

CHIEF CONSTABLE OF LANCASHIRE CONSTABULARY

STATEMENT OF ACCOUNTS

2021/22

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NARRATIVE REPORT TO THE STATEMENT OF ACCOUNTS

Background

Under the Police Reform and Social Responsibility Act (PRSRA) 2011, Police and Crime Commissioners (PCC) and Chief Constables (CC) are deemed to be separate entities (Corporations Sole) and further to this the two entities have been established as Schedule 2 bodies under the Audit Commission Act 1998 (now replaced by the Local Audit and Accountability Act 2014) which means that they are both required to produce accounts which are subject to audit. The primary function of the PCC is to secure the maintenance of an efficient and effective police force in Lancashire and to hold the 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.police.uk/about-us/our-performance/statement-of-accounts/>

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

<https://www.lancashire-pcc.gov.uk/transparency/governance-documents/>

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 2021/22 (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 2021/22 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 2022 (referred to as 2021/22).

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 2021/22.

Annual Governance Statement – This is a statement by the CC which states his position 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 2021/22 was set against a Central Government core grant settlement of £219.543m alongside an additional government grant of £3.104m to support the cost of additional employer pension contributions to the police officer pension scheme.

The Minister of State for Crime and Policing, in his final settlement statement of 17 December 2020, was clear that the stated full increase in police funding included an assumption that PCCs maximise their precept flexibility by increasing council tax by £15 for a band D property in 2021/22. The PCC, therefore, agreed an increase in Council Tax, from £211.45 in 2020/21 to £226.45 in 2021/22, equivalent to a £15 per annum (7.1%) increase for a Band D equivalent. This gave a total precept sum of £99.848m (after accounting for a small deficit of £0.41m from 2020/21).

The budget allocated to the Chief Constable in 2021/22 was £311.188m, compared to 295.999m in 2020/21, equivalent to an increase of £15.189m or 5.13% (compared to 6.19% in 2020/21).

In managing the budget in 2021/22 the non-pay revenue budget continued to be managed by Operational Commanders and Heads of Departments but overseen by the relevant Chief Officer (Deputy Chief Constable, Assistant Chief Constables and Director of Resources/Chief Operating Officer) responsible for specific functional areas. Pay budgets were centralised with decisions on budgeted posts and vacancy management made through the Strategic Resourcing Board.

2021/22 Revenue Budget and Outturn

The PCC set an initial overall budget of £319.391m for 2021/22 (net of specific grant funding of £11.381m) of which £311.188m was allocated to the Chief Constable.

The following table provides a summary of spend, by Chief Officers' area of responsibility, compared to the budget (inclusive of specific grants allocated to the Chief Constable):

Responsibility Area	Budget	Spend	Variance	Variance
	£m	£m	£m	%
Centrally Managed Pay Budgets	250.860	250.411	(0.449)	(0.2)
ACC Territorial Operations	7.731	8.435	0.705	9.1
ACC People & Specialist Operations	5.679	6.021	0.342	0.4
Deputy Chief Constable	0.321	0.295	(0.026)	(8.0)
Director of Resources	27.480	26.980	(0.500)	(1.8)
ACC Crime	3.500	4.517	1.017	6.0
Sub Total	295.571	296.659	1.089	0.4
Non-Devolved Resources	15.617	15.829	0.212	1.4
Total Constabulary Budget	311.188	312.488	1.300	0.4

The year-end position is made up of several main elements:

Over/(Under) spend £m	Reason
1.7	Additional Constabulary costs and loss of income because of the Covid pandemic
(0.5)	Underspend on staff pay from planned slowdown in recruitment to deliver in-year savings
0.1	Overspend on overtime

Police Uplift Programme

The Constabulary continued to deliver additional police officers, and associated support infrastructure, in line with government targets during 2021/22, which was year 2 of a three-year programme. At the end of the financial year the Constabulary had delivered on its target to recruit a further 152 officers, in addition to the 153 recruited previously, with a further target of 204 officers to be recruited during 2022/23. Robust plans are in place to best ensure that the final year target is delivered.

Specific government funding, in addition to core grant, was provided to support the pay costs of the new recruit numbers outlined in government targets.

Further, the Constabulary has delivered additional officers in excess of Uplift targets during 2021/22 (58), with plans to do this again in 2022/23, with funding ringfenced from Precept increases.

Capital Outturn and Funding 2021/22

The PCC initially approved a capital investment programme for 2021/22 of £36.947m and subsequently 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 £24.938m for 2021/22.

The capital programme continued to reflect the strategic requirements agreed between the PCC and Chief Constable to invest in ICT infrastructure and Digital delivery, 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 medium term revenue savings.

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

The following table summarises the position on the capital programme for 2021/22:

	Revised Budget £m	Actual Spend £m	Slippage £m	Variance £m
IT Strategy	7.355	6.116	(1.240)	-
Accommodation Strategy	11.451	5.791	3.548	(9.207)
Vehicle Replacement	4.409	2.321	(2.088)	-
Other Schemes	1.723	0.776	(0.653)	(0.294)
Total	24.938	15.004	(0.432)	(9.501)

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. Slippage and underspends accounted for approximately 40% of the overall 2021/22 programme, with delays to planned accommodation projects accounting for the significant proportion of this variance.

The capital programme for 2022/23 and beyond accounts for much of the variance outlined above, with over £148m identified for investment on the accommodation strategy over the next 5 years.

The actual spend in year of £15.004m enabled several important investments in respect of the infrastructure supporting front line officers, including completion of Skelmersdale station refurbishment (£3.553m); ICT system replacements and upgrades (£0.776m); mobile handheld smart device programme (£0.951m); Bamber Bridge ISO Accreditation (£0.608m); and the vehicle replacement programme (£2.321m).

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.

Earmarked reserve levels reduced slightly during 2021/22 from £12.371m to £11.506m, a reduction of £0.865m. The most notable movement was use of the transition reserve to fund the capital programme (£3.655m), although the overall earmarked reserve position was subsidised by the creation of a specific reserve of £2.356m to account for government funds provided to support any shortfall in council tax receipt collection because of the Covid-19 pandemic.

General reserves increased by £0.980m, which predominantly relates to the transfer of non-pay revenue monies earmarked for Police Uplift Programme expenditure that was not incurred ahead of the end of the financial year due to the profile of recruitment of new police officers.

A statement of reserves at the end of 2021/22 is provided below. Total general reserves form around 3.8% of the 2022/23 total revenue budget (£338.243m).

	Position as at 1/4/21 £m	Movement in 2021/22 £m	Final Position as at 31/3/22 £m
<u>EARMARKED RESERVES</u>			
Capital Financing Reserve	0.175	(0.024)	0.151
Employee/Public liability reserve	0.685	0	0.685
LCTS Reserve	0	2.356	2.356
Transition Reserve	6.048	(3.655)	2.392
Clothing Reserve	0.223	(0.195)	0.028
POCA Equalisation Reserve	0.547	0	0.547
PCCA/Drugs Forfeiture Reserve	0.423	(0.137)	0.286
VMU Reserve	0.008	0	0.008
Operational Policing Reserve	1.691	0	1.691
Forensic collaboration reserve	0	0.084	0.084
LFSA operational reserve	0.132	0.033	0.165
Wellbeing reserve	0.017	0	0.017
Regional Collaboration	0.022	0.440	0.462
Road Safety Reserves	2.400	0.233	2.633
Total Earmarked Reserves	12.371	(0.865)	11.506
<u>GENERAL RESERVES</u>			
DFM	2.311	1.014	3.325
General Fund	9.416	(0.034)	9.382
Total General Reserves	11.727	0.980	12.707

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 robust.

At 31 March 2022 the net pensions' liability of the CC, calculated by the actuary, is £4,547m (an increase of £127m over the previous year's figure of £4,419m). The net liability is split between the Local Government Pension Scheme (£146m) and the Police Pension Schemes (£4,401m). 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 managed by the CC and the accounts for 2021/22 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 2019 the actuarial valuation changed the employer contribution rate from 24.2% to 31%. The amount of additional contribution required from the PCC in 2021/22 was £52.5m (2020/21: £49.7m) financed from Home Office grant and the additional funding given to Policing authorities to cover the costs of the additional employer contributions.

Operational Performance and Assessment

The Constabulary has maintained its strong track record in managing performance across its services, although, due to the pandemic, Her Majesty's Inspectorate of Constabulary Fire and Rescue Service (HMICFRS) Police Efficiency, Effectiveness and Legitimacy (PEEL) inspection programme has recently completed in June 2022, with formal assessment outcomes pending. These will be shared fully as part of the 2022/23 narrative report. The last PEEL assessment was completed in 2019 and the Constabulary was rated as 'outstanding' in Efficiency and 'good' in Effectiveness and Legitimacy:

Year of report	Efficiency	Effectiveness	Legitimacy
2020	Outstanding	Good	Good

A new, victim-focused performance management framework was implemented in 2021, aligned to a refreshed strategic vision – “Preventing and fighting crime, keeping our communities and people safe.” A five-point strategy and four pillar plan details how the Constabulary will deliver this while maintaining core values around professionalism, accountability, respect and unity.

The Police and Crime Commissioner (PCC) continues to hold the Chief Constable (CC) to account for delivery of their statutory duties and to ensure that the Constabulary supports delivery of the priorities detailed in The Police and Crime Plan. Lancashire’s Police and Crime Plan 2021-2025 identified 5 key priorities:

1. Getting Tough on Anti-Social Behaviour
2. Disrupting and Dismantling Organised Crime
3. Tackling Domestic Abuse and Sexual Violence
4. Cracking Down on Burglary and Robbery
5. Targeting Dangerous Drivers

[The Police And Crime Plan - Lancashire Police Crime Commissioner \(lancashire-pcc.gov.uk\)](https://www.lancashire-pcc.gov.uk)

Quarterly Accountability meetings monitor performance against both these priorities and the National Crime and Policing Measures, as detailed below.

[Accountability Board Meetings - Lancashire Police Crime Commissioner \(lancashire-pcc.gov.uk\)](https://www.lancashire-pcc.gov.uk)

Key National Priorities for Policing

[The Elected Local Policing Bodies \(Specified Information\) \(Amendment\) Order 2021](#) was implemented in May 2021. This Order provides that information relating to a police force’s performance against the Government’s published national priorities for policing, Her Majesty’s Inspectorate of Constabulary and Fire & Rescue Services (HMICFRS) performance reports on the force, and complaint handling must be published.

A critical element of Home Secretary’s strategic priority for there to be a relentless focus on cutting crime are the new National Crime and Policing Measures, which set out the Government’s key national priorities on crime. These measures fall under the following headings (data comparisons are made against a 2019 pre-pandemic baseline):

- Reduce murder and other homicides
- Reduce serious violence
- Disrupt drugs supply and county lines
- Reduce neighbourhood crime
- Tackle cyber crime
- Improve satisfaction among victims – with a particular focus on victims of domestic abuse

Lancashire Constabulary’s performance against these measures to the year ending 31st March 2022, is summarised below:

Reduce murder and other homicides

In the 12 months up to March 2022 Lancashire Constabulary has seen a reduction in the number of murders and homicides from 28 to 16 compared to the 12-month period leading up to March 2020, a reduction of 42.9%.

Reduce serious violence

The data around firearms discharges paints a slightly different picture, depending on the source used and inclusion criteria applied. In the 12 months up to March 2022 Lancashire Constabulary has seen an increase in the number of firearms discharges from 83 to 141 compared to the 12 months leading up to March 2020, an increase of 69.9%. The increases have largely reflected a return to pre-pandemic volumes after a considerable reduction during 2020-21.

The Lancashire data includes recorded crimes where the MO specifies the discharge of a firearm at a person causing injury, at a building causing damage, or fired in threat, as per a quarterly return to the Home Office. The criteria for inclusion in this data return are broad, so these figures include discharges of air weapons, pellet guns and incidents where the reporting individual was unable to confirm the weapon used. An alternative indicator is the number of confirmed firearms discharge investigations according to the Force Intelligence Bureau. These figures only include incidents where ballistic material was confirmed as present at the scene by specialist investigators and the actual volume of discharges relating to lethal weapons remains relatively low (at 13 in the 12 months to March 2022).

One useful indicator of the prevalence of knife crime is the number of individuals aged under 25 who present to emergency departments with assault injuries where the weapon was a knife, blade or sharp object. For the 12 months leading up to March 2022, this figure was considerably below that of the same period in 2020 with volumes down 33.8% from 136 to 90.

Disrupt drugs supply and county lines

One measure of the disruption activity targeting drugs supply and county lines offending is the number of disruptions carried out against serious organised crime. In the 12 months leading up to March 2022 there were 545 overall disruptions recorded, with 755 arrests and 34.6kg of class A drugs seized. In the same period leading up to March 2020 there were 691 disruptions recorded, with 582 arrests and 17.1kg of Class A drugs seized.

Reduce neighbourhood crime

The number of recorded Burglary, Robbery, Theft of/from vehicle, Theft from person saw a decline of 27.6% in the 12 months leading up to March 2022 compared to the same period in 2020 from 23,080 to 16,703.

Tackle cybercrime

The number of recorded online/cyber enabled crimes has increased during the 12 months leading to March 2022 to 6,160 from 5,847 in the 12 months leading up to March 2020. An increase of 5.4%.

Improve satisfaction among victims

Whilst year-on-year comparisons show a slight decrease, satisfaction levels across all crime types (including DA victims) have actually increased slightly since the turn of the year. With a particular focus on victims of domestic abuse, satisfaction levels are generally good. In December 2021, those that agreed with the statement 'I am satisfied with the way I have been treated by the Police' was 72% compared to 86% of those asked in a Non-Domestic Abuse survey.

Additional information on the key national policing priorities can be found by accessing the links below:

[Letter from Crime and Policing Minister to PCCs – National Crime and Policing Measures](#)

[National Crime and Policing Measures](#)

Recorded Crime and Outcomes

Recorded Crime				
Crime Type	2019/20	2021/22	% Change	Trend
All Crime	142,314	137,640	-3.3%	↓
Burglary - Residential	7,234	5,118	-29.3%	↓
Robbery of Personal Property	1,083	968	-10.6%	↓
Rape	1,365	1,667	22.1%	↑
Other Sexual Offences	2,998	3,552	18.5%	↑

In the 2021/22 financial year, the volume of overall crime and most priority crime categories remained below baseline (pre-pandemic).

However, there were considerable and sustained increases observed in recorded rape and other sexual offences. Lancashire's annual change for all sexual offences was in line with national and regional figures and was likely indicative of improved confidence in reporting, especially given the high-profile Violence Against Women and Girls agenda and associated activities.

In comparison with 2019/20, there was a reduction in positive investigative outcomes for all priority crime types, except for personal robbery. However, the month of March saw a considerable increase in the proportion of positive outcomes achieved, with all crime increasing to 13.6% and a programme of work is ongoing to drive continuous improvement in investigative quality.

Positive Investigation Outcomes			
Crime Type	2019/20	2021/22	Trend
All Crime	11.2%	10.3%	↓
Burglary - Residential	6.4%	5.9%	↓
Robbery of Personal Property	10.7%	11.1%	↑
Rape	8.5%	5.7%	↓
Other Sexual Offences	12.2%	10.2%	↓

Crime Recording

The Constabulary conducts reviews of incident data to ensure that all crimes reported are recorded in line with the Home Office Counting Rules (HOCR). These reviews apply the same methodology as the HMICFRS Crime Data Integrity Review and are broken down into 3 categories. A statistically representative sample of crimes are audited, and the proportion of crimes which were accurately recorded form a percentage reflecting compliance with HOCR for each category. These are then combined to give an overall crime recording rate for the force. Service recovery is completed on the missing crimes.

From the latest audits (in Q4 2021/22), crime recording for each category was 95-98% accurate. When combined, these reviews resulted in an overall crime recording rate of 95% compliance for all reported offences.

Call Demand and Performance

Efficient and Effective Policing					
Objective	Measure	12 months to Mar 2020	12 months to Mar 2022	% change	Trend
Contact Management service levels	999 calls answered within SLA (10 seconds)	84.7%	75.5%	-9.2%	↓
	% 101 calls abandoned	17.7%	21%	3.3%	↑
	% 999 calls abandoned	0.7%	0.8%	0.1%	➡

Emergency call volumes were consistently higher when compared with 2019/20 (pre-pandemic baseline). An additional 8,723 (+3.4%) 999 calls were answered. This had an impact of service levels, with a 9% reduction in the proportion of emergency calls answered within 10 seconds. The proportion of emergency calls abandoned remained within target (<1%) at 0.8%.

There was a reduction in 101 (non-emergency) calls. However, the introduction of online reporting created some *channel shift* for this demand with over 100,000 digital contacts received. A slight increase was observed in the proportion of 101 calls abandoned before being answered. However, the introduction of a switchboard has since reduced this considerably.

Financial Outlook

The Constabulary, in conjunction with the PCC, maintains a multi-year financial strategy to deliver efficient and effective financial management for the organisation. The provision of the three-year financial settlement in 2022/23 has assisted with medium term financial planning however recent economic conditions have increased the level of uncertainty for future cost pressure significantly.

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 Constabulary ‘Savings & Efficiency Plan’ which ensures the Force can 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 strategic financial planning and managing savings and reserve balances assists in mitigating any financial risk to the overall budget and that of the Chief Constable.

DFM balances of £3.325m were available to the Chief Constable at the end of 2021/22 and will be an early call to mitigate the risk around unbudgeted and unforeseen costs arising in 2022/23. The Constabulary recognise the uncertainty around cost pressures resulting from the 'cost of living crisis' and related inflationary impacts, and recognise the importance of acting in a flexible and agile manner regarding repurposing budgets where applicable and practical in-year. Beyond these tools and resources is the Reserves held by the PCC which are set aside to assist with managing financial risks and pressures.

The longer-term financial position is reviewed regularly based on best estimates of the likely level of cost pressures, grant income and council tax receipts. Based on this environment further savings of c£20.5m are currently forecast to be required for the period to 2024/25. This is a significant challenge for the PCC and the Constabulary and work is already underway to develop plans on how these can be achieved. The PCC and the Constabulary have a proven track record, as recognised by both HMIC and external audit reports, in their ability to identify and deliver financial savings and it is anticipated that this will continue. However, as the economic position becomes more difficult, it will be increasingly challenging to find savings on the scale required.

The level of funding and demand pressures for 2022/23 and future years remains uncertain.

Specific Risks include:

➤ ***Economic uncertainty***

Increased inflation is having a significant impact for financial planning. The costs of goods and services are increasing at a significant rate which in turn has a potential impact for increases in pay. These factors will put greater pressure on the budget in future years requiring further savings to be identified which may then impact upon the level of service provided in Lancashire.

➤ ***National 'Uplift' programme***

The government has provided funding for the national programme to deliver an additional 20,000 officers by March 2023. However, PCCs have alerted the government to the risk to the delivery of this programme caused by significant increases in costs such as pay and inflation on non-staff costs. If significant savings are required, it may affect the ability of forces to meet their respective uplift targets.

➤ ***Review of the Funding Formula***

The formula used to allocate grant to PCCs by the Home Office is considered redundant. A review of the formula is being undertaken by the Home Office and the impact for Lancashire is uncertain.

Any change to the formula could have a significant impact on the allocation that Lancashire receives (positive or negative) making effective financial management much more complex.

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

The emergency services communications network 'Airwave' programme has 'slipped' even further. There is a growing 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.

➤ ***Changing nature of Police demand***

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



Dan Rogers CPFA
Chief Constable's Chief
Finance Officer

29th July 2022

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 Chief Financial Officer.
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- approve the Statement of Accounts.

The Chief Constable will approve these accounts following completion of the audit.

The Chief Finance Officer's Responsibilities

The Chief Constable's Chief Finance Officer 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 Chief Finance Officer 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 Chief Finance Officer 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 2022 and for the year then ended.



DAN ROGERS CPFA
Chief Constable's Chief Finance Officer
29 July 2022

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.

2020/21 (re-stated)		2021/22		
		Gross Exp £000	Gross Inc £000	Net Exp £000
281,804	Centralised Pay Budgets	316,029	0	316,029
38,049	Director of Resources	46,892	0	46,892
8,750	ACC-Territorial Ops.	9,268	0	9,268
5,374	ACC-Specialist Ops.	5,339	0	5,339
6,382	ACC People	7,410	0	7,410
474	Deputy Chief Constable	390	0	390
38,210	Constabulary Non-Devolved budgets	41,562	0	41,562
(378,604)	Funding received by CC from PCC	(407,691)	0	(407,691)
438	Net Cost of Services	19,200	0	19,200
85,636	Net Interest on Defined Benefit Liability			96,369
86,074	Deficit on Provision of Services			115,569
559,134	Re-measurements of pension assets/liabilities			4,134
559,134	Other Comprehensive (Income) & Expenditure			4,134
645,208	Total Comprehensive (Income) & Expenditure			119,703

* The areas of responsibility covered by these budget holders changed from 1 September 2021. The revised responsibilities are listed below, and the 2020/21 analysis has been restated for comparability (see Note 4):

Director of Resources Data Protection Office, Estates, Fleet & Facilities Management, Finance, Procurement & Transactional Services, ICT, Legal

ACC-Territorial Ops. West, South, East, Specialist Operations, Contact Management, Corporate Communications

ACC-Crime. Local Investigations, Serious Crime

ACC-People HR & Payroll, Operations, Organisational Development

DCC Professional Standards, Corporate Development

CC Non-Devolved Includes collaboration, injury pensions, grant funded projects and other miscellaneous items

MOVEMENT IN RESERVES STATEMENT 2020/21 and 2021/22

This statement shows the movement in the 2020/21 and 2021/22 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
Balance at 31 March 2020		0	0	(3,793,618)	(5,345)	(3,798,963)	(3,798,963)
Movement in reserves during 2020/21:							
Total Comprehensive Income & (Expenditure)	8	(86,074)	(86,074)	(559,134)	0	(559,134)	(645,208)
Adjs between accounting basis & funding basis under regulations:		86,074	86,074	(83,309)	(2,766)	(86,074)	0
Balance at 31 March 2021		0	0	(4,436,061)	(8,111)	(4,444,172)	(4,444,172)
Movement in reserves during 2021/22:							
Total Comprehensive Income & (Expenditure)	8	(115,569)	(115,569)	(4,134)	0	(4,134)	(119,703)
Adjs between accounting basis & funding basis under regulations:		115,569	115,569	(114,731)	(838)	(115,569)	0
Balance at 31 March 2022		0	0	(4,554,926)	(8,949)	(4,563,875)	(4,563,875)

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-Mar-21		Notes	31-Mar-22
£000			£000
(25,003)	Short Term Creditors	12	(17,362)
(25,003)	Current Liabilities		(17,362)
(4,419,169)	Pensions Liability	15	(4,546,513)
(4,419,169)	Long Term Liabilities		(4,546,513)
(4,444,172)	Net Assets		(4,563,875)
4,436,061	Pensions Reserve	9	4,554,926
8,111	Accumulated Absences Reserve	9	8,949
4,444,172	Total Unusable Reserves		4,563,875

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.

2020/21		2021/22
£000		£000
86,074	Net deficit on the provision of services	115,569
(86,074)	Adjustments to net deficit on the provision of services for non-cash movements (Note 13)	(115,569)
0	Net Cash Flows from Operating Activities	0

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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.

2021/22

	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
Chief Constable:					
Centralised Pay Budgets	250,411	297	250,708	65,321	316,029
Director of Resources	26,980	19,912	46,892	0	46,892
ACC-Territorial Ops	8,435	833	9,268	0	9,268
ACC Specialist OPs	4,517	823	5,339	0	5,339
ACC People	6,021	1,390	7,410	0	7,410
Deputy Chief Constable	295	95	390	0	390
Constabulary Non-Devolved Budgets	15,829	71,854	87,683	(46,121)	41,562
Funding received from PCC	0	(407,691)	(407,691)	0	(407,691)
Net Cost of Services	312,488	(312,488)	0	19,200	19,200
Other Income and Expenditure	0	0	0	96,369	96,369
Deficit on provision of services	312,488	(312,488)	0	115,569	115,569
Opening General Fund Balance			0		
In-year deficit			0		
Closing General Fund Balance			0		

*Further details are shown in tables that follow

2020/21 (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
Chief Constable:					
Centralised Pay Budgets	236,838	308	237,145	44,658	281,804
Director of Resources	24,315	13,734	38,049	0	38,049
ACC-Territorial Ops	8,328	421	8,750	0	8,750
ACC Specialist OPs	4,279	1,095	5,374	0	5,374
ACC People	5,504	877	6,382	0	6,382
Deputy Chief Constable	572	(99)	474	0	474
Constabulary Non-Devolved Budgets	14,955	67,475	82,430	(44,220)	38,210
Funding received from PCC	0	(378,604)	(378,604)	0	(378,604)
Net Cost of Services	294,792	(294,792)	0	438	438
Other Income and Expenditure	0	0	0	85,636	85,636
Deficit on provision of services	294,792	(294,792)	0	86,074	86,074
Opening General Fund Balance			0		
In-year deficit			0		
Closing General Fund Balance			0		

*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.

2021/22

	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
Chief Constable:					
Centralised Pay Budgets	0	0	0	297	297
Director of Resources	318	418	3,458	15,717	19,912
ACC-Territorial Ops.	0	40	793	0	833
ACC - Crime	0	50	772	0	823
ACC People	0	(318)	1,708	0	1,390
Deputy Chief Constable	0	(5)	100	0	95
Constabulary Non-Devolved budgets	52,598	(2,673)	21,928	0	71,854
Funding received from the PCC	0	0	0	(407,691)	(407,691)
Net Cost of Services	52,916	(2,487)	28,760	(391,677)	(312,488)

CHIEF CONSTABLE OF LANCASHIRE CONSTABULARY 2021/22
NOTES TO THE ACCOUNTS

2020/21 Restated

	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
Chief Constable:					
Centralised Pay Budgets	0	0	0	308	308
Director of Resources	271	(380)	2,694	11,149	13,734
ACC-Territorial Ops.	0	(10)	431	0	421
ACC-Specialist Ops.	0	66	1,029	0	1,095
ACC PSU	0	0	877	0	877
Deputy Chief Constable	0	(240)	141	0	(99)
Constabulary Non-Devolved budgets	49,597	(5,091)	22,969	0	67,475
Funding received from the PCC	0	0	0	(378,604)	(378,604)
Net Cost of Services	49,867	(5,654)	28,142	(367,147)	(294,792)

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.

2020/21				2021/22		
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
42,152	2,506	44,658	Centralised Pay Budgets	64,553	768	65,321
(44,480)	260	(44,220)	Constabulary Non-Devolved budgets	(46,191)	70	(46,121)
(2,327)	2,766	438	Net Cost of Service	18,362	838	19,200
85,636	0	85,636	Other income and expenditure from Expenditure and Funding Analysis	96,369	0	96,369
83,309	2,766	86,074	Difference between General Fund deficit and CIES Deficit on Provision of Services	114,731	838	115,569

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:

	2020/21	2021/22
	Restated	
	£000	£000
Expenditure		
Employee expenses	320,441	358,213
Other service expenses	47,453	52,960
Charge for use of assets	11,149	15,717
Pensions interest cost	85,636	96,369
Total expenditure	464,678	523,260
Income		
Funding received from the PCC	(378,604)	(407,691)
Total Income	(378,604)	(407,691)
DEFICIT ON PROVISION OF SERVICES	86,074	115,569

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

Restructure

From 1 September 2021 the management reporting structure at the Constabulary changed and, therefore, 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 2020/21, in order to assist comparability, the accounts have been adjusted to reflect the changes as if they existed at that time. The changes made to the Comprehensive Income and Expenditure Statement do not impact Net Cost of Service, but impact individual lines as follows:

	Original Net Exp 2020/21	Re-stated Net Exp 2020/21	Adjustment
	£000	£000	£000
Impact on individual lines:			
Chief Constable:			
ACC Territorial Ops	13,554	8,750	-4,805
ACC Crime	4,949	5,374	+425
Deputy Chief Constable	1,504	474	-1,030
ACC PSU	0	6,382	+6,382
Director of Resources	41,015	40,445	-570
Centralised Pay	281,293	281,804	+511
Constabulary Non-Devolved	39,124	38,210	-913
Funding Received by CC from PCC	(380,999)	(380,999)	0
Impact on Net Cost of Service	438	438	0

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

Historical Revaluation Issue

While the issue identified as part of the 2020/21 audit regarding the accounting treatment of revaluations has a net nil effect on the net cost of services in order to maintain consistency with the PCC SOA and to aid comparability the revised figures above have been restated below:

Impact on individual lines:			
Chief Constable:			
Director of Resources	40,445	38,049	(2,395)
Funding Received by CC from PCC	(380,999)	(378,604)	2,395
Impact on Net Cost of Service	438	438	0

In order to maintain consistency and to aid comparison 2020-21 figures have been restated within the PCC Funding of the Chief Constable Note.

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 2022 but not yet adopted by the Code:

- IFRS 1 (First-time adoption) – amendment relates to foreign operations of acquired subsidiaries transitioning to IFRS
- IAS 37 (Onerous contracts) – clarifies the intention of the standard

- IAS 41 (Agriculture) – one of a small number of IFRSs that are only expected to apply to local authorities in limited circumstances.
- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16).

None of the above amendments are expected to have any material impact on the accounts of the PCC Group.

In addition to the above amendments a new standard IFRS 16 – Accounting treatment for Leases which was due to be introduced from 1st April 2020 but has now been deferred to 1st April 2023.

The aim of this standard is to increase visibility of lease commitments as well ensuring more consistent financial reporting of lease assets. Under the new standard most leases will now be classified as finance leases and will appear on the balance sheet.

The processing of collating information is well underway but at this stage the resulting changes to the primary statements has not yet been identified.

However, it is anticipated that there will be a nil impact on the CC's accounts as the current rental costs which appear in the CIES will be replaced by depreciation, MRP and interest charges at similar levels.

The position will be reviewed during 2022/23 and any amendments needed will be clearly shown in next year's Statement of Accounts.

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 202 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 £1,069m. However, the assumptions act in a complex way. During 2021/22, the CC's actuaries advised that the net pensions' liability had increased by £127m as a result of changes in financial assumptions. This included a increase of 0.6% in the discount rate of all the schemes, which increases the liability, along with 0.6% increases in assumptions for inflation, salary and pension increases which result in further increases.

Pensions Assets	The value of the assets of the LGPS are dependent on a professional judgement based on information available at the time of making the valuation. Market activity is being impacted in many sectors as a result of the COVID-19 pandemic. The effects of the global pandemic could have a material effect on these calculations but at this stage the effects cannot be quantified with any degree of certainty.	The total of property assets for the CC as outlined in Note 15 is £51.650m (including Property held within Investment Funds). There is a risk that this asset may be over / understated in the accounts.
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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 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 2022, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

NOTES TO THE MOVEMENT IN RESERVES STATEMENT

8. ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATION

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the 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.

	2020/21 £000	2021/22 £000
Adjustments to Revenue Resources		
Amounts by which income and expenditure included in the CIES are different from revenue for the year calculated in accordance with statutory requirements:		
• Pensions costs (transferred to (or from) the Pensions Reserve)	(83,309)	(114,731)
• Untaken leave and Time Off in Lieu (transferred to the Accumulated Absences Account)	(2,766)	(838)
Total Adjustments	(86,074)	(115,569)

9. Unusable Reserve

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.

	31-Mar-21 £000	31-Mar-22 £000
Pensions Reserve	(4,436,061)	(4,554,926)
Accumulated Absences Account	(8,111)	(8,949)
Total Unusable Reserves	(4,444,172)	(4,563,875)

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.

	31-Mar-21 £'000	31-Mar-22 £'000
Balance at 1 April	(3,793,618)	(4,436,060)
Re-measurements of the net defined benefit (liability)/ asset	(559,134)	(4,134)
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services	(182,232)	(218,588)
Employer's pensions contribution and direct payments to pensioners payable in the year	98,923	103,857
Balance at 31 March	(4,436,060)	(4,554,925)

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.

	31-Mar-21	31-Mar-22
	£'000	£'000
Balance at 1 April	(5,345)	(8,111)
Settlement or cancellation made at the end of the preceding year	5,345	8,111
Amounts accrued at the end of the current year	(8,111)	(8,949)
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	(2,766)	(838)
Balance at 31 March	(8,111)	(8,949)

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.

The remuneration paid to the senior officers of the Constabulary is as follows:

Senior Officers and Relevant Police Officers 2021-22

Post Holder Information (Post title only)	Note	Salary (including allowances) £	Bonus £	Expenses Allowances £	Compensation for loss of employment £	Benefits in Kind £	Total Remunerations exc Pensions Contributions £	Employers Pensions Contributions £	Total Remuneration £
Chief Constable - C Rowley		165,070					165,070	50,158	215,228
Deputy Chief Constable A	Note 1	68,440					68,440	18,148	86,588
Deputy Chief Constable B		9,757					9,757	2,974	12,731
Deputy Chief Constable C		71,812					71,812	22,262	94,074
Assistant Chief Constable - Specialist Operations D	Note 2	45,331		413			45,744	14,052	59,796
Assistant Chief Constable – Crime & Specialist Operations (Specialist Operations) E		70,302		774			71,076	21,628	92,704
Assistant Chief Constable - Territorial Operations F	Note 3	52,804		620			53,424	14,221	67,645
Assistant Chief Constable - Territorial Operations G		53,866		620			54,486	16,698	71,184
Assistant Chief Constable – People & Specialist Uniform Operations B	Note 4	108,160					108,160	32,969	141,129
Assistant Chief Constable - People & Specialist Uniform Operations H		9,053		103			9,156	2,806	11,962
Director of Resources	Note 5	128,322				3,437	131,759	17,358	149,117
Chief Operating Officer	Note 6	9,114					9,114	1,394	10,508
Deputy Senior National Co-ordinator	Note 7	125,480		10,500			135,980	0	135,980

CHIEF CONSTABLE OF LANCASHIRE CONSTABULARY 2021/22
NOTES TO THE ACCOUNTS

Note 1 - Post covered by three officers over the year. A - 1st April 2021 - 31st August 2021; B - 1st September - 25th September 2021 ; C- 29th September 2021 - 31st March 2022

Note 2 - Post covered by two officers on the year. D - 1st April 2021 - 15th August 2021; E - 16th August 2021 - 31st March 2022

Note 3 - Post covered by two officers over the year. F - 1st April 2021 - 30th September 2021; G - 1st October 21 - 31st March 2022

Note 4 - New post covered by two officers over the year B from 1st April 2021 - 31st August and 26th September 2021 - 31st March 2022; H -1st September 2021 - 30th September 2021.

Note 5 - Post covered from 1st April 2021 - 13th March 2022

Note 6 - New post covered from 28th February 2022 - 31st March 2022

Note 7 - Deputy Senior National coordinator is seconded to the Metropolitan Police Service. Remuneration costs £135,980 for the period 1st April 2021 to 31st March 2022 have been reimbursed by MPS.

CHIEF CONSTABLE OF LANCASHIRE CONSTABULARY 2021/22
NOTES TO THE ACCOUNTS

Senior Officers and Relevant Police Officers 2020-21

Post Holder Information (Post title only)	Note	Salary (including allowances) £	Bonus £	Expenses Allowances £	Benefits in Kind £	Total Remunerations exc Pensions Contributions £	Employers Pensions Contributions £	Total Remuneration £
Chief Constable - A Rhodes		171,415			0	171,415	52,261	223,676
Deputy Chief Constable		139,075			6,642	145,717	43,113	188,830
Assistant Chief Constable - Specialist Operations		121,344			7,197	128,541	28,153	156,694
Assistant Chief Constable - Territorial Operations & Contact Management		108,061			0	108,061	33,499	141,560
Director of Resources		118,009			3,701	121,710	18,055	139,765
Deputy Senior National Co-ordinator	Note 1	134,742				134,742	0	134,742

Note 1 - Deputy Senior National coordinator is seconded to the Metropolitan Police Service. Remuneration costs totalling £134,742 for the period 1/4/20 to 31/3/21 have been reimbursed by MPS.

The CC employed an estimated 5800 full time equivalents during 2021/22 (5600 in 2020/21). 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):-

	2020/21			2021/22		
	Police Officers	Police Staff	Total	Police Officers	Police Staff	Total
£110,000 - £114,999	0	0	0	1	0	1
£100,000 - £104,999	0	0	0	0	0	0
£95,000 - £99,999	2	0	2	0	0	0
£90,000 - £94,999	4	0	4	5	1	6
£85,000 - £89,999	8	0	8	10	0	10
£80,000 - £84,999	8	2	10	3	1	4
£75,000 - £79,999	5	2	7	4	3	7
£70,000 - £74,999	4	0	4	11	1	12
£65,000 - £69,999	10	2	12	12	3	15
£60,000 - £64,999	46	3	49	70	0	70
£55,000 - £59,999	152	4	156	180	8	188
£50,000 - £54,999	213	10	223	315	11	326
Total	452	23	475	611	28	639

NB Remuneration includes gross pay, before the deduction of employees' pension contributions, together with benefits declared to HM Customs & Excise on the form P11D and redundancy payments paid in the year. It does not include employers' pension contributions. Senior Officer 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:

	2020/21	2021/22
£115,000 - £119,999	0	0
£85,000 - £89,999	0	0
£80,000 - £84,999	0	0
£75,000 - £79,999	0	0
£70,000 - £74,999	0	0
£65,000 - £69,999	0	0
£60,000 - £64,999	0	0
£55,000 - £59,999	1	0
£50,000 - £54,999	0	0
Total	1	0

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:

2021/22:

Bandings	Number of Compulsory Redundancies	Number of Other Departures	Total cost of exit packages in each band
£0 - £20,000	0	6	£44,840
£20,001 - £40,000	1	0	£27,150
£40,001 - £60,000	1	0	£44,783
£60,001 - £100,000	0	0	£0
£100,001 - £150,000	0	0	£0
£150,001 - £300,000	0	0	£0
Total	2	6	£116,774

2020/21:

Bandings	Number of Compulsory Redundancies	Number of Other Departures	Total cost of exit packages in each band
£0 – £20,000	1	8	£79,380
£20,001 - £40,000	0	3	£82,508
£40,0001 - £60,000	2	0	£86,388
£60,001 - £100,000	1	1	£86,868
£100,001 - £150,000	0	1	£126,624
£250,001 - £300,000	0	0	£0
Total	4	13	£461,767

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:

2020/21 Restated £000		2021/22 £000
464,678	Provision of services deficit in CC CIES prior to PCC funding	523,260
(182,232)	Adjustment for net IAS19 pensions charges included in cost of service but funded by CC pensions reserve	(218,588)
98,923	Replace with actual employer contribution funded by PCC	103,857
(2,766)	Adjustment for movement in accumulated absence accrual funded by CC accumulated absence reserve	(838)
378,604	PCC funding for PCC resources consumed at the request of the CC	407,691
	Consisting of:	
11,149	Fair value adjustment for CC consumption of PCC property & equipment	15,717
367,455	Other resources	391,974
378,604	Total PCC resources consumed at the request of the CC	407,691

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

2020/21 Restated £000		2021/22 £000
1,176	Buildings	5,094
3,144	Vehicles, Plant and Equipment	9,720
6,829	Intangible Assets	903
11,149	Net Expenditure	15,717

12. Creditors

31-Mar-21 £000		31-Mar-22 £000
	Creditors comprise:	
4,949	Tax creditors	5,059
8,111	Other Entities and Individuals	
	Accumulated Absences	8,949
1,995	Other employment related	2,589
9,949	Intragroup Creditor	765
25,003	Total	17,362

Note:

The intragroup creditor includes the prepayment in 2020/21 of employer's contribution to the LGPS for Constabulary Staff by the PCC.

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

2020/21 £000		2021/22 £000
(761)	Net increase/(decrease) in revenue debtors	(8,479)
(2,005)	Net (increase)reduction in revenue creditors	7,641
(83,309)	Pension liability	(114,731)
(86,074)	Total	(115,569)

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:

2020/21 PCC Group Net Exp	Grant Income (PCC CIES)	2021/22 Expenditure (CC CIES)	PCC Group Net Exp
£000	£000	£000	£000
704 Regional Crime Unit	0	708	708
0 Regional Asset Recovery	0	0	0
50 Regional Intelligence Unit	(47)	97	51
509 Confidential Unit	(13)	524	511
525 Technical Surveillance unit	(52)	580	528
135 Prisoner Intelligence	(91)	226	135
15 Operational Security Officer	(16)	31	15
408 Operations 2	(5)	409	403
214 Operations 3	(218)	433	215
210 Business Support	(84)	834	750
2,771	(526)	3,842	3,316

The PCC is holding a specific earmarked reserve of £0.462m for the NWROCU pending a decision on it's use.

Lancashire also contributed £0.032m in 2021/22 (£0.037m in 2020/21) to the cost of a collaboration coordinator post within Merseyside.

The following joint operations have Cheshire as lead force:

2020/21 PCC Group Net Exp £000	Income (PCC CIES)	2021/22 Expenditure (CC CIES)	PCC Group Net Exp £000
£000	£000	£000	£000
152 Joint Underwater Search Unit	(13)	140	153
23 ANPR	0	8	8
73 Emergency Services Network	0	74	74
248	(13)	222	235

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 2021/22 UCLAN contributed to the following:

2020/21 Exp		2021/22 Exp
£000		£000
197	Rental of accommodation/facilities	125
400	Staff/student contact	400
51	Operating budget	31
648		556

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

In 2021/22 five north west forces entered into a Regional Drugs Facility (RDF), Regional Toxicology Facility (RTF) and Forensic Courier shared service. As the lead force for RDF, all expenditure and income is reflected within Lancashire's CIES. RDF cost in 2021/22 was £0.311m and in addition the PCC is holding a specific earmarked reserve of £0.085m on behalf of the five forces. Merseyside is the lead force for RTF and Courier. Lancashire made payments of £0.206m for RTF and £0.025m for Courier in 2021/22.

The only other significant arrangement is the payment made towards the National Police Air Service (NPAS) which was £1.008m in 2021/22 (£0.833m in 2020/21).

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 (Amendment) Regulations 2018
- 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

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/four years.

A full actuarial valuation has taken place in March 2022.

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 Local Pensions Partnership website at the link below:

www.lppapensions.co.uk

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 15.3% (16.3% reduced to 15.3% to offset surplus funds). The Chief Constable contribution for the next three years (including FY20/21) was made upfront at a cost of £25m. The upfront payments resulted in interest savings of £1.691m

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 2.8% (2.2% in 2020/21), 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 54.

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 (31% of pensionable pay from 1 April 2019). 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 2.8% (2.2% in 2020/21), 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 2022 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 2022 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 2021/22 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 – considering 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 reflects 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. However, the figures shown this year reflect the effect of a full revaluation of the Police Schemes this year.

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 Funding strategy statement. The most recent valuation was carried out as at 31 March 2019, which showed that the Fund's liabilities were covered by the fund's assets, equivalent of a funding level of 100%. The fund's employers are paying additional contributions over a period of between 13 and 16 years in order to meet any shortfall.

The weighted average duration of the PCC Group's defined benefit obligation is 21 years for staff employed by the CC and 18 years for staff employed by the PCC, measured on the actuarial assumptions used for IAS19 purposes.

Risks and Investment strategy:

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

Market Risk:

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

Other Price Risk:

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

Interest Rate Risk:

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

Currency risk:

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

Credit risk:

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

Liquidity risks:

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

Other risks:

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

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

Amendments, curtailments and settlements:

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

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

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

Police Pensions Schemes

Governance:

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

Funding the liabilities:

Given that the arrangements are unfunded, the contributions payable are simply those which are sufficient to meet the benefit outgo as and when it arises. As mentioned above, this benefit outgo is largely underwritten by central government. The weighted average duration of the liabilities is 20 years in respect of the 1987 scheme, 31 years in respect of the 2006 scheme and 41 years in respect of the 2015 scheme (injury awards have a duration of 24 years), measured on the actuarial assumptions used for IAS19 purposes. The PCC Group anticipates paying £94.8m contributions to the Police Schemes in 2022/23.

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

Background

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.

On 16 July 2020 consultation documents were published which contained the proposed remedy regarding the McCloud/Sargeant issue for all public sector pension schemes including the Police Pension Scheme.

On 4 Feb 2021 HM Treasury published their response to the consultation. This response confirmed: that the legacy schemes would be closed from 31 March 2022; a remedy would be introduced for the period 2015-2022 based on a deferred choice underpin basis; and, eligibility criteria for members to access the remedy.

On 19 July 2021 the [Public Service Pensions and Judicial Offices Act 2022](#) was taken to the House of Lords. It came into force from 1 April 2022.

The act closed the legacy schemes from 31 March 2022 and brings the retrospective remedy into force by 1 October 2023.

The Home Office is expected to bring forward consultation by January 2023.

The impact of McCloud has been factored into IAS19 liability estimate since 2018/19.

The introduction of the act has confirmed that the remedy methodology to be on a deferred choice basis to members (as opposed to an immediate choice).

As a result, there is no underlying change in method/approach to the IAS19 liability estimate. The IAS 19 liability estimate will therefore roll-forward the McCloud impact with a further 1 year of benefits recognised.

Legal Claims

Claimants have lodged claims for compensation under two active sets of litigation, Aarons and Pennington.

Aarons & Ors

The Government Legal Department settled the injury to feelings claims for Aarons on behalf of Chief Officers without seeking any financial contributions. Pecuniary loss claims are due to be heard by the Employment Tribunal in December 2022. The settlement of the injury to feelings claims for Aarons sets a helpful precedent.

Therefore no liability in respect of compensation claims is recognised in these accounts.

Penningtons

As at 31 March 2022, it is not possible to reliably estimate the extent or likelihood of these claims being successful, and therefore no liability in respect of compensation claims is recognised in these accounts.

Remedy

The PSPJOA 2022 legislates for how the government will remove the discrimination identified by the courts in the way that the 2015 reforms were introduced for some members.

The main elements of the Act are:

- Changes implemented across all the main public service pension schemes in response to the Court of Appeal judgment in the McCloud and Sargeant cases:
- Eligible members of the main unfunded pension schemes have a choice of the benefits they wish to take for the “remedy period” of April 2015 to 31 March 2022.
- From 1 April 2022, when the remedy period ends, all those in service in main unfunded schemes will be members of the reformed pension schemes, ensuring equal treatment from that point on.
- Ensures there are no reductions to member benefits as a result of the 2016 cost control valuations.

Impact on pension liability

The impact of an increase in scheme liabilities arising from McCloud/Sargeant judgement will be measured through the pension valuation process, which determines employer and employee contribution rates. The next Police Pension valuation is due to be reported in 2023/24, although this timetable is subject to change.

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 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 sufficient 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

Regarding the LGPS a similar adjustment to past service costs within the IAS19 Disclosure was made in 2018-19 for the McCloud judgment. 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.

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. The 26 October 2018 Lloyds Bank court judgement provided further clarity in this area but as yet Government policy in this area has yet to be determined.

There is therefore a possibility that all public sector schemes will be required to index-link GMP benefits in respect of those members who reach their State Pension Age after April 2021. Following discussions with our actuaries we included the additional indexation liabilities in the accounting figures for 2019/20.

However, in response to this judgment HM Treasury stated that “public sector schemes already have a method to equalise guaranteed minimum pension benefits, and as a result we have been advised by our actuary that it is not appropriate for any provision to be included for the effect of the Lloyds Bank judgment at the present time.

However, in due course there may be a further cost to the LGPS and its employers in connection with equalisation/indexation (see section below on post-retirement GMP increases for the approach specifically relating to indexation), when the Government confirms the overall approach which it wishes to adopt in this area following its consultation.

GMP equalisation – historic transfers: There is an additional consideration in respect of GMP equalisation. In December 2020 a further High Court ruling extended GMP equalisation costs to historic transfers, potentially creating a further liability for pension schemes.

Given the uncertainty around whether this applies to public sector schemes, which transfer would be in scope if it does, the difficulty in obtaining the necessary historic data and the low likelihood of a material impact for employers, it has been agreed with our actuary that no allowance has been made for this judgment.

Post-retirement increases on GMPs from April 2021: There is a possibility that all public sector schemes will be required to index-link GMP benefits in respect of those members who reach their State Pension Age (SPA) after April 2021. Government policy in this area is still to be determined – however a consultation was issued in October 2020 considering extending indexation to members reaching SPA beyond April 2021, as either an interim or permanent solution.

As figures supplied by our actuary already included an allowance for full GMP indexation for all members reaching SPA after 2021 no further adjustment was made.

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 Scheme		Injury Awards		Total	
	2020/21 £000	2021/22 £000	2020/21 £000	2021/22 £000	2020/21 £000	2021/22 £000	2020/21 £000	2021/22 £000
Comprehensive Income and Expenditure Statement (CIES)								
Cost of Services:								
Service Cost comprising:								
· Current service cost	20,341	26,189	70,882	89,281	4,569	6,260	95,792	121,730
· Past service/Curtailment costs	423	88	0	0	0	0	423	88
· Admin. Expenses	381	401	0	0	0	0	381	401
Financing and Investment Income and Expenditure:								
· Net Interest expense	2,734	4,278	77,876	86,254	5,026	5,837	85,636	96,369
Total Post-Employment Benefits Charged to the surplus/deficit on Provision of Services in the CIES	23,879	30,956	148,758	175,535	9,595	12,097	182,232	218,588
Other Post Employment Benefit charged to the Comprehensive Income and Expenditure Statement:								
Re-measurement of the net defined benefit liability, comprising:								
· Re-measurements (assets)	(35,402)	(53,366)	0	0	0	0	(35,402)	(53,366)
· Experience (gains)/losses on Liabilities	(10,304)	1,639	(35,846)	114,573	(1,200)	(3,178)	(47,350)	113,034
· Actuarial (gains)/losses arising on changes in demographic assumptions	0	(5,109)	0	(33,304)	0	(3,137)	0	(41,550)
· Actuarial (gains)/losses arising on changes in financial assumptions	89,119	(13,984)	510,999	0	41,768	0	641,886	(13,984)
Total Post-Employment Benefits Charged to the Comprehensive Income and Expenditure Statement	43,413	(70,820)	475,153	81,269	40,568	(6,315)	559,134	4,134
Movement in Reserves Statement								
Reversal of net charges made to the (Surplus)/Deficit on the Provision of Services for post-employment benefits in accordance with the Code	(23,879)	(30,956)	(148,758)	(175,535)	(9,595)	(12,097)	(182,232)	(218,588)
Actual amount charged against the General Fund Balance for pensions in the year:								
· Employers' contributions payable to scheme	8,589	8,719	86,937	91,790	0	0	95,526	100,509
· Retirement benefits paid to pensioners	0	0	0	0	3,397	3,348	3,397	3,348

Pensions Assets and Liabilities Recognised in the Balance Sheet

	Local Govt Pension Scheme		Police Pension Schemes		Injury Awards		Total	
	31-Mar-21 £000	31-Mar-22 £000	31-Mar-21 £000	31-Mar-22 £000	31-Mar-21 £000	31-Mar-22 £000	31-Mar-21 £000	31-Mar-22 £000
Present value of the defined benefit obligation	621,578	646,677	3,966,190	4,131,204	266,991	269,424	4,854,758	5,047,305
Fair value of plan assets	(435,589)	(500,792)	0	0	0	0	(435,589)	(500,792)
Net liability arising from defined benefit obligation	185,989	145,885	3,966,190	4,131,204	266,991	269,424	4,419,170	4,546,513

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 £4,546,513 has a considerable impact on the net worth of the CC as recorded in the balance sheets, resulting in a net liability of £4,456,875m (including £8.949m 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:

Funded Scheme –Local Govt Pension Scheme	2020/21	2021/22	
	£000	£000	
	01-Apr	533,228	621,578
Current Service Costs	20,341	26,189	
Interest on pensions liabilities	12,191	13,979	
Contributions by scheme participants	4,039	4,261	
Actuarial gains –changes in demographic assumptions	0	(5,109)	
Actuarial (gains)/losses –changes in financial assumptions	89,119	(13,984)	
Experience gains on liabilities	(10,304)	1,639	
Benefits paid	(10,567)	(10,443)	
Prepaid Employers Contributions	(16,892)	(8,414)	
Past Service/Curtailment Costs	423	88	
	31-Mar	621,578	629,784

Unfunded Liabilities	Police Pension Schemes		Injury Benefits		
	2020/21	2021/22	2020/21	2021/22	
	£000	£000	£000	£000	
	01-Apr	3,429,215	3,966,189	220,225	266,991
Current Service Costs	70,882	89,281	4,569	6,260	
Past service costs	0	0	0	0	
Interest on pensions liabilities	77,876	86,254	5,026	5,837	
Contributions by scheme participants	15,366	16,245	0	0	
Experience gains/(losses) on liabilities	(35,846)	114,573	(1,200)	(3,178)	
Actuarial (gains)/losses –changes in financial assumptions	0	(33,304)	0	(3,137)	
Actuarial gains –changes in demographic assumptions	510,999	0	41,768	0	
Benefits paid	(102,303)	(108,035)	(3,397)	(3,348)	
	31-Mar	3,966,189	4,131,204	266,991	269,424

Reconciliation of the fair value of the scheme assets:

Funded Scheme –Local Govt Pension Scheme		2020/21	2021/22
		£000	£000
	01-Apr	389,048	435,589
Interest on plan assets		9,457	9,701
Admin Expenses		(381)	(401)
Employer Contributions		8,591	8,720
Contributions by scheme participants		4,039	4,261
Re-measurements (assets)		35,402	53,366
Benefits paid		(10,567)	(10,443)
	31-Mar	435,589	500,792

Unfunded Schemes		Police Pension Schemes		Injury Benefits	
		2020/21	2021/22	2020/21	2021/22
		£000	£000	£000	£000
	01-Apr				
Employer Contributions		86,937	91,790	3,397	3,348
Contributions by scheme participants		15,366	16,245	0	0
Benefits paid		(102,303)	(108,035)	(3,397)	(3,348)
	31-Mar	0	0	0	0

Local Government Pension Scheme assets comprised:

	Fair Value Input Level (if relevant)	31-Mar-21 £000	31-Mar-22 £000
Cash and Cash Equivalents		9,620	12,604
Equities		0	596
Bonds			
<u>By Sector</u>			
Corporate	1 / 2.	0	3,904
UK index-linked	3	0	0
Sub-Total Bonds		0	3,904
Property			
<u>By Type</u>			
Retail	2	0	0
Commercial	2	7,463	7,996
Sub-Total Property		7,463	7,996
Private Equity			
Overseas	3	34,948	30,183
Sub-Total Private Equity		34,948	30,183
Other Investment Funds			
Overseas Pooled Equity	1	199,547	240,122
UK Pooled Equity	1	4,454	4,714
UK Private Equity	1	0	11,073
Pooled Fixed Income	1	54,572	21,768
Credit Funds	3	14,520	67,004
Infrastructure	3	58,228	57,033
Property	3	52,238	43,654
Sub-Total Other Investment Funds		383,559	445,368
TOTAL ASSETS		435,590	500,651

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.

The valuation of directly held properties is carried out by independent valuers, Avison Young on an individual property basis rather than as a portfolio, by qualified surveyors and in accordance with the RICS Professional Standards, Global and UK, RICS Valuation – Professional Standards – 2017.

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.

Indirect properties are valued at the current open market value as defined by the RICS Appraisal and Valuation Standards. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.

Property Funds

The properties were valued at open market value at 31 March 2022 by independent property valuers Avison Young in accordance with the Royal Institute of Chartered Surveyors' Valuation Global Standards 2017 (the Red Book).

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:

Local Government Pension Scheme	2020/21	2021/22
Mortality assumptions:		
Longevity at 65 for current pensioners (LGPS):		
Men	22.4	22.3
Women	25.1	25
Longevity at 65 for future pensioners (LGPS):		
Men	23.9	23.7
Women	26.9	26.8
Rate of inflation: CPI	2.70%	3.20%
Rate of increase in salaries	4.20%	4.70%
Rate of increase in pensions	2.80%	3.30%
Rate for discounting scheme liabilities	2.20%	2.80%

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	Police Officers 1987 Scheme		Police Officers 2006 Scheme		Police Officers 2015 Scheme		Injury Awards	
	2020/21	2021/22	2020/21	2021/22	2020/21	2021/22	2020/21	2021/22
Longevity at 60 for current pensioners:								
Men	27.1	26.9	27.1	26.9	27.1	26.9	24.5	24.3
Women	29.2	29.1	29.2	29.1	29.2	29.1	26.5	26.5
Longevity at 60 for future pensioners:								
Men	29.3	29.2	29.3	29.2	29.3	29.2	26.7	26.5
Women	31.4	31.3	31.4	31.3	31.4	31.3	28.7	28.6
Rate of inflation: CPI	2.70%	3.30%	2.70%	3.30%	2.70%	3.30%	2.70%	3.30%
Rate of increase in salaries	4.20%	4.80%	4.20%	4.80%	n/a	n/a	4.20%	4.80%
Rate of increase in pensions	2.80%	3.40%	2.80%	3.40%	2.80%	3.40%	2.80%	3.40%
Rate of revaluation of CARE pensions	n/a	n/a	n/a	n/a	3.95%	4.55%	n/a	n/a
Rate for discounting scheme liabilities	2.20%	2.80%	2.20%	2.80%	2.20%	2.80%	2.20%	2.80%

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)	19,204	(19,204)
Rate of inflation (increase or decrease by 1%)	139,850	(139,850)
Rate for discounting scheme liabilities (increase or decrease by 1%)	(136,930)	136,930
Rate of increase in salaries (increase or decrease by 1%)	18,410	(18,410)
Rate of change in 2021/22 investment returns (increase or decrease by 1%)	(5,060)	5,060

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)	129,459	(129,459)	8,305	(8,305)
Rate of inflation (increase or decrease by 1%)	886,280	(886,280)	66,860	(66,860)
Rate for discounting scheme liabilities (increase or decrease by 1%)	(866,740)	866,740	(65,240)	65,240
Rate of increase in salaries (increase or decrease by 1%)	143,730	(143,730)	37,070	(37,070)

16. Expenditure on Publicity

The CC's CIES includes £1.204m (£0.971m in 2020/21) 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:

	2020/21 £000	2021/22 £000
Publicity	926	1,138
Advertising – Recruitment	43	0
Advertising - Other	2	65
Total Costs	971	1,204

17. External Audit Costs

In 2021/22 the following fees are included in the CC's CIES relating to external audit.

	2020/21 £000	2021/22 £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.	23	22
Total Costs	23	22

Included in the above figures are £2.6k in 2020/21 for additional work undertaken in 2019/20 in relation to the impact of COVID and £7.4k in 2021/22 for additional monies allocated in response to the Redmond Review.

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.

OTHER SIGNIFICANT ACCOUNTING POLICIES

i. General

The Statement of Accounts summarises the CC's transactions for the 2021/22 financial year and the position at the year-end 31 March 2022. 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.

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	2020/21				2021/22			
		1987 scheme £000	2006 scheme £000	2015 scheme £000	Total £000	1987 scheme £000	2006 scheme £000	2015 scheme £000	Total £000
Contributions receivable									
Employer contributions	3	(3,974)	(274)	(31,371)	(35,618)	(1,886)	(174)	(35,619)	(37,679)
Early Retirements		(1,176)	(332)	(157)	(1,665)	(1,410)	0	(106)	(1,516)
		(5,150)	(606)	(31,528)	(37,283)	(3,296)	(174)	(35,725)	(39,195)
Officer Contributions		(1,835)	(106)	(13,425)	(15,367)	(876)	(68)	(15,301)	(16,244)
Total Contributions Receivable		(6,985)	(712)	(44,953)	(52,650)	(4,172)	(241)	(51,026)	(55,439)
Transfers In		0	0	(695)	(695)	(100)	0	(870)	(970)
Benefits Payable									
Pensions		84,616	60	772	85,448	86,325	88	902	87,314
Commutations and lump sum retirement benefits		17,190	159	152	17,502	21,113	83	164	21,360
Lump sum death benefits		0	0	0	0	36	0	129	165
Total Benefits Payable		101,806	219	925	102,950	107,474	170	1,194	108,838
Payments on Account of Leavers									
Transfer values out		0	0	16	16	81	0	7	88
Refund of contributions		0	0	33	33	0	8	70	77
Total Payments on Account of Leavers		0	0	49	49	81	8	77	166
Net amount payable/(receivable) for the year contribution from Police Fund		94,821	(493)	(44,674)	49,654	103,282	(63)	(50,625)	52,595
Contribution from the Police Fund not met by Home Office grant	2	0	0	0	0	0	0	0	0
Additional contribution from the Police Fund met by Home Office grant		(94,821)	493	44,674	(49,654)	(103,282)	63	50,625	(52,595)
Net amount payable/(receivable)		0	0	0	0	0	0	0	0

NET ASSET STATEMENT

NOTES TO THE FINANCIAL STATEMENT

31-Mar-21 £000		31-Mar-22 £000
(1,696)	Unpaid pensions benefits	(1,607)
0	Payment in Advance	0
1,696	Amounts owed from/(to) PCC's General Fund	1,607
0	Net Assets	0

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 2021/22. It summarises 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 considered 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 68.

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, in 2021/22 is financed in full by top-up grant from the Home Office.

2. Actuarial Valuation

From 1 April 2019 the actuarial valuation changed the employer contribution rate from 21.3% to 31.0%. This additional contribution is met by the additional funding received for Police Pension Costs.

3. **Accounting policies**

General

The financial statements have been prepared on an accrual's 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 2021/22 was set at 31% (20/21 was 31%).

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 2022. 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.



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CHIEF CONSTABLE OF LANCASHIRE CONSTABULARY 2021/22
AUDITOR'S REPORT AND OPINION

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CHIEF CONSTABLE OF LANCASHIRE CONSTABULARY 2021/22
AUDITOR'S REPORT AND OPINION

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Lancashire Constabulary Draft Annual Governance Statement 2021-22



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.

The Policing Protocol Order 2011 requires both the PCC and Chief Constable to abide by the seven principles of personal conduct set out in 'Standards in Public Life: First Report of the Committee on Standards in Public Life' (commonly known as the 'Nolan Principles'), i.e. 'Selflessness', 'Integrity', 'Objectivity', 'Accountability', 'Openness', 'Honesty' and 'Leadership'. The Nolan Principles are incorporated into both the PCC's Code of Conduct and the College of Policing 'Code of Ethics'.

A copy of the code of corporate governance can be viewed at:

<https://www.lancashire-pcc.gov.uk/transparency/governance-documents/>

This Annual Governance Statement explains how the Chief Constable has complied with the Code of Governance and the requirements of Regulation 6 of the Accounts and Audit Regulations 2015 to conduct a review of the effectiveness of the system of internal control.

A joint Constabulary and OPCC 'Scheme of Consent/Delegation' 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.

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.

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.

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 through the launch of the Lancashire talking programme. This information is also included as part of the wider priority setting process for the Force.

In support of the Prevention priority the 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 PEEL Inspection for 2019 rated Lancashire as 'outstanding' for Efficiency in its understanding of demand and planning for the future, ensuring financial plans and workforce plans are clearly aligned and managed effectively.

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 Board. There are 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. Lancashire Constabulary has recently received its PEEL inspection, the results of which are due to be published in September. 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. Prior to any submission to the Chief Officer Team for decision, a triage process is in place to ensure the relevant stakeholder consultation has taken place with financial oversight where necessary.

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 Chief Operating Officer, where amounts exceed approved responsibility limits. Devolved budgets are routinely monitored and reported upon to ensure financial efficacy, and the Chief Financial Officer provides regular updates on the financial position and scenarios for budget planning. In addition, the Chief Constable makes decisions and raises issues in his own right, governed by a similar robust process.

The Constabulary's change programme is overseen by the Strategic Change Board, chaired by the Deputy Chief Constable. This is supported by a Tactical Change Board, both of which consider 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 Accountability Board for approval by the PCC. In addition, to strengthen the transparency of decision making, those items approved by the Constabulary's Chief Operating Officer/Chief Finance Officer, 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.

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. The Workforce Capabilities Board provides the governance over the future proofing of the workforce and the Strategic Resourcing Board to ensure effective recruitment and training is in place. This is particularly pertinent given the government's uplift programme of Police Officers.

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. Sherlock provides an internal platform to share information with staff, news items and ideas for improvement.

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 the relevant boards with final accountability at Chief Officer Team level. Decisions to remove or include additional corporate risks are made by Chief Officers.

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.

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 Victim Focused Review Board, HMIC Governance Board and the bi-monthly Strategic Change Board. The PCC formally holds the Chief Constable to account on the force's service delivery at the Strategic Accountability meeting held on a quarterly basis. A record of the Strategic Accountability meeting is published on the OPCC website.

The PCC also meets regularly with the Chief Officers and BCU Commanders 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 structure 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 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 formally approved by the PCC and Chief Constable in Autumn 2022.

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.

In his annual report for 2021/22 the Head of Internal Audit stated that "the Joint Audit and Ethics Committee can take moderate assurance that Lancashire Constabulary and the Office of the PCC operates a generally sound system of risk management, governance and internal control".

Moderate assurance is defined as *"the framework of control is adequately designed and/ or effectively operated overall, but some action is required to enhance aspects of it and/ or ensure that it is effectively operated throughout the service, system or process."*

The Chief Constable has been assured that all of the actions identified as required by the internal audit review has been implemented or are to be implemented shortly.

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 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 2021/22 is both satisfactory and effective.

Ensuring Effective Governance of Organisation Risks.

Area for action identified for 2021/22

1. Financial Pressures

The second year of the national 'uplift' programme has been delivered and whilst the government has provided funding for the additional officers employed in Lancashire significant cost pressures have been faced by the organisation. The ongoing business planning process has ensured that the cost pressures faced have been managed effectively within the resources available.

The impact of Covid 19 has also impacted upon the financial position but through tight management control it has been ensured the funding from government has met almost all of the cost pressures that have arisen during the year.

Strong financial control through the monitoring process has continued and this has been recognised with an 'outstanding' rating from HMICFRS for use of resources.

2. Impact of COVID

The operational impact of the Covid pandemic has been managed by the Chief Constable and senior officer team ensuring the specific requirements to deal with Covid issues have been met whilst, at the same time, continuing to provide 'normal' policing services without significant impact.

3. Demand pressures

In addition to dealing with Covid 19 pandemic requirements the type of demand faced by the Constabulary continues to change with significant increases in Child Sexual Exploitation, Domestic Violence and Serious and Organised Crime. In addition, the pressure on the service due to individuals with mental health conditions continues to increase.

The operational redesign implemented during the year enables the constabulary to meet these demands and provide local policing that is more visible and increasingly effective in meeting such demand.

Areas for Action in 2022/23

1. Financial Pressures

The government delivered a three-year Financial Settlement for the period 2022/23 to 2024/25 which provides greater certainty for effective financial management it is also clear that the current economic situation will increase financial uncertainty significantly.

A commitment to continue to deliver the 'uplift' programme for 20,000 additional officers by March 2023 is in place but the additional cost pressures from high inflation and potential pay awards may have a financial an organisational impact as a result of this programme.

This uncertainty has an impact for the budgetary and financial planning process.

Action to address: The PCC and Constabulary have a well-established financial /business planning process, which will reflect the uncertainty for funding and develop a number of saving proposals to meet any pressure that the funding allocation might produce. This process includes the on-going review and maintenance of the Medium-Term Financial Plan that informs the budget setting process each year.

2. Demand pressures

The demands placed upon the policing service continue to change beyond the impact of COVID. The type of crime being dealt with is increasingly complex and resource intensive and the amount of these types of crime is rising significantly.

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

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

Significant governance issues

It should be noted that significant operational issues facing the organisation are not necessarily a result of weaknesses within the internal control and governance framework.

There were no significant actual or potential governance issues identified in respect of the 2020/21-year AGS which were due to be monitored during 2021/22.

There are currently no significant actual or potential governance issues identified in respect of 2021/22 'business as usual' activities.

In any event the governance arrangements of the Chief Constable will remain under review at least annually over forthcoming financial years.

Signed:

Chief Constable
Chris Rowley
Date: 29 July 2022

Chief Finance Officer
Dan Rogers
Date: 29 July 2022

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.

Curtailment 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.