The Police and Crime Commissioner for Lincolnshire

Audited Financial Statements

2012/13

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Police and Crime Commissioner for Lincolnshire

Annual Group Financial Report

2012/13

The statements are made up of separate elements: the Foreword by the Chief Finance Officer of the Police and Crime Commissioner (PCC); the Statement of Responsibilities; Governance Statements; the Statement of Accounts; the Independent Auditor's Report; and the Glossary of Terms. The 'true and fair' audit view only applies to the Statement of Accounts.

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Police and Crime Commissioner for Lincolnshire

APPROVAL OF ACCOUNTS

In accordance with Regulation 8(3)c of the Accounts and Audit (England) Regulations 2011, I certify that the Police and Crime Commissioner for Lincolnshire approved the Statement of Accounts on 25th September 2013.

Signed by the Police and Crime Commissioner for Lincolnshire.

…………………………………………….
Alan Hardwick

Dated : ………………………………….

DATE OF ISSUE OF ACCOUNTS

The Police and Crime Commissioner is required to disclose the date that the financial statements are authorised for issue. This establishes the date after which events will not have been recognised in the Statement of Accounts.

Date of Issue of Accounts

25th September 2013

Police and Crime Commissioner for Lincolnshire

Introduction to the Financial Statements

The financial year 2012/13 was an important one for policing across the country. On 15 September 2011 the Police Reform and Social Responsibility Act 2011 received Royal Assent in Parliament representing a significant shift in the way the police in England and Wales are governed and held accountable. One of the key reforms was to replace Police Authorities with democratically elected Police and Crime Commissioners (PCC).

On 15 November 2012 Alan Hardwick was elected as the first PCC for the Lincolnshire Police area. Standing as an independent candidate, he won with a majority of 4,135 for the area. The Commissioner took office on 22 November 2012 and made the decision not to appoint a deputy. Elected PCCs serve a term of office which ends in May 2016, when PCC elections will take place again.

The Commissioner has a responsibility to hold the police to account on behalf of the public. The PCC provides a link between the police and communities, working to turn local police and crime related needs and wishes into action. The Chief Constable must answer to the PCC in terms of delivering efficient and effective policing, and the way resources and spending are managed.

Chief Executive Officer and Monitoring Officer
Every PCC must have a Chief Executive, who will also act as the Monitoring Officer. The Chief Executive will work with the PCC to deliver the PCC’s vision, strategy and identified priorities. They will make sure the office of the PCC is led effectively through ongoing management and public involvement. They will help make sure that the police force’s activities are checked accurately and appropriately. Malcolm Burch BA (Hons), MLib, MBA, MCMI is the Chief Executive and Monitoring Officer to the PCC in Lincolnshire.

Chief Finance Officer
The other role that a PCC must appoint is that of the Chief Finance Officer (CFO). The CFO is responsible for ensuring that the financial affairs of the PCC are properly administered and that financial regulations are observed and kept up to date. The role also includes ensuring that resources are used wisely to secure positive results. Julie Flint CPFA MSc is the Chief Finance Officer to the PCC in Lincolnshire.

Independent Audit Committee

The role of the Interim Independent Audit Committee is to:

- provide independent assurance to the Police and Crime Commissioner and the Chief Constable regarding the adequacy of the risk management framework and the associated control environment
- provide Independent scrutiny of the Force's and the Police and Crime Commissioner's financial performance
- oversee financial reporting processes.

The membership is as follows:

Mr Andre Dezonie (Chairman)
Mrs Angela Crowe
Mr Fred Mann
Mr John Cooke
Mr David Finch

The Statement of Accounts

The 2012/13 Statement of Accounts is prepared in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice on Local Authority Accounting. The accounts reflect the current legislative framework as well as the local arrangements operating in practice. Key elements of this framework include:

- The Police Reform and Social Responsibility Act 2011 (the Act);
- The Home Office Financial Management Code of Practice for the Police Service of England and Wales 2012;
- Scheme of Delegation
- Financial Regulations;
- Contract Regulations.

Further Information

Further information about the Financial Statements is available from the Chief Finance Officer, Police Headquarters, Deepdale Lane, Nettleham, Lincoln, LN2 2LT. In addition interested members of the public have a statutory right to inspect the accounts before the audit is completed. The availability of the accounts for inspection has been advertised in the local press.

Chief Finance Officer’s Foreword to the Statement of Accounts

This section highlights some of the more important issues that are reported in the Accounts. Commentary is included on any issues that have had a major effect on the Police and Crime Commissioner’s finances during the year being reported and the factors that may impact in the future.

Introduction

I am pleased to present the first set of Group Accounts for the Police and Crime Commissioner of Lincolnshire for the financial year 2012/13. On 15th September 2011 the Police Reform and Social Responsibility Act 2011 was approved by Parliament. This Act introduced a major change to the way the Police Service in England and Wales is governed and held accountable. The former Lincolnshire Police Authority was replaced by an elected Police and Crime Commissioner. On 22nd November 2012 Alan Hardwick took office as the first Police and Crime Commissioner (PCC) for Lincolnshire following an election on 15th November 2012. The PCC is responsible for securing the maintenance of an efficient and effective police force for Lincolnshire and must hold the Chief Constable to account for the provision of operational policing in the County.

This Statement of Accounts sets out the overall financial position of the PCC and the Lincolnshire PCC Group for the year ending 31st March 2013. Under merger accounting rules a separate set of accounts for the Lincolnshire Police Authority period of governance are not required. The Lincolnshire Group position reflects the consolidated accounts of the PCC and the subsidiary accounts of the Chief Constable. Where the Group position differs from the PCC position this is made clear in the accounting statements and notes. A separate set of Accounts are produced for the Chief Constable of Lincolnshire.

The Government’s intention is to implement the reforms over a period of time. This first stage, has resulted in the PCC holding directly the finances of the whole Group, including controlling directly the assets, liabilities and reserves of the Group in their entirety. The PCC receives all funding and income and makes all payments for the Group. Under a detailed Scheme of Delegation an annual budget is provided in consultation with the Chief Constable for fulfilling requirements for policing Lincolnshire in accordance with the Police and Crime Plan.

These accounts have been compiled in accordance with, and as required by, the Accounts and Audit Regulations 2011, the Code of Practice on Local Authority Accounting 2012/13 and also the Service Reporting Code of Practice (SeRCOP). The accounts show the financial affairs of Lincolnshire’s PCC Group during 2012/13 and the financial position as at 31st March 2013.

The accounts are prepared to provide the reader with a “true and fair” view of the financial position at the year end and the income and expenditure for the year. In order to achieve this view the accounts are prepared in accordance with the codes detailed above. These accounts are based on the requirements of International Financial Reporting Standards (IFRS). This was a major development in 2010/11 and 2012/13 has continued the period of consolidating the way the accounts are prepared and disclosed with no significant changes to be highlighted in this Foreword.

International Financial Reporting Standards are primarily drafted for the commercial sector and are not designed to address all the accounting issues relevant to local authorities. The code of practice has therefore been developed based on a hierarchy of alternative standards including

International Accounting Standards (IAS), Interpretations of the International Financial Reporting Interpretations Committee (IFRIC) and International Public Sector Accounting Standards (IPSAS).

This foreword provides a brief explanation of the main financial aspects of the PCC's Group activities.

Background

The PCC Group is responsible for providing policing services to a population in excess of 710,000 dispersed across a large geographical area of 590,000 hectares.

The PCC Group:

- sets its own budget;
- holds its own Reserves;
- receives its share of Police Grant paid by the Home Office in accordance with a detailed formula and specific grants for example Neighbourhood Policing Grant;
- receives Revenue Support Grant paid by the Department for Communities and Local Government (DCLG);
- receives National Non Domestic Rates paid by the DCLG;
- receives precepts for the proportion of the budget to be met by the residents of Lincolnshire as part of the overall council tax collected by District Councils.

The Accounts

The Financial Statements for Lincolnshire PCC Group consist of:

- Statement of Responsibilities;
- Annual Governance Statement;
- Accounting Statements;
- Notes to the Accounts including Accounting Policies.

Statement of Responsibilities – Page 13
This explains the responsibilities for the financial affairs of the Group and how these responsibilities are carried out.

Annual Governance Statement – Page 14
The PCC must prepare and publish an annual governance statement in accordance with the "Good Governance Framework" and in order to meet the statutory requirements set out in the Accounts and Audit Regulations 2011.

The Accounting Statements are as follows:

Movement in Reserves Statement – Page 23
A summary of the different reserves held by the PCC Group, distinguishing between those that are usable and unusable. Showing the overall financial result for the year in terms of movement in the Group's reserves.

Group Comprehensive Income and Expenditure Statement – Page 24
A summary of the resources generated and consumed by the PCC Group in accordance with accounting policies rather than the amount required from taxation.

Group Balance Sheet– Page 25
This represents the financial position of the PCC as at 31st March 2013; it shows the balances and reserves at the PCC Group's disposal together with the long term and current assets employed in its operation.

Group Cash Flow Statement– Page 26
This summarises the movement of the PCC Group's cash balances arising from transactions during the year and has been based on the indirect method of production.

Notes to the Accounts – Page 27 to 95
Detailed notes supporting each of the main accounting statements, together with additional information to help in describing the PCC Group's financial transactions. Note 1 contains the Accounting Policies. The purpose of these policies is to explain the basis for the recognition, measurement and disclosure of transactions and other events in the accounts.

Police Officer Pensions – Home Office Memorandum Account – Page 96 to 97
This summarises the transactions relating to retirement benefits paid to police officers and how these costs are paid for.

Relationship between accounting statements

The different accounting statements are linked in several important ways.

- The relationship between the Comprehensive Income and Expenditure Statement and the movement in the PCC Group's total reserves is shown in the Movement in Reserves Statement.
- The Cash Flow statement reconciles to the balance on the Comprehensive Income and Expenditure Statement for the year and the movement in the Balance Sheet cash and cash equivalents.

The Statement of Accounts provides an opportunity to present more information to support the details in the Police and Crime Plan.

The Police and Crime Plan document is available from the PCC's website www.lincolnshire-pcc.gov.uk.

The PCC sets the budget in consultation with the Chief Constable, and determines the Council Tax precept to be levied on Lincolnshire's District Councils. Expenditure on the day to day running costs of the service is charged against the Revenue Budget and is recorded in the Comprehensive Income and Expenditure Statement. This is analysed by type of spending in Note 40 to the accounts. IFRS also requires the disclosure of "Budget Accounting Information" which provides a link between the statements and the management accounting information normally used by the Authority for the monitoring and control of the revenue budget (Note 39).

Expenditure on assets, which will be of benefit over a period of years, is dealt with in the capital programme initially. The expenditure incurred is subsequently added to Property, Plant and Equipment in the Balance Sheet; although the annual costs of financing capital expenditure is reflected in the Revenue Budget and the Comprehensive Income and Expenditure Statement. A desk top revaluation of the PCC Group's Property Assets was undertaken during the year, with the results of the revaluation being included in the Balance sheet, this resulted in an overall decrease change in value of £1.207 million.

The Comprehensive Income and Expenditure Statement is charged with capital charges for all long term assets used in the delivery of services. Capital financing costs are not shown on the face of the statement but included across the services provided. Total charges are given in Note 50. The presentation of these details serves to highlight the value of the PCC Group's asset portfolio and the cost of using them in the delivery of services.

Revenue Budget Outturn 2012/13

At its meeting on the 24th February 2012, the Police Authority approved a total net Revenue Budget of £114.5 million and a budget requirement of £107.3 million. The Authority in making this decision increased the council tax by 3.96% resulting in a charge of £186.39 for a Band D property.

The Authority's Grant Settlement for 2012/13 reflected the overall reductions being experienced in public sector funding. Overall in line with other Police Authorities the grant to be received was reduced by 6.7% when compared to the 2011/12 figure a cash reduction of £4.5 million..

Financial Performance

A summarised statement of the actual net expenditure for the year is set out below and compared to the approved original budget for the year:

	Original Budget £m	Actual £m	(Under) / Over Spend £m
Services			
Police Force	112.0	109.8	(2.2)
PCC	1.1	0.9	(0.2)
Service Expenditure	**113.1**	**110.7**	**(2.4)**
Other Operating Costs			
Appropriations to Specific Reserves	0.0	3.3	3.3
Appropriations from Specific Reserves	0.0	(0.9)	(0.9)
Total Net Expenditure	**113.1**	**113.1**	**(0.0)**
Financed By:			
Specific and Non Specific Grants	(4.3)	(4.3)	0.0
Neighbourhood Policing Contribution	(1.5)	(1.5)	0.0
Police Grant	(39.8)	(39.2)	0.6
National Non Domestic Rates	(23.2)	(23.8)	(0.6)
Council Tax Payers	(44.3)	(44.3)	0.0
Total Funding	**(113.1)**	**(113.1)**	**(0.0)**
Contribution from General Reserve	0.0	0.0	0.0
Contribution to General Reserve	0.0	0.0	0.0
Transfer to General Reserve	**0.0**	**0.0**	**0.0**

Actual spending for 2012/13 was significantly less than the original budget, the financial year being marked by the significant organisational change undertaken in the force in respect of a redesigned operational model and a major out sourcing project for the mid and back office function. These two projects together with careful and prudent management of the budget enabled the significant reductions in expenditure to be achieved. Savings have been therefore principally achieved across the devolved budgets totalling £2.2m. These savings include Police Staff and running costs.

Provisions totalling £1.9m million have also been included in the accounts. A new provision of £1.4 million has been made to recognize the cost of a liability in respect of errors identified in the calculation of salaries, payment is anticipated to be made during 2013/14. Details of provisions are given in Note 24 to the accounts.

The Service Reporting Code of Practice (SeRCOP) requires the disclosure of Police Service Expenditure with nine divisions of service, this has been included within the Comprehensive Income and Expenditure Statement. In order to assign monetary values to each of the nine divisions of service, apportionments of expenditure have been necessary. Apportionments have been based primarily upon the allocation of officers and staff across services, together with a proportional share of their overheads. A further allocation of central support service costs has been made across all services based on an appropriate allocation method.

In February 2013 the PCC considered his approach to reserves in the light of the “Guidance on Local Authority Reserves and Balances“ issued by CIPFA. The review considered the risks being faced and their corresponding financial consequences. This approach provided a range of minimum and maximum reserve levels between £5.2 million and £11.3 million. The policy adopted is that reserves should be held commensurate with the mid point of this range at £8.185 million, the current reserves are marginally in excess of this target at £8.263 million.

At 31st March 2013, the General Reserve was £5.663 million, with no significant change from 1st March 2012.

Earmarked Reserves (including the PCC’s share of the East Midlands Special Operations Unit totalled £8.219 million, of which £2.600 million has been risk assessed (see table below). The movements are detailed in Note 7 to the accounts.

	Lincolnshire PCC Group £000	EMSOU £000	Total £000
General Reserves	5,629	34	5,663
Earmarked Reserves: Risk Assessed	2,600	-	2,600
Other earmarked Reserves	5,496	123	5,619
Total	13,725	157	13,882

Pensions

The reporting requirement known as IAS 19 “Retirement Benefits” features in the Authority’s accounting statements. This is a complex accounting standard, but is based on a simple principle; that an organisation should account for retirement benefits when the commitment to give them is made, even if the actual liability will be many years into the future. The PCC Group operates two schemes, one of which, the Local Government Pension Scheme (LGPS) is funded and has assets to meet the future liabilities; the other for Police Officers is unfunded (or “pay as you go”) with payments being made from the Home Office Police Officer pensions account as they become due.

From 2004/05, there was a requirement to disclose in the financial statements the full effect of IAS 19. The Comprehensive Income and Expenditure Statement has been designed to include the cost of retirement benefits when they are earned by employees rather than when the benefits are eventually paid as pensions. This has had a major impact on the statement, with the bottom line usually showing a large deficit (£138,245k in 2012/13).

The total pension liability for the two schemes is shown in the Balance Sheet. This has been achieved by the creation of a Pensions Reserve and Pension Liability Account. Full details of the accounting entries are shown in the notes to the accounts. The effect of including this liability has a significant impact, in terms of the overall value of the Balance Sheet. It is important to note that these are not new liabilities; they have always existed and been paid for on an annual basis from the revenue budget and funded separately by the Home Office in the case of the police officer scheme. The physical and cash reserves of the PCC Group are unaffected.

From 1st April 2006, a new method of financing the annual cost of Police Officer pensions was introduced by the Government with a separate memorandum Pensions Account being created. All payments are made to retired officers out of this account, and income received from Government to offset the net cost of the account after serving officer contributions have been deducted. This has smoothed the burden on the PCC and Chief Constable of budgeting for the increasing costs of police officer pensions.

Capital Expenditure

Capital Expenditure during the year totalled £9.5 million, this included the following major items: a Business Transformation Project in conjunction with our Strategic Partner G4S on our ICT , Infrastructure and Buildings costing £5.1 million; Schemes to improve the Force Estate costing £0.5 million; A major project to improve the Force Control Room costing £1.3 million and the replacement of operational vehicles at a cost of £0.8 million. In addition a liability has been established in respect of £1.1 million of assets transferred to the Strategic Partner; this has been treated as a Finance Lease in the Accounts. Capital Expenditure was financed from:

- Home Office Grants and other grants of £1.2 million
- Capital Receipts of £1.5 million
- Contribution from Revenue of £0.2 million
- Financed Initially from Internal Cash Balances £5.4 million

The Prudential Code for Capital Finance in Local Authorities came into being on 1st April 2004. Under this system, individual PCC's are responsible for deciding the level of their borrowing, having regard to the Prudential Code. Borrowing was not necessary in 2012/13 due to the level of cash balances being held. Total debt outstanding at 31st March 2013 was £18.2 million, with £0.17 million interest owing.

Assets and Liabilities

These are summarised in the table below.

	2011/12 £m	2012/13 £m
Assets:		
Long-Term Assets	28.8	32.1
Current Assets	23.2	20.3
Liabilities:		
Current Liabilities	(14.8)	(16.7)
Long-Term Liabilities	(880.9)	(1,018.9)
Total Net Assets	**(843.7)**	**(983.2)**
Financed by:		
Usable Reserves	12.0	14.1
Unusable Reserves	(855.7)	(997.3)
Total Reserves	**(843.7)**	**(983.2)**

Prospects for 2013/14 and beyond

For the financial year 2013/14, the PCC set a budget against the background of continued organisational change and the Government's programme of significant reductions in public sector spending. With effect from the 1st April 2012 the Authority entered into a Strategic Partnership with the private sector company G4S for the provision of mid and back office services. This was the largest commercial contract in UK Policing with a contract being signed for an initial 10 year period.

This contract together with a major reorganisation of operational policing and a continuation of the realisation of significant savings in the revenue budget combined to meet a significant proportion of the forecast deficit for 2013/14. In order to provide for a balanced budget the PCC determined a precept increase of 1.94%, in doing so the PCC considered the Government's one year only offer of grant in return for a council tax freeze. The decision was taken in the light of future reductions in central government grant and the impact accepting the freeze would have, resulting in a significant increase in precept the following year and/or further reductions in police officer numbers.

The Government has not formally announced a grant settlement for the period beyond 2013/14. However, previously provided guidance on future grant payable in 2014/15 has been factored into a proposed budget for that year, which together with a planned use of £1.5 million of earmarked reserves provides for a balanced budget. Forecasting beyond this year has been undertaken up to 2017/18 this will be refined following the Government's Spending Review announcements anticipated in late June 2013. Further reductions in Formula Grant have been anticipated based upon a range of options varying between a 12% and 20% reduction in grant over the next four years. Plans are being developed in response to the potential reductions in income.

The Police & Crime Plan sets out the PCC's aim to secure a fairer deal for the people of Lincolnshire. Whilst Lincolnshire is the lowest spending Force in England and receives the third lowest level of Government funding, the people of Lincolnshire make an above average contribution to the cost of policing, contributing 41% of the total spend compared with an average contribution of 31% by council tax payers in England. .

The PCC has approved a capital programme of £6.2 million in 2013/14. The programme includes:

- Capital element of the Strategic partnership arrangements;
- Significant investment in the Force estate;
- Replacement programme for vehicles.

The financial situation requires that this level of expenditure be reviewed to identify savings in order to reduce future capital financing charges in the revenue account.

Impact of the current economic climate

A revaluation of the PCC's asset portfolio has been undertaken, the revised valuations reflecting the current commercial property market with a reduction on the value of the major assets of £1.207 million recorded due to the sale of the old Grantham site. The total value of the estate is now £21.587m.

The PCC has reviewed the policy for the investment of cash flow funds and has confirmed that the security and liquidity of investments are the priority over the yield. The continuing uncertain nature of the banking sector particularly with regard to the difficulties being experienced in the Euro zone has resulted in the PCC continuing the policy of limiting exposure to a small number of UK based institutions. This policy coupled with the continuation of historical low interest rates has however resulted in the continuance of lower returns from investments.

Police and Crime Commissioners

The introduction of the Police and Crime Commissioner has resulted in significant changes to the accounting and governance arrangements for policing. These Statements of Account, for both the Group and the Chief Constable, reflect the changes in governance. At this stage, the approach adopted is based upon a minimum recognition of police officers in the Chief Constable's accounts met with a corresponding transfer of funds from the PCC. There has been no transfer of assets, liabilities or reserves into the Chief Constable's accounts. Stage 2 of the transfer process may result in the further development of these changes; a project to plan for the further transition is being developed with the proposals being presented to the Home Secretary in mid September 2013 for implementation in April 2014.

Julie Flint, CPFA MSc
Chief Finance Officer Police and Crime Commissioner

Statement of Responsibilities for the Statement of Accounts

This section explains the Police and Crime Commissioner's responsibilities for his financial affairs and how he makes sure he carries out his responsibilities properly.

The Police and Crime Commissioner's Responsibilities

The PCC is required to

- make arrangements for the proper administration of the financial affairs of the PCC and to secure that one of its officers has the responsibility for the administration of those affairs, which for the PCC is the Chief Finance Officer;
- to manage affairs of the PCC to secure economic, efficient and effective use of resources and to safeguard its assets;
- to approve the Statement of Accounts.

Responsibilities of the Chief Finance Officer

The Chief Finance Officer is responsible for the preparation of the PCC's Statement of Accounts 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.

CHIEF FINANCE OFFICER'S CERTIFICATE

I certify that the Financial Statements present a true and fair view of the financial position of the Police and Crime Commissioner for Lincolnshire as at 31st March 2013 and its income and expenditure for the year then ended.

…………………………………………….
Julie Flint CPFA MSc
Chief Finance Officer

Date: …………………..

Annual Governance Statement

This section details the Police and Crime Commissioner for Lincolnshire's governance arrangements in operation during 2012/13 including plans for the financial year 2013/14.

1. SCOPE OF RESPONSIBILITIES

1.1 The Police and Crime Commissioner for Lincolnshire ("the Commissioner") is responsible for ensuring his business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

1.2 The Commissioner has a duty under the Policing Protocol Order 2011 to secure value for money on behalf of the public that he serves.

1.3 In discharging this overall responsibility, the Commissioner is required to put in place proper arrangements for the governance of his affairs and which facilitate the exercise of his functions, which includes ensuring a sound system of internal control is maintained through the year and that arrangements are in place for the management of risk. In exercising this responsibility the Commissioner places reliance on the Chief Constable of Lincolnshire Police to support the governance and risk management processes.

1.4 The Commissioner has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework: Delivering Good Governance in Local Government. A copy is on our website at www.lincolnshire-pcc.gov.uk or can be obtained from Malcolm Burch, Chief Executive, Office of the Police and Crime Commissioner for Lincolnshire, Police Headquarters, Deepdale Lane, Nettleham, Lincoln, LN2 3LT. Telephone 01522 947192. Email **lincolnshire-pcc@lincs.pnn.police.uk**.

1.5 This statement explains how the Commissioner has complied with the Code and also meets the requirements of regulation 4(3) of the Accounts and Audit Regulations 2011 in relation to the publication of an annual governance statement.

1.6 A Force Annual Governance Statement is signed by the Chief Constable in his own set of accounts and supports the group governance arrangements.

2. THE PURPOSE OF THE GOVERNANCE FRAMEWORK

2.1 The governance framework comprises the systems and processes, and culture and values utilised in the discharge of the Commissioner's statutory functions. It enables the Commissioner to monitor the achievement of his policies and strategic plans (as outlined in the Police and Crime Plan for Lincolnshire and associated strategies) and to consider whether those plans have led to the delivery of appropriate, cost-effective services, including achieving value for money.

2.2 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable and foreseeable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Commissioner's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, to manage them effectively, efficiently and economically.

2.3 The governance framework has been in place for the year ended 31 March 2013 and up to the date of approval of the statement of accounts.

2.4 It should be noted that for the period of this statement, two discrete corporate entities were in existence; from 1 April 2012 – 21 November 2012 Lincolnshire Police Authority carried out those statutory functions which transferred upon its dissolution to the Police and Crime Commissioner for Lincolnshire on 22 November 2012. The statutory basis for this change is the Police Reform and Social Responsibility Act 2011. The legislation also provided for the transfer to the Police and Crime Commissioner of all assets and liabilities held by the Lincolnshire Police Authority.

3. THE GOVERNANCE FRAMEWORK

3.1 The key elements of the systems and processes that comprise the governance arrangements put in place for the Commissioner and Force are measures:

- for identifying and communicating the Commissioner's vision, purpose and intended outcomes;
- for reviewing the Commissioner's vision and its implications for governance arrangements;
- for measuring the quality of services for users, for ensuring they are delivered in accordance with the Commissioner's objectives and for ensuring that they represent the best use of resources;
- for defining and documenting the roles and responsibilities of the Commissioner and Force and the senior officers of each, setting out clear delegation arrangements and protocols for effective communication, and arrangements for challenging and scrutinizing Force activity;
- for developing, communicating and embedding codes of conduct, defining the standards of behaviour for officers and staff;
- for reviewing and updating standing orders, standing financial instructions, a scheme of delegation, contract/procurement regulations, and supporting procedure notes/ manuals, which clearly define how decisions are taken and the processes and controls required to manage risks;
- for undertaking the core functions of an audit committee, as identified in CIPFA's Audit Committee – Practical Guidance for Local Authorities; - *Delivering good governance in local government: Guidance note for Police*;
- for ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful;
- for whistle blowing and for receiving and investigating complaints from the public and handling redress;
- for identifying the development needs of senior officers in relation to their strategic roles, supported by appropriate training;
- for establishing clear channels of communication with all sections of the community and other stakeholders, ensuring accountability and encouraging open consultation;

- for incorporating good governance arrangements in respect of partnerships and other group working and reflecting these in the Commissioner's overall governance arrangements.

4. REVIEW OF EFFECTIVENESS

4.1 The Commissioner has responsibility for conducting, at least annually, a review of the effectiveness of the governance framework, including:

- the system of internal audit
- the system of internal control.

4.2 This review has been informed by the work of the Chief Executive, Deputy Chief Executive and the Chief Finance Officer, internal auditors, and also other members of the Commissioner's staff who have the responsibility for the development, maintenance and operation of the governance environment. In addition comments made by the internal and external auditors and other review agencies and inspectorates have informed this review.

4.3 The Commissioner has overall responsibility for Corporate Governance, including adopting a Code of Corporate Governance. He and the Chief Constable are advised by the Interim Independent Joint Audit Committee.

4.4 The Audit Committee has received and considered reports from both Internal and External Audit and monitored the implementation of action plans drawn up to address identified internal control weaknesses. The Performance Governance meetings consider Force performance and the Resources Governance meeting considers financial and people resources.

4.5 The Force has undertaken its own review of governance and its own Annual Governance Statement has informed and supports this statement.

4.6 Internal Audit have completed their programme of work for 2012/13 and reported the outcome of their work to the Audit Committee.

4.7 The results of the review of the effectiveness of the governance framework have informed the development of a plan to address weaknesses and to ensure continuous improvement.

5. SIGNIFICANT GOVERNANCE ISSUES

5.1 A significant area of focus for the members and officers of Lincolnshire Police Authority ("the Authority") during 2012 was planning for the transition to the Commissioner, in particular the governance issues arising from the transition. The Authority initiated the Police Reform Project in order to ensure that systems and processes were in place to enable the Commissioner to discharge his statutory functions from 22 November 2012. Whilst resource was dedicated to this work, the Authority also ensured it continued to fully exercise those duties incumbent on it until the point of transition.

5.2 The Authority's work in preparing for the Commissioner was subject to review as part of the internal audit plan for 2012/13 and Her Majesty's Inspectorate of Constabulary's ("HMIC's") programme of reviews "Preparing for Police and Crime Commissioners." HMIC concluded that the Authority had "a mature approach to assessing and managing the process" and "a clear commitment to ensuring business as usual." The Authority continued to use its existing governance arrangements to ensure the effective discharge of statutory functions.

5.3 Prior to its dissolution, the Police Authority was the sole legal entity holding all assets and liabilities associated with policing in Lincolnshire. On its dissolution, two separate legal entities were created i.e. the Corporations Sole of the Police and Crime Commissioner and the Chief Constable. Initially, in accordance with the Police & Social Responsibility Act 2011, all assets and liabilities transferred to the Corporation Sole of the Police and Crime Commissioner, but the legislation envisages that schemes for Stage 2 Transfers will be developed by Police & Crime Commissioners, in consultation with their Chief Constables, during 2013/14 to take effect from 1 April 2014. Such schemes require the approval of the Home Secretary and should set out which assets, liabilities and contracts for both employment and the supply of goods and services will transfer to the Corporation Sole of the Chief Constable.

5.4 Currently, activity is underway both locally and nationally to understand the implications of Stage 2 Transfers and to develop local schemes which are required to be submitted to the Home Secretary during September 2013. In Lincolnshire, a Business Case is being developed to draw out the potentially significant cost implications of Stage 2 together with the benefits that might be achieved as a result.

5.5 The Authority and then the Commissioner's activity has continued to be heavily informed by the challenges presented by the financial landscape resulting from HM Treasury's Spending Review 2010. These have impacted, and will continue to impact, upon the future shape of policing in the county. This continuing and substantial change presents on-going governance risks to the Commissioner and these are being closely monitored and managed via the Commissioner's governance framework and medium term financial planning. This forward planning also anticipates the forthcoming announcements from Government on the next spending review period, which are expected during 2013/14.

5.6 In December 2011, the Authority entered into its innovative strategic partnership with G4S. This sought to contribute to the financial savings plans whilst identifying capital investment for ICT infrastructure and bringing transformation that would lead to efficiencies and the maintenance or enhancement of existing services levels. The contract commenced on 1 April 2012 at which point 585 former Lincolnshire Police staff transferred to G4S, with the company now delivering a number of key services including back office functions, the Force Control Room and Custody services. Robust governance arrangements are in place to monitor and manage this contract on behalf of the Commissioner and which commits G4S to saving the Commissioner £36m over ten years. In the first year indications are that this savings target will be exceeded, achieving savings in excess of £5m (18%) per year over the life of the contract. Tangible service improvements have also been delivered in key public facing areas such as the Force Control Room and Firearms Licensing.

5.7 The Authority built on the work of previous years to align and develop the timetables for the drafting of the policing plan and budget in order to define key milestones, deliverables and decision points. This approach has continued during the development of the Commissioner's Police and Crime Plan. Both documents contain agreed key performance indicators (KPIs) which are used to monitor Force performance. The use of KPIs strengthens our ability to measure the quality of service for users and aid the communication of service outcomes, as well as hold the Force and Chief Constable to account on behalf of the communities of Lincolnshire. Additionally a Strategy and Operations Plan drives the work of the Commissioner's staff and aids in the delivery of key business objectives which support the Commissioner's governance role.

5.8 Police and Crime Commissioners have significantly wider remits than their police authority predecessors. The development of the Commissioner's Police and Crime Plan was therefore informed by bespoke consultation with key agencies and partners as well as the public. Significant work has been undertaken since the Commissioner took office to develop joint strategies with partners, particularly within the areas of community safety and criminal justice. Funds previously directed through the County Council for Community Safety are now channelled to the Commissioner, bringing additional governance responsibilities. Work in this area will continue to expand during 2013/14 in preparation for Government's plans for Commissioners to take responsibility for the commissioning of some victims' services during 2014/15.

5.9 In order to facilitate the discharge of the core functions of the Commissioner to hold the Chief Constable to account and maintain an efficient and effective police service, the Commissioner approved his governance framework on his first day in office. This includes regular meetings to monitor and review the implementation and delivery of the Commissioner's strategic plans as outlined in the Police and Crime Plan and associated strategies. Bespoke meetings are in place to cover the areas of professional standards, resources (finance, assets, people) and performance. In addition regular thematic briefings are supplied by the Force and reviewed by the Commissioner to cover areas of operational policing. The Commissioner and his staff have also continued to utilise the assurance framework developed by the Authority. This enables the Commissioner to clearly articulate to the Force areas of concern as well as recognise success and continuous improvement.

5.10 The Commissioner's Scheme of Arrangements for the discharge of functions including consented powers, delegations to officers, financial regulations and contract and procurement regulations was also approved by the Commissioner on his first day of office. Alongside this, the Commissioner put in place his policy for the making and publication of decisions of significant public interest, his expenses scheme, code of conduct and publications scheme. Policies and procedures transferring from the Authority to the Commissioner were reviewed and updated to ensure fitness for purpose.

5.11 As required by the Financial Management Code of Practice for the police service, the Commissioner and the Chief Constable have established an interim independent joint audit committee which met twice in 2012/13 following the Commissioner taking office. Recruitment to the permanent committee will commence in June 2013. The Committee has, among other areas, reviewed the Commissioner's risk management strategy. The Commissioner's corporate risk register is reviewed regularly by the Commissioner's officers and an annual review resulted in the re-assessment and re-evaluation of all risks.

5.12 Police funding continues to be a major concern for the Commissioner. Lincolnshire Police remains the lowest funded Force per head of population in England and Wales and significantly below the national average. Over the course of the current Spending Review period savings of £20m are required in order to achieve a balanced budget and we are actively developing plans in order to be able to respond to the demands of the next spending review period during 2013/14. The Commissioner's Police and Crime Plan clearly articulates his strategy around financial management and achieving greater efficiency and effectiveness. Significant contributors to plans in this area include our strategic partnership with G4S, developing our approach to reviews of productivity and demand and our value for money strategy. The implementation and further development of strategy in this area will continue to be an important area of focus during 2013/14. As part of this work the Commissioner's medium term financial strategy has been refreshed during the year and will be revisited during 2013/14 in order to inform budget preparations for 2014/15.

5.13 The Commissioner has continued the Authority's approach of operating a risk based reserves policy which seeks to establish the General Reserve at a level which is commensurate with the midpoint of an acceptable range. The range of required reserves is assessed as £5.22m to £11.25m. This range of acceptability is wide and results in a mid-point of £8.235m. Following the establishment of the outturn for 2012/13, the level of the General Reserve is £8.267m, in line with the target. The reserves policy will be reviewed as part of the budget setting process for 2014/15.

5.14 The joint Police and Crime Commissioner and Force Anti-fraud and Corruption Policy has been reviewed during the year. Quarterly meetings between the Chief Finance Officer, Force CFO, Professional Standards Department, HR officers and internal audit ensure that current and emerging risks and issues in relation to anti-fraud and corruption are regularly discussed and reviewed.

5.15 In addition to specific consultation as part of the development of the Police and Crime Plan, the Commissioner has set out a commitment to be accessible to the public through a range of channels. In the course of the year from 22 November 2012 – 31 March 2013, the Commissioner received in excess of 1,000 pieces of correspondence, covering a wide range of issues. This has required a change to the way the Commissioner is supported by his staff in comparison with the arrangements that were in place for the Authority, but has demonstrated that there is a an effective link between the public and the directly elected individual charged with governance.

5.16 The Commissioner's staff have continued to provide secretariat support to the East Midlands collaboration arrangements between the region's forces and Commissioners. As part of this work, the Commissioner's Chief Executive has been leading the strengthening of the governance arrangements for collaboration. Effective delivery of those areas of operational policing provided through collaboration in the region remains central to the Commissioner's strategy for policing in the county, therefore risks related to this complex area of governance will be managed closely in the coming year.

5.17 Her Majesty's Inspectorate of Constabulary (HMIC) continues its programme of Valuing the Police inspections and issued a national report "Policing in Austerity: One year on" in July 2012. HMIC recognised the work the Authority and Force had carried out to manage anticipated reductions in funding, including the strategic partnership with G4S, regional collaboration and internal reviews. HMIC also observed at that time that further work needed to be done to meet the overall savings target by Spring 2015. The Authority, and now the Commissioner and Force have continued to manage this area robustly. For 2013/14 the Commissioner was able to deliver a balanced budget whilst maintaining police officer numbers in excess of the level anticipated in the earlier planning of the Authority. All savings targets have been delivered to date and most recent reviews by HMIC observe no risk to the achievement of the overall spending review targets. However, as noted earlier, medium term planning to maintain sustainable budgets and service levels will continue to be a critical area of activity during 2013/14.

5.18 The Commissioner's Chief Executive and Deputy Chief Executive have identified and addressed the development needs of the Commissioner's other officers through structured performance development reviews during 2012/13 and this will continue in the forthcoming year.

5.19 The Commissioner has ensured he has arrangements in place for receiving and handling complaints from the public which are within his statutory remit.

5.20 In February 2013, the Commissioner was obliged to deal with an unexpected allegation relating to the temporary Chief Constable. The allegation came from a very senior and credible police source who had shared it informally with HMIC, IPCC, CPOSA the Home Office and other senior police colleagues before it reached the Commissioner. In considering the appropriate course of action, the Commissioner was supported by a very experienced private legal firm, Andrew and Co who had provided monitoring officer and legal services support to the Police Authority for many years and included a former Chief Executive of the Police Authority on their staff. The Commissioner also consulted with IPCC prior to making a decision on this matter. The IPCC Commissioner indicated in a telephone conversation that she had received a copy of the allegation letter, expected the matter to be recorded and referred to the IPCC immediately. She also indicated that she would not seek to dissuade the Commissioner from a course of action to suspend the temporary Chief Constable.

5.21 On 25 February 2013, the Commissioner suspended the Chief Constable from duty whilst investigations were considered. On 11 March 2013, the IPCC returned the matter for local investigation. On 14 March 2013, the Commissioner appointed Sir Peter Fahy, Chief Constable of Greater Manchester Police, to lead the local investigation. The temporary Chief Constable sought Judicial Review of the Commissioner's decision to suspend him from duty. On 28 March, the decision to suspend was quashed in the High Court, the ruling on the suspension being made on the legality of the Commissioner's decision and did not prejudge the outcome of the investigation being lead by Sir Peter Fahy.

5.22 In August 2013, Sir Peter Fahy concluded his investigation, reported that no proof to substantiate the allegation had been found and recommended, *inter alia*, that the misconduct allegation against the Chief Constable be formally withdrawn. Sir Peter Fahy's report is published on the Commissioner's website at **http://www.lincolnshire-pcc.gov.uk/Document-Library/Operation-Redbone.pdf**. The relationship between the Commissioner and the Chief Constable remains positive and professional.

5.23 As indicated above, the current Chief Constable is a temporary appointment and it is anticipated that the Commissioner will seek to make a permanent appointment to the position following the conclusion of the Sir Peter Fahy investigation.

5.24 We propose over the coming year to continue our plans to address the above matters to further enhance our governance arrangements. These steps will address the need for improvements that were identified in our review of effectiveness and we will monitor their implementation and operation as part of our next annual review.

SIGNED

______________________________	______________________________
Alan Hardwick Police and Crime Commissioner for Lincolnshire	Malcolm Burch Chief Executive to the Police and Crime Commissioner for Lincolnshire
DATE ________________________	DATE ________________________

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PCC for Lincolnshire
Group Movement in Reserves Statement
2012/13

This statement shows the movement in the year on the different reserves held by the PCC, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other services. The true economic cost of providing the PCC's services is shown as the Surplus / Deficit on the Provision of Services in the Group Comprehensive Income and Expenditure Statement. However, this value is different from the statutory amounts required to be charged to the General Fund Balance. Hence, the statutory General Fund Balance is shown in the PCC's Movement in Reserves Statement.

	Capital Receipts Reserve £000	Earmarked Reserves £000	General Fund Balance £000	**Total Usable Reserves £000**	Unusable Reserves £000	**Total Authority Reserves £000**
Balance at 31 March 2011	**-**	**5,512**	**5,064**	**10,576**	**(791,138)**	**(780,562)**
Movement in Reserves during 2011/12						
Surplus on the provision of services	-	-	(50,684)	(50,684)	-	(50,684)
Other Comprehensive Income and Expenditure	-	-	-	-	(12,495)	(12,495)
Total Comprehensive Income and Expenditure	**-**	**-**	**(50,684)**	**(50,684)**	**(12,495)**	**(63,179)**
Adjustments between accounting basis and funding basis under regulations (Note 6)	545	-	51,555	52,100	(52,100)	-
Net Increase / Decrease before Transfers to Earmarked Reserves	**545**	**-**	**871**	**1,416**	**(64,595)**	**(63,179)**
Transfers to/from Earmarked Reserves (Note 7)	-	268	(268)	-	-	-
Increase/(Decrease) in 2011/12	**545**	**268**	**603**	**1,416**	**(64,595)**	**(63,179)**
Balance at 31 March 2012 carried forward	**545**	**5,780**	**5,667**	**11,992**	**(855,733)**	**(843,741)**
Movement in Reserves during 2012/13						
Surplus on the provision of services	-	-	(31,899)	(31,899)	-	(31,899)
Other Comprehensive Income and Expenditure	-	-	-	-	(107,582)	(107,582)
Total Comprehensive Income and Expenditure	**-**	**-**	**(31,899)**	**(31,899)**	**(107,582)**	**(139,481)**
Adjustments between accounting basis and funding basis under regulations (Note 6)	(312)	-	34,334	34,022	(34,022)	-
Net Increase / Decrease before Transfers to Earmarked Reserves	(312)	**-**	**2,435**	**2,123**	**(141,604)**	**(139,481)**
Transfers to/from Earmarked Reserves (Note 7)	-	2,439	(2,439)	-	-	-
Increase/(Decrease) in 2012/13	**(312)**	**2,439**	**(4)**	**2,123**	**(141,604)**	**(139,481)**
Balance at 31 March 2013 carried forward	**233**	**8,219**	**5,663**	**14,115**	**(997,337)**	**(983,222)**

PCC for Lincolnshire
Group Comprehensive Income and Expenditure Statement
2012/13

This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Local authorities raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement of Reserves Statement.

2011/12			Note		2012/13		
Gross Expenditure £000	**Gross Income £000**	**Net Expenditure £000**			**Gross Expenditure £000**	**Gross Income £000**	**Net Expenditure £000**
55,596	(5,329)	50,267		Local Policing	42,557	(5,388)	37,169
9,034	(120)	8,914		Dealing with the Public	7,867	(134)	7,733
9,505	(586)	8,919		Custody	12,370	(211)	12,159
7,941	(1,323)	6,618		Road Policing	6,087	(1,338)	4,749
6,607	(88)	6,519		Specialist Operations	6,785	(116)	6,669
4,548	(60)	4,488		Intelligence	5,662	(97)	5,565
30,963	(724)	30,239		Investigation	38,811	(498)	38,313
3,369	(45)	3,324		Investigative Support	2,226	(38)	2,188
2,902	(368)	2,534		National Policing	2,021	(1,815)	206
1,068		1,068	**41**	Corporate and Democratic Core	1,042		1,042
10,065		10,065	**41**	Non Distributed Costs: Other	110		110
141,598	**(8,643)**	**132,955**	**40**	**Cost of Services**	**125,538**	**(9,635)**	**115,903**
1,448	(1,334)	114	**8**	Other Operating Expenditure	3,054	(1,646)	1,408
44,225	(326)	43,899	**9**	Financing and Investment Income and Expenditure	41,328	(257)	41,071
-	(126,284)	(126,284)	**10**	Taxation and Non-Specific Grant Income	-	(126,483)	(126,483)
187,271	**(136,587)**	**50,684**		**(Surplus) or Deficit on the Provision of Services**	**169,920**	**(138,021)**	**31,899**
		(151)	**27**	(Surplus) / Deficit on Revaluation of Non-Current Assets			(119)
		12,646	**54**	Actuarial (Gains) or Losses on Pension Assets and Liabilities			107,701
		12,495		**Other Comprehensive Income and Expenditure**			**107,582**
		63,179		**Total Comprehensive Income and Expenditure**			**139,481**

There were no acquisitions or discontinued operations in the current year or in the preceding year.

PCC for Lincolnshire
Group Balance Sheet as at 31st March 2013

The Balance Sheet shows the value as at the Balance Sheet date of the assets & liabilities recognised by the PCC. The net assets of the PCC (assets less liabilities) are matched by the reserves held. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the PCC may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves are those that the PCC is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the revaluation reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'. As there is no distinction between the Group and the PCC assets there is no separate statement for the PCC.

31 March 2012 £000	Note		31 March 2013 £000
27,883	11	Property, Plant and Equipment	31,247
825	13	Investment Property	795
2	14	Intangible Assets	1
122	20	Long-Term Debtors	112
28,832		**Long-Term Assets**	**32,155**
0	18	Short-Term Investments	-
494	19	Inventories	432
8,216	20	Short-Term Debtors	9,569
13,294	21	Cash and Cash Equivalents	10,277
1,229	22	Assets Held for Sale (< 1 yr)	-
23,233		**Current Assets**	**20,278**
(2,395)	18	Short-Term Borrowing	(2,059)
(11,469)	23	Short-Term Creditors	(12,219)
0	51	Other Short Term Liabilities	(283)
(351)	24	Short-Term Provisions	(1,763)
(629)	47	Capital Grants Receipts in Advance (< 1 yr)	(423)
(14,844)		**Current Liabilities**	**(16,747)**
(18,031)	18	Long-Term Borrowing	(16,128)
(862,791)	54	Pension Liabilities	(1,002,127)
-	51	Other Long-Term Liabilities	(515)
(140)	24	Long-Term Provisions	(138)
(880,962)		**Long-Term Liabilities**	**(1,018,908)**
(843,741)		**Net Assets**	**(983,222)**
11,992	25	Usable Reserves	14,115
(855,733)	26	Unusable Reserves	(997,337)
(843,741)		**Total Reserves**	**(983,222)**

PCC for Lincolnshire
Group Cash Flow Statement
2012/13

The Cash Flow Statement shows the changes in cash and cash equivalents of the Group during the reporting period. As there is no distinction between the Group and the PCC cash movements there is no separate statement for the PCC.
The statement shows how the Group generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the way the Group has managed its cash outflows against the monies received by way of grant income or from the recipients of services provided by the Group. Investing activities shows how the Group has made best use of its resources which are intended to contribute to the Group's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers or capital (i.e. borrowing) to the Group.

2011/12 £000	Note		2012/13 £000
50,684		Net (Surplus) or Deficit on the Provision of Services	31,899
(52,418)	**32**	Adjustments to net surplus or deficit on the provision of services for non-cash movements	(39,831)
558	**33**	Adjustments for items included in the net surplus or deficit on the provision of services that are investing and financing activities	1,202
(1,176)	**34**	**Net Cash Flows from Operating Activities**	**(6,730)**
(1,275)	**35**	Investing Activities	7,202
(1,126)	**36**	Financing Activities	2,545
(3,577)		**Net (Increase) or Decrease in Cash and Cash Equivalents**	**3,017**
9,717	**21**	Cash and Cash Equivalents at the Beginning of the Reporting Period	13,294
13,294	**21**	Cash and Cash Equivalents at the End of the Reporting Period	10,277

PCC for Lincolnshire
Notes to the Accounts
2012/13

1. Accounting Policies

General Principles

The Statement of Accounts summarises the PCC's transactions for the 2012/13 financial year and its position at the year end of 31st March 2013. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2011 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 2012/13 and the Service Reporting Code of Authority Accounting 2012/13, supported by International Financial Reporting Standards.

These group accounts comprise of the PCC and the Chief Constable. The Chief Constable's accounts have been prepared on the basis that all of the Chief Constable's functions are being exercised as an agent of the Police and Crime Commissioner.

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.

Changes in Accounting Policies

Changes in accounting policy may arise through changes to the Code or changes instigated by the PCC. For changes brought in through the Code, the PCC and group will disclose the information required by the Code.

For other changes we will disclose:

- the nature of the change;
- the reasons why the change has been made;
- report the changes to the current period and each prior period presented and the amount of the adjustment relating to periods before those presented.

If retrospective application is impracticable for a particular prior period (or for periods before those presented), we will disclose the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.

Prior Period Adjustments

The Code requires prior period adjustments to be made when material omissions or misstatements are identified. Such errors include the effects of arithmetical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

The following disclosures will be made for each prior period adjustment:

- the nature of the prior period error;
- for each prior period presented, to the extent practicable, the amount of the correction for each financial statement line item affected, and;
- the amount of the correction at the beginning of the earliest prior period presented.

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 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 fo 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.

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
- are expected to be used during more than one period.

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.

a) Initial Recognition

To be recognised as an item of property, plant and equipment an asset must:

- yield benefits to the PCC for more than a year; and
- have a cost which can be measured reliably.

Assets are initially measured at cost on an accruals basis, comprising all expenditure that is directly attributable to bringing the asset into working condition for its intended use and costs incurred subsequently to enhance, replace part of, or service it as long as the above criteria are met. This excludes expenditure on training, routine repairs and maintenance, which are charged directly to the Comprehensive Income & Expenditure Statement.

Further details relating to capital expenditure are set out in the PCC's Capitalisation Policy.

De minimis level

The PCC has no de minimis level for recognising property, plant and equipment. This means that any item or scheme which meets the above criteria could be treated as capital. This relates to initial recognition and subsequent expenditure on assets.

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 Comprehensive Income & Expenditure Statement.

b) 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. Land and building valuations have been carried out by Lambert Smith Hampton, members of The Royal Institution of Chartered Surveyors. 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 1st April 2011. This valuation has been updated as at 31st March 2012 by way of a desktop revaluation of all assets, and again at 31st March 2013.

All valuations are in accordance with the capital accounting rules on the following basis:

Operational Assets

- Land and operational properties – where the assets are considered by valuers to be "specialist" in nature (for example custody suites in operational police stations) they are valued at depreciated replacement cost (DRC), reflecting their value to the PCC in their current use. Because of 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. Also note that

- vehicles, plant and equipment are determined to have short asset lives and are measured at historic cost; and
- furniture and non-specialist equipment are valued as a proportion of the building and have also been revalued in accordance with the movement in value of the host building.

Non-Operational Assets

- Surplus assets (being assets which the PCC no longer operates/are no longer used for service delivery, but are not investment properties or meet the definition for held for sale) are valued, measured and depreciated in line with the operational asset class; and
- 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.

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 2012/13 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.

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.

c) Revaluation Gains and Losses

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

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. 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.

d) Depreciation

Depreciation is charged on all assets with a finite useful life (which can be determined at the time of acquisition or revaluation). It is PCC policy that six months of depreciation is charged against assets in the year of acquisition and also in the year of disposal.

The policy on asset lives is as follows:

- Operational buildings (other than temporary buildings) are depreciated over their estimated useful life of between 20 and 50 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, varying between 3 and 5 years.

Depreciation is calculated as the current cost 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.

e) 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.

Amounts in excess of £10k are categorised as capital receipts and can then only be used for new capital investment or to repay the principal of any amounts borrowed. Sale proceeds below £10k are below the de-minimis and may be credited to the Comprehensive Income and Expenditure Statement.

f) Impairment of Non-Current Assets

If an asset's carrying amount is more than its recoverable amount, the asset is described as impaired. Circumstances that might indicate that an impairment has occurred include:

- a significant decline in an asset's market value during the period that is specific to the asset;
- evidence of obsolescence or physical damage of an asset;
- a commitment by the PCC to undertake a significant reorganisation; or
- a significant change in the statutory environment in which the PCC operates.

Recognising an Impairment

Impairment losses are initially recognised against the revaluation reserve for that asset, up to the balance available. Any remaining loss is charged in the Surplus or Deficit on provision of services. This is then reversed through the Movement in Reserves Statement and charged to the Capital Adjustment Account.

Intangible Assets

Intangible assets are defined as an identifiable non-financial (monetary) asset without physical substance, but are under the control of the PCC, and expected to provide future economic or service benefits.

For the Police & Crime Commissioner for Lincolnshire, the most common classes of intangible assets are software licences. Software which is integral to the operation of hardware, e.g., an operating system, is capitalised as part of the relevant item of property, plant or equipment. Software which is not integral to the operation of hardware, e.g., application software, is capitalised as an intangible asset.

a) Recognition and Measurement

Recognition of assets that qualify as an intangible asset shall be measured at cost. Costs that are directly associated with the development of intangible assets for internal use by the PCC are recognised under this heading, including employee costs.

Intangible assets are determined to have short asset lives and will continue to be carried at depreciated historic cost in the balance sheet after initial recognition.

De minimis level

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

b) Subsequent Expenditure

Costs associated with maintaining intangible assets are recognised as an expense when incurred in the Comprehensive Income and Expenditure Statement.

c) Amortisation

The carrying value of intangible assets with a finite life is amortised on a straight line basis over its useful life. Amortisation begins when the asset is available for use and ceases at the date that the asset is derecognised. Amortisation is charged to the relevant service area.

Intangible assets are all depreciated over an estimated useful life of 5 years.

Investment Properties

An investment property is defined as a property that is solely held to earn rental income or for capital appreciation or both.

a) Initial Recognition

As with Property, Plant and Equipment, initial recognition includes the costs associated with the purchase.

b) Measurement after Recognition

Investment properties are measured at fair value. Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's-length transaction.

c) Revaluation Gains and Losses

A gain or loss arising from a change in the fair value of investment property shall be recognised in Surplus or Deficit on provision of service.

d) Depreciation

Depreciation is not charged on investment properties.

e) Disposal of Investment Properties

Gains or losses arising from the disposal of an investment property shall be recognised in Surplus or Deficit on Provision of Services. As with all capital receipts, on de-recognition of an investment property the charge to the Surplus or Deficit on Provision of Services shall be reversed out of the General Fund.

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.

a) 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).

b) Depreciation

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

c) Disposal

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

Amounts in excess of £10k are categorised as capital receipts and can then only be used for new capital investment or to repay the principal of any amounts borrowed.

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;
- impairment losses; and
- amortisation of intangible assets.

The PCC is not required to raise council tax to cover depreciation, 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.

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 fixed 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 tangible fixed 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 fixed assets attributable to the service.

In accordance with the PCC's approved policy, the annual contribution towards the reduction in overall borrowing is equal to:

- 4% of the Capital Financing Requirement as at 31st March 2008, adjusted for repayments made since that date;
- 4% of any additional borrowing from 2008/09 onwards within our allocation of supported capital expenditure;
- for any other borrowing from 2008/09 onwards, a repayment based on the asset life method.

Depreciation, impairment losses and amortisations 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.

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 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.

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).

IAS 17 'Leases' includes indicators for the classification of leases as a finance lease. Within these indicators the PCC has set the following criteria: the 'major part' of the asset life is determined to be 75%; and 'substantially all' of the value is determined to be 75%.

Finance Lease

A lease is classified as a finance lease 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.

a) Finance Leases

i) Lessee – Vehicles, Plant & Equipment

Where a lease arrangement is identified as a finance lease and where the PCC is the lessee, the asset is recognised on the balance sheet at cost, and depreciated on a straight line basis over the term of the lease (in line with the PCCs capitalisation and depreciation policy for Vehicles, Plant and Equipment).

ii) Lessee – Property

Where a property lease arrangement is identified as a finance lease and where the PCC is the lessee, the asset is recognised on the balance sheet at an amount equal to the fair value of the property, or if lower, the present value of the minimum lease payments, determined at the inception of the lease.

In both cases above, a liability is also recognised at the asset value. This is reduced as lease payments are made.

Minimum lease payments are to be apportioned between the finance charge (interest) and the reduction of the deferred liability.

The finance charge (interest) will be charged to the surplus or deficit on the Provision of Services, and then transferred to the Capital Adjustment Account through the Movement In Reserves statement.

iii) Lessor – Property

Where a property lease arrangement is identified as a finance lease and where the PCC is the lessor, an asset is recognised on the balance sheet as a debtor at an amount equal to the net investment in the lease. The lease payment is treated as repayment of principal and finance income (interest).

Initial direct costs are included in the initial measurement of the debtor and recognised as an expense over the lease term on the same basis as the income.

Rental income from finance leases entered into after 1 April 2010 should be treated as a capital receipt.

b) Operating Leases

i) Lessee – Property, Vehicles, Plant & Equipment

Where a lease arrangement is identified as an operating lease and where the PCC is the lessee, the lease payments are treated as revenue expenditure on a straight line basis over the term of the lease.

ii) Lessor – Property, Vehicles, Plant & Equipment

Where a lease arrangement is identified as an operating lease and where the PCC is the lessor, an asset is shown within non-current assets according to the nature of the asset. (See above Property, Plant & Equipment policy.)

Lease income from operating leases shall be recognised as income on a straight line basis over the lease term.

Capital Government Grants and Contributions (for the acquisition of non-current assets)

Capital grants and contributions are used for the acquisition of non-current assets. The treatment of these grants is as follows:

a) Capital grants where there are no conditions attached to the grant. The income is recognised immediately in the Comprehensive Income & Expenditure Statement.

Capital grant income is not a proper charge to the General Fund. It is accounted for through the Capital Financing Requirement (set out in statue) so it does not have an effect on council tax. To reflect this, the income is credited to the Capital Adjustment Account through the Movement in Reserves Statement.

b) Capital grants where the conditions have not been met at the balance sheet date. At the balance sheet date the grant is recognised as a Capital Grant Receipt in Advance in the top part of the balance sheet. When the conditions have been met, the grant is recognised as income in the Comprehensive Income & Expenditure Statement and the appropriate statutory accounting requirements for capital grants are applied.

c) Capital grants where no conditions remain outstanding at the balance sheet date, but expenditure has not been incurred. The income is recognised immediately in the Comprehensive Income & Expenditure Statement. As the expenditure being financed from the grant has not been incurred at the balance sheet date, the grant is transferred to the Capital Grants Unapplied Account (within usable reserves in the balance sheet), reflecting its status as a capital resource available to finance expenditure, through the Movement in Reserves Statement. When the expenditure is incurred the grant is transferred from the Capital Grants Unapplied Account to the Capital Adjustment Account to reflect the application of capital resources to finance expenditure.

Debtors

Debtors are recognised in the accounts when the ordered goods or services have been delivered or rendered by the PCC by the 31st 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.

Creditors

Creditors are recorded where goods or services have been supplied to the PCC by 31st 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.

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 & 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.

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.

Investments and Cash Equivalents

a) Investments

The PCC will classify these as follows:

- Short term deposits (due to be returned within any period from a day to a year 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.

b) Cash and Cash Equivalents:

Cash Equivalents are held for the purpose of meeting short term cash commitments rather than for investment or other purposes. The PCC will classify these as follows:

- Other cash, on-call deposit accounts or banking facilities set up for the purpose of meeting short term liquidity requirements are classed as Cash and Cash Equivalents.

c) Bank Overdrafts:

Bank overdrafts are shown separately from Cash and Cash Equivalents. They are recorded as liabilities within Creditors

Provisions

The PCC sets aside provisions for future expenses where:

- ➢ an event has taken place on or before the balance sheet date that creates an obligation;
- ➢ it is probable that the obligation requires settlement by a transfer of economic benefits;
- ➢ the value of settlement can be reliably estimated; but
- ➢ the timing of the transfer is uncertain.

Provisions are charged to the Comprehensive Income & Expenditure Statement in the year that the PCC becomes aware of the obligation based on the best estimate of the likely settlement. When payments are eventually made they are charged to the provision set up in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year. When it becomes more likely than not that a transfer of economic benefits will not now be required (or a lower settlement than anticipated is made) the provision is reversed and credited back to the Comprehensive Income & Expenditure Statement.

Where some or all of the payment required to settle a provision is expected to be met by another party (e.g. from an insurance claim) the income is only recognised in the Comprehensive Income & Expenditure Statement if it is virtually certain that reimbursement will be received when the obligation is settled.

Provisions contained within the balance sheet are split between current liabilities (those which are estimated to be settled within the next 12 months) and non-current liabilities (those which are estimated to be settled in a period greater than 12 months).

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. These events may not wholly be within the control of the PCC.

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.

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.

Events after the Reporting Date

These are events that occur between the end of the reporting period and the date when the financial statements are authorised for issue. The PCC will report these in the following way if it is determined that the event has had a material effect on the PCC's financial position:

- events which provide evidence of conditions that existed at the end of the reporting period will be adjusted and included within the figures in the accounts; and
- events that are indicative of conditions that arose after the reporting will be reported in the narrative notes to the accounts.

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.

Costs of Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice for Local Authorities 2012/13. The full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the PCC's status as a multi-functional democratic organisation;
- Non Distributed Costs – the historic costs of retirement benefits and the costs of supporting non operational assets.

These two cost categories are accounted for as separate headings in the Comprehensive Income & Expenditure Statement as part of the Net Cost of Services.

Revenue Government Grants and Contributions

Government grants and other contributions are accounted for on an accruals basis and recognised in the accounts when it is expected that the conditions for their receipt will be complied with and there is reasonable assurance that the grant or contribution will be received.

Revenue grants are recognised in full in the year of their receipt. For grants not spent within the same financial year, the impact on the General Fund is negated by a transfer to Earmarked Reserves in the Movement in Reserves Statement.

Specific revenue grants are matched in the Net Cost of Services with the service expenditure to which they relate.

Grants which cover general expenditure (e.g. Revenue Support Grant) are credited to the foot of the Comprehensive Income & Expenditure Statement.

Value Added Tax (VAT)

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

Council Tax Income

The collection of council tax is in substance an agency arrangement with the seven Lincolnshire district authorities (billing authorities) collecting council tax on behalf of the PCC. The assessment of whether the PCC is acting as principal or agent is in line with IAS 18 Revenue, IPSAS 9 Revenue from Exchange Transactions and IPSAS 23 Revenue from Non Exchange Transactions.

The council tax income is included in the Comprehensive Income & Expenditure Statement on an accruals basis and includes the precept for the year plus the PCC's share of Collection Fund surpluses and deficits from the billing authorities.

The difference between the income reported in the Comprehensive Income & Expenditure Statement and the amount required by regulation to be credited to the General Fund shall be taken to the Collection Fund Adjustment Account through the Movement in Reserves Statement.

The year end balance sheet includes the PCC's share of year end debtors (arrears and collection fund surpluses) and creditors (prepayments, overpayments and collection fund deficits).

Reserves

a) 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.

b) 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.

Employee Benefits – Benefits Payable during Employment

a) Short Term Benefits

These are amounts expected to be within 12 months of the balance sheet date. They include:

- salaries, wages and expenses accrued up to the balance sheet date;
- annual leave and flexi hours earned, but not yet taken at the balance sheet date, and;
- 'back rest days' allocated to police officers when scheduled rest days are cancelled.

These items will be accrued in the balance sheet at the year end and charged to the relevant service revenue account. 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.

b) Long Term Benefits

These are amounts which are payable beyond 12 months. The PCC does not have any material long term benefits to be declared within the financial statements.

Employee Benefits – Termination Benefits

Termination benefits arise from the PCC's obligation to pay redundancy costs to employees. These costs will be recognised in the PCC's financial statements when the obligation to pay these benefits arises. For example; when there is a formal plan for redundancies approved by the Commissioner (including the location, function and approximate number of employees affected; the termination benefits offered, and the time of implementation).

These items will be accrued in the Balance Sheet at the year end and charged to the relevant service revenue account. If payments are likely to be payable in more than 12 months from the year end then these costs will be discounted at the rate determined by reference to market yields.

Employee Benefits – Post Employment Benefits (Pensions)

In accordance with IAS19, the Balance Sheet includes recognition of the net asset/liability and a pensions reserve. The Comprehensive Income & Expenditure Statement shows movements in the asset/liability relating to defined benefit schemes (with reconciling entries back to contributions payable for council tax purposes in the Movement in Reserves Statement).

Accounting for retirement benefits is complex but has a simple principle:

"An organisation should account for retirement benefits when it is committed to give them, even if the actual giving will be many years into the future."

The important distinction for pension schemes is whether they are "defined contribution" or "defined benefit". As the police pension scheme and police staff superannuation scheme are both based on employees earning benefits from years of service they are both "defined benefit schemes".

IAS 19 relies on the recognition of pension assets and liabilities.

Liabilities - being the retirement benefits promised measured on an actuarial basis

Assets – being the PCC's share of investments (if any)

Movements on these assets and liabilities have been recorded in the Comprehensive Income & Expenditure Statement. The PCC has commissioned the actuaries Hymans Robertson LLP to determine the relevant figures. More explanatory notes on each scheme are given below.

The Local Government Pension Scheme

The Local Government Scheme is accounted for as a defined benefits scheme. The liabilities of the Lincolnshire County Council pension scheme attributable to the PCC are included in the Balance Sheet on an actuarial basis using the projected unit method. (This is 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 of future employees). Liabilities are discounted to their value at current prices, using a discount rate of 4.5% (being 3.2% gilt yield plus 1.3% credit spread). This rate is based on market yields of high quality corporate bonds as at 31st March 2013 and over a term equivalent to the scheme liabilities. It is no longer equivalent to the iBoxx Index yield of 4.1% at the accounting date.

In assessing liabilities for retirement benefits at 31st March 2013 for the 2012/13 Statement of Accounts, the actuary made assumptions about inflation, salary increases, pension increases, expected return on assets and the discount rate. These are discussed further in Note 4.

The assets of the Lincolnshire County Council pension scheme attributable to the PCC are included in the Balance Sheet at their fair value as at 31st March 2013. The asset values are at bid value as required under IAS 19.

The Police Officer Pension Scheme

The police officer pension schemes (both the old and new schemes) are accounted for as defined benefits schemes. The liabilities of the police officer pension schemes are included in the Balance Sheet on an actuarial basis using the projected unit method. (This is 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 of future employees). Liabilities are discounted to their value at current prices, using a discount rate of 4.5% (being 3.2% gilt yield plus 1.3% credit spread). This rate is based on market yields of high quality corporate bonds as at 31st March 2013 and over a term equivalent to the scheme liabilities. It is no longer equivalent to the iBoxx Index yield of 4.1% at the accounting date.

In assessing liabilities for retirement benefits at 31st March 2013 for the 2012/13 Statement of Accounts, the actuary made assumptions about inflation, salary increases, pension increases, and the discount rate. These are discussed further in Note 4.

Pension Scheme Policies

The changes in the net pensions liability is analysed into seven components:

- current service cost – the increase in liabilities as a result of years of service earned this year – allocated to the Cost of Services in the Comprehensive Income and Expenditure Statement;
- past service cost / gains or losses on curtailment - the increase in liabilities arising from current year decisions 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 as part of non distributed costs;
- interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid - debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- expected return on assets – the annual investment return on the fund assets attributable to the PCC, based on an average of the expected long term return – credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- gains/losses on settlements and curtailments – the result of actions to relieve the PCC of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of non distributed costs;
- 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 – debited to the Pensions Reserve;
- contributions paid to the Lincolnshire County Council 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 limit the PCC to raising council tax to cover the amounts payable by itself to the pension fund in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement this means that there are adjustments 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.

Discretionary Benefits

The PCC also has some 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 1st April 2006 the Home Office changed the method of financing police pensions. Effectively the PCC has continued to make payments but accounts for these outside of its own accounts in a separate memorandum account, which is reported as a supplementary statement in these accounts.

Group Relationships

The PCC assesses on an annual basis relationships with other bodies to identify the existence of any group relationships. A de-minimis level of £1million annual turnover has been set for considering bodies to be included within group accounts.

The PCC has not identified, and does not in aggregate have any a material interest in subsidiaries, associated companies or joint ventures other than the Chief Constable for Lincolnshire.

Financial Instruments

a) Financial Liabilities

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to 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. For all of the borrowings that the PCC has, this means that:

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

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

b) Financial Assets

Financial assets are classified into four 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; fair value through profit and loss – assets that are held for trading and derivatives with a positive value; and held for maturity – assets that have fixed or determinable payments and a fixed maturity.

The PCC only has loans and receivables.

Loans and Receivables

Loans and receivables are included in current assets. The PCC's loans and receivables comprise: short term investments, trade debtors, accrued income and 'other receivables'.

Loans and receivables are recognised initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using an effective interest method.

2. Accounting Standards that have been issued but have not yet been adopted

The adoption by the Code of amendments to *IFRS 7 Financial Instruments Disclosures – offsetting financial assets and liabilities (December 2011 amendments)* will take effect for the accounting period beginning 1 April 2013. The standard focuses on the significance of offsetting financial instruments. Offsetting takes place when entities present their rights and obligations to each other as a net amount in their statement of financial position. The impact of the policy on the financial statements of the PCC Group is not expected to be material.

The adoption by the Code of amendments to *IAS 19 Employee Benefits (June 2011 amendments)* will also take effect for the accounting period beginning 1 April 2013. These amendments will make it easier for users of financial statements to understand how defined benefit plans affect an entity's financial position, financial performance and cash flows. There will be no changes to pension liabilities of the PCC. Assets in the Local Government Pension Scheme will be affected. The effect of the change will be adopted retrospectively as per IAS8 leading to an increase in £663k on the income statement to 31 March 2013.

3. Judgements in applying Accounting Policies

In applying the accounting policies set out in Note 1, the PCC Group has had to make certain judgements about complex transactions or those involving uncertainty about future events. The significant judgements made in the Statement of Accounts are:

- There is uncertainty about service provision following government decisions to reduce future levels of funding for the PCC Group. However, the Group has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Group might be impaired as a result of a need to close facilities and reduce levels of service provision.

- As part of the strategic partnership with G4S, the transfer of some ICT and furniture for £1 has been treated as a disposal of assets. The subsequent use of the assets creates a finance lease under IFRIC 4. Hence, the transfer valuation of £1,121k appears in the asset register of the PCC and is depreciated and revalued as normal. There is a matching finance lease liability which is written down over the individual assets lives.

- For retirement benefits, the interpretation of CIPFA guidance differs from that of the Code itself. CIPFA guidance expects plan assets to be included in our financial statements, but the Code says not to include them. This means that by following the CIPFA guidance, the PCC has treated £16.858m (2011/12; £14.596m) pension top up as an employee contribution, reducing the overall pension liability. The impact of this on the General Reserve is reversed through the Movement in Reserves Statement, with a corresponding entry in the Pensions Reserve. The PCC and the Chief Finance Officer have concluded that this approach presents a true and fair view of the PCC's financial position, financial performance and cash flow.

- Masts are treated as investment properties as they are not used directly by the PCC for operational purposes. The Force may make incidental use of them via third party suppliers, but ownership and control of the assets is not relevant to our policing requirements.

- The Scheme of Arrangements within the PCC Group and the governance arrangements indicate that the Chief Constable controls police officers, whilst the PCC controls police staff, income, assets, reserves and goods and services. Hence, recharges for police officer salaries and related costs are included in the Operating Cost Statement of the Chief Constable, with all other transactions being recorded in the PCC Statement of Accounts.

4. 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 about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the PCC's Group Balance Sheet at 31 March 2013 for which there is a significant risk of material adjustment in the forthcoming financial year are described below. The main area of fluctuation is the assessment of pensions assets and liabilities. Hence, these are considered separately.

Pensions assumptions

Item	Uncertainties	Effect if actual results differ from assumptions
Pensions liability	Estimation of the 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 with expert advice about the assumptions to be applied.	The effects on the net pensions liability of changes in individual assumptions have been measured and described in the tables below. The tables give an indication of the impact of changes in the main assumptions but are not an exhaustive list of the variables involved.
Pensions liability	A report from the Office of Budget Responsibility indicates that RPI is likely to be around 0.8% higher than CPI in future. The observed difference in the past has been 0.5%. However, the actuaries have continued to assume that CPI will be approximately 0.8% p.a. below RPI on average.	The impact is estimated to be a reduction in future service costs from April 2011 onwards of around 6% per annum.

The carrying value of pension liabilities at the balance sheet date was £1,002,127k.

The sensitivities regarding the Police Pension Scheme liabilities are set out below.

Change in financial assumptions	Approximate percentage increase likely to employer liability	Approximate monetary amount (£m)
0.1% decrease in the Real Discount Rate	2%	17.9
1 year increase in member life expectancy	3%	29.1
0.5% increase in the Salary Increase Rate	2%	14.3
0.5% increase in the Pensions Increase Rate (CPI)	8%	77.8

The sensitivities regarding the Police Pension Scheme current service costs are set out below.

Change in financial assumptions	Approximate percentage increase to projected current service cost	Approximate monetary amount (£m)
0.1% decrease in the Real Discount Rate	3%	0.8
1 year increase in member life expectancy	3%	0.7
0.5% increase in the Salary Increase Rate	5%	1.2
0.5% increase in the Pensions Increase Rate (CPI)	12%	2.8

The sensitivities regarding the principal assumptions used to measure the liabilities in the Local Government Pension Scheme are set out below.

Change in financial assumptions	Approximate percentage increase likely to employer liability	Approximate monetary increase (£m)
0.5% decrease in the Real Discount Rate	12%	14.2
1 year increase in member life expectancy	3%	3.5
0.5% increase in the Salary Increase Rate	5%	5.5
0.5% increase in the Pensions Increase Rate	7%	8.4

Other areas of estimation uncertainty

Item	Uncertainties	Effect if actual results differ from assumptions
Property, plant and equipment	Valuations are provided at a specific date. Market conditions can change with at short notice.	The last 5 years has seen a 25% drop in the general property market. However, much of this fall was anticipated by our annual desktop reviews, so the quinquennial revaluation only saw a fall of £1.1m. It is considered unlikely that there would be material reductions in value in future given the falls of recent years.
Classification of leases	There is some subjective interpretation of contract information when classifying some arrangements as finance or operating leases. For some equipment, the nature of the agreement points to a finance lease, but the details in the contract do not allow accurate calculations to be performed.	We have treated some arrangements as operating leases in the absence of the necessary information to account for them as finance leases. Assets and liabilities may be understated in the Balance Sheet by around £70k. We expect to correct this anomaly in future year accounts.
Collection fund balances	Estimates have been used to show the proportion of income due to the PCC for council tax, but held by the district councils in their collection fund account. Some councils have estimated their year end surplus and the associated Balance Sheet figures, but have had to do so several months before the collection fund accounts are prepared.	There is no impact on the General Fund Balance. The surplus in the Comprehensive Income and Expenditure Statement and the associated Balance Sheet figures could vary by up to £200k.
Employee benefits: measurement of short term accumulating absences accrual	Measurement covers most staff for leave and time in lieu, but not all. It is possible that some staff not covered by the current approach may have time owing which is significantly different to the average.	There is no impact on the General Fund Balance. The surplus in the Comprehensive Income and Expenditure Statement and the associated Balance Sheet figures could vary by up to £100k.

5. Material Items of Income and Expense

This note sets out the nature and amount of material items not disclosed on the face of the Comprehensive Income and Expenditure Statement.

Note 10 taxation and non-specific grant incomes gives details of material income. Note 40 gross expenditure and income gives a breakdown by service expenditure. There are no material items not disclosed on the face of the Comprehensive Income and Expenditure Statement.

6. Adjustments Between Accounting Basis and Funding Basis Under Regulations

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the PCC in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the authority to meet future capital and revenue expenditure.

The following sets out a description of the reserves that the adjustments are made against.

General Fund Balance

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

Capital Receipts Reserve

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

2011/12 Comparative Figures	Usable Reserves		
	Capital Receipts Reserve £000	General Fund Balance £000	Movement in Unusable Reserves £000
Adjustments primarily involving the Capital Adjustment Account:			
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:			
Charges for depreciation and impairment of non-current assets		3,971	(3,971)
Amortisation of lease prepayment		10	(10)
Revaluation losses on Property Plant and Equipment		2,534	(2,534)
Movements in the market value of Investment Properties		(45)	45
Amortisation of intangible assets		16	(16)
Capital grants and contributions applied		(798)	798
Revenue expenditure funded from capital under statute		4	(4)
Amounts of non-current assets written off on disposal or sale as part of the gain/(loss) on disposal to the Comprehensive Income and Expenditure Statement		506	(506)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:			
Statutory provision for the financing of capital investment		(1,604)	1,604
Voluntary provision for the financing of capital investment		(362)	362
Capital expenditure charged against the General Fund		(448)	448
Adjustments primarily involving the Capital Receipts Reserve:			
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	545	(545)	-
Use of the Capital Receipts Reserve to finance new capital expenditure			-
Adjustments primarily involving the Pensions Reserve:			
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 54)		78,144	(78,144)
Employer's pensions contributions and direct payments to pensioners payable in the year		(29,356)	29,356
Adjustments primarily involving the Collection Fund Adjustment Account:			
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements		3	(3)
Adjustments primarily involving the Accumulated Absences Account:			
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		(475)	475
Total Adjustments	545	51,555	(52,100)

2012/13	Usable Reserves		Movement in Unusable Reserves £000
	Capital Receipts Reserve £000	General Fund Balance £000	
Adjustments primarily involving the Capital Adjustment Account:			
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:			
Charges for depreciation and impairment of non-current assets		3,802	(3,802)
Amortisation of lease prepayment		10	(10)
Revaluation losses on Property Plant and Equipment		1,286	(1,286)
Movements in the market value of Investment Properties		30	(30)
Amortisation of intangible assets		1	(1)
Capital grants and contributions applied		(1,205)	1,205
Revenue expenditure funded from capital under statute		0	0
Amounts of non-current assets written off on disposal or sale as part of the gain/(loss) on disposal to the Comprehensive Income and Expenditure Statement		2,406	(2,406)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:			
Statutory provision for the financing of capital investment		(2,064)	2,064
Voluntary provision for the financing of capital investment		0	0
Capital expenditure charged against the General Fund		(326)	326
Adjustments primarily involving the Capital Receipts Reserve:			
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	1,210	(1,210)	0
Use of the Capital Receipts Reserve to finance new capital expenditure	(1,497)		1,497
Contribution from the Capital Receipts Reserve towards the administrative costs of non current asset disposals	(25)	25	0
Adjustments primarily involving the Pensions Reserve:			
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see Note 54)		64,098	(64,098)
Employer's pensions contributions and direct payments to pensioners payable in the year		(32,465)	32,465
Adjustments primarily involving the Collection Fund Adjustment Account:			
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements		128	(128)
Adjustments primarily involving the Accumulated Absences Account:			
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		(182)	182
Total Adjustments	(312)	34,334	(34,022)

7. Transfers to / from Earmarked Reserves

This note sets out the amounts set aside from the General Fund into Earmarked Reserves to provide financing for future expenditure plans and the amounts appropriated from earmarked reserves to meet General Fund expenditure in 2012/13.

	Balance at 1 April 2011 £000	Transfers Out 2011/12 £000	Transfers In 2011/12 £000	Transfer Between Reserves 2011/12	Balance at 31 March 2012 £000	Transfers Out 2012/13 £000	Transfers In 2012/13 £000	Transfer Between Reserves 2012/13	Balance at 31 March 2013 £000
Major Incidents	1,600		250		1,850				**1,850**
Insurance	587		163		750				**750**
Protective Services	11			(11)	-				**-**
IFRS	14			(14)	-				**-**
Specific Time Limited Posts	359	(264)		(86)	9	(9)			**-**
Business Change Fund	576	(363)			213			(213)	**-**
Crime and Intelligence	78	(23)		(51)	4			(4)	**-**
Bank Holiday Reserve	211	(74)		(137)	-				**-**
Police Authority Reserve	40				40			(40)	**-**
ANPR South Division	75	(52)		(23)	-				**-**
Case & Custody Carry Forward	60			(60)	-				**-**
PRIDE	77	(54)			23	(23)			**-**
POCA	62	(80)	79		61	(61)			**-**
POCA 2010/11	93				93	(34)	86		**145**
Employee Welfare Reserve	39		3		42				**42**
Funded Fleet Vehicles	49	(22)	4		31	(31)			**-**
Operations Fusion & Nova	15			(15)	-				**-**
Business Transformation Project	705	(705)	60		60			(60)	**-**
Migration Impact	219	(133)			86	(32)			**54**
2 Project Assistants	50	(50)			-				**-**
Farm & Country Watch	7				7			(7)	**-**
Moorland Youth Warden	1				1			(1)	**-**
Earlsfield Youth Project	4	(4)			-				**-**
Neighbourhood Watch Signs	9				9			(9)	**-**
Grantham Cadets	1				1			(1)	**-**
Harrowby Youth Project	1	(1)			-				**-**
PPO Delivery Groups	18	(18)			-				**-**
Redundancy Reserve	194	(194)			-				**-**
Special Priority Payment	163	(100)		(63)	-				**-**
Crime Commissioner	60		90		150			(150)	**-**
Crime Prevention Payments	3				3			(3)	**-**
SARC Grant from LCC	43	(43)			-				**-**
Consultancy	-		8		8	(8)			**-**
IMU Agency C/fwd	-		17		17	(17)			**-**
Reserve to bal 13/14 Budget	-		1,040	460	1,500				**1,500**
Police Officer Reserve	-		449		449	(449)			**-**
Contingency	-		244		244	(244)			**-**
Skirbeck Skate Park	-		1		1			(1)	**-**
Domestic Violence Admin	2		9		11			(11)	**-**
Carry forward of Underspends					-		887		**887**
Performance & Productivity					-			500	**500**
Historic Pension Costs					-		1,116		**1,116**
Volunteers Initiative					-		1,000		**1,000**
Second Homes					-		252		**252**
Subtotal	**5,426**	**(2,180)**	**2,417**	**(0)**	**5,663**	**(908)**	**3,341**	**-**	**8,096**
EMSOU	86		31		117	(18)	24		123
Total	**5,512**	**(2,180)**	**2,448**	**- 0**	**5,780**	**(926)**	**3,365**	**-**	**8,219**

Descriptions of the earmarked reserves

Earmarked reserve	£000s	Description of purpose
Major Incidents	1,850	The requirements of operational policing can vary significantly from year to year. This reserve ensures that the Force can always respond to the requirements of major incidents.
Insurance	750	To support the costs of ongoing claims and for future unforeseen claims which have not yet arisen.
Proceeds of Crime Act	146	The police share of assets recovered from criminals is reserved for investing in more financial investigation.
Employee Welfare Reserve	42	To improve the working environment of employees.
Migration Impact	54	Grant for promoting community cohesion in areas of significant inward immigration.
Reserve to balance 2014/15 budget	1,500	Use of reserves to balance a forecast budget shortfall in 2014/15.
Carry forward of underspends	887	Underspend from 2012/13 budgets, to be allocated at the discretion of the PCC.
Performance and productivity	500	To promote business change and efficiency.
Historic pension costs	1,116	To contribute towards the shortfall in pension assets compared to the current projection for the costs of the future commitments.
Volunteers initiative	1,000	To support and promote the recruitment and retention of volunteers.
Second homes	252	Reserve for potential payments to local authorities to support community safety.

8. Other Operating Expenditure

2011/12				2012/13		
Gross Expenditure £000	Gross Income £000	Net Expenditure £000		Gross Expenditure £000	Gross Income £000	Net Expenditure £000
	(179)	(179)	(Gains) or Losses on the Disposal of Property, Plant & Equipment	1,559	(487)	1,072
	-	0	(Gains) or Losses on the Disposal of Assets Held for Sale			-
313	-	313	Levies	343		343
1,135	(1,155)	(20)	Seconded Officers	1,152	(1,159)	(7)
1,448	**(1,334)**	**114**		**3,054**	**(1,646)**	**1,408**

9. Financing and Investment Income and Expenditure

2011/12				2012/13		
Gross Expenditure £000	Gross Income £000	Net Expenditure £000		Gross Expenditure £000	Gross Income £000	Net Expenditure £000
773	-	773	Interest Payable on Debt	796	-	796
-	-	-	Interest Element of Finance Lease (Lessee)	55	-	55
43,434	-	43,434	Pensions Interest Cost and Expected Return on Pensions Assets	40,445	-	40,445
-	(154)	(154)	Investment Interest Income	-	(132)	(132)
-	(127)	(127)	Rentals Received on Investment Properties	-	(125)	(125)
18	-	18	Expenses Incurred on Investment Properties	2	-	2
-	(45)	(45)	Changes in Fair Value of Investment Properties	30	-	30
44,225	**(326)**	**43,899**		**41,328**	**(257)**	**41,071**

10. Taxation and Non Specific Grant Incomes

2011/12				2012/13		
Gross Expenditure £000	Gross Income £000	Net Expenditure £000		Gross Expenditure £000	Gross Income £000	Net Expenditure £000
-	(798)	(798)	Recognised Capital Grants and Contributions	-	(1,423)	(1,423)
-	(42,863)	(42,863)	General Government Grants	-	(39,220)	(39,220)
-	(5,812)	(5,812)	Revenue Support Grant	-	-	0
-	(18,802)	(18,802)	Non Domestic Rates Redistribution	-	(23,734)	(23,734)
-	(1,059)	(1,059)	Council Tax Freeze Grant	-	(1,059)	(1,059)
-	(42,354)	(42,354)	Council Tax Income	-	(44,189)	(44,189)
-	(14,596)	(14,596)	Home Office Grant Payable towards the Cost of Retirement Benefits	-	(16,858)	(16,858)
-	**(126,284)**	**(126,284)**		**-**	**(126,483)**	**(126,483)**

11. Property, Plant and Equipment

Comparative Movements in 2011/12	Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Surplus Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000
Cost or Valuation					
At 1 April 2011	21,196	20,801	295	375	42,667
Additions	2,310	1,916	55	-	4,281
Revaluation Increases/ (decreases) recognised in the Revaluation Reserve	139	12	-	-	151
Revaluation Increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	(2,347)	(36)	(150)	-	(2,533)
Derecognition - Disposals	-	(144)	-	-	(144)
Assets reclassified to/from Held for Sale	(60)	-	(375)	-	(435)
Other movements in cost or valuation	-	-	375	(375)	-
At 31 March 2012	**21,238**	**22,549**	**200**	**-**	**43,987**
Accumulated Depreciation and Impairment					
At 1 April 2011	-	(12,226)	-	-	(12,226)
Derecognition - Disposals	-	93	-	-	93
Depreciation charge	(433)	(3,538)	-	-	(3,971)
At 31 March 2012	**(433)**	**(15,671)**	**-**	**-**	**(16,104)**

Supplementary information on leases can be found in note 51.

Movements and closing balances in 2012/13	Land and Buildings £000	Vehicles, Plant, Furniture & Equipment £000	Surplus Assets £000	Assets Under Construction £000	Total Property, Plant and Equipment £000
Cost or Valuation					
At 1 April 2012	21,238	22,549	200	-	43,987
Additions	1,381	4,500	-	3,627	9,508
Revaluation Increases/ (decreases) recognised in the Revaluation Reserve	106	12	-	-	118
Revaluation Increases/ (decreases) recognised in the Surplus/Deficit on the Provision of Services	(1,247)	(7)	(30)	-	(1,284)
Derecognition - Disposals	-	(1,176)	-	-	(1,176)
Assets reclassified to/from Held for Sale	-	-	-	-	-
Other movements in cost or valuation	-	-	-	-	-
At 31 March 2013	**21,478**	**25,878**	**170**	**3,627**	**51,153**
Depreciation and Impairment					
At 1 April 2012	(433)	(15,671)	-	-	(16,104)
Derecognition - Disposals	-	-	-	-	-
Depreciation charge in year	(423)	(3,379)			(3,802)
At 31 March 2013	**(856)**	**(19,050)**	**-**	**-**	**(19,906)**
Net Book Value:					
At 31 March 2013	**20,622**	**6,828**	**170**	**3,627**	**31,247**
At 31 March 2012	**20,805**	**6,878**	**200**	**-**	**27,883**

12. Valuation of Non-Current Assets

Non-current assets have been revalued on the basis described in Note 1 and in accordance with the principles of the Accounting Code of Practice. Property, plant and equipment and investment properties were revalued in the form of a desktop valuation exercise as at the 31st March 2013 by Mr R Smalley BSc MRICS of the independent firm of Chartered Surveyors Lambert Smith Hampton. This followed the quinquennial review which took place in the previous year. The desktop revaluation resulted in some increases and decreases to the Authority's assets although there was very little movement seen compared with valuations received in previous years. In accordance with the required accounting practice these revaluations have been written back to the Revaluation Reserve (to the extent possible), and then to the Comprehensive Income and Expenditure Statement. The PCC has no Private Finance Initiative (PFI) arrangements.

Investment Properties are also valued by Lambert Smith Hampton as described above who are independent of the PCC and have recent experience of the location and category of our investment properties.

13. Investment Properties

The following items of income and expense have been accounted for in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement:

	2011/12 £000	2012/13 £000
Rental income from investment property	(127)	(125)
Direct operating expenses arising from investment property	18	2
Net gain/(loss)	**(109)**	**(123)**

There are no restrictions on the PCC's ability to realise the value inherent in its investment property or on the PCC's right to the remittance of income and the proceeds of disposal. The PCC has no contractual obligations to purchase, construct or develop investment property or repairs, maintenance or enhancement.

The following table summarises the movement in the fair value of investment properties over the year:

	2011/12 £000	2012/13 £000
Balance at start of the year	780	825
Net gains/(losses) from fair value adjustments	45	(30)
Revaluation Increases/ (decreases) recognised in the Revaluation Reserve	-	-
Balance at end of the year	**825**	**795**

14. Intangible Assets

The movement on Intangible Asset balances during the year is as follows:

	2011/12 Other Assets £000	2012/13 Other Assets £000
Balance at start of year:		
Gross carrying amounts	153	153
Accumulated amortisation	(134)	(151)
Net carrying amount at start of year	19	2
Amortisation for the period	(17)	(1)
Additions:		
Purchases	-	-
Other changes	-	-
Net carrying amount at end of year	**2**	**1**
Comprising:		
Gross carrying amounts	153	153
Accumulated amortisation	(151)	(152)
	2	**1**

Amortisation of intangible assets is apportioned across all the service categories on the face of the Comprehensive Income and Expenditure Statement. It has no impact on Corporate & Democratic Core or Non Distributed Costs.

The PCC has no internally generated assets. All other assets have finite useful lives and amortised in line with the PCC's accounting policies, note 1.

15. Major Non Current Assets

An analysis of major non current assets is:

	31st March 2012 (Numbers)	31st March 2013 (Numbers)
Force Headquarters	1	1
Police Stations	40	39
Sexual Assault Referral Centre	1	1
Major Aerial sites	3	3
Vehicles	455	447
Police dog training establishment	1	1
Divisional HQ including houses awaiting disposal	1	-

16. Capital Expenditure

The main items of capital expenditure during the year were:

	£000
Vehicles	844
Bracebridge Heath Refurbishment	272
Boston Custody Upgrade	193
Force Control Room extension and upgrade	451
Force Control Room upgrade (ICT)	861
Business Transformation	
ICT software	1,443
Assets Under Construction - software	2,515
Assets Under Construction - Infrastructure	868
Assets Under Construction - Buildings	243
Regional Collaboration Operational Equipment	104

17. Capital Commitments

As part of the ongoing strategic partnership that Lincolnshire Police has with G4S there is a commitment to spend £8m in future years. This is to be split over:

- Replacement and new software £2.8m
- Replacement hardware and equipment £5.2m

18. Financial Instruments

Categories of Financial Instruments

The following categories of financial instrument are carried in the Balance Sheet:

	Long-term		Current	
	31 March 2012 £000	31 March 2013 £000	31 March 2012 £000	31 March 2013 £000
Cash				
Loans and receivables	-	-	12,995	9,984
Total cash	**-**	**-**	**12,995**	**9,984**
Debtors				
Loans and receivables	-	-	3,422	1,295
Total debtors	**0**	**0**	**3,422**	**1,295**
Borrowings				
Financial liabilities at amortised cost - PWLB	17,667	15,816	2,343	2,007
Financial liabilities at amortised cost - Deferred Liabilities	364	312	52	52
Total borrowings	**18,031**	**16,128**	**2,395**	**2,059**
Creditors				
Financial liabilities at amortised cost	-	-	4,024	7,675
Total creditors	**-**	**-**	**4,024**	**7,675**
Capital Grants / Receipts in advance			**99**	**99**

The Police and Crime Commissioner is exposed to minimum risk. Any short-term deposits are included in the cash and cash equivalents note 21.

Financial Liabilities is borrowing with the Public Works Loan Board (PWLB) and Deferred Liabilities. Total PWLB outstanding at 31st March 2013 is £17.823m. The table also includes capitalisation of interest payable of £173k in 2011/12 and £157k in 2012/13 (as required by LAAP 81).

Total Deferred Liabilities outstanding at 31st March 2013 is £0.364m. These represent the balance of loans outstanding as at 31st March 1995 which were transferred to the new Police Authority as established under the Police and Magistrates' Court Act 1994. The loans are administered by Lincolnshire County Council on behalf of the PCC. Repayments of £52k were made in 2012/13.

No additional borrowing took place in 2012/13. After making normal repayments of principal totalling £2.222 million and a decrease in loan interest accrual of £0.017 million, this decreased the PCC's borrowing from £20.426 million to £18.187 million in the year.

The debtors and creditors figures have been adjusted for non-contractual obligations. For debtors these are VAT debtors, Statutory Maternity Pay debtors, payments in advance, grant income and collection fund adjustments. For creditors these are receipts in advance, grant income, tax and NI and collection fund adjustments.

	Range of interest rates payable %	31st March 2012 £000	31st March 2013 £000
PWLB	1.60 - 8.25	(20,010)	(17,823)
Transferred Debt - Lincolnshire CC	Variable	(416)	(364)
		(20,426)	**(18,187)**

A full analysis of loans by maturity is shown in note 56 under 'liquidity risk exposure'.

Income, Expense, Gains and Losses

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments are made up as follows:

	2011/12			2012/13		
	Financial Liabilities measured at amortised cost £000	**Financial Assets: Loans and receivables £000**	**Total £000**	**Financial Liabilities measured at amortised cost £000**	**Financial Assets: Loans and receivables £000**	**Total £000**
Interest expense	(773)	-	(773)	(796)	-	(796)
Total expense in Surplus or Deficit on the Provision of Services	**(773)**	**-**	**(773)**	**(796)**	**-**	**(796)**
Interest income	-	154	154	-	132	132
Total income in Surplus or Deficit on the Provision of Services	**-**	**154**	**154**	**-**	**132**	**132**
Net gain/(loss) for the year	**(773)**	**154**	**(619)**	**(796)**	**132**	**(664)**

Fair Values of Assets and Liabilities

Financial liabilities and financial assets are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions

- the fair value of PWLB has been calculated by reference to the 'premature repayment' set of rates as at 31st March 2013
- no early repayment or impairment is recognised
- where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value
- deferred liabilities have been accounted for on the basis of outstanding principal amounts as defined by statutory arrangements

Financial Liabilities

The fair values calculated are as follows

	31 March 2012		31 March 2013	
	Carrying amount £000	Fair value £000	Carrying amount £000	Fair value £000
Financial liabilities - PWLB	20,010	23,526	17,823	21,668
Financial liabilities - Deferred Liabilities	416	416	364	364
Financial liablitities - Current Creditors	4,024	4,024	7,675	7,675

The fair value of PWLB loans is more than the carrying amount because the PCC's portfolio of loans is based on fixed rate loans where the interest rate payable is higher than the rates available for similar loans at the Balance Sheet date.

The table above excludes other Financial Liabilities such as cash overdrawn and other liabilities. The carrying amount as shown in the Balance Sheet is assumed to approximate to fair value, as the instrument will mature in the next 12 months.

Financial Assets

The fair values calculated are as follows

	31 March 2012		31 March 2013	
	Carrying amount £000	Fair value £000	Carrying amount £000	Fair value £000
Loans and receivables - Current Debtors	3,422	3,422	1,295	1,295
Loans and receivables - Cash	12,995	12,995	9,984	9,984
Loans and receivables - Long Term Debtors	0	0	0	0
Capital Grants / Receipts in Advance	99	99	99	99

The fair value has been assessed as being the same as the carrying value.

19. Inventories

An analysis of inventories is given below:

	Uniform and Equipment		Diesel		Vending and Catering		Fleet Maintenance		Other		Total	
	2011/12 £000	2012/13 £000	2011/12 £000	2012/13 £000	2011/12 £000	2012/13 £000	2011/12 £000	2012/13 £000	2011/12 £000	2012/13 £000	2011/12 £000	2012/13 £000
Balance outstanding at start of year	**290**	**340**	**92**	**130**	**5**	**-**	**21**	**23**	**5**	**1**	**413**	**494**
Purchases	311	245	856	736	2	-	60	97	6	11	1,235	1,089
Recognised as an expense in the year	(260)	(265)	(816)	(776)	(7)	-	(60)	(106)	(11)	(7)	(1,154)	(1,154)
Written off balances	(1)	(1)	(2)	0	-	-	2	4	1	0	0	3
Balance outstanding at year-end	**340**	**319**	**130**	**90**	**0**	**0**	**23**	**18**	**1**	**5**	**494**	**432**

20. Debtors

An analysis of debtors is shown below:

	31 March 2012 £000	31 March 2013 £000
Amounts falling due within one year:		
Central government bodies	3,358	3,933
Other entities and individuals	4,858	5,636
Total Debtors falling due within one year	**8,216**	**9,569**

	31 March 2012 £000	31 March 2013 £000
Amounts falling due after one year:		
Other entities and individuals	122	112
Total Debtors falling due after one year	**122**	**112**

The other entities and individuals figure is presented net of impairment as per LAAP 88. Central government bodies balances include government grants such as Pension top up grant which were outstanding at the Balance Sheet date.

The funding arrangements for the police station at Market Rasen amount to a lease prepayment. Each year, a proportion of the prepayment is amortised as the useful life of the building reduces.

21. Cash and Cash Equivalents

The balance of Cash and Cash Equivalents is made up of the following elements:

	31 March 2012 £000	31 March 2013 £000
Cash held by the Authority	34	31
Bank current accounts	869	(139)
Confiscated account	(12)	(14)
Short-term deposits with building societies	12,403	10,399
Total Cash and Cash Equivalents	**13,294**	**10,277**

The cash and cash equivalents figure represents a total amount of £10,277k in hand. The group does not go overdrawn at the bank, but the adjusted cashbook cash position at the bank and held as petty cash was a balance of £108k overdrawn. This includes cheques drawn but not presented. £10,388k represents short-term deposits, including an interest accrual of £11k.

22. Assets Held for Sale

The analysis of Assets Held for Sale is shown below:

	2011/12 £000	2012/13 £000
Balance outstanding at start of year	**1,250**	**1,229**
Assets newly classified as held for sale:		
- Property, Plant and Equipment	435	
Revaluation Increases/ (decreases) recognised in the Revaluation Reserve	0	
Cost to Sell	(21)	
Assets sold in the year	(435)	(1,229)
Balance outstanding at year end	**1,229**	**0**

Property

Old Grantham Police Station was sold for £1.2m in June 2012. The property was marketed with a guide price of £1.25m based on the estate agents market value.

Vehicles

All Force vehicles are depreciated over 3 years. Fleet review all vehicles on an ongoing basis throughout the year to identify any vehicles that need to be sold i.e. older than 3 years or with excessive mileage. Vehicles are sent to auction six at a time.

As soon as a vehicle is identified for decommissioning the tax disc is removed and livery removed. At this point the asset is classified as non-operational and available for sale. As at 31st March 2013, there were no vehicles held awaiting auction.

23. Creditors

An analysis of creditors is given below. Other entities and individuals include: supplies and services, pay accruals, receipts in advance, other creditors and employee benefits. Employee benefits are the theoretical value of annual leave/time owed to staff at the Balance Sheet date.

	31 March 2012 £000	31 March 2013 £000
Central government bodies	(2,088)	(1,709)
Other local authorities	(405)	(208)
Other entities and individuals	(8,976)	(10,302)
Total Short-Term Creditors	**(11,469)**	**(12,219)**

24. Revenue Provisions

The Group has made provisions to meet the costs of the liabilities described below. They are classified as provisions because there is uncertainty about the value and timing of the liabilities, and whether there was an obligation to transfer economic benefits at the Balance Sheet date.

	Pay £000	Legal Services £000	Ill Health Retirements £000	Termination Benefits of Employment £000	Total £000
Balance at 31 March 2012	**0**	**(186)**	**(149)**	**(157)**	**(492)**
Additional Provisions Made In 2012/13	(1,381)	(154)	(177)	(15)	(1,727)
Amounts Used In 2012/13	-	145	149	17	311
Unused amounts reversed in 2012/13	-	7	-	-	7
Balance at 31 March 2013	**(1,381)**	**(188)**	**(177)**	**(155)**	**(1,901)**

All provisions are expected to be used in 2013/14. The termination benefits of employment is split between short-term provisions (£17k) and long-term provisions (£138k).

Provision	Description of the obligation	Expected timing of payments	An indication of the uncertainties	Amount of any expected reimbursement
Pay	Correction of errors in salary calculations	Payment expected during 2013/14	Details of terms and conditions for individuals will influence the payments made.	None.
Ongoing Insurance Claims	A number of claims are being pursued against the Force, both motor, public and employer's liability.	No certainty, but expected during 2013/14	As with any legal claim, the final outcome will depend upon many factors.	Insurers bear any costs above the excess on our policy.
Ill Health Retirements	Officers were being considered for ill health retirement at the Balance Sheet date.	April 2013	Appeals are possible within the process of ill health retirements.	None.

Termination Benefits of Employment	Amounts to be paid in relation to Police Staff previously retired.	These liabilities are met on a monthly basis, they will continue for the lifetime of the claimant.	Actual costs will vary with the lifespan of the claimant.	None

25. Usable Reserves

Movements in the PCC's usable reserves are detailed in the Movement in Reserves Statements. The PCC keeps a number of reserves in the Balance Sheet. Some are required to be held for statutory reasons, some are needed to comply with proper accounting practice, and others have been set up voluntarily to earmark resources for future spending plans. Usable Capital Receipts are the proceeds from the sale of capital assets, which are used to fund future capital expenditure.

	Capital Receipts Reserve £000	Earmarked Reserves (PCC)	Earmarked Reserves (Region)	**Earmarked Reserves Total £000**	General Fund Balance £000	General Fund Balance (Region) £000	**General Reserve Total £000**	**Total Usable Reserves £000**
Balance as at 31 March 2012	**545**	**5,663**	**117**	**5,780**	**5,629**	**38**	**5,667**	**11,992**
Movements during the year								
Deficit on the provision of services				-	(31,951)	52	(31,899)	(31,899)
Adjustments between accounting basis and funding basis under regulations	(312)			-	34,384	(50)	34,334	34,022
Income and Expenditure contribution		3,341	24	3,365	(3,341)	(24)	(3,365)	0
Used in the year		(908)	(18)	(926)	908	18	926	0
Total reserve movements 2012/13	**(312)**	**2,433**	**6**	**2,439**	**0**	**(4)**	**(4)**	**2,123**
Balance as at 31 March 2013	**233**	**8,096**	**123**	**8,219**	**5,629**	**34**	**5,663**	**14,115**

26. Unusable Reserves

	31 March 2012 £000	**31 March 2013 £000**
Revaluation Reserve	488	511
Capital Adjustment Account	9,477	7,130
Pensions Reserve	(862,948)	(1,002,282)
Collection Fund Adjustment Account	172	44
Accumulated Absences Account	(2,922)	(2,740)
Total Unusable Reserves	**(855,733)**	**(997,337)**

27. Revaluation Reserve

The Revaluation Reserve records the accumulated gains on the long-term assets held by the PCC arising from increases in value. The Reserve is also debited with amounts equal to the part of depreciation charges on assets that have been incurred only because the asset has been revalued. The balance is reduced when assets with accumulated gains are:

- revalued downwards or impaired and the gains are lost
- used in the provision of services and the gains are consumed through depreciation, or
- disposed of and the gains are realised.

The reserve contains only revaluation gains accumulated since 1 April 2007, the date that the Reserve was created. Accumulated gains arising before that date are consolidated into the balance on the Capital Adjustment Account.

2011/12 £000			2012/13 £000
439	**Balance at 1 April**		**488**
177	Upward revaluation of Property, Plant and Equipment	182	
(26)	Downward revaluation of Property Plant and Equipment, and impairment losses not charged to the Surplus or Deficit on the Provision of Services	(63)	
0	Downward revaluation of Assets Held for Sale and impairment losses not charged to the Surplus or Deficit on the Provision of Services	-	
-	Upward valuation of Assets Held for Sale	-	
-	Upward revaluation of Investment Properties	-	
151	**Deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services**		**119**
(2)	Difference between fair value depreciation and historical cost depreciation and adjustment on revaluation reserve	(11)	
(100)	Accumulated gains on assets sold or scrapped	(85)	
(102)	**Amount written off to the Capital Adjustment Account**		**(96)**
488	**Balance at 31 March**		**511**

28. Capital Adjustment Account

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisation are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Authority as finance for the costs of acquisition, construction and enhancement.

2011/12 £000			2012/13 £000
13,159	**Balance at 1 April**		**9,477**
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
(3,971)	Charges for depreciation and impairment on non-current assets	(3,802)	
(10)	Market Rasen Station Prepayment	(10)	
(2,534)	Revaluation losses on Property, Plant and Equipment	(1,286)	
(16)	Amortisation of intangible assets	(1)	
(4)	Revenue expenditure funded from capital under statute	0	
(506)	Amounts of non-current assets written off on disposal or sale as part of the gain/(loss) on disposal to the Comprehensive Income and Expenditure Statement	(2,406)	
(7,041)			**(7,505)**
102	Amounts written out of the Revaluation Reserve	96	
(6,939)	**Net written out amount of the cost of non-current assets consumed in the year**		**(7,409)**
	Capital financing applied in the year:		
0	Use of Capital Receipts Reserve to finance new capital expenditure	1,497	
448	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	326	
798	Application of capital grants and contributions to capital financing transferred to the CAA	1,205	
1,246			**3,028**
45	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement	(30)	
45			**-30**
	Items not debited or credited to the Comprehensive Income and Expenditure Statement:		
0	Transfer to earmarked reserves		
1,966	Revenue provision for the repayment of debt	2,064	
1,966			**2,064**
9,477	**Balance at 31 March**		**7,130**

The Account contains accumulated gains and losses on Investment Properties. The Account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date the Revaluation Reserve was created to hold such gains. Note 6 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

29. Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The PCC Group, accounts for post employment benefits in the Comprehensive Income and Expenditure Statement 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 Authority makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve shows a substantial shortfall in the benefits earned by past and current employees and the resources the Group has set aside to meet them. The statutory arrangements will have been set aside by the time the benefits come to be paid.

2011/12 £000		2012/13 £000
(801,513)	**Balance at 1 April**	**(862,948)**
(12,646)	Actuarial gains or losses on pensions assets and liabilities	(107,701)
(63,503)	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(64,100)
14,760	Employer's pensions contributions and direct payments to pensioners payable in the year	32,465
(46)	Other unfunded termination benefits	2
(862,948)	**Balance at 31 March**	**(1,002,282)**

30. Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax income in the Comprehensive Income and Expenditure Statement as it falls due from council tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

2011/12 £000		2012/13 £000
175	**Balance at 1 April**	**172**
(3)	Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(128)
172	**Balance at 31 March**	**44**
	Represented by:	
1,735	Council tax arrears	1,869
(547)	Impairment for doubtful debts	(559)
(663)	Council tax overpayments and prepayments	(795)
(353)	Creditors, billing authorities	(471)
172	**Collection fund surplus / (deficit)**	**44**

31. Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement 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.

2011/12 £000			2012/13 £000
(3,397)	**Balance at 1 April**		**(2,922)**
3,397	Settlement or cancellation of accrual made at the end of the preceding year	2,922	
(2,922)	Amounts accrued at the end of the current year	(2,740)	
475	**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**		**182**
(2,922)	**Balance at 31 March**		**(2,740)**

32. Cash Flow – Adjustments on Provision of Services for Non Cash Movements

2011/12 £000		2012/13 £000
(3,981)	Depreciation of Non-Current Assets	(3,782)
(2,533)	Impairment and Downward Valuations of Non-Current Assets	(1,316)
(16)	Amortisation of Intangible Assets	(1)
-	Amortisation of Government Grant and Other Contributions	206
-	Increase in Impairment Provisions for Bad Debts	-
(422)	Increase/(Decrease) in Creditors	(750)
3,271	(Increase)/Decrease in Debtors	1,354
81	(Increase)/Decrease in Stock	(62)
(48,743)	Pension Liability	(31,633)
(506)	Carrying Amount of Non-Current Assets Sold	(2,406)
386	Contributions to Provisions	(1,411)
45	Other Non-Cash Items Charged to the Net Surplus or Deficit on the Provision of Services	(30)
(52,418)	**Non Cash Movements**	**(39,831)**

33. Cash Flow – Adjustment on Provision of Services for Investing and Financing Activities

2011/12 £000		2012/13 £000
559	Proceeds from the Sale of Property, Plant and Equipment and Investment Property	1,202
(1)	Capital Grants credited to Surplus or deficit on the provision of services	0
558		**1,202**

34. Cash Flow – Operating Activities

The cash flows for operating activities include the following items:

2011/12 £000		2012/13 £000
(154)	Interest received	(132)
773	Interest paid	851

35. Cash Flow Statement – Investment Activities

2011/12 £000		2012/13 £000
4,280	Purchase of Property, Plant and Equipment, Investment Property and Intangible Assets	8,387
-	Purchase of Short-Term and Long-Term Investments	27,300
(545)	Proceeds from the Sale of Property, Plant and Equipment, Investment Property and Intangible Assets	(1,185)
(5,010)	Proceeds from Short-Term and Long-Term Investments	(27,300)
(1,275)	**Net Cash Flows from Investing Activities**	**7,202**

36. Cash Flow Statement – Financing Activities

2011/12 £000		2012/13 £000
(3,040)	Cash Receipts of Short and Long-Term Borrowing	-
(52)	Other Receipts from Financing Activities	0
-	Cash Payments for the Reduction of the Outstanding Liability Relating to a Finance Lease	323
1,966	Repayments of Short and Long-Term Borrowing	2,222
-	Other Payments for Financing Activities	-
(1,126)	**Net Cash Flow from Financing Activities**	**2,545**

37. Proceeds from Short-Term Investments

This item relates to the movement in short term investments made by the PCC during the year.

2011/12 £000		2012/13 £000
5,010	Balance Sheet Opening Balance	0
(5,010)	Transactions during the year reported in the Cash Flow Statement	0
0	**Balance Sheet Closing Balance**	**0**

38. Police Property Act Fund

Police and Crime Commissioners are required under the Police Property Act 1997 to set aside any money received from the sale of property which has come into their possession in connection with a criminal charge. The net proceeds from this fund are subsequently either repaid to the individual, used to defray expenses incurred in the storage and safe custody of property, or distributed to local charities as directed by the Chief Constable.

	2011/12 £000	2012/13 £000
Balance as at 1st April	(20)	(30)
Income	(25)	(20)
Expenditure	15	19
Balance as at 31st March	**(30)**	**(31)**
Cash balance held by Lincolnshire Police as at 31st March	**(30)**	**(31)**

39. Amounts Reported for Resource Allocation Decisions

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Service Reporting Code of Practice. However, decisions about resource allocation are taken by the Police Authority on the basis of budget reports analysed across directorates. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- no charges are made in relation to capital expenditure (whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisations are charged to services in the Comprehensive Income and Expenditure Statement;
- the cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year.

The income and expenditure of the Authority's principal directorates recorded in the budget reports for the year is as follows:

Reconciliation of Directorate Income and Expenditure to Net Cost of Services in the Comprehensive Income and Expenditure Statement

Directorate Income and Expenditure 2011/12 Comparative Figures	**Police Officer Pay Costs £000s**	**Operational Devolved Budgets £000s**	**Support Devolved Budgets £000s**	**Central Budgets £000s**	**Police Authority £000s**	**Seconded Officers £000s**	**General Government Grants £000s**	**NNDR £000s**	**Council Tax £000s**	**Other Grants £000s**	**Other Income / Funding £000s**	**Total £000s**
Fees, charges & other service income	-	(1,869)	(2,526)	(393)	(5)	-	-	-	-	-	(228)	**(5,021)**
Government grants	-	-	-	-	-	-	(48,667)	(18,810)	(42,357)	(5,755)	-	**(115,589)**
Total Income	**-**	**(1,869)**	**(2,526)**	**(393)**	**(5)**	**-**	**(48,667)**	**(18,810)**	**(42,357)**	**(5,755)**	**(228)**	**(120,610)**
Employee expenses	59,846	22,311	11,273	17	400	(20)	-	-	-	-	-	**93,827**
Other operating expenses	-	3,890	12,960	5,813	489	-	-	-	-	-	-	**23,152**
Support services	-	1,345	1,683	-	-	-	-	-	-	-	-	**3,028**
Total Expenditure	**59,846**	**27,546**	**25,916**	**5,830**	**889**	**(20)**	**-**	**-**	**-**	**-**	**-**	**120,007**
Net Expenditure	**59,846**	**25,677**	**23,390**	**5,437**	**884**	**(20)**	**(48,667)**	**(18,810)**	**(42,357)**	**(5,755)**	**(228)**	**(603)**

Directorate Income and Expenditure 2012/13	**Police Officer Pay Costs £000s**	**Operational Devolved Budgets £000s**	**Support Devolved Budgets £000s**	**Central Budgets £000s**	**Police & Crime Commissioner £000s**	**Seconded Officers £000s**	**General Government Grants £000s**	**NNDR £000s**	**Council Tax £000s**	**Other Grants £000s**	**Other Income / Funding £000s**	**Total £000s**
Fees, charges & other service income		(4,144)	(2,151)	(110)	(61)							**(6,466)**
Government grants		(219)					(40,279)	(23,734)	(44,317)	(5,842)		**(114,391)**
Total Income	**-**	**(4,363)**	**(2,151)**	**(110)**	**(61)**	**-**	**(40,279)**	**(23,734)**	**(44,317)**	**(5,842)**	**0**	**(120,857)**
Employee expenses	59,453	13,054	2,871	563	482		-	-	-	-	-	**76,423**
Other operating expenses		2,192	9,148	3,438	415	36	-	-	-	-	-	**15,229**
Support services		4,231	499	24,414	65		-	-	-	-	-	**29,209**
Total Expenditure	**59,453**	**19,477**	**12,518**	**28,415**	**962**	**36**	**-**	**-**	**-**	**-**	**-**	**120,861**
Net Expenditure	**59,453**	**15,114**	**10,367**	**28,305**	**901**	**36**	**(40,279)**	**(23,734)**	**(44,317)**	**(5,842)**	**0**	**4**

This reconciliation shows how the figures in the analysis of directorate income and expenditure relate to the amounts included in the Comprehensive Income and Expenditure Statement.

	2011/12 £000s	2012/13 £000s
Net Expenditure in the Directorate Analysis	**(603)**	**4**
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis.	22,544	0
Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement, Cost of Services.	111,014	116,966
Cost of Services in Comprehensive Income and Expenditure Statement	**132,955**	**116,970**

Reconciliation to Subjective Analysis

This reconciliation shows how the figures in the analysis of directorate income and expenditure relate to a subjective analysis of the Surplus or Deficit on the Provision of Services included in the Comprehensive Income and Expenditure Statement.

	2011/12 £000s	2012/13 £000s
Reported budget surplus	**(603)**	**4**
adjusted for….		
Other contributions to Reserves	(2,412)	(3,345)
Amounts relating to capital expenditure / repayment of debt	(3,752)	(4,458)
Depreciation and impairment of non current assets	4,349	3,813
Revaluation of non current assets	2,533	1,286
Net loss on sale of non current assets	505	847
Cost of pensions on an IAS 19 basis	48,788	31,633
Movement in the Employee Benefits charge	(475)	(182)
Movement on valution of investment properties	(45)	30
Movement on share of Council Tax Collection Fund	3	128
Use of Earmarked Reserves	2,145	908
Surplus on Provision of Services with the Comprehensive Income & Expenditure Statement	**51,036**	**30,664**

40. Gross Expenditure and Income

The Comprehensive Income and Expenditure Statement has been prepared using the service expenditure analysis for Police Services as detailed in the 2012/13 Service Reporting Code of Practice (SerCOP).

The following table is intended to aid the reader in understanding where the money is spent and in making comparisons between Forces in terms of the type of expenditure incurred.

2011/12 £000	**Description**	**2012/13 £000**
61,032	Police Pay and Allowances	58,674
32,470	Police Staff Pay and Allowances	**15,336**
560	Other Employee Expenses	**376**
1,183	Police Pensions - Ill Health Retirements	1,485
19,396	IAS 19 pension costs	8,458
3,572	Premises	3,473
2,931	Transport	2,619
12,395	Supplies and Services	5,781
145	Third Party Payments	21,360
1,616	Support Services	2,876
6,398	Capital Financing	5,100
(8,743)	Income from Grants, Fees and Charges	**(9,635)**
132,955	**Net Cost of Services**	**115,903**

The Cost of Services is split across police services on the face of the Comprehensive Income & Expenditure Statement. The split is based on the “Police Objective Analysis” (POA), which has been developed by the Police Service following the end of Activity Based Costing. This method of allocating costs across services is based on a series of apportionments of expenditure in accordance with the actual functions carried out by police officers and staff. However, SerCOP also requires the allocation of central support service costs and other adjustments, which are not considered in the POA.

41. Corporate and Democratic Core and Non Distributed Costs

Corporate and democratic core expenditure represents those costs of operating an organisation such as the PCC, which cannot be directly attributed to a particular function as defined in the Service Reporting Code of Practice.

Non distributed costs are a classification from the Service Reporting Code of Practice. They are costs which do not require allocation as police service costs. Rather, they are an overhead cost for the organisation. They come from two sources: the historic cost of retirement benefit, and the costs of non operational assets.

	2011/12 £000	2012/13 £000
Police Services	121,822	114,751
Corporate and Democratic Core	1,068	1,042
Change from RPI to CPI within IAS19 Pensions	-	
Non Distributed Costs	10,065	110
Net Cost of Services	**132,955**	**115,903**

Historic costs of retirement benefits

The liabilities as at 31st March 2013 are based on the current benefit structure of both the Local Government Pension Scheme and the Police Pension Scheme. The liabilities include an allowance for the change in commutation factors with effect from 20th April 2011. In 2012/13 there was no effect of this change but in 2011/12 the effect is a £10.4m past service cost in the revenue account. There is also £46k in respect of losses on curtailments in 2012/13 and £36k in 2011/12.

Costs of non operational assets

Impairment costs for non-operational assets were £30k (£447k in 2011/12). Costs of maintaining properties prior to their sale were £34k (£76k in 2011/12)

42. Jointly Controlled Assets

Sexual Assault Referral Centre

Spring Lodge, Sexual Assault Referral Centre (SARC) opened in April 2010. The SARC is a one stop location where victims of sexual assault can receive medical care and counselling whilst at the same time having the opportunity to assist the police investigation into alleged offences. It is a partnership between Lincolnshire Police and Lincolnshire Partnership NHS Foundation Trust, with Lincolnshire Police acting as the lead Authority. The financial statements include the Authority's share of capital expenditure, primarily the purchase and refurbishment costs associated with Spring Lodge (PCC Lincolnshire share is 65%). The financial statements also include the PCC's share of revenue expenditure (PCC Lincolnshire is 50%).

Regional Collaboration (EMSOU; EMSOU Major Crime; EMSOU TSU, EM Forensics, EM OHU)

The East Midlands Special Operations Unit (EMSOU) is responsible for undertaking special operations across Leicestershire, Nottinghamshire, Derbyshire, Lincolnshire and Northamptonshire (including the Regional Asset Recovery Team and the Regional Review Unit). Leicestershire acts as the lead Authority. During 2011/12 this collaboration was extended to include EMSOU MC (Major Crime) with Leicestershire acting as the lead force and EMSOU TSU (Technical Support Unit) with Derbyshire acting as the lead force. During 2012/13 the collaboration was extended to include EM Forensics with Derbyshire as the lead force and EM OHU (Occupational Health Unit) with Leicestershire as the lead force. The following table shows the total balance sheet for this jointly controlled asset together with the balances attributable to Lincolnshire. The transactions relating to Lincolnshire's 12.6% with the exception of forensics which is 20.26% share of revenue expenditure have been included in the Comprehensive Income and Expenditure Statement. The Balance Sheet and Cash Flow also incorporate Lincolnshire's share of EMSOU transactions.

PCC Lincolnshire's contribution to EMSOU was £830,336 in 2012/13 (£631,613 in 2011/12), EMSOU MC was £186,498 (£90,646 in 2011/12), EMSOU TSU was £289,549 (£197,775 in 2011/12), EM Forensics was £614,726 and EM OHU was £230,744

Lincolnshire share of regional Balance Sheet as at 31st March 2012

31 March 2012 £000		31 March 2013 £000
80	Property, Plant & Equipment	147
2	Intangible Assets	1
82	**Long Term Assets**	**148**
3	Payments In Advance	4
77	Cash and Cash Equivalents	275
238	Short-Term Debtors	190
318	**Current Assets**	**469**
(179)	Short-Term Creditors	(278)
	Receipts In Advance	(33)
	Employee Benefits	(32)
(179)	**Current Liabilities**	**(343)**
221	**Net Assets**	**274**
50	General Fund Balance	34
82	Earmarked Reserves	123
132	**Usable Reserves**	**157**
106	Capital Adjustment Account	149
(17)	Accumulated Absences Account	(32)
89	**Unusable Reserves**	**117**
221	**Total Reserves**	**274**

Lincolnshire share of regional Comprehensive Income and Expenditure Statement

2011/12 £000		2012/13 £000
351	Police Pay and Allowances	607
373	Police Staff Pay and Allowances	1,111
13	Other Employee Expenses	28
110	Premises	130
49	Transport	108
168	Supplies and Services	327
27	Support Services	0
-	Agency and Contracted Services	14
-	Depreciation	36
-	Amortisation	1
36	Capital Financing	0
1,127	**Gross Operating Expenditure**	**2,362**
(12)	Other Income	(30)
4	(Gains) or Losses on Disposal of Non Current Assets	0
1,119	**Amount to be met from Partners**	**2,332**
	Financed by:	
(921)	Contributions from Partners	(2,165)
(221)	External Grants	(219)
(5)	Capital Grants & Contributions	0
(28)	**Deficit on the Provision of Services**	**(52)**
-	(Surplus) or Deficit on Revaluation of Non-Current Assets	-
-	**Other Comprehensive Income and Expenditure**	-
(28)	**Total Comprehensive Income and Expenditure**	**(52)**

43. Jointly Controlled Operations

Lincolnshire Road Safety Partnership

Lincolnshire Road Safety Partnership (LRSP) was formed in June 2000 in order to reduce the number of people killed or injured on Lincolnshire's roads. LRSP is a unique multi-agency partnership that brings together road safety professionals from the Police, Lincolnshire County Council, Fire & Rescue, the NHS, the Highways Agency and the Probation Service. As well as the time of Roads Policing Officers, Lincolnshire Police made a cash contribution of £51k to the partnership (£51k in 2011/12).

Drug and Alcohol Action Team (DAAT)

The Lincolnshire DAAT is a virtual partnership of all the statutory services in the area and some other significant organisations responsible for delivering the National Drugs Strategy. Previously named the Lincolnshire DAT (Drugs Action Team), the organisation's remit has been widened to incorporate responsibility for the National Alcohol Harm Reduction Strategy and is now called the Lincolnshire Drug and Alcohol Action Team. Drugs Referral Officers work in the Force's custody suites to provide support and advice to individuals and families affected by substance misuse. Lincolnshire Police made a contribution of £55k to DAAT in 2012/13 (£55k in 2011/12).

44. Members' Allowances and Expenses

Prior to the election to office of the Police and Crime Commissioner in November 2012 payments were made to Members of the Police Authority amounting to £127,168 (2011/12: £178,776) in respect of allowances and £7,356 (2011/12: £24,183) as a contribution towards expenses necessarily incurred in the course of their duties.

45. Remuneration of Senior Staff

Remuneration includes all sums paid to or receivable by an employee. Pension contributions payable by the employer are excluded.

The table below excludes senior employees who are shown in more detail in the following tables for Senior Officers' Remuneration. It includes 4 Chief Superintendents for 2011/12 and 3 Chief Superintendents for 2012/13.

The table includes 6 employees who received redundancy payments in the year for 2011/12, there were none in 2012/13.

Remuneration Range	2011/12 Number of employees	2012/13 Number of employees
£50,000 to £54,999	61	48
£55,000 to £59,999	28	25
£60,000 to £64,999	8	7
£65,000 to £69,999	2	2
£70,000 to £74,999	5	2
£75,000 to £79,999	5	7
£80,000 to £84,999	3	1
£85,000 to £89,999	2	3
£90,000 to £94,999	1	0
£100,000 to £104,999	1	0
£105,000 to £109,999	1	0

2011/12 Senior Employees' Remuneration

Post title	Notes	Salaries, fees or allowances £	Performance related pay £	Compensation for loss of office £	Other benefits receivable in the role £	**Total remuneration excluding pension contributions 2011/12 £**	Employer's pension contribution £	**Total remuneration including pension contributions 2011/12 £**
Officers of the Authority								
Chief Finance Officer*						**-**		**-**
Chief Executive		80,122			1,239	**81,361**	12,621	**93,982**
Monitoring Officer**								
Police officers								
Chief Constable		134,381			6,695	**141,076**		**141,076**
Deputy Chief Constable		113,613	5,387		3,048	**122,048**	26,347	**148,395**
Temporary Deputy Chief Constable***		137,364				**137,364**	23,504	**160,868**
Assistant Chief Constable 1		108,089			3,192	**111,281**	25,249	**136,530**
Assistant Chief Constable 2	01/04/11 to 25/03/12	93,150	3,154		2,380	**98,684**	21,602	**120,286**
Police staff								
Director of Resources	01/04/11 to 31/12/11	79,386	1,200	137,879	4,400	**222,865**	12,894	**235,759**

* The Chief Finance Officer's services were provided via a third party. During the year, payments amounting to £66,873 were made to the third party for the their services.

** The Monitoring Officer services were provided via a third party. During the year, payments amounting to £6,000 were made to the third party for Monitoring Officer services.

***This Officer has been seconded from Lincolnshire Police to the post of Chief Executive of the Child Exploitation and Online Protection Centre (CEOP). Costs are reimbursed.

2012/13 Senior Employees' Remuneration

Post title	Notes	Salaries, fees or allowances £	Performance related pay £	Compensation for loss of office £	Other benefits receivable in the role £	**Total remuneration excluding pension contributions 2012/13 £**	Employer's pension contribution £	**Total remuneration including pension contributions 2012/13 £**
Police and Crime Commissioner	**22/11/12 to 31/03/13**	23,292				**23,292**	4,635	**27,927**
Office of the Police and Crime Commissioner								
Chief Executive and Monitoring Officer *		90,971			1,239	**92,210**	19,550	**111,760**
Chief Finance Officer **		41,556			775	**42,331**	8,125	**50,456**
Police officers								
Temporary Chief Constable		136,219			5,283	**141,502**	31,471	**172,973**
Temporary Deputy Chief Constable		106,654			5,300	**111,954**	24,152	**136,106**
Temporary Deputy Chief Constable***		137,364	7,500		2,197	**147,061**	31,398	**178,459**
Assistant Chief Constable 1		109,602			5,024	**114,626**	25,615	**140,241**
Temporary Assistant Chief Constable 2		93,951			4,061	**98,012**	21,956	**119,968**
Chief Constable Chief Finance Officers								
Chief Finance Officer 1		65,508				**65,508**	13,036	**78,544**
Chief Finance Officer 2	26/06/12 to 31/03/12	40,573				**40,573**	-	**40,573**

* The Monitoring Officer services were provided via a 3rd party from 1 April 2012 until 21 November 2012 at which point the Chief Executive took on the role of Monitoring Officer. Payments amounting to £4,000 were made to the third party for Monitoring Officer services.

** The Chief Finance Officer's services were provided via a third party until July. Payments amounting to £23,846 were made to the third party for the Chief Finance Officer's services.

*** This Officer has been seconded from Lincolnshire Police to the post of Chief Executive of the Child Exploitation and Online Protection Centre (CEOP). Costs are reimbursed.

Severance Costs

Cost band (including special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number by cost band		Total cost in each band	
	2011/12	2012/13	2011/12	2012/13	2011/12	2012/13	2011/12	2012/13
£0,000 to £20,000	2	1	6	-	8	1	78,949	3,332
£20,001 to £40,000	1	-	1	-	2	-	45,935	30,837
£40,001 to £60,000	-	-	3	-	3	-	150,173	-
£60,001 to £80,000	-	-	-	-	-	-	-	-
£80,001 to £100,000	-	-	-	-	-	-	-	-
£100,000 to £150,000	-	-	1	-	1	-	137,879	-
Total	**3**	**1**	**11**	**-**	**14**	**1**	**412,936**	**34,169**

Included in the cost in 2012/13 is £31k pension strain which relates to an individual who left the organisation in 2011/12.

The number of cases, analysed between compulsory redundancies and other departures and total cost are set out in the table above.

46. Audit Costs

	2011/12 £000	2012/13 £000
Fees payable with regard to external audit services carried out by the appointed auditor for the year	74	64
Rebate received with regard to External Audit Services	(6)	0
Total	**68**	**64**

47. Grant Income

The PCC credited the following grants to the Comprehensive Income and Expenditure Statement.

	2011/12 £000	2012/13 £000
Credited to Taxation and Non Specific Grant Income		
Central Government:		
Police Grant	(42,863)	(39,220)
National Non Domestic Rates	(18,802)	(23,734)
Home Office Pension Grant	(14,596)	(16,858)
Revenue Support Grant	(5,812)	
Capital Grants and Contributions	(798)	(1,423)
Council Tax Freeze Grant	(1,059)	(1,059)
Other Bodies:		
Council Tax Precept	(42,354)	(44,189)
Total	**(126,284)**	**(126,483)**

	2011/12 £000	2012/13 £000
Credited to Services		
Central Government:		
Neighbourhood Policing Fund	(2,867)	(2,851)
Counter Terrorism	(330)	(378)
Proceeds of Crime Act	(99)	(94)
Other Home Office Grants	-	(27)
Other Bodies:		
LCC Neighbourhood Policing	(1,500)	(1,500)
Migration Impact Fund	(4)	(5)
Total	**(4,800)**	**(4,855)**

	31 March 2012 £000	31 March 2013 £000
Capital Grants Receipts in Advance <1 year		
Mobile Data	(324)	(324)
Body Worn Video Device	(99)	(99)
Home Office Capital Grant	(206)	-
Total	**(629)**	**(423)**

The PCC has received a number of grants that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the donor. The balances at the year-end are as follows:

48. Related Party Transactions

The PCC is required to disclose details of any material transactions with related parties - bodies or individuals that have the potential to control or influence the PCC or to be controlled or influenced by it. Disclosure of these transactions allows readers to assess the extent to which the PCC 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 it.

UK Central Government

The UK central government has effective control over the general operations of the PCC. It is responsible for establishing the statutory framework within which the PCC operates. It provides a large proportion of the PCC's funding in the form of grants and prescribes the terms of many of the transactions that the PCC has with other parties. Grants received from government departments are included in the subjective analysis in Note 39 on reporting for resources allocation decisions. Home Office Grants credited to the Comprehensive Income and Expenditure Statement in 2012/13 amounted to £86,333k (Note 47). Grant receipts outstanding at 31 March 2013 are also shown in Note 47.

Chief Constable for Lincolnshire

Within the PCC Group, the Chief Constable is accountable to the Police & Crime Commissioner for Lincolnshire. The PCC provides all funding to the Chief Constable for the discharge of his duties. The total funding of £68,637k is shown in the PCC's Comprehensive Income & Expenditure Statement.

Members

Prior to 22nd November 2012 there were 9 council members and 8 independent members of the Police Authority. None of the members had direct control over the Authority's financial and operating policies.

The Police Authority maintained a 'Register of Members' Interests' during this period. In addition, Members were required to declare personal and / or prejudicial interests before any discussion or decision were made by the Authority.

Officers

The total remuneration to senior staff in 2012/13 is shown in Note 45. All senior officers employed by the PCC Group at the 31st March 2013 have completed a related party transaction declaration for the financial year in respect to themselves and close family members to identify any business dealings with the Group that fall into this category. No further disclosures are required.

Other Public Bodies

Jointly controlled assets and operations are disclosed in Notes 42 and 43 respectively.

The table below sets out material transactions between all other public bodies and the PCC Group.

	Income £000	Expenditure £000
Boston Borough Council		75
East Lindsey District Council		213
Lincoln City Council		214
North Kesteven District Council		21
South Holland District Council		56
South Kesteven District Council		250
West Lindsey District Council		435
Lincolnshire County Council	(1,505)	565
National Policing Improvement Agency		728
Forensic Science Service		26

49. Capital Expenditure and Capital Financing

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

	2011/12 £000	2012/13 £000
Opening Capital Financing requirement	19,034	20,108
Capital Investment		
Land and Buildings	2,365	1,356
Plant & Equipment	1,916	4,420
Assets under Construction	0	3,627
Intangible Assets	-	-
Revenue Expenditure Funded from Capital Under Statute	4	-
Sources of Finance		
Capital Receipts	-	(1,497)
Government grants and other contributions	(798)	(1,205)
Revenue Provision (including MRP)	(2,413)	(2,390)
Closing Capital Financing Requirement	**20,108**	**24,419**
Explanation of Movements in Year		
Assets acquired under finance leases	-	1,121
Increase in underlying need to borrow (Unsupported by Government Financial Assistance)	1,074	3,190
Increase/(decrease) in Capital Financing Requirement	**1,074**	**4,311**

50. Minimum Revenue Provision (MRP)

The PCC is required to adopt a "prudent" approach to the repayment of long term borrowing. Various methods are authorised for the calculation of the Minimum Revenue Provision. The PCC must set an annual policy describing its calculation.

For capital expenditure before 1st April 2008 or which forms part of its Supported Capital Expenditure, the Group applies option 2, with MRP equal to 4% of these balances. For other capital borrowing on or after 1st April 2008 the Group applies option 3, calculating MRP over the life of the assets created.

On this basis the MRP for 2012/13 was £2.064 million (2011/12:MRP was £1.604million).

The preceding organisation Lincolnshire Police Authority followed the practice of recognising borrowing costs in the year that they were paid. This led to a voluntary revenue provision of £362k in 2011/12 as described in Note 6. The Group now restricts repayments to those required by statute. Hence, no voluntary provision is made.

51. Leases

PCC as Lessee

Finance Leases

The PCC has a Police dog training establishment with kennels and a radio mast under a 99-year finance lease. The asset acquired under this lease is carried as Property, Plant and Equipment in the Balance Sheet, and as Land & Buildings in the table below. There is no corresponding liability to recognise as the PCC paid the full costs of constructing the premises at the inception of the lease. If demanded the annual rent is one peppercorn per annum, so there are no minimum lease payments to disclose.

Net Carrying Amount	31 March 2012 £000	31 March 2013 £000
Land and Buildings	157	171
Vehicles, Plant, Furniture and Equipment	-	798
	157	**969**

Minimum Lease Payments	31 March 2012 £000	31 March 2013 £000
Not later than one year	-	323
Later than one year and not later than five years	-	483
Later than five years	-	97
	-	**903**

As part of the strategic partnership with G4S, ICT and furniture assets valued at £1,121k were transferred to G4S for £1. Under IFRIC 4 there is a finance lease for these assets. The associated minimum lease payments are shown above. The total of £903k payments have a net present value of £808k when discounted at 4.5%. There are no contingent rents or sublease payments.

The assets are carried in the PCC Group asset register and are subject to depreciation. Their carrying value as at 31 March 2013 was £798k as shown above, with £515k on the balance sheet as Other Long Term Liabilities, and £283k Other Short Term Liabilities.

Operating Leases

The PCC has acquired a number of assets (properties and Livescan devices) by entering into operating leases, typically on a short-term basis. The future minimum lease payments due under non-cancellable leases in future years are:

	31 March 2012 £000	31 March 2013 £000
Not later than one year	83	50
Later than one year and not later than five years	105	122
Later than five years	94	118
	282	**290**

The expenditure charged against the cost of services section of the Comprehensive Income and Expenditure Statement during the year in relation to leases was:

	2011/12 £000	2012/13 £000
Minimum lease payments	169	135
	169	**135**

The PCC has 7 additional licenses to occupy premises on a peppercorn rent basis, which are cancellable by either party at between 1 and 3 months notice. These premises are typically utilised by Neighbourhood Police Teams. No payments are made for these licenses and as such no value is recorded in the tables above in relation to them.

The EMSOU Headquarters building is also leased. Leicestershire manage EMSOU arrangements. Derbyshire are the Tenant, although Lincolnshire pays a percentage of the cost each year.

PCC as Lessor

Operating Leases

The PCC leases out office accommodation and space on radio masts under operating leases for the following purposes:

- office accommodation for the provision of probation services
- office accommodation for the provision of UK immigration services.
- space on radio masts for telecommunication services

The future minimum lease payments receivable under non-cancellable leases in future years are:

	31 March 2012 £000	31 March 2013 £000
Not later than one year	117	109
Later than one year and not later than five years	106	330
Later than five years	76	292
	299	**731**

52. Onerous Contracts

There are no onerous contracts that need to be declared in the 2012/13 accounts.

53. Termination Benefits

The PCC terminated the contract of 2 employees in 2012/13, incurring liabilities of £34k. This is made up of:

- £3k in compulsory redundancy payments (£26k in 2011/12);
- No voluntary redundancy payments (£374k in 2011/12);
- £31k for enhanced retirement benefits, this relates to a member of staff made redundant in 2011/12 (£21k in 2011/12)

Further, the PCC has recognised the potential liability of £155k for 13 employees who had their contracts terminated in the past under different accounting arrangements. For these employees, the impact on the General Fund is restricted to the £23k cash payment made in 2012/13.

54. Retirement Benefits

Participation in pension schemes

As part of the terms and conditions of employment of its officers and other employees, the Group offers retirement benefits. Although these benefits will not actually be payable until employees retire, the Group has a commitment to disclose the cost of future pension liabilities at the time that employees earn their future entitlement.

The Group participates in two pensions schemes:

The Local Government Pension Scheme is for police staff, and is administered by Lincolnshire County Council. This is a funded defined benefit final salary scheme, meaning that the PCC and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

The Police Pension Scheme for police officers – this is an unfunded defined benefit final salary scheme, meaning that there are no investment assets built up to meet the pensions liabilities, and cash has to be generated to meet actual pensions payments as they eventually fall due. Under the Police Pension Fund Regulations 2007, if the amounts receivable by the pensions fund for the year are less than amounts payable, the PCC must annually transfer an amount required to meet the deficit to the pension fund. Subject to parliamentary scrutiny and approval, up to 100% of this cost is met by a central government pension top up grant. If however the pension fund is in surplus for the year, the surplus is required to be transferred from the pension fund to the PCC who then must repay the amount to central government.

Transactions Relating to Retirement Benefits

In order to comply with IAS 19, employer's pension contributions have been replaced with current service costs as estimated by the independent actuary. The Group recognise the cost of retirement benefits in the Cost of Services when they are earned by 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 cash payable in the year, so the real cost of retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The reversal of the IAS 19 transactions ensures that there is no effect on the amounts to be met from government grant and the local taxpayers.

The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

	Local Government Pension Scheme		Police Pension Scheme		Total	
	2011/12 £000	2012/13 £000	2011/12 £000	2012/13 £000	2011/12 £000	2012/13 £000
Comprehensive Income and Expenditure Statement						
Cost of Services:						
Current service cost	(4,129)	(3,709)	(20,100)	(19,900)	(24,229)	(23,609)
Past service costs	0		(10,400)	0	(10,400)	0
Curtailments	(36)	(46)	-	-	(36)	(46)
Financing and Investment Income and Expenditure						
Interest cost	(4,727)	(4,643)	(43,500)	(40,000)	(48,227)	(44,643)
Expected return on scheme assets	4,793	4,198	-	-	4,793	4,198
Total Post Employment Benefit Charged to the Surplus or Deficit on	**(4,099)**	**(4,200)**	**(74,000)**	**(59,900)**	**(78,099)**	**(64,100)**
Other Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement						
Actuarial gains and (losses)	(6,646)	(9,301)	(6,000)	(98,400)	(12,646)	(107,701)
Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statement	**(10,745)**	**(13,501)**	**(80,000)**	**(158,300)**	**(90,745)**	**(171,801)**
Movement in Reserves Statement						
Reversal of net charges made to the Surplus or Deficit for the Provision of Services for post employment benefits in accordance with the Code	4,099	4,200	74,000	59,900	78,099	64,100
Actual Amount charged against the General Fund Balance for pensions in year:						
Employers contributions payable to scheme	(3,656)	(4,165)	-	-	(3,656)	(4,165)
Retirement benefits payable to pensioners	-	-	(25,700)	(28,300)	(25,700)	(28,300)
Movement from Comprehensive Income and Expenditure Statement to the General Fund	**443**	**35**	**48,300**	**31,600**	**48,743**	**31,635**

Assets and Liabilities in relation to Retirement Benefits

In addition to the recognised gains and losses included in the Comprehensive Income and Expenditure Statement, there were also actuarial losses of £107.7 million (compared with losses of £12.6 million in 2011/12). The cumulative amount of actuarial losses recognised in the Balance Sheet is £375.7 million.

Reconciliation of present value of the scheme liabilities

	2008/09 £000	2009/10 £000	2010/11 £000	2011/12 £000	2012/13 £000
Present value of liabilities					
Local government pension scheme	(57,315)	(105,343)	(84,230)	(95,281)	(117,898)
Police pension scheme	(589,900)	(878,100)	(785,200)	(839,500)	(969,500)
Fair value of assets in the local government pension scheme	43,906	60,983	68,028	71,990	85,271
Surplus / (deficit) in the scheme					
Local government pension scheme	(13,409)	(44,360)	(16,202)	(23,291)	(32,627)
Police pension scheme	(589,900)	(878,100)	(785,200)	(839,500)	(969,500)
Total surplus / (deficit) in the scheme	**(603,309)**	**(922,460)**	**(801,402)**	**(862,791)**	**(1,002,127)**

Reconciliation of fair value of the scheme assets

	Local Government Pension Scheme 2011/12 £000	Local Government Pension Scheme 2012/13 £000
1st April	68,028	71,990
Expected rate of return	4,793	4,198
Actuarial gains and (losses)	(3,787)	5,732
Employer contributions	3,656	4,165
Contributions by scheme participants	1,500	1,354
Benefits paid	(2,200)	(2,168)
Settlements	-	-
31st March	**71,990**	**85,271**

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date. Expected returns on equity investments reflect long term real rates of return experienced in the respective markets.

The actual return on scheme assets in the year was a gain of £9.9 million. (2011/12: a gain of £1.0 million).

Scheme history

	2008/09 £000	2009/10 £000	2010/11 £000	2011/12 £000	2012/13 £000
Present value of liabilities					
Local government pension scheme	(57,315)	(105,343)	(84,230)	(95,281)	(117,898)
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Total surplus / (deficit) in the scheme	**(603,309)**	**(922,460)**	**(801,402)**	**(862,791)**	**(1,002,127)**

Figures used to be stated at mid market value, but from 2008/09 onwards are shown at bid value.

The liabilities show the underlying commitments for retirement benefits that the PCC Group has to pay in the long run. The total liability of £1,002 million has a substantial impact on the net worth of the Group as recorded in the Balance Sheet, resulting in a negative overall balance of £982 million. However, statutory arrangements for funding the deficit mean that the financial position of the Group remains healthy:

- the deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary;
- finance is only required to be raised to cover police pensions when the pensions are actually paid.

The total contributions expected to be made to the Local Government Pension Scheme by the Authority in the year to 31st March 2014 is £1.9 million. Expected contributions for the Police Pension Scheme in the year to 31st March 2014 are £9.6 million.

Basis for Estimating Assets and Liabilities

Both the Police Scheme and the Local Government Scheme liabilities have been assessed by Hymans Robertson (an independent firm of actuaries). The value of the liabilities is an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc.

For the Local Government Pension Scheme, liabilities have been assessed on an actuarial basis using the projected unit method. Estimates are based on the latest full valuation of the scheme as at 31st March 2010.

For the police schemes (both the 1987 Police Pension Scheme and the 2006 new Police Pension Scheme) liabilities have been assessed on an actuarial basis. The last formal valuation of the schemes were carried out as at 31st March 2012. The results of this valuation have been projected forward to 31st March 2013 using approximate methods.

The roll forward allows for changes in financial assumptions, additional benefit accruals, estimate cash-flows over the period and updated membership information.

The principal assumptions used by the actuary are set out in the table below.

	Local Government Pension Scheme		Police Pension Scheme	
	2011/12	2012/13	2011/12	2012/13
Long term expected rate of return on assets in the scheme:	%	%	%	%
Equity investments	6.2	4.5	n/a	n/a
Bonds	4.4	4.5	n/a	n/a
Property	4.4	4.5	n/a	n/a
Cash	3.5	4.5	n/a	n/a
Mortality assumptions	Longevity at 65 for LGPS pensioners		Longevity at 60 for police pensioners	
	Years	Years	Years	Years
Longevity for current pensioners:				
Men	21.2	21.2	27.9	28.1
Women	23.4	23.4	30.8	30.1
Longevity for future pensioners:				
Men	23.7	23.7	29.5	29.7
Women	25.7	25.7	32.3	32.5
Financial assumptions	%	%	%	%
Market derived RPI	3.3	3.6	3.3	3.6
Rate of increase in salaries	4.8	5.1	3.5	3.8
Rate of increase in pensions	2.5	2.8	2.5	2.8
Rate of discounting for scheme liabilities	4.8	4.5	4.8	4.5

For the local government scheme, note that an allowance is included for future retirements to elect to take 25% of the maximum additional tax free cash up to HMRC limits for pre-April 2008 service and 63% of the maximum tax free cash for post-April 2008 service. These assumptions are unchanged from the 2011/12 accounts.

It is assumed that 90% of future retirees elect to exchange pension for additional tax free cash up to HMRC limits in the old police pension scheme. No allowance for commutation of lump sum for additional pension has been made in the new police pension scheme. These assumptions are also unchanged from the 2011/12 accounts.

The police pension schemes have no assets to cover their liabilities. The Local Government Pension Scheme's assets consist of the following categories, by proportion of the total assets held:

	31 March 2012 %	31 March 2013 %
Equity investments	74.0	77.0
Bonds	13.0	13.0
Property	12.0	10.0
Cash	1.0	0.0
Total	**100.0**	**100.0**

History of experience gains and losses

The actuarial gains identified as movements on the pensions reserve in 2012/13 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31st March 2013:

	2008/09 %	2009/10 %	2010/11 %	2011/12 %	2012/13 %
LGPS					
Differences between the expected and actual return on assets	(30.8)	17.2	0.4	(5.2)	8.0
Experience gains and losses on liabilities	0.01	0.02	(7.3)	0.8	(0.1)
Police Pension Scheme 1987					
Differences between the expected and actual return on assets	n/a	n/a	n/a	n/a	n/a
Experience gains and losses on liabilities	(7.7)	0.4	1.4	3.6	0.0
Police Pension Scheme 2006					
Differences between the expected and actual return on assets	n/a	n/a	n/a	n/a	n/a
Experience gains and losses on liabilities	(20.7)	17.3	(6.7)	10.3	0.0

55. Contingent Liabilities

Legal claims against the PCC Group

A number of legal claims are being pursued against the Group. They are all being rigorously defended.

- The claims are motor, public liability, employer's liability and employment tribunal cases brought against the Group.
- It is not expected that any material awards will be made against the Group other than those already included in the Provisions.
- As with any legal claim, the final outcome and timing of each case will depend upon many factors, some of which had not been determined at the Balance Sheet date.
- The Group will be reimbursed for any costs which exceed the insurer's excess for an individual case.

Ill health retirements

The medical condition of some staff may mean that they qualify for ill health retirements under the rules of their pension scheme. In such cases, the Group is required to make a contribution to the pension scheme to fund the additional payments to the individual.

- Each case is considered individually, with professional medical advice being sought.
- As at 31st March, there were 4 staff that were being considered for medical retirement but where no provision had been made.
- Key factors in the assessment process are the nature of the condition, illness or disability, the prognosis for its development in the future and the impact on the individual's ability to work for the police.
- The total cost to the PCC for all 4 staff would be around £283k, but there is no certainty that any of the staff will retire.

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56. Nature and Extent of Risks arising from Financial Instruments

Credit Risk Exposure

This is the risk that one party to a financial instrument will fail to meet their contractual obligations, causing a loss for the other party. Exposure to this risk is managed through the Treasury Management Strategy. The PCC only invests in approved institutions with secure credit ratings, there are also limits in place on how much can be invested with counterparties.

In the current climate an interim set of operating procedures have been implemented. These are:

i) Weekly review of Fitch IBCA rating for each counterparty. Loan limits are based on the following:

Rating AA+ to AA-	£5,000,000
Rating A+ to A	£4,000,000
Rating A-	£3,000,000

The rating is also amended by the Fitch Rating outlook so that a negative outlook would result in the institutions banding being reduced by one level.

ii) The loan activities have been further limited by no longer using Banks who are not based in the UK.

iii) All loans where possible are placed in on call accounts with the main UK clearing banks. This has resulted in a reduced level of interest being received but is seen as lower risk.

In the event that there is insufficient head room within the loan limits for placing on call money with these counterparties then loans will be placed with other UK based counterparties on the approved list for a period of no greater than one month.

The PCC does not generally allow extended credit for customers such that £158k of the £390k for 2012/13 balance is past its due date for payment. The amounts not impaired can be analysed by age as follows:

	2011/12 £000	**2012/13 £000**
Current	231	1
Up to one month	49	231
Up to six months	50	112
Up to one year	8	8
More than one year	63	38
Total:	**401**	**390**
Other debtors	8,125	9,291
Total:	**8,526**	**9,681**

Note that this table shows the aged debt analysis from the trade debtors account, with all other debtors included at the ‘Other Debtor’ line.

Liquidity Risk Exposure

This is the risk that a party will be unable to raise funds to meet its commitments associated with financial instruments. As the PCC currently has ready access to borrowings from the Public Works Loan Board, there is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the PCC will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. The financial liabilities however all mature at different times. The maturity analysis of financial liabilities is as follows:

2011/12 long term borrowing	PWLB	Deferred Liabilities	Total
	£000	£000	£000
Less than 1 year	2,343	52	2,395
Between one and two years	1,850	52	1,902
Between two and five years	3,779	156	3,935
More than five years	12,038	156	12,194
Total	**20,010**	**416**	**20,426**

2012/13 long term borrowing	PWLB	Deferred Liabilities	Total
	£000	£000	£000
Less than 1 year	2,007	52	2,059
Between one and two years	1,510	52	1,562
Between two and five years	3,109	156	3,265
More than five years	11,197	104	11,301
Total	**17,823**	**364**	**18,187**

This excludes trade and other payables (creditors and other liabilities) which are due to be paid in less than one year.

Market Risk Exposure

This is the risk that the value of an instrument will fluctuate because of changes in interest rates, market prices, foreign currency exchange rates. The PCC has limited risk. PWLB interest rates are fixed, and no short term investments were held at the end of 2012/13. The PCC does not invest in equity shares and has no financial assets or liabilities in foreign currencies.

The following sensitivity analysis shows that as at 31 March 2012 and as at 31 March 2013, if interest rates had been 1% higher with all other variables held constant, the financial effect would be:

	2011/12 £000	2012/13 £000
Increase in interest payable on variable rate borrowings	4	4
Increase in interest receivable on variable rate investments	-	
Impact on Surplus or Deficit on the Provision of Services	**4**	**4**
Decrease in fair value of fixed rate investment assets	-	
Impact on Other Comprehensive Income and Expenditure	**4**	**4**
Decrease in fair value of fixed rate borrowings (no impact on the Surplus or Deficit on the Provision of Services)	3,246	(1,858)

The impact of a 1% fall in interest rates would be as above but with the movements being reversed. The variable rate borrowings referred to are the deferred liabilities, transferred debt from Lincolnshire County Council and the variable rate investments are the short term investments. The fixed rate borrowings are the PWLB borrowings. The sensitivity analysis for both years has been prepared using the same method.

57. Post Balance Sheet Events

The Police and Crime Commissioner approved the financial statements on 25 September 2013.

Adjusting events

There have been no material post balance sheet events between the year end and the date of approval of these accounts which require adjustment to these draft financial statements.

Non adjusting events

There have been no other post balance sheet events which require disclosure.

PCC for Lincolnshire

Police Officer Pensions - Home Office Memorandum Account

2012/13

This statement shows the transactions relating to retirement benefits paid to Police Officers and how those costs are paid for.

2011/12 £000	Fund account	2012/13 £000
	Contributions Receivable	
	From Employer:	
10,286	Normal	9,883
561	Early Retirements	569
5	Reimbursement of Unabated Pensions of 30+ Police Officers	4
201	Recovery from PCC for Humberside	178
	From Members:	
4,565	Contributions	4,858
232	Individual Transfers in from Other Schemes	98
15,850		**15,590**
	Benefits Payable	
24,037	Pensions	25,877
6,051	Commutations	6,361
0	Lump Sum Death Benefits	-
5	Unabated Pension of 30+ Police Officers	4
	Payments To and On Account of Leavers	
17	Refunds of Contributions	-
318	Individual Transfers Out	206
18	Employers Sanction Charge	-
-	Equivalent Premium	-
30,446		**32,448**
14,596	**Sub-total for the year before transfer from the PCC for Lincolnshire of amount equal to the deficit**	**16,858**
(14,596)	**Additional funding payable by the PCC for Lincolnshire to meet deficit for the year**	**(16,858)**
-	**Net Amount payable/(receivable) by the PCC for Lincolnshire**	-

Disclosure Notes

1. The operation of the Pension Fund for Police and Crime Commissioners in England and Wales is controlled by the Police Pension Fund Regulations 2007 (SI 2007 No 1932). It covers both old and new Police Officer pension schemes but has no impact on the benefit structure of either scheme. The new scheme was introduced from 1 April 2006. This is the only scheme open to new officers, whereas officers in the existing scheme have the option to transfer to the new scheme. Injury and ill health awards continue to be paid from the PCC's operating account. The employer contribution rate is 24.2% of pensionable pay. Employees' contributions in the old scheme are either 12.25% or 12.5% of pensionable pay. In the new scheme employees contribute either 10.1%, 10.5% or 10.75% of pensionable pay.

2. The fund is administered locally by Lincolnshire Police. Salary deductions are made from members of the scheme, and payments are made to retiring officers and pensioners in accordance with Police Pension Fund Regulations 2007. Returns are made to the Home Office for the projected and actual costs in each year, and funds are transferred accordingly.

3. There are no investment assets; the fund is balanced to nil each year by receipt of a pension top up grant from the Home Office (via PCC for Lincolnshire). Payments are made monthly to pensioners, with the pension fund entries being kept separate, outside of the PCC's general ledger accounts. Details of the PCCs long term pension obligations can be found in the main statements at Note 54.

4. The accounting policies followed are in accordance with Note 1 on pages 27 to 43.

5. The Police Officer Pensions - Home Office Memorandum Account does not take account of liabilities to pay pensions and benefits after the period end.

6. The net amount receivable of £2,838,721 is shown in PCC for Lincolnshire accounts as due from the Home Office.

2011/12 £000	Net Asset Statement as at 31st March	2012/13 £000
	Net Current Assets and Liabilities	
2,102	Pension benefits paid in advance	**2,280**
0	Receivable from PCC for Humberside	**28**
(2,102)	Creditors to the PCC for Lincolnshire	**(2,308)**
-	Total	-

INDEPENDENT AUDITOR'S REPORT TO THE POLICE AND CRIME COMMISSIONER FOR LINCOLNSHIRE

We have audited the financial statements of the Lincolnshire Police and Crime Commissioner for the year ended 31 March 2013 on pages 23 to 97. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.
This report is made solely to the Police and Crime Commissioner in accordance with Part II of the Audit Commission Act 1998. Our audit work has been undertaken so that we might state to the Police and Crime Commissioner those matters we are required to state in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Police and Crime Commissioner for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Chief Finance Officer and auditor
As explained more fully in the Statement of the Chief Finance Officer's Responsibilities, the Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. Our responsibility is to audit, and express an opinion on, the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements
An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Police and Crime Commissioner's and the Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Finance Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Explanatory Foreword to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements
In our opinion the financial statements:

- give a true and fair view of the financial position of the Police and Crime Commissioner and the Group as at 31 March 2013 and of the Police and Crime Commissioner's and the Group's expenditure and income for the year then ended;

- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Matters on which we are required to report by exception
The Code of Audit Practice 2010 for Local Government Bodies requires us to report to you if:

- the annual governance statement set out on pages 14 to 20 does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007; or

- the information given in the Explanatory Foreword for the financial year for which the financial statements are prepared is not consistent with the financial statements; or

- any matters have been reported in the public interest under section 8 of Audit Commission Act 1998 in the course of, or at the conclusion of, the audit; or

- any recommendations have been made under section 11 of the Audit Commission Act 1998; or

- any other special powers of the auditor have been exercised under the Audit Commission Act 1998.

We have nothing to report in respect of these matters.

Other matters on which we are required to conclude

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Police and Crime Commissioner has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are also required by the Audit Commission's Code of Audit Practice to report any matters that prevent us being satisfied that the audited body has put in place such arrangements.

We have undertaken our audit in accordance with the Code of Audit Practice and, having regard to the guidance issued by the Audit Commission, we have considered the results of the following:

- our review of the annual governance statement; and

- the work of other relevant regulatory bodies or inspectorates, to the extent the results of the work have an impact on our responsibilities.

As a result, we have concluded that there are no matters to report.

Certificate

We certify that we have completed the audit of the financial statements of the Lincolnshire Police and Crime Commissioner in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice 2010 for Local Government Bodies issued by the Audit Commission.

Tony Crawley
for and on behalf of KPMG LLP, Appointed Auditor
Chartered Accountants
St Nicholas House
31 Park Row
Nottingham
NG1 6FQ
27 September 2013

Glossary of Terms

'30+' police officers

Police officers may opt to receive the lump sum from their pension after 30 years and continue as officers outside the pension scheme. They are no longer able to contribute or accrue further benefits from the scheme. The pension scheme compensates the police officers for loss of any allowances. The Police Authority reimburses the pension scheme for this cost.

Accrual

An adjustment to ensure that expenditure and income are reflected in the appropriate accounting period.

Actuary/Actuarial

A person professionally qualified to advise on pension matters and undertakes calculations on pension costs, allowing for risk and demographic factors.

Amortisation

This is the equivalent of depreciation for intangible assets.

Audit Report

The Audit Commission are an independent body charged with auditing public sector organisations to ensure that proper stewardship is undertaken.

Back Rest Days

Due to the rescheduling of rest days Police Officers may accrue untaken rest days which they may accumulated over a number of years.

Balances

The total revenue Reserves required to provide a working balance during the financial year, for example in periods when expenditure exceeds income.

Capital Adjustment Account

A reserve primarily designed to represent timing differences between the amount of the historical cost of fixed assets that has been consumed and the amount that has been financed in accordance with statutory requirements.

Capital Expenditure

Expenditure on assets, which have a long term value. Includes the purchase of land, purchase or construction of new buildings and vehicles.

Capital Grants

Grants received towards capital outlay on a particular service or project.

Capital Receipts

Proceeds received from the sale of property and other fixed assets (assets which have value beyond one financial year).

CIPFA

The Chartered Institute of Public Finance and Accountancy. This is the main professional body for accountants working in the public service.

Collection Fund

A fund administered by each billing Authority. Council tax monies are paid into the fund. These are distributed to precepting and billing Authority's in proportion to the council tax set.

Creditors

Amounts owed by the PCC for work done, goods received or services rendered but for which payment has not been made at 31 March.

Debtors

Sums of money due to the PCC but unpaid at 31 March.

Depreciation

The measure of the wearing out, consumption, or other reduction in the useful economic life of a fixed asset.

Direct Revenue Financing

This refers to financing of capital expenditure directly from revenue rather than loans or other sources.

Earmarked Reserves

The elements of total PCC's Reserves, which are retained for specific purposes.

EMSOU

East Midland Special Operations Unit

Finance lease

Where the conditions of the lease amount to recognising all the costs of an asset but legal title is with a third party.

Financial instruments

Financial instruments are contracts that give rise to a financial asset of one entity and a financial liability of another. For local authorites, this will normally mean contracts which involve the right to transfer cash or other financial assets.

Flexi Time

Police Staff may utilise the Force flexi time scheme to accrue additional hours worked that are held pending their utilisation at a future date.

FRS

Financial Reporting Standards, as agreed by the UK accountancy profession and the Accounting Standards Board.

Government Grants

Payments by Central Government towards the PCC's expenditure. They are receivable in respect of both revenue and capital expenditure.

IFRS

International Financial Reporting Standards: the accounting standards which determine the production and disclosure of financial statements, being due for introduction to local authorities in 2010/11.

Impairment

An adjustment to the value of long-term assets caused by the consumption of economic benefits.

Long Term Debtors

Sums of money due to the PCC originally repayable within a period in excess of twelve months and where payment is not due until future years.

Minimum Revenue Provision (MRP)

The statutory requirement to set aside a minimum revenue provision for the repayment of external loans.

Net Book Value

Long-term assets are depreciated in accordance with their asset life. The net book value is the value remaining after cumulative depreciation has been taken away.

Non Domestic Rates

Rates levied on business properties, collected by District Councils, which are then distributed amongst local authorities as income.

Non Operational Assets

Fixed Assets held by a local authority but not directly occupied, used or consumed in the delivery of services. These will include buildings under construction and surplus assets.

OJEU

Official Journal of the European Union

Operating lease

A lease where the asset is only used for part of its useful life, and lease payments amount to rental of the asset.

PCC Group

The Police and Crime Commissioner and the Chief Constable are separate legal entities. They are part of the same PCC Group whose combined accounts are presented collectively.

Precept

The amount levied by one authority which is collected by another e.g. the Police Authority is the precepting authority and the District Councils are the collecting authorities.

PWLB

Public Works Loan Board, a body providing debt funding to local authorities.

Revaluation Reserve

A reserve designed to represent the amount by which the current value of long-term assets carried in the Balance Sheet is greater, because they are carried at revalued amounts rather than depreciated historical cost.

Revenue Contributions

This refers to the financing of capital expenditure directly from revenue rather than from loans or other sources.

Revenue Expenditure

The day to day expenditure of the PCC group on such items as employees and equipment.

Revenue Support Grant (RSG)

Grant paid by Central Government in aid of service provision.

SeRCOP

This is CIPFA's 'Service Reporting Code of Practice' which sets out the legislative requirements for consistent financial reporting of local authority services.

Straight Line Depreciation

The writing down of a long-term asset's value by an equal amount for each year of that asset's life.

TOIL

Time Off In Lieu may be accrued by both Police Officers and Staff when working additional hours for which payment is not made.

Virement

Transfers between budget headings, in accordance with Financial Regulations, reflecting changes in the PCC's expenditure plans.