a Joint Audit and Ethics Committee has been established.

The Chief Constable's financial management arrangements conform to the governance requirements of CIPFA's Statement on the Role of the Chief Financial Officer in Local Government as set out in the CIPFA Statement on 'The role of the Chief Finance Officer of the Police and Crime Commissioner and the Chief Finance Officer of the Chief Constable'. The Chief Constable's Chief Finance Officer is the Director of Resources who is the Constabulary's professional advisor on financial matters.

The Constabulary contributes to the OPCC Transparency Scheme which provides published information in accordance with the Information Commissioner's Publication Scheme for the Police Service.

The Statement of Accounts will be approved by the PCC and Chief Constable in May 2019.

## **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 Chief Constable 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.

The Head of Internal Audit has provided moderate assurance regarding the adequacy of design and effectiveness in operation of the frameworks of governance, risk management and control of the Chief Constable for 2018/19, having considered the work undertaken by the Internal Audit Service throughout the year as well as the work of external assurance providers and information available from less formal sources than planned audit engagements.

## **Review of Effectiveness**

The Chief Constable is responsible for conducting an annual review of the effectiveness of the governance framework, including the system of internal control and audit. 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 Constabulary system of internal control for 2018/19 is considered to be both satisfactory and effective.**

## **Ensuring Effective Governance of Organisation Risks**

### **(i) Report on Areas for Action 2018/19**

Within the 2017/18 Annual Governance Statement the review of effectiveness identified three areas where further action was required in 2018/19 and the following shows progress made.

#### **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 the Core Services business change realignment was undertaken in 2018.

### **(ii) 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 Constabulary has 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 Constabulary will also continue to lead public sector services in developing multi-agency working arrangements, which deliver improved outcomes and better value for money. The Constabulary will enhance its business planning cycle during 2019/20 to address the emerging themes from the FMS in the context of the overall resources potentially available and the need for clear prioritisation of investment and delivery of efficiencies to support this.

**Chief Officer Lead:** Deputy Chief Constable/Director of Resources

## 2. ISO Accreditation

There are a number of business and operational areas that require ISO accreditation. Quality Managers and auditors are in place but the requirement to provide the standard of evidence to gain accreditation places a significant demand on limited resources.

ISO accreditation is managed through the Quality Board.

**Action to address:** The Constabulary has secured funding for a limited number of additional posts in 2019/20 but the expectation is that there will be additional staffing requirements, with the relevant technical expertise, to meet the auditing and validation demand across portfolios.

**Chief Officer Lead:** Assistant Chief Constable Specialist Operations.

## 3. 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.

**Chief Officer Lead:** Assistant Chief Constable Territorial Operations and Contact Management.

## 4. Mental Health Illness Demand

The prevalence of mental health illness within Lancashire communities presents a significant risk to the Constabulary. Research commissioned by the Constabulary and carried out jointly with University of Central Lancashire (UCLAN) has identified that there were over 52,000 mental health illness related incidents in Lancashire, which accounts for almost 1 in 10 of all incidents in 2018. The research also indicated that the demand in the early hours was intense reflecting harm

or threat to life, which often resulted in extended demand for the Constabulary through the use of Section 136 detentions and hospital bed watch. The resource intensity of the demand has increased and is likely to continue for the Constabulary in 2019/20.

**Action to address:** The Constabulary has taken a variety of measures to assist staff to deal with this demand. However, the solution to this does not rest with the Constabulary but with the service providers such as the Lancashire Care Foundation Trust (LCFT). The Care Quality Commission (CQC) has raised significant concerns around service provision in this area and a system wide review is being carried out, which the Constabulary are part of. However, it is unlikely that there will be a fundamental improvement in the short term and the Constabulary will continue to provide intensive support at the crisis point, with the significant impact on already stretched Response capacity.

**Chief Officer Lead:** Assistant Chief Constable Territorial Operations and Contact Management.

## 5. Investigative Resilience

The number of Detective officers currently remains below the baseline required to meet current demand. There is a similar picture of shortage of Detectives across the police service which is also impacted by the number of planned retirements in the future.

**Action to address:** The Constabulary has secured additional funding as part of the 2019/20 budget to increase Detective roles by 35 across Investigation hubs in each Division. Detective Development Pathways and Trainee Investigator programmes have also been introduced. Work is also underway to develop a Core Investigation Resilience Plan to deliver a suitably skilled workforce with capacity to meet predicted demand increases. This increase in predicted demand will require further investment in this area to meet the gap.

**Chief Officer Lead:** Assistant Chief Constable Specialist Operations.

## Summary

The Constabulary has been advised on the implications of the review of effectiveness of the governance framework by the Joint Audit and Ethics Committee, and that they continue to regard the arrangements as being fit for purpose.

The Constabulary proposes to take steps over the coming year to address the matters outlined above to provide further assurance of its governance arrangements. The Force is satisfied that these steps will address the issues highlighted during the review of effectiveness, and will monitor their implementation as part of the next review.

### Signed:

*Andy Rhodes*

*Ian Cosh*

.....  
**Chief Constable**

.....  
**Chief Finance Officer**

**Date : 29 July 2019**

**Date : 29 July 2019**

## GLOSSARY OF TERMS

### **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.

### **Budget**

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

### **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'.

### **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.

### **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.

**Curtailed cost (IAS 19)**

Additional pension scheme liabilities as a result of redundancies and efficiency retirements during the year.

**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.

**Fair value**

Fair value is the amount for which an asset could be exchanged, or a liability settled, in an arm's length transaction less, where applicable, any grants receivable towards the purchase or use of the asset.

**Fixed 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.

**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.

**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.

**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.

**Non-cash adjustments**

Changes in debtors' and creditors' balances over the year.

**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 (IAS19)**

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 county council's general conditions of employment.

**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 service.