NOT PROTECTIVELY MARKED – for public release **Agenda Item No. 13**

JOINT INDEPENDENT AUDIT COMMITTEE
24th January 2018

SUBJECT	**REVIEW OF ACCOUNTING POLICIES**
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SUMMARY AND PURPOSE OF REPORT
To update the Committee on the 2017/18 accounting policies, propose the methodology for the preparation of the draft statements and describe the statutory environment for 2017/18.

1. RECOMMENDATION	That the Committee: 1. Review and note the accounting policies for 2017/18 attached at appendix 1 and 2 2. Note the proposed accounting timetable for the delivery of the 2017/18 accounts outlined in section 3. 3. Note the updates on the statutory environment and assumptions as described in section 4.

A. SUPPORTING INFORMATION

1. Introduction

1.1 Accounting policies are required for the accounts of the PCC group, the PCC and the Chief Constable. These policies describe the accounting practices used to produce the respective statements of accounts. They are included as the first note to the financial statements for the Group, the PCC and the Chief Constable accounts.

1.2 As the PCC Group accounts contain most of the transactions relating to assets and liabilities, many policies referred to below mainly relate to that set of accounts and are not applicable, and therefore excluded, from the Chief Constable accounts.

1.3 This report details changes to policies, the key dates to delivering the year end timetable and updates on the statutory environment and assumptions.

2. Changes to Policies

2.1. The proposed set of accounting policies for the PCC Group and Chief Constable are attached at Appendices 1 and 2 respectively. The following points are for noting:

MRP

2.2. The Code requires that MRP is calculated based on the asset life. The asset lives of the assets have been reviewed and MRP calculations for 2016/17 onwards.

Fair Value Measurement

2.3 This policy was added to our accounting policies in 2016/17 following audit advice regarding investment properties; this may be removed once the investment properties have been reclassified and valued by Bruton Knowles as part of the desk top review. The only investment properties were the radio masts, which do retain a small element of operational use hence the correct classification is Property, Plant & Equipment.

3. Methodology

Schedule for production of draft accounts

3.1. A detailed timetable for the production of draft accounts is produced and agreed with audit in early January. The following dates are the key deadlines:

- Interim audit agreed to start w/c 26 February 2018
- 25 May 2018 – JIAC review draft accounts for PCC Group, PCC and Chief Constable
- 4 June 2018 – Publication of draft accounts for public inspection
- 4 June 2018 – Year-end audit of the financial statements
- 10 July 2018 – agreement of audit adjustments and revision of the accounts
- 25 July 2018 – JIAC review final accounts

3.2. In order to facilitate the continuing earlier production of the year-end accounts and to address issues that occurred in 2016/17, a number of changes to the production of the accounts have been agreed for 2017/18:

Hard close of the 10 month accounts

3.3. There is more focus on the month end each month to ensure that the management accounts are as comprehensive as possible. Some transactions however are only carried out at year end and it is envisaged that to achieve early closedown a full year end close, where appropriate and possible, will be carried out for January 2018.

Early Close and use of estimated figures

3.4. It is proposed to close the accounts as early as possible in April to allow time for the preparation of the statements and notes. In order to achieve this we propose a materiality limit of £50,000 below which we would not adjust for. A schedule of adjusting transactions will be kept to monitor the level of changes not adjusted for. The introduction of the new purchasing process should minimise the need for late accruals.

Regional accounting arrangements

3.5. The figures provided for Lincolnshire PCC's share of the regional operations are incorporated into the financial statements. The completion and production of these figures are outside of the PCC's control and as such can cause delays in the consolidation process for the accounts. It is intended that the initial draft accounts will include the regional figures. These will be based on the 11 month position plus estimates for month 12, enabling earlier reporting and agreement of the regional finances. This approach will be agreed and documented with all the appropriate Heads of Finance.

4. Updates on the Statutory Environment and Assumptions

Materiality threshold for Lincolnshire PCC and Chief Constable

4.1. Financial statements present a true and fair view. Items which are not material do not require disclosure in the financial statements.

The de minimis levels remain unchanged however they are included below for review:

Policy Area	De minimis	Rationale
Yearend accruals	£5,000	Budget holders can identify accruals to any level they wish but this de minimis allows them to focus on items that could materially affect individual budgets if they wish.
Inventory	£5,000	The de minimis limits the time consuming counting of low volume stock which won't be material to the financial statements if charged to revenue. Most stock relates to diesel, vehicle parts and stores balances.
Capitalisation of Property, Plant and Equipment	£10,000	Assets which meet the £10k de minimis level and also meet the other capitalisation criteria will be treated as capital. The PCC retains the discretion to consider capitalisation of other expenditure on a case by case basis, in particular where equipment with a life of more than a year is purchased in bulk as part of a specific programme.
Componentisation of Property, Plant and Equipment	£500,000	As a result of the full revaluation in 2016/17, material components of property have been separately valued and recognised in the asset register. For all new assets, material components are recorded separately in the asset register on initial capitalisation.
Contingent liabilities	£100,000	This allows the Group to identify any potential liabilities that will likely be material to the future financial position.

4.2. The external auditor will have its own materiality level for the purposes of its audit, to both direct its audit approach and when considering whether or not to report on audit adjustments identified. It is likely that the PCC and Force's materiality will be lower than the auditors.

4.3. It is considered that the PCC Group, the PCC and Chief Constable should not adopt a specific materiality figure in the preparation of its accounts but considers each area based on the nature of the transaction or disclosure in question. This will help inform internal considerations about the application of policies and accounting standards where doing so will not misrepresent the Group's position.

Assumptions used in the IAS19 pension disclosure

4.4. IAS19 - Employee Benefits is one of the financial reporting standards that the PCC and Chief Constable must comply with when producing the Annual Accounts. IAS19's basic requirement is that an organisation should account for retirement benefits when they are committed, irrespective of when they are paid.

4.5. To calculate the cost of earned benefits for inclusion in the accounts, the scheme actuary, Hymans Robertson, uses certain assumptions to reflect expected future events which may affect those costs. The assumptions provide the best estimate of the future cash flows that will arise under the scheme liabilities. Any assumptions that are affected by economic conditions should reflect market expectations at the balance sheet date.

4.6. Given the material nature of the Group's net pension liability on the Balance Sheet it is important that the PCC group is supportive of the assumptions being made by the actuary in their calculations. This year's net position will be affected by the assumptions used, but does not immediately change ongoing revenue costs as their effect is reversed out of the accounts.

4.7. The calculated costs and the underlying assumptions, based upon the advice of the actuary and the administering authority (Lincolnshire County Council for the LGPS) will be used in preparing the PCC group's 2017/18 Accounts. The value of the Pension Funds' assets and liabilities are heavily dependent on the underpinning assumptions. The employer is ultimately responsible for the assumptions used.

4.8. The assumptions for 2017/18 have not yet been released for either the LGPS or the Police Pension; they will be released early in 2018 and provided to the Committee at the meeting subsequent to their receipt.

4.9. Other demographic assumptions are used, e.g. rates of withdrawal from the scheme, number of ill-health early retirements, etc. These assumptions are based on past experience. .

4.10. There are no direct financial implications as a result of this report, as it sets out the input factors that the actuary uses to calculate the pension position for the PCC and the Chief Constable under IAS 19, showing the estimated net value of the group's portion of the pension fund (assets less liabilities). Changes in assumptions will affect the net position, but this has a nil overall change in the resources available to the PCC on the Balance Sheet, and any changes to the income and expenditure statement are reversed through statutory accounting entries. .

4.11. If the employer wishes to use different financial assumptions the actuary would impose additional fees.

B. FINANCIAL CONSIDERATIONS

Included within the report.

C. LEGAL AND HUMAN RIGHTS CONSIDERATIONS

The Police and Crime Commissioner and Chief Constable are required to produce accounts in accordance with, and as required by, the Accounts and Audit Regulations 2011, the Code of Practice on Local Authority Accounting 2016/17 and also the Service Reporting Code of Practice (SeRCOP), which has been revised for 2016/17.

D. PERSONNEL, EQUAL OPPORTUNITIES AND DIVERSITY ISSUES (including any impact or issues relating to Children and Young People.)

None directly identified.

E. REVIEW ARRANGEMENTS

The accounting policies will be reviewed and updated before the publication of the draft 2016/17 accounts. The committee will be made aware of any changes to policies as part of the review of draft and final accounts at future committee meetings.

F. RISK MANAGEMENT

Risks associated with the production of the Statutory Accounts are included as required on Departmental risk Registers.

G. PUBLIC ACCESS TO INFORMATION

Information in this report, along with any supporting material, is subject to the Freedom of Information Act 2000 and other legislation.

Appendix 1

Police and Crime Commissioner for Lincolnshire

Notes to the Accounts

The notes below provide additional explanation or support for the information contained within the main financial statements for the PCC Group and PCC (Movement in Reserves Statement, Comprehensive Income and Expenditure Statement, Balance Sheet and Cash Flow Statement). Where the balances and transactions explained are the same between the PCC Group and PCC the note will only provide one explanation, where there are differences between the PCC Group and PCC balances, the notes will outline both in the required detail.

Values are rounded to nearest £1,000 unless specified otherwise. Please note some slight rounding differences may occur.

1. Accounting Policies

1.1 General Principles

The Statement of Accounts summarises the PCC's transactions for the 2017/18 financial year and its position at the year end of 31 March 2018. The PCC is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2015 which require the statements to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, supported by International Financial Reporting Standards.

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

All accounting policies that are material to the production of the accounts are described in this section.

1.2 Prior period adjustments, Changes in Accounting Policies and Estimate and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the PCC's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

1.3 Accruals of Income and Expenditure

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

- Revenue from the sale of goods is recognised when the PCC transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the PCC;
- Revenue from the provision of services is recognised when the PCC can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the PCC;
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet;
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made;
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract;
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

1.4 Non-Current Assets – Property, Plant and Equipment

Property, plant and equipment are tangible items that are:

- Held for operational use, for rental to others, or for administrative purposes; and
- Expected to be used during more than one period.

1.4.1 **Classification**

Property, plant and equipment is classified under the following headings in the PCC's balance sheet:

Operational Assets:

- Land and Buildings;
- Vehicles, Plant, Furniture and Equipment;

Non-Operational Assets:

- Surplus Assets; and
- Assets Under Construction.

1.4.2 **Initial Recognition**

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

- The purchase price
- Costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management
- The initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

The authority does not capitalise borrowing costs incurred whilst assets are under construction.
The cost of assets acquired other than by purchase is deemed to be its fair value, unless the acquisition does not have commercial substance (i.e. it will not lead to a variation in the cash flows of the authority). In the latter case, where an asset is acquired via an exchange, the cost of the acquisition is the carrying amount of the asset given up by the authority.

1.4.3 **De Minimis Level**

The PCC has a £10k de minimis level for recognising property, plant and equipment. This means that any item or scheme which meets the above criteria which is greater than £10k will be treated as capital. Items below £10k may also be considered for capital expenditure on a case by case basis. This relates to initial recognition and subsequent expenditure on assets.

1.4.4 **Subsequent Expenditure**

Where subsequent expenditure enhances an asset beyond its original specification, the directly attributable cost is added to the asset's carrying value. Where subsequent expenditure is simply restoring the asset to the specification assumed by its economic useful life then the expenditure is charged to operating expenses. Where considered appropriate, the cost of the replacement is capitalised if it meets the criteria for recognition above.

Where material the carrying value of the component replaced is de-recognised. Where the value is not known the value of the enhancement is used as a proxy. Indexation is used to deduce historic cost and a revaluation reserve. De-recognition costs are charged initially against any revaluation reserve for the asset and then to the relevant service lines in the Comprehensive Income and Expenditure Statement.

1.4.5 **Measurement after Recognition – Valuation Approach**

Property, Plant and Equipment assets are valued on the basis recommended by CIPFA and in accordance with the Practice Statements in the Appraisal and Valuation Standards published by The Royal Institution of Chartered Surveyors (RICS), in particular UK Practice Statement 1.1 – 1.3. The PCC may rely on the advice of other relevant expert managers to value other assets.

Property, Plant and Equipment assets are classified into the groupings required by the Code of Practice on Local Authority Accounting. All operational and non-operational land and properties (including Investment Properties) were subjected to a full revaluation exercise at 1 April 2016. This valuation has been updated as at 31 March each year since, by way of a desktop revaluation of all assets.

All valuations are in accordance with the capital accounting rules.

1.5 Operational Assets

1.5.1 **Land and Operational Properties:**

Where the assets are considered by the valuers to be specialist in nature (for example custody suites in operational police stations) they are valued at current value with depreciated replacement cost (DRC) methodology, reflecting their value to the PCC in their current use. Due to the specialist nature of these buildings, the DRC value is normally higher than open market value. Where the assets are not considered to be specialist in nature, they are valued at fair value. Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arms-length transaction. For this section of the Code, fair value (for land and buildings) is to be interpreted as the amount that would be paid for the asset in its existing use. This requirement is met by providing a valuation on the basis of existing use value (EUV) in accordance with UKPS 1.3 of the RICS Valuation Standards.

1.6 Non-Operational Assets

1.6.1 **Surplus assets**

Assets which the PCC no longer operates or are no longer used for service delivery, but are not investment properties or meet the definition for held for sale. They are valued at fair value and measured and depreciated in line with the operational asset class.

1.6.2 **Assets Under Construction**

Assets Under construction are held at historical cost. When these assets are operationally complete they will be reclassified into the appropriate asset class and valued under the adopted approach.

1.7 Valuation Programme

In years when there is a full revaluation (every 5 years) the steps to account for assets involve valuing assets at the start of the financial year, and then considering impairment issues at the end of the year

In all other years (including the 2017/18 financial year) the year end valuation encompasses all changes in value, whether from additions, disposals, changes in market value, impairment or other consumption of economic benefits.

The next full valuation will be carried out in 2021/22.

1.8 Component Accounting for Property, Plant and Equipment

The Code requires that assets included within property, plant and equipment are broken down into significant component parts. Where a large asset, for example a building, includes a number of components with significantly different asset lives then these components can be treated as separate assets and depreciated over their own useful economic lives. Only those components with material values and significantly different useful lives are classified as separate components in the asset register. Only assets with a value of at least £500k are reviewed for potential components.

Further details for component accounting are set out in the PCC's Componentisation Policy.

1.9 Revaluation Gains and Losses

Movements in value arising from revaluation of assets are reflected in the value of the assets held on the balance sheet.

1.9.1 Recognising a Revaluation Gain or Loss

Increases as a result of revaluations are debited to the appropriate asset account, with the opposite entry going to the Revaluation Reserve to recognise unrealised gains, except to the extent where it reverses a previous revaluation loss that was charged to a service revenue account within the Comprehensive Income & Expenditure Statement. In this case the revaluation gain will first be used to offset the previous loss and any further gain is then taken to the Revaluation Reserve. Component assets are treated as separate assets and therefore revalued separately. Revaluation gains charged to Surplus or Deficit on Provision of Services are transferred to the Capital Adjustment Account and reported in the Movement in Reserves Statement.

Decreases as a result of revaluation which are not specific to one asset but affect several are revaluations losses rather than impairments. The decrease is recognised in the Revaluation Reserve up to the balance in respect of each asset affected and then in Surplus or Deficit on Provision of Services. Any such charge taken to Surplus or Deficit on Provision of Services is then transferred to the Capital Adjustment Account and reported in the Movement in Reserves Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Any movements on revaluation arising before this date have been consolidated into the Capital Adjustment Account.

1.10 Depreciation

Depreciation is charged on all assets with a finite useful life (which can be determined at the time of acquisition or revaluation). Depreciation is charged against assets from the month they are capitalised, to the month that they are disposed, decommissioned or reach the end of their useful life.

The policy on useful asset life is as follows:

- Operational buildings (other than temporary buildings) are depreciated over their estimated useful life of between 20 and 75 years as estimated by the valuer;
- Furniture and non-specialist equipment is depreciated over 15 years;
- Vehicles, plant and specialist equipment (including computing equipment) are depreciated over their estimated useful lives (between 3 and 8 years dependent on the asset).

Depreciation is calculated as the current value of the asset divided by the useful existing life of the asset. Hence, revaluation gains are depreciated as well as the historic cost of the asset, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on the historic cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

For surplus assets awaiting disposal, depreciation is not charged to services. Rather, it is charged to non-distributed costs in the Income & Expenditure Statement. No depreciation is charged on: land; assets under construction; and assets held for sale. Depreciation of an asset begins when the asset becomes available for use and ceases when the asset has been de-recognised.

1.11 Disposal of Property, Plant and Equipment

An item of property, plant and equipment shall be de-recognised on disposal; or when no future economic benefits are expected from its use or disposal.

The gain or loss arising from disposals is shown in the Comprehensive Income and Expenditure Statement (netted off against the carrying value of the asset at the time of disposal). Any revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Any receipt from the sale of an item on the asset register is categorised as capital receipts and can only be used for new capital investment or to repay the principal of any amounts borrowed.

1.12 Impairment of Non-Current Assets

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall.

Where impairment losses are identified, they are accounted for by:

- Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains);
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

Where an impairment loss is reversed subsequently, the reversal is credited to the relevant service line(s) in the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

1.13 Intangible Assets

Expenditure on non-monetary assets that do not have physical substance but are controlled by the PCC as a result of past events (eg software licences) is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the PCC.

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available) and the PCC will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised).

Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the PCC's goods or services.

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the PCC can be determined by reference to an active market. In practice, no intangible asset held by the PCC meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

De Minimis Level

The PCC has no de minimis level for recognising intangible assets. This relates to initial recognition and subsequent expenditure on assets.

1.14 Investment Properties

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

Investment properties are measured initially at cost and subsequently at fair value, being the price that would be received to sell such an asset in an orderly transaction between market participants at the measurement date. As a non-financial asset, investment properties are measured at highest and best use. Properties are not depreciated but are revalued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

The PCC no longer recognises any assets as investment properties as those previously classified as such, have been reclassified as operational assets.

1.15 Non-Current Assets Held for Sale

Non-current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the following criteria are met as at the balance sheet date:

- The asset is available for immediate sale in its present condition subject to terms that are usual and customary for sales of such assets;
- The sale is highly probable (with management commitment to sell and active marketing of the asset initiated);
- It is actively marketed for a sale at a price that is reasonable in relation to its current fair value; and
- The sale should be expected to qualify for recognition as a completed sale within one year.

1.15.1 **Measurement**

Non-Current Assets Held for Sale are measured at the lower of carrying value and fair value less costs to sell (fair value here is the amount that would be paid for the asset in its highest and best use, i.e. market value).

1.15.2 **Depreciation**

Depreciation is not charged on non-current assets held for sale.

1.15.3 **Disposal**

Receipts from disposals are recognised in the Surplus or Deficit on provision of services.

Any receipt from the sale of an item on the asset register is categorised as capital receipts and can only be used for new capital investment or to repay the principal of any amounts borrowed.

1.16 Charges to Revenue for the use of Non-Current Assets

Police services and central support services are charged with a capital charge for all non-current assets used in the provision of services to record the real cost of holding fixed assets during the year. The total charge covers:

- The annual provision for depreciation;
- Revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off;
- Amortisation of intangible assets.

The PCC is not required to raise council tax to cover depreciation, revaluation and impairment losses or amortisation. However, it is required to make a prudent annual provision from revenue to contribute towards the reduction in its overall borrowing requirement. This is known as the Minimum Revenue Provision.

1.17 Minimum Revenue Provision

The PCC makes provision for the repayment of debt in accordance with the Local Authorities (Capital Finance and Accounting, England, Amendment) Regulations 2008.

This requires the PCC to set a Minimum Revenue Provision (MRP) which it considers to be prudent.

The accounts are charged with a capital charge for all non-current assets used in the provision of services. The total charge covers:

- The annual provision for depreciation;
- Impairment losses attributable to the clear consumption of economic benefits on non-current assets used by the PCC and other losses where there are no accumulated gains in the Revaluation Reserve against which they can be written off;
- Amortisation of intangible assets attributable to the service;
- The annual contribution towards the reduction in overall borrowing, in accordance with the PCC's approved policy;
- 4% of the Capital Financing Requirement as at 31 March 2008, adjusted for repayments made since that date;
- All borrowing from 2008/09 onwards, a repayment based on the asset life method.

Depreciation, revaluation and impairment losses and amortisation are therefore replaced by a revenue provision in the Movement in Reserves Statement, by way of an adjusting transaction with the Capital Adjustment Account for the difference between the two.

1.18 Revenue Expenditure Financed through Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of a non-current asset in the balance sheet has been charged as expenditure to the relevant service revenue account in the Comprehensive Income and Expenditure Statement in the year.

Statutory provision reverses these charges from the Surplus or Deficit on provision of services by debiting the Capital Adjustment Account and crediting the General Fund Balance through the Movement in Reserves Statement.

1.19 Classification of Leases

Leases are classified as a finance lease or an operating lease depending on the extent to which risks and rewards of ownership (substance of the transaction over its legal form) of a leased asset lie with the lessor (landlord) or the lessee (tenant).

Finance Lease

A Finance lease is when the lease arrangement transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee.

Operating Lease

All other leases are determined to be operating leases.

1.20 Finance Leases

The PCC as Lessee

Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the PCC are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- A charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- A finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, plant and equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the PCC at the end of the lease period).

The PCC is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease; even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

The PCC as Lessor

Finance Leases

Where the PCC grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether property, plant and equipment or assets held for sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the PCC's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (ie netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- A charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and
- Finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to [the Deferred Capital Receipts Reserve (England and Wales) or Capital Receipts Reserve (Scotland)] in Movement in Reserves Statement. [When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve (England and Wales).]

The written-off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Operating Leases

Where the PCC grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (eg there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.
[Additional policy detail required where an PCC has material sale and leaseback assets.]

1.21 Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the PCC when there is reasonable assurance that:

- The PCC will comply with the conditions attached to the payments;
- The grants or contributions will be received.

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

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-specific Grant Income and Expenditure (non-ring-fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

1.22 Debtors

Debtors are recognised in the accounts when the ordered goods or services have been delivered or rendered by the PCC by the 31 March but the income has not yet been received. Debtors are recognised and measured at fair value in the accounts.

There is no de-minimis for capital or revenue income accruals.

Where there are differences between the Group and PCC balance at 31 March the note will show both balances.

1.23 Creditors

Creditors are recorded where goods or services have been supplied to the PCC by 31 March but payment is not made until the following financial year. Creditors are recognised and measured at fair value in the accounts.

There is no de-minimis for capital or revenue accruals.

Where there are differences between the Group and PCC balance at 31 March the note will show both balances.

1.24 Debt impairment

The PCC makes a provision for debts which may go bad or not be paid in full. Where it is doubtful that debts will be settled, the fair value of that debt is written down accordingly and a charge made to the Comprehensive Income and Expenditure Statement for the income that might not be collected.

The PCC's policy is to review outstanding debts annually in order to allow for debt impairment.

1.25 Inventories

Inventory assets include materials or supplies to be consumed or distributed in the rendering of services. This includes fuel, uniforms and general stores. These are carried at the lower of cost (calculated as an average price) or current replacement cost (at the balance sheet date for an equivalent quantity).

A de minimis of £5k is set before a group of stock items would need to be accounted for at the year end.

1.26 Investments and Cash and Cash Equivalents

Investments

The PCC will classify these as follows:

- Short-term deposits (due to be returned within 12 months after 31 March) held for investment purposes for the returns offered are classed as Short-term Investments;
- Deposits held for investment purposes for the returns offered which are due for return more than a year after 31 March are classed as Long Term Investments.

Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value. In the cash flow statement cash and cash equivalents are shown net of bank overdrafts that are repayable on demand or form an integral part of the Force's cash management.

1.27 Provisions

Provisions are made where an event has taken place that gives the PCC a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the PCC may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the PCC becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (e.g. from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the PCC settles the obligation.

1.28 Contingent Liabilities

A contingent liability is where there is a possible obligation to transfer economic benefits due to a past event, but the possible obligation will only be confirmed by the occurrence or non-occurrence of one or more events in the future, not wholly be within the control of the PCC. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

The PCC discloses these obligations in the narrative notes to the accounts if greater than £100k.

These amounts are not recorded in the PCC's accounts because:

- It is not probable that an outflow of economic benefits or service potential will be required to settle the obligation, or
- The amount of the obligation cannot be measured with sufficient reliability at the year end.

1.29 Contingent Assets

A contingent asset is where there is a possible transfer of economic benefit to the PCC from a past event, but the possible transfer will only be confirmed by the occurrence or non-occurrence of one or more events in the future. These events may not wholly be within the control of the PCC.

The PCC discloses these rights in the narrative notes to the accounts if greater than £100k.

1.30 Reserves

The force sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from reserves is incurred, it is charged to the appropriate service in that year against the Surplus of Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in reserves Statement so that there is no net charge against council tax for the expenditure.

Usable Reserves

The PCC's general revenue balances are held in the General Fund. The PCC also maintains a number of specific 'earmarked' reserves for future expenditure on either target service areas or to cover contingencies. They are described in more detail in notes to the accounts.

Unusable Reserves

Certain reserves are kept to maintain the accounting processes for non-current assets, financial instruments and retirement benefits. These accounts do not represent usable resources for the PCC.

1.31 Events after the Reporting Period

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- Those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events;
- Those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

1.32 Recognition of Revenue (Income and Expenditure)

Revenue shall be measured at the fair value of the consideration received or receivable. Revenue is recognised only when it is probable that the economic benefits or service potential associated with the transaction will flow to the PCC.

1.33 Costs of Overheads and Support Services

The costs of overheads and support services are charged to service segments in accordance with the authority's arrangements for the accountability and financial performance.

1.34 Value Added Tax (VAT)

The PCC's Comprehensive Income & Expenditure Statement excludes VAT. All VAT must be passed on to (where output tax exceeds input tax) or repaid by (where input tax exceeds output tax) HM Revenue and Customs.

The net amount due to or from HM Revenue and Customs for VAT at the year-end shall be included as part of creditors or debtors balance.

1.35 Fair Value Measurement

The PCC measures some of its non-financial assets such as surplus assets and investment properties and some of its financial instruments such as equity shareholdings [*other financial instruments as applicable*] at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

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

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

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

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

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

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

1.36 Employee Benefits

Benefits Payable during Employment

Short-term employee benefits are those due to be settled wholly within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits for current employees and are recognised as an expense for services in the year in which employees render service to the PCC . 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. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday entitlements are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the PCC to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy in exchange for those benefits and are charged on an accruals basis to the appropriate service segment or, where applicable, to a corporate service segment at the earlier of when the PCC can no longer withdraw the offer of those benefits or when the PCC recognises costs for a restructuring. Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund Balance to be charged with the amount payable by the PCC 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 the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post-employment Benefits

Employees of the PCC Group are members of two separate pension schemes:

- The Police Officer Pension Scheme, for which the scheme manager is the Chief Constable;
- The Local Government Pensions Scheme, administered by West Yorkshire Pension Fund on behalf of Lincolnshire County Council.

Both schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees.

The Local Government Pension Scheme

The Local Government Scheme is accounted for as a defined benefits scheme:

- The liabilities of the Lincolnshire pension fund attributable to the PCC are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc. and projections of projected earnings for current employees;
- Liabilities are discounted to their value at current prices, using a discount rate of 3.5% (based on the indicative rate of return on high quality AA index corporate bonds;
- The assets of Lincolnshire pension fund attributable to the PCC are included in the Balance Sheet at their fair value as follows:
  - Quoted securities – current bid price;
  - Unquoted securities – professional estimate;
  - Unitised securities – current bid price;
  - Property – market value.

The Police Officer Pension Scheme

The police officer pension schemes (both the old and new schemes) are accounted for as a defined benefit scheme:

- The liabilities of the Lincolnshire pension fund attributable to the Chief Constable are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc and projections of projected earnings for current employees;

- Liabilities are discounted to their value at current prices, using a discount rate of 3.5% (based on the indicative rate of return on high quality AA index corporate bonds;

Pension Scheme Policies

The change in the net pensions liability is analysed into the following components:

- Service cost comprising:
    - Current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked;
    - Past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement to a corporate service segment;
    - Net interest on the net defined benefit liability (asset), ie net interest expense for the PCC – 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 Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.
- Re-measurements comprising:
    - The return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure;
    - Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure;
    - Contributions paid to the Lincolnshire pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the PCC to the pension fund 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 transfers 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 but unpaid at the year-end. The negative balance that arises on the Pensions Reserve measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows, rather than when the benefits are earned by employees.

Discretionary Benefits

The PCC also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

Police Officer Pensions – Home Office Memorandum Account

From 1 April 2006 the Home Office changed the methods of financing police pensions. Effectively the PCC has continued to make payments but accounts for these outside of the accounts in a separate memorandum account. This is included as supplementary statement to the accounts.

1.37 Joint Operations

Joint operations are joint arrangements in which the PCC and other venturers have joint control of the arrangement. The parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. The PCC accounts for only its share of the joint operations assets, the liabilities and expenses that it incurs on its own behalf or jointly with others in respect of its interest in the joint operation and income that it earns from the venture.

1.38 Financial Instruments

1.38.1 **Financial Liabilities**

Financial liabilities are recognised on the Balance Sheet when the PCC becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For all of the borrowings that the PCC has, this means that:

- The amount presented in the Balance Sheet is the outstanding principal repayable, plus accrued interest and;
- Interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

The PCC has not undertaken any repurchasing or early settlement of borrowing.

1.38.2 **Financial Assets**

Financial assets are classified into two types: loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market; available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments;

The PCC only has loans and receivables.

1.38.3 **Loans and Receivables**

Loans and receivables are recognised on the Balance Sheet when the PCC becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument.

The PCC's loans and receivables comprise: short term investments, trade debtors, accrued income and 'other receivables'.

Appendix 2
Chief Constable for Lincolnshire

Notes to the Accounts

The notes below provide additional information to support the main financial statements for the Chief Constable.

1. Accounting Policies

1.1 General Principles

The Statement of Accounts summarises the Chief Constable's transactions for the 2017/18 financial year and its position at the year end of 31 March 2018. The Chief Constable is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2015 which require the statements to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, supported by International Financial Reporting Standards.

The accounting convention adopted in the Statement of Accounts is principally historical cost.

All accounting policies that are material to the production of the accounts are described in this section.

1.2 Prior period adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, ie in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Chief Constable's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

1.3 Accruals of Income and Expenditure

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

- Revenue from the provision of services is recognised when the Chief Constable can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Chief Constable;

- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet;
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made;

1.4 Non-Current Assets – Property, Plant and Equipment

The Chief Constable does not own any non-current assets. All capital equipment used in operational policing is procured and owned by the PCC, under the agreement that control, in particular usage and responsibility for maintenance, is delegated to the Chief Constable under the PCC Group's existing scheme of delegation.

1.5 Provisions

Provisions are made where an event has taken place that gives the Chief Constable a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Chief Constable may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Chief Constable becomes aware of the obligation, and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

When payments are eventually made, they are charged to the provision carried in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes less than probable that a transfer of economic benefits will now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service.

Where some or all of the payment required to settle a provision is expected to be recovered from another party (eg from an insurance claim), this is only recognised as income for the relevant service if it is virtually certain that reimbursement will be received if the Chief Constable settles the obligation.

1.6 Contingent Liabilities

A contingent liability is where there is a possible obligation to transfer economic benefits due to a past event, but the possible obligation will only be confirmed by the occurrence or non-occurrence of one or more events in the future, not wholly be within the control of the Chief Constable. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

The Chief Constable discloses these obligations in the narrative notes to the accounts if greater than £100k.

These amounts are not recorded in the Chief Constable's accounts because:

- It is not probable that an outflow of economic benefits or service potential will be required to settle the obligation, or
- The amount of the obligation cannot be measured with sufficient reliability at the year end.

1.7 Contingent Assets

A contingent asset is where there is a possible transfer of economic benefit to the CC from a past event, but the possible transfer will only be confirmed by the occurrence or non-occurrence of one or more events in the future. These events may not wholly be within the control of the CC.

The CC discloses these rights in the narrative notes to the accounts if greater than £100k.

1.8 Cost of Overheads and Support Services

The costs of overheads and support services are charged to service segments in accordance with the authority's arrangements for accountability and financial performance.

1.9 Value Added Tax (VAT)

The Chief Constable does not submit a VAT return. The PCC submits a single VAT return on behalf of the Group. Expenditure in the Comprehensive Income and Expenditure Statement excludes any amounts relating to VAT as it is all remitted to / from HM Revenue and Customs

1.10 Events after the Reporting Period

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

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

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

1.11 Recognition of Revenue (Income and Expenditure)

Revenue shall be measured at the fair value of the consideration received or receivable. Revenue is recognised only when it is probable that the economic benefits or service potential associated with the transaction will flow to the Chief Constable.

1.12 Reserves

Usable Reserves

The Chief Constable does not maintain usable reserves. Its main source of income in the year is an intra-group transfer from the PCC, which is matched to its net resources expended, with all additional surplus or deficit held by the PCC.

Unusable Reserves

The Chief Constable keeps a pensions reserve to maintain the accounting processes for retirement benefits and the related provisions. These accounts do not represent usable resources for the Chief Constable.

1.13 Employee Benefits

Benefits Payable during Employment

Short-term employee benefits are those due to be settled wholly within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits for current employees and are recognised as an expense for services in the year in which employees render service to the Chief Constable. A provision is made for the cost of unused leave earned by employees, but not taken before the year-end.

The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday entitlements are charged to revenue in the financial year in which the absence occurs.

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the CC to terminate an officer’s employment before the normal retirement date or an officer’s decision to accept voluntary redundancy in exchange for those benefits and are charged on an accruals basis to the appropriate service segment or, where applicable, to a corporate service segment 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 General Fund Balance to be charged with the amount payable by the CC 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 the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post-employment Benefits

Employees of the Chief Constable are members of two separate pension schemes:

- The Police Officer Pension Scheme, for which the scheme manager is the Chief Constable;
- The Local Government Pensions Scheme, administered by West Yorkshire Pension Fund on behalf of Lincolnshire County Council.

Both schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees.

The Local Government Pension Scheme

The Local Government Scheme is accounted for as a defined benefits scheme:

- The liabilities of the Lincolnshire pension fund attributable to the Chief Constable are included in the Balance Sheet on an actuarial basis using the projected unit method – ie 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, etc, and projections of earnings for current employees;
- Liabilities are discounted to their value at current prices, using a discount rate of 2.6% (based on the indicative rate of return on high quality AA index corporate bonds;
- The assets of Lincolnshire pension fund attributable to the Chief Constable are included in the Balance Sheet at their fair value:
    - Quoted securities – current bid price;
    - Unquoted securities – professional estimate;
    - Unitised securities – current bid price;
    - Property – market value.

The Police Officer Pension Scheme

The police officer pension schemes (both the old and new schemes) are accounted for as a defined benefit scheme:

- The liabilities of the Lincolnshire pension fund attributable to the Chief Constable are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of projected earnings for current employees;
- Liabilities are discounted to their value at current prices, using a discount rate of 2.6% (based on the indicative rate of return on high quality AA index corporate bonds.

Pension Scheme Policies

The change in the net pensions liability is analysed into the following components:

- Service cost comprising:
    - Current service cost – the increase in liabilities as a result of years of service earned this year – allocated in the Comprehensive Income and Expenditure Statement to the services for which the employees worked;
    - Past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement to a corporate service segment;
    - Net interest on the net defined benefit liability (asset), ie net interest expense for the Chief Constable – 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 Comprehensive Income and Expenditure Statement – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period – taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

- Remeasurements comprising:
  - The return on plan assets – excluding amounts included in net interest on the net defined benefit liability (asset) – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure;
  - Actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure;
  - Contributions paid to the Lincolnshire pension fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the General Fund Balance to be charged with the amount payable by the Chief Constable to the pension fund 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 transfers 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 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 when benefits are earned by employees.

Discretionary Benefits

The Chief Constable also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

1.14 Police Officer Pensions – Home Office Memorandum Account

From 1 April 2006 the Home Office changed the methods of financing police pensions. Effectively the Chief Constable has continued to make payments but accounts for these outside of these accounts in a separate memorandum account, which is reported in a supplementary statement in these accounts.

1.15 Joint Operations

Joint operations are joint arrangements in which the PCC and other venturers have joint control of the arrangement. The parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the arrangement. The Chief Constable accounts for only its expenses that it incurs on its own behalf or jointly with others in respect of its interest in the joint operation and income that it earns from the venture.