# The Office of the Chief Constable for Leicestershire (OCC)

# Annual Financial Report

# 2014/15

These accounts set out the overall financial position of the Chief Constable (CC), who is responsible for the Leicestershire Police Service, for the year ended the 31st March 2015.

The accounts for 2014/15 are presented in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 (the Code) which specifies the principles and practices of accounting required to give a 'true and fair' view of the financial position and transactions of a local authority. This Code of Practice is based on International Financial Reporting Standards (IFRS), and has been developed by the CIPFA/LASAAC Code Board under the oversight of the Financial Reporting Advisory Board.

The Social Responsibility Act 2011 introduced a new governance structure for way the police in England and Wales are governed and held accountable. The Act introduced the Office of the Police and Crime Commissioner (OPCC) and at the same time the CC was established as a separate body and made responsible for the Leicestershire Police Service.

The CC of Leicestershire is responsible for the delivery of policing service to the communities of Leicester, Leicestershire and Rutland and has direction and control over officers and staff operating with the Force. The CC holds office under the Crown and is appointed by the Police and Crime Commissioner (PCC).

The 2011 Act requires the PCC to hold the Chief Constable to account for the operational delivery of policing including the strategic policing requirement, thereby securing an efficient and effective police force for the electorate of Leicester, Leicestershire and Rutland.

These are the third statutory accounts to be prepared under the new arrangements. For accounting purposes the OPCC and the OCC together are known as the OPCC group. A separate set of statutory accounts has been published for the OPCC and the OPCC Group to recognise all the financial transactions incurred during 2014/15 on policing activities.

In order to gain a fuller picture of the financial performance of the public-facing police service for Leicester, Leicestershire and Rutland, it is recommended that this statement of accounts is read in conjunction with the statement of accounts for the OPCC/Group.

The financial report comprises two elements:

a. The statement of accounts
b. Non audited supplementary documents

## The Statement of Accounts

The purpose of the Statement of Accounts is to provide clear information to readers on how the OCC has utilised available financial resources based on International Financial Reporting Standards (IFRS). This document provides details of the comprehensive income and expenditure for the financial year 2014/15.

All of the assets, liabilities and reserves were transferred to the OPCC during the first phase of transition and have remained under the OPCC's control during 2014/15. The OPCC receives all income and funding and makes all payments for the Group from the OPCC Police Fund.

The second phase of transition took place on the 1st April 2014 when the employment of the majority of police staff transferred to the CC. This is explained in more detail in the introduction to the notes section of this document, beginning on page 11.

The OCC fulfils its statutory functions under the Act within an annual budget. This is set by the PCC in consultation with the CC. A Corporate Governance Framework is in place which sets out the respective responsibilities of the two bodies.

Other supporting statements are provided to help to explain the figures in the accounts. In addition, a glossary can be found at the back of this publication to help explain some of the technical terms.

The main accounts and statements that you will see in this document, their purpose and the relationship between them are outlined below.

## The core financial statements:

### Movement in Reserves Statement

This summarises the movements to and from the reserves for the year 2014/15. This shows only unusable reserves as all usable reserves are held by the OPCC/Group.

### Comprehensive Income and Expenditure Statement

This statement shows the accounting cost in the year of providing services in accordance with International Financial Reporting Standards. It recognises the financial resources belonging to the OPCC consumed at the request of the OCC for the whole of the financial year.

### Balance Sheet

The value at the end of the reporting period (i.e. 31st March) of the assets, liabilities and reserves of the OCC are shown on the balance sheet. The net assets of the OCC (assets less liabilities) are matched by the unusable reserves held by the OCC. These reserves are a product of the application of the Code and IFRS, it should be noted that the OCC does not hold usable reserves – they are all held by the OPCC/Group.

### Cash flow statement

This statement shows the movement in cash and cash equivalents of the OCC during the reporting period. Whilst the OCC does not hold cash or cash equivalents on its balance sheet, it does have transactions within its comprehensive income and expenditure statement that require disclosure within the cashflow statement and supporting notes. The OCC reports a nil movement in cash and cash equivalents as a result.

## Notes to the core financial statements

The notes provide support to the financial statements, inform the reader and give sufficient information to present a good understanding of the OCC's activities.

## The supplementary financial statements:

### Pension fund account

The police pension schemes are unfunded and hold no assets. The purpose of this account is to demonstrate the cash-based transactions taking place over the year and to identify the arrangements needed to balance the account.

## Non-audited supplementary documents

### Explanatory foreword

The purpose of this foreword is to offer interested parties an easily understandable guide to the most significant matters reported in the accounts. It provides an explanation in overall terms of the OCC's financial position.

### Statement of responsibilities

The purpose is for the Chief Finance Officer to sign a statement that the accounts present a true and fair view of the financial position of the OCC at the accounting date and of its income and expenditure for the year then ended.

### Annual governance statement

Regulations require English authorities to conduct a review at least once a year of the effectiveness of its system of internal control and include a statement reporting on this review with any Statement of Accounts.

**Overview of 2014/15**

In December 2013, the grant report confirmed that the Police had been protected from further reductions beyond Comprehensive Spending Review (CSR) 2010 announced in the Chancellor's 2013 Autumn Statement.

A flat rate cash reduction of 3.3% was applied. In addition, the effect of top slicing the main Police Grant by a further £1.6m means that the real terms cash reduction was 4.85%. As in previous years the formula devised to allocate grant according to need was not fully implemented, with the result that the service has lost grant to which it is otherwise entitled under full application of the formula.

For 2014/15 the Government announced again its commitment to freeze Council Tax at the 2013/14 levels. In order to ensure this, it offered to compensate authorities with a grant equivalent to a 1% precept increase in 2013/14.

The PCC declined the Council Tax freeze grant and the precept was increased by 1.5% to £176.48 for Band D property.

The OPCC sets the annual budget for the OCC in consultation with the CC. A net annual revenue budget of £172.6m was set for the service as a whole, after planning to make further efficiency savings during the year of £0.5m. £168.1m was managed by the CC with the remaining £4.5m relating to the costs of the OPCC (£1.0m) and commissioning activities (£3.5m).

**Revenue spending**

The OCC underspent its revenue budget by £0.448m, or 0.26%. This was attributable to:

- an underspend on police pay and allowances of £2.1m due to more Police Officer leavers than expected between budget approval and April 2014, mainly due to ill-Health retirements and transferees, more officers choosing flexible working / reduced hours, a reduction in expenditure in relation to allowances and a increased number of officers being seconded to regional teams for which the Force is partly reimbursed.

- an overspend on corporate budgets of £2.129m due a higher than anticipated number of ill health retirements, increased legal costs relating to civil claims, the consultancy and implementation costs of introducing the new policing model in February 2015 and a range of investments in infrastructure and operational activities including Innovation Grant match funding offset by unbudgeted 'mutual aid' policing income, and Change Programme efficiency savings.

- a net underspend of £0.941m on delegated activities as a result of local management decisions and savings arising from moving to the new policing model.

As the resources are consumed by the OPCC at the request of the OCC the revenue underspend occurs in the OPCC/Group accounts. The OPCC has transferred the uncommitted revenue underspend of £0.448m to the Budget Equalisation Reserve as a further contribution to bridging the estimated medium term funding gap of £16.9m in 2019/20 and to fund future investments in the Change Programme / Blueprint 2020.

**Reserves**

The reserves of the Group are held by the OPCC and are available with agreement for the CC to utilise in the performance of his duties. The reserves and their purpose can be viewed in the OPCC Statement of Accounts.

**Capital spending**

The CC is not responsible for the acquisition, disposal and maintenance of assets. However the CC does make use of the assets in providing the policing service.

£7.4m was spent on improving the buildings stock, investing in information technology, operational equipment and the vehicle fleet. The capital projects undertaken included the completion of Loughborough police station, the commencement of a replacement for the Oakham facility, remodelling of existing office space to accommodate changes arising from the implementation of the new policing model, enhancements to existing IT systems including the crime and intelligence system, alongside a range of infrastructure developments to support both local and regional collaborative working.

During 2014/15 properties at Lutterworth (Police Station)) and Market Bosworth were disposed of as part of the Force's overall estates strategy. These were replaced with neighbourhood offices, where appropriate. Syston Police Station was held for sale at the 31st March 2015 and this disposal should be concluded during 2015/16.

**Retirement Benefits**

Accounting for Retirement Benefits in the 2014/15 Statement of Accounts has resulted in a pension liability of £1,849m compared to £1,612m in 2013/14. The increase in the liability is primarily due to the actuarial losses arising from changes in the financial assumptions. The discount rate is based on corporate bond yields and these have fallen during the year.

The police officer pension scheme liability is £1,747m with the balance relating to the Local Government Pension Scheme (LGPS).

The liabilities show the underlying commitments that the OCC has to pay retirement benefits. However, the statutory arrangements for the funding of the deficit mean that the financial position of the OCC remains stable.

**Outlook for 2015/16**

As has been the case for several years, the funding regime for the public sector continues to be challenging. The police service is not exempt from this challenge, which is set to continue over the next comprehensive spending review (CSR).

Against this background, the OPCC approved the 2015/16 net revenue and capital budgets of £171.6m (before the use of reserves of £1.7m) and £8.9m respectively. Formula grant reduced by 4.7% in 2015/16. The Government's commitment to freeze council tax continued. In order to ensure a council tax freeze it offered to compensate authorities who levied no increase an additional grant equivalent to a 1% precept increase in 2014/15 The PCC did not accept the grant and a precept of £180.00 for a Band D property was approved, an increase of 1.99% over the previous year.

This decision was based on sustaining the longer term financial position of the OPCC and Force whilst investing in strategic priorities with partners in relation to victims, safeguarding, CSE, cyber-crime and mental health.

During February 2015 the Force implemented a new policing model achieving significant savings, however, the financial challenge continues. Detailed plans are now being developed to identify a further £4m of savings for 2016/17.

**Paul Dawkins**
**Chief Finance Officer**
**29 September 2015**

## *The Chief Constable's responsibilities*

The CC is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this OCC, that officer is the Chief Finance Officer

- approve the statement of accounts

## *Chief Constable's approval*

The Statement of Accounts for the year to 31st March 2015 has been prepared and was approved at the Joint Audit Risk Assurance Panel (JARAP) on 22 September 2015.

## *The Chief Finance Officer's responsibilities*

The Chief Finance Officer (CFO) is responsible for the preparation of the Chief Constable'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 CFO, has:

- selected suitable accounting policies and then applied them consistently and in harmony with the OPCC/Group

- made judgements and estimates that were reasonable and prudent

- complied with the Local Authority Code.

The CFO has also:

- kept proper accounting records which were up to date

- taken reasonable steps for the prevention and detection of fraud and other irregularities.

## *Chief Finance Officer's certification*

I certify that the Statement of Accounts presents a true and fair view of the financial position of the Office of the Chief Constable for Leicestershire at the reporting date and of its income and expenditure for the year ended 31st March 2015.

**Paul Dawkins**
**Chief Finance Officer**
**29 September 2015**

## Comprehensive Income & Expenditure Statement

This statement shows the accounting cost in the year of the resources consumed by the OCC in delivering the policing plan for Leicestershire. It is prepared using generally accepted accounting practices, rather than the amount to be funded from taxation. The OPCC/Group raises taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The intra-group transfer shown below is cancelled out with the corresponding entry on the OPCC Comprehensive Income & Expenditure Statement when the Group accounts are consolidated.

| 2013/14 | | | | | 2014/15 | | |
|---|---|---|---|---|---|---|---|
| Gross expenditure £000 | Gross income £000 | Net expenditure £000 | | Note | Gross expenditure £000 | Gross income £000 | Net expenditure £000 |
| 90,212 | (2,544) | 87,668 | Local Policing | | 85,288 | (2,831) | 82,457 |
| 16,285 | (253) | 16,032 | Dealing With The Public | | 13,509 | (283) | 13,226 |
| 13,895 | (966) | 12,929 | Criminal Justice Arrangements | | 14,679 | (1,064) | 13,615 |
| 6,562 | (1,481) | 5,081 | Road Policing | | 7,156 | (1,776) | 5,380 |
| 14,975 | (2,257) | 12,718 | Specialist Operations | | 14,433 | (3,234) | 11,199 |
| 12,880 | (562) | 12,318 | Intelligence | | 14,146 | (1,269) | 12,877 |
| 38,129 | (3,011) | 35,118 | Investigations | | 41,088 | (2,754) | 38,334 |
| 5,189 | (151) | 5,038 | Investigative Support | | 5,335 | (942) | 4,393 |
| 5,096 | (3,661) | 1,435 | National Policing | | 5,418 | (3,557) | 1,861 |
| 76 | - | 76 | Corporate Management | | 85 | - | 85 |
| 30 | - | 30 | Non distributed costs | 15 | (796) | - | (796) |
| 203,329 | (14,886) | 188,443 | **Resources consumed by the OCC** | | 200,341 | (17,710) | 182,631 |
| (186,603) | 14,886 | (171,717) | Intra-group Transfer | | (188,117) | 17,710 | (170,407) |
| **16,726** | **-** | **16,726** | **Cost of services** | 2 | **12,224** | **-** | **12,224** |
| - | - | - | Other operating expenditure | | - | - | - |
| 68,587 | - | 68,587 | Financing and investment income & expenditure | 4 | 71,116 | - | 71,116 |
| - | - | - | Taxation & non-specific grant income | | - | - | - |
| **85,313** | **-** | **85,313** | **(Surplus) or deficit on provision of services** | | **83,340** | **-** | **83,340** |
| | | - | (Surplus) / deficit on revaluation of non-current assets | | | | - |
| | | (37,217) | Actuarial (gains) / losses on pension assets/liabilities | 15 | | | 174,814 |
| | | (19,257) | Grant received from the Home Office in respect of the pension fund account | 15 | | | (20,913) |
| | | **(56,474)** | **Other comprehensive income & expenditure** | | | | **153,901** |
| | | **28,839** | **Total comprehensive income & expenditure** | | | | **237,241** |

## Balance Sheet

The Balance Sheet shows the value of the OCC's assets and liabilities at the balance sheet date. The net assets or liabilities (shown below) are matched by the OCC's reserves. Reserves are separated into *usable* (i.e. those amounts the OCC may use to provide police services – subject to statutory limitations) and *unusable* (i.e. those reserves where unrealised gains/(losses) reside or where adjustments are made to reconcile between accounting requirements and taxation requirements).

| 31st March 2014 Restated £000 | | *Note* | 31st March 2015 £000 |
|---|---|---|---|
| | **Non-current assets** | | |
| - | Intangible assets | | - |
| - | Property, plant & equipment | | - |
| - | Investment property | | - |
| - | | | - |
| | **Non-operational non-current assets** | | |
| - | Assets under construction | | - |
| - | | | - |
| 59 | Long term debtors | *10* | 70 |
| 59 | **Total long term assets** | | 70 |
| | **Current assets** | | |
| - | Inventories | | - |
| 6,471 | Short term debtors | *10* | 5,628 |
| - | Assets held for sale | | - |
| 3 | Payments in advance | | 2 |
| - | Short term investments | | - |
| - | Guarantee from the Police & Crime Commissioner | | - |
| - | Cash & cash equivalents | | - |
| 6,474 | | | 5,630 |
| | **Current liabilities** | | |
| (4,218) | Short term creditors | *11* | (4,004) |
| - | Receipts in advance | | (2) |
| - | Short term borrowing | | - |
| - | Provisions | | - |
| (2,315) | Guarantee from the Police & Crime Commissioner | | (1,694) |
| (3,094) | Accumulated absences | *16* | (3,220) |
| (9,627) | | | (8,920) |
| (3,153) | **Net current assets** | | (3,290) |
| | **Long term liabilities** | | |
| - | Long term borrowing | | - |
| - | Deferred liabilities | | - |
| - | Capital grants receipts in advance | | - |
| - | Receipts in Advance | | - |
| (1,611,684) | Liability related to defined benefit pension schemes | *14* | (1,848,799) |
| (1,611,684) | | | (1,848,799) |
| (1,614,778) | **Net assets / (liabilities)** | | (1,852,019) |
| - | Usable reserves | | - |
| (1,614,778) | Unusable reserves | *13* | (1,852,019) |
| (1,614,778) | **Total reserves** | | (1,852,019) |

**Re-certification**
The financial statements on pages 1 to 71 were issued on 26th June 2015 and the audited accounts were authorised for issue on 29 September 2015.

## Statement of Movement in Reserves

The OCC does not hold any usable reserves but does hold unusable reserves as a result of its application of both the Code and IFRS. Those transactions not balanced by the intra-group transfer with the OPCC/Group are represented below.

| 2014/15 | General fund balance | Earmarked reserves | Capital receipts reserve | Capital grants & contributions unapplied | **Total usable reserves** | **Total unusable reserves** | **Total OCC reserves** |
|---|---|---|---|---|---|---|---|
| *Note* | | | | | | *13* | |
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| **Balance as at 31st March 2014** | - | - | - | - | - | (1,614,778) | (1,614,778) |
| **Movement in reserves during 2014/15** | | | | | | | |
| Surplus or (deficit) on the provision of services | (83,340) | - | - | - | (83,340) | - | (83,340) |
| Other comprehensive income & expenditure | (153,901) | - | - | - | (153,901) | - | (153,901) |
| **Total comprehensive income & expenditure** | (237,241) | - | - | - | (237,241) | - | (237,241) |
| Adjustments between accounting basis & funding basis under regulations | 237,241 | - | - | - | 237,241 | (237,241) | - |
| **Net increase/(decrease) before transfers (to)/from earmarked reserves** | - | - | - | - | - | (237,241) | (237,241) |
| Transfers (to)/from earmarked reserves | - | - | - | - | - | - | - |
| **Increase/(decrease) in 2014/15** | - | - | - | - | - | (237,241) | (237,241) |
| **Balance as at 31st March 2015** | - | - | - | - | - | (1,852,019) | (1,852,019) |

| 2013/14 (restated) | General fund balance | Earmarked reserves | Capital receipts reserve | Capital grants & contributions unapplied | **Total usable reserves** | **Total unusable reserves** | **Total OCC reserves** |
|---|---|---|---|---|---|---|---|
| *Note* | | | | | | *13* | |
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| **Balance as at 31st March 2013** | - | - | - | - | - | (1,585,939) | (1,585,939) |
| **Movement in reserves during 2013/14** | | | | | | | |
| Surplus or (deficit) on the provision of services | (85,313) | - | - | - | (85,313) | - | (85,313) |
| Other comprehensive income & expenditure | 56,474 | - | - | - | 56,474 | - | 56,474 |
| **Total comprehensive income & expenditure** | (28,839) | - | - | - | (28,839) | - | (28,839) |
| Adjustments between accounting basis & funding basis under regulations | 28,839 | - | - | - | 28,839 | (28,839) | - |
| **Net increase/(decrease) before transfers (to)/from earmarked reserves** | - | - | - | - | - | (28,839) | (28,839) |
| Transfers (to)/from earmarked reserves | - | - | - | - | - | - | - |
| **Increase/(decrease) in 2013/14** | - | - | - | - | - | (28,839) | (28,839) |
| **Balance as at 31st March 2014** | - | - | - | - | - | (1,614,778) | (1,614,778) |

## *Cash Flow Statement*

All cash balances are held by the OPCC on behalf of the Group. All resources that are consumed by the OCC are paid for by the OPCC and recharged using the intra-group transfer seen on the Comprehensive Income & Expenditure Statement. Certain transactions occur due to application of the Code and IFRS, they are reflected below.

| 2013/14 £000 | | Note | 2014/15 £000 |
|---|---|---|---|
| 85,313 | **Net (surplus) or deficit on the provision of services** | | 83,340 |
| (85,313) | Adjustments to *net (surplus) or deficit on the provision of services* for non-cash movements | *17.1* | (83,340) |
| - | Adjustments for items included in the *net (surplus) or deficit on the provision of services* that are investing and financing activities | | - |
| - | **Net cash flows from operating activities** | | - |
| - | Investing activities | | - |
| - | Financing activities | | - |
| - | **Net (increase) or decrease in cash and cash equivalents** | | - |
| - | Cash and cash equivalents at the beginning of the reporting period | | - |
| - | **Cash and cash equivalents at the end of the reporting period** | | - |

## *Accounting changes caused by the Police Reform and Social Responsibility Act 2011*

### *2014/15 Update*

Two new bodies ("Corporations Sole"), the Police and Crime Commissioner (PCC) for Leicestershire and the Chief Constable for Leicestershire, came into existence on 22nd November 2012 following the enactment of the Police Reform and Social Responsibility Act 2011.

The PCC is responsible for securing an efficient and effective police force whilst the Chief Constable is responsible for maintaining the Queen's Peace and has operational direction and control over the force's officers and staff.

This structural change created a 'Group' in accounting terms, referred to as the "Office of the Police and Crime Commissioner for Leicestershire Group" (OPCC Group or, in simply, 'the Group') and the two bodies within that group as "Office of the Police & Crime Commissioner for Leicestershire" (OPCC) and "Office of the Chief Constable for Leicestershire" (OCC) respectively.

The group and its individual bodies continue to be bound by the requirements of existing legislation/regulations related to its accounting and audit obligations – i.e. the Local Government Act 2003, the Audit Commission Act 1998 and the Accounts and Audit (England) Regulations 2011. Accounts for the group therefore need to be produced in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom ("the Code") and subject to audit.

The way in which the Group operates both in consolidation and as individual bodies is described and controlled by the locally agreed Corporate Governance Framework. The Framework sets out the overriding principle of the PCC having ownership of the assets and liabilities whilst being the contracting body that is legally responsible for all income and expenditure. However in referring directly to both the Chief Constable's operational independence and "direction and control" of the Force it recognises that the Chief will have to consume resources in order to deliver the aims of the Policing Plan.

In producing these accounts, the 'substance over form' principle has been used to ensure that they best represent the reality of how the two Corporations Sole conduct their activities. In applying group accounting principles, transactions and balances are considered on merit and placed within the most appropriate set of single entity primary statements (i.e. the OPCC or the OCC). The Group (or consolidated) position is produced first, followed by a process of disaggregation that results in an intra-group balance within both single entity balance sheets.

The major headlines regarding the split of transaction and balances between both Corporations Sole are as follows:

- The 'Cost of Policing' is charged to the OCC together with a credit for the corresponding income that was received by the PCC.
- All non-current assets remain on the OPCC's balance sheet and all transactions related to those assets flow through the OPCC's accounts. However, a proxy charge is made to the OCC in respect of their 'consumption' in recognition of the Chief Constable's operational use of the PCC's assets.
- All reserves (whether usable or unusable) remain on the OPCC's balance sheet.
- All bank/investment balances together with outstanding debt remain on the OPCC's balance sheet.
- All transactions related to the Police Officer pension schemes (i.e. IAS 19) are transferred to the Chief Constable when disaggregating the Group accounts.
- A proportionate share of the Police Staff pension scheme (equivalent to the % of staff employed by the PCC) transactions have been retained within the OPCC's accounts with the remainder transferring to the Chief Constable.
- The receipt (and closing debtor) of the Pension Fund top-up grant payable by the Home Office in support of the Police Officer pension scheme(s) has been fully accounted for within the Chief Constable's accounts. Whilst the cash is received by the PCC through his bank account, it is recognised that he does so on behalf of the Chief Constable.
- The share (in effect the majority) of the accrual for employee benefits at the balance sheet date (including annual leave, rest day and time-off in lieu) has been transferred to the Chief Constable in recognition of its inherent link to the employment of staff and the responsibility to bear costs.

- All debtor and creditor accounts (i.e. PAYE or net pay accounts) that are directly attributable to the employment of either police officers or staff have been transferred in full to the Chief Constable's balance sheet.
- On each single entity balance sheet an entry has been made to reflect an intra-group account that balances working capital for the Chief Constable. This is in recognition of the fact that the Chief does not hold cash resources of his own and that any liabilities are paid by the PCC together with any cash receipts related to debtors.

The accounting methodology employed does go some distance to presenting a "cost of policing" to the reader of the Chief Constable's accounts. However because of the complexity inherent in accounts presented on an IFRS basis, it is recommended that the Group accounts be used as a comprehensive financial report for the public-facing brand that is 'Leicestershire Police'.

The following table demonstrates the movement through the intra-group account within the Balance Sheets of the Group and its constituent bodies during 2014/15. This transfer reflects the cost of resources consumed by the Chief Constable in delivering the policing plan as set by the PCC. From the table below it can be seen that the closing balance on each single entity balance sheet represents the net debtors/creditors transferred to the Chief Constable when disaggregating the Group balance sheet.

| **2013/14** | | | **Intra-Group Account** | **2014/15** | | |
|---|---|---|---|---|---|---|
| **OPCC** | **OCC** | **Group** | | **OPCC** | **OCC** | **Group** |
| **£000** | **£000** | **£000** | | **£000** | **£000** | **£000** |
| | | | | | | |
| (1,030) | 1,030 | - | **Opening balance at 1st April** | 2,315 | (2,315) | - |
| | | | | | | |
| (171,717) | 171,717 | - | OPCC's resources consumed by the OCC | (170,407) | 170,407 | - |
| 171,717 | (171,717) | - | OPCC intra-group adjustment | 170,407 | (170,407) | - |
| | | | | | | |
| 3,345 | (3,345) | - | Movement in the financial guarantee by the PCC to support the Chief Constable's working capital requirement | (621) | 621 | - |
| | | | | | | |
| **2,315** | **(2,315)** | **-** | **Closing balance at 31st March** | **1,694** | **(1,694)** | **-** |

It should be noted that the intra-group account may alternate between being a debit or credit balance within the Chief Constable's balance sheet due to timing differences in the relative levels of debtors and creditors related to employment that exist. In particular, the debtor related to the Home Office grant that part-funds the Police Pension Scheme(s) can fluctuate significantly each year.

## *1. Adjustments between accounting basis and funding basis under regulations*

This note details the adjustments that are made to the Comprehensive Income & Expenditure recognised by the OCC in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the OCC to meet future capital and revenue expenditure.

| OCC 2014/15 | Usable reserves | | | | | |
|---|---|---|---|---|---|---|
| | General fund balance | Earmarked reserves | Capital receipts reserve | Capital grants & contributions unapplied | Total usable reserves | Movement in unusable reserves |
| | £000 | £000 | £000 | £000 | £000 | £000 |
| **Adjustments primarily involving the Capital Adjustment Account** | | | | | | |
| **Reversal of items debited or credited to the Comprehensive Income & Expenditure Statement (CIES)** | | | | | | |
| Charges for depreciation and impairment of non-current assets | - | - | - | - | - | - |
| Revaluation (gains) / losses on property, plant and equipment | - | - | - | - | - | - |
| Revaluation of current assets (assets held for sale) | - | - | - | - | - | - |
| Movements in the market value of investment property | - | - | - | - | - | - |
| Amortisation of intangible assets | - | - | - | - | - | - |
| Capital grants & contributions applied | - | - | - | - | - | - |
| Revenue expenditure funded from capital under statute | - | - | - | - | - | - |
| Amounts of non-current assets written off on disposal or sale as part of the gain/(loss) on disposal to the CIES | - | - | - | - | - | - |
| **Insertion of items not debited or credited to the CIES** | | | | | | |
| Statutory provision for the financing of capital investment | - | - | - | - | - | - |
| Capital expenditure charged against the general fund | - | - | - | - | - | - |
| **Adjustments primarily involving the Pensions Reserve** | | | | | | |
| Reversal of items relating to retirement benefits debited or credited to the CIES | 263,693 | - | - | - | **263,693** | **(263,693)** |
| Employer's pensions contributions and direct payments to pensioners payable in the year | (26,578) | - | - | - | **(26,578)** | **26,578** |
| **Adjustments primarily involving the Collection Fund Adjustment Account** | | | | | | |
| Difference between council tax receipts on an accruals basis and on a cash received basis | - | - | - | - | - | - |
| **Adjustments primarily involving the Capital Grants Unapplied Account** | | | | | | |
| Capital grants and contributions unapplied credited to the CIES | - | - | - | - | - | - |
| Application of grants to capital financing transferred to the Capital Adjustment Account | - | - | - | - | - | - |
| **Adjustments primarily involving the Revaluation Reserve** | | | | | | |
| Revaluation of non-current assets where residual gain exists on the Revaluation Reserve | - | - | - | - | - | - |
| **Adjustments primarily involving the Capital Receipts Reserve** | | | | | | |
| Transfer of cash proceeds credited as part of the gain/loss on disposal to the CIES | - | - | - | - | - | - |
| Use of the Capital Receipts Reserve to finance new capital expenditure | - | - | - | - | - | - |
| **Adjustments primarily involving the Deferred Capital Receipts Reserve** | | | | | | |
| Transfer of cash proceeds credited as part of the gain/loss on disposal to the CIES | - | - | - | - | - | - |
| **Adjustments primarily involving the Accumulated Absences Account** | | | | | | |
| Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements | 126 | - | - | - | **126** | **(126)** |
| **Total adjustments** | **237,241** | **-** | **-** | **-** | **237,241** | **(237,241)** |

| | Usable reserves | | | | | |
|---|---|---|---|---|---|---|
| **OCC** **2013/14** | General fund balance | Earmarked reserves | Capital receipts reserve | Capital grants & contributions unapplied | **Total usable reserves** | **Movement in unusable reserves** |
| | £000 | £000 | £000 | £000 | £000 | £000 |
| **Adjustments primarily involving the Capital Adjustment Account** | | | | | | |
| **Reversal of items debited or credited to the Comprehensive Income & Expenditure Statement (CIES)** | | | | | | |
| Charges for depreciation and impairment of non-current assets | - | - | - | - | - | - |
| Revaluation (gains) / losses on property, plant and equipment | - | - | - | - | - | - |
| Revaluation of current assets (assets held for sale) | - | - | - | - | - | - |
| Movements in the market value of investment property | - | - | - | - | - | - |
| Amortisation of intangible assets | - | - | - | - | - | - |
| Capital grants & contributions applied | - | - | - | - | - | - |
| Revenue expenditure funded from capital under statute | - | - | - | - | - | - |
| Amounts of non-current assets written off on disposal or sale as part of the gain/(loss) on disposal to the CIES | - | - | - | - | - | - |
| **Insertion of items not debited or credited to the CIES** | | | | | | |
| Statutory provision for the financing of capital investment | - | - | - | - | - | - |
| Capital expenditure charged against the general fund | - | - | - | - | - | - |
| **Adjustments primarily involving the Pensions Reserve** | | | | | | |
| Reversal of items relating to retirement benefits debited or credited to the CIES | 56,501 | - | - | - | **56,501** | **(56,501)** |
| Employer's pensions contributions and direct payments to pensioners payable in the year | (27,519) | - | - | - | **(27,519)** | **27,519** |
| **Adjustments primarily involving the Collection Fund Adjustment Account** | | | | | | |
| Difference between council tax receipts on an accruals basis and on a cash received basis | - | - | - | - | - | - |
| **Adjustments primarily involving the Capital Grants Unapplied Account** | | | | | | |
| Capital grants and contributions unapplied credited to the CIES | - | - | - | - | - | - |
| Application of grants to capital financing transferred to the Capital Adjustment Account | - | - | - | - | - | - |
| **Adjustments primarily involving the Revaluation Reserve** | | | | | | |
| Revaluation of non-current assets where residual gain exists on the Revaluation Reserve | - | - | - | - | - | - |
| **Adjustments primarily involving the Capital Receipts Reserve** | | | | | | |
| Transfer of cash proceeds credited as part of the gain/loss on disposal to the CIES | - | - | - | - | - | - |
| Use of the Capital Receipts Reserve to finance new capital expenditure | - | - | - | - | - | - |
| **Adjustments primarily involving the Deferred Capital Receipts Reserve** | | | | | | |
| Transfer of cash proceeds credited as part of the gain/loss on disposal to the CIES | - | - | - | - | - | - |
| **Adjustments primarily involving the Accumulated Absences Account** | | | | | | |
| Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements | (143) | - | - | - | **(143)** | **143** |
| **Total adjustments** | **28,839** | **-** | **-** | **-** | **28,839** | **(28,839)** |

## 2. *Subjective Analysis*

This note provides an alternative breakdown of the OCC's *cost of services* using descriptions used in the OCC's internal management reporting. It is provided to allow the reader of these financial statements an opportunity to see what resources were consumed during the year in delivering the policing plan.

It should be noted that this analysis includes some items within *cost of services* that are not required to be charged against the general fund for council tax purposes – this analysis does not therefore constitute the budget of the OCC. These items include: pension actuarial adjustments, revenue expenditure financed from capital resources and depreciation/amortisation. These items are included to ensure that the cost of the resources consumed is fully captured in accounting terms.

| **2013/14 Outturn £000** | | **Note** | **2014/15 Outturn £000** |
|---|---|---|---|
| 105,884 | Police officer pay and allowances | | 102,643 |
| 45,885 | Police staff pay and allowances | | 46,970 |
| 4,514 | Police pensions | | 3,676 |
| 16,840 | IAS 19 Current Cost Adjustment (pensions) | | 12,893 |
| 1,166 | Other employees expenses | | 1,312 |
| 5,165 | Premises | | 5,050 |
| 3,135 | Transport | | 2,969 |
| 13,437 | Supplies and services | | 14,642 |
| 3,174 | Agency and contracted services | | 5,248 |
| 346 | Revenue expenditure financed from capital resources (REFCUS) | | 94 |
| 3,753 | Charges for use of the PCC's property, plant & equipment | | 3,824 |
| - | (Surplus) / deficit on revaluation of non-current assets (not covered by accumulated revaluation gains) | | 1,816 |
| 30 | Non-distributed costs regarding pensions | | (796) |
| **203,329** | **Gross operating expenditure** | | **200,341** |
| (4,658) | Income from government grants | | (4,535) |
| (7,470) | Income from fees and charges | | (7,449) |
| (2,758) | Contributions from other local authorities | | (5,726) |
| (171,717) | Intra-Group Transfer | | (170,407) |
| **16,726** | **Cost of services** | | **12,224** |
| - | Other operating expenditure | | - |
| 68,587 | Financing and investment income & expenditure | | 71,116 |
| - | Taxation & non-specific grant income | | - |
| **85,313** | **(Surplus) or deficit on provision of services** | | **83,340** |
| - | (Surplus) / deficit on revaluation of non-current assets | | - |
| (37,217) | Actuarial (gains) / losses on pension assets/liabilities | | 174,814 |
| (19,257) | Grant received from the Home Office in respect of the pension fund account | | (20,913) |
| **(56,474)** | **Other comprehensive income & expenditure** | | **153,901** |
| **28,839** | **Total comprehensive income & expenditure** | | **237,241** |

The figure shown above for "income from government grants" can be further analysed as follows:

| 2013/14 £000 | Grant Income | 2014/15 £000 |
|---|---|---|
| | **Credited to services:** | |
| (2,121) | Dedicated security grant | (2,310) |
| (1,126) | Special operations | (790) |
| (399) | Proceeds of Crime Act | (240) |
| (142) | Loan charges | (136) |
| (574) | JCOs (*EMSOU & FSS*) | (717) |
| (296) | Others | (342) |
| **(4,658)** | **Total** | **(4,535)** |

The grant income identified above is received by the Police & Crime Commissioner but made available to the Chief Constable as part of the resources employed to deliver the Police & Crime Plan.

## *3. Amounts reported for resource allocation decisions*

The financial performance of the Group is communicated in a different format to the chief operating decision makers (the PCC and Chief Constable) to that shown in these financial statements.

Performance is analysed internally by Directorate and departments and some budgets (for example police pay & allowances) are not devolved to those cost-centres.

The Group does not report its financial performance internally on a subjective basis to the chief operating decision makers, rather it is reported on the basis of net expenditure against budget.

No charges are made to budgets in respect of capital accounting (i.e. depreciation, revaluations, impairment losses and amortisation) although capital expenditure is charged to revenue in the form of a *revenue contribution to capital.*

The cost of retirement benefits is based on cash flows in the year (i.e. payment of employer's contributions) rather than the current service cost approach advocated by IAS 19.

On the following pages is a reproduction of the Group's outturn reports for 2013/14 and 2014/15 together with a reconciliation of the net expenditure figure to the total comprehensive income & expenditure figure shown at the foot of the Comprehensive Income & Expenditure Statement.

It should be noted that financial performance is not reported separately for the activities of the OCC and the OPCC – rather the costs of the OPCC are shown as a separate line ("The Office of the PCC" on the following reports) on the Group report.

A table is provided at the end of this note which shows how the intra-group transfer between the OPCC and the OCC can be calculated from the revenue outturn.

## LEICESTERSHIRE POLICE
## Provisional Revenue Outturn 2014/15

| | a<br>Revised Budget | b<br>Provisional Outturn | c<br>Year-End Commit-ments | d<br>Submitted Business Cases | e<br>Balance<br>(b+c+d-a) | f<br>February Forecast | g<br>Movement<br>(e-f) |
|---|---|---|---|---|---|---|---|
| | £000 | £000 | £000 | £000 | £000 | £000 | £000 |
| **DELEGATED BUDGETS** | | | | | | | |
| **Local Policing / 24-7 Policing / FIU** | 3,656 | 3,534 | 45 | 10 | (67) | (53) | (14) |
| **Crime & Intelligence** | | | | | | | |
| Crime & Intelligence Command | 761 | 795 | 62 | - | 96 | 74 | 22 |
| Investigation Management Unit | 172 | 173 | - | - | 1 | (19) | 20 |
| Criminal Justice | 6,137 | 5,735 | 124 | - | (278) | (347) | 69 |
| Neighbourhood Investigations | 824 | 710 | 1 | - | (113) | (92) | (21) |
| Serious Crime | 1,937 | 1,853 | 12 | 63 | (9) | (13) | 4 |
| SARCs | - | - | - | - | - | - | - |
| MAPPA | - | - | - | - | - | - | - |
| Forensic Services | 2,759 | 2,549 | 139 | - | (71) | (66) | (5) |
| Force Intelligence Bureau | 3,343 | 3,167 | 38 | 46 | (92) | (77) | (15) |
| Regional Special Branch | 238 | 222 | 2 | 18 | 4 | - | 4 |
| Regional Major Crime (Leicestershire) | 783 | 705 | - | - | (78) | - | (78) |
| **Sub Total** | **16,954** | **15,909** | **378** | **128** | **(540)** | **(540)** | - |
| **Operational Departments** | | | | | | | |
| Contact Management Department | 8,906 | 8,671 | 28 | 190 | (17) | (164) | 147 |
| EMOpSS (Leicestershire) | 2,492 | 2,449 | 25 | - | (18) | - | (18) |
| Specials | 147 | 137 | 4 | - | (6) | (18) | 12 |
| **Sub Total** | **11,545** | **11,257** | **57** | **190** | **(41)** | **(182)** | **141** |
| **Corporate Services Directorate** | | | | | | | |
| Corporate Services | 1,219 | 1,174 | 31 | 5 | (9) | - | (9) |
| Change Team | 176 | 176 | - | - | - | - | - |
| Professional Standards | 904 | 877 | 27 | - | - | - | - |
| **Sub Total** | **2,299** | **2,227** | **58** | **5** | **(9)** | - | **(9)** |
| **Corporate Comms & Engagement** | **762** | **733** | - | **29** | - | - | - |
| **Business Support Departments** | | | | | | | |
| Human Resources | 1,619 | 1,557 | 13 | - | (49) | (30) | (19) |
| Learning & Development | 1,219 | 1,004 | 20 | - | (195) | (179) | (16) |
| Information Technology | 5,672 | 5,611 | 29 | - | (32) | (64) | 32 |
| Procurement & Support Services | 1,961 | 1,864 | 18 | 15 | (64) | (84) | 20 |
| Estates | 1,647 | 1,566 | 80 | - | (1) | - | (1) |
| Finance | 1,037 | 1,024 | 13 | - | - | - | - |
| Transport Unit | 974 | 1,047 | - | - | 73 | 20 | 53 |
| **Sub Total** | **14,129** | **13,673** | **173** | **15** | **(268)** | **(337)** | **69** |
| **The Office of the PCC** | | | | | | | |
| The Office of the PCC | 1,031 | 1,010 | - | - | (21) | - | (21) |
| OPCC Commissioning | 3,502 | 3,502 | - | - | - | - | - |
| Survey & Consultation | 61 | 51 | - | - | (10) | - | (10) |
| **Subtotal** | **4,594** | **4,563** | - | - | **(31)** | - | **(31)** |
| **TOTAL DELEGATED** | **53,939** | **51,896** | **711** | **376** | **(956)** | **(1,112)** | **156** |
| **REGIONAL COLLABORATION** | | | | | | | |
| EMSOU (Leicestershire Cash Contribution) | 1,945 | 1,970 | - | - | 25 | (121) | 146 |
| Regional Collaboration Command Team | 183 | 185 | - | - | 2 | 35 | (33) |
| Regional TSU (Cash Contribution) | 515 | 503 | - | - | (12) | (28) | 16 |
| Regional Major Crime (Regional SMT) | 277 | 277 | - | - | - | (23) | 23 |
| Regional Criminal Justice | 59 | 52 | - | - | (7) | (22) | 15 |
| Regional Forensic Services | 982 | 796 | 186 | - | - | (30) | 30 |
| Regional Occupational Health (Cash Contribution) | 376 | 388 | - | - | 12 | 26 | (14) |
| Regional Learning & Development (Cash Contribution | 655 | 655 | - | - | - | (40) | 40 |
| Regional Legal Services | 262 | 263 | - | - | 1 | 6 | (5) |
| Regional HR Service Centre | 582 | 627 | - | - | 45 | 39 | 6 |
| Regional Operations (Cash Contribution) | 185 | 134 | - | - | (51) | (56) | 5 |
| **TOTAL REGIONAL COLLABORATION** | **6,021** | **5,850** | **186** | - | **15** | **(214)** | **229** |
| **CORPORATE BUDGETS** | | | | | | | |
| Central Items (Inflation & Financing etc) | 7,284 | 8,298 | 905 | - | 1,919 | 2,299 | (380) |
| Non Mainstream Funding | (171) | (171) | - | - | - | - | - |
| POCA | - | - | - | - | - | - | - |
| Police Community Support Officers | 6,610 | 6,610 | - | - | - | - | - |
| Police Pensions | 3,431 | 3,676 | - | - | 245 | 199 | 46 |
| Road Safety Unit | - | - | - | - | - | - | - |
| Vehicle Recovery Scheme | (30) | (65) | - | - | (35) | (42) | 7 |
| Police Pay, Allowances & Seconded Officers Income | 95,977 | 93,887 | - | - | (2,090) | (1,895) | (195) |
| ECU Forfeiture | - | - | - | - | - | - | - |
| Funding Gap | (454) | - | - | - | 454 | 454 | - |
| **TOTAL CORPORATE** | **112,647** | **112,235** | **905** | - | **493** | **1,015** | **(522)** |
| **GRAND TOTAL** | **172,607** | **169,981** | **1,802** | **376** | **(448)** | **(311)** | **(137)** |

**LEICESTERSHIRE POLICE**
**Revenue Outturn 2013/14**

| | a<br>Revised Budget<br>£000 | b<br>Provisional Outturn<br>£000 | c<br>Year-End Commitments / Purchase Orders<br>£000 | e<br>Balance<br>(b+c+d-a)<br>£000 | f<br>February Forecast<br>£000 | g<br>Movement<br>(e-f)<br>£000 |
|---|---|---|---|---|---|---|
| **DELEGATED BUDGETS** | | | | | | |
| **Basic Command Units** | | | | | | |
| Counties | 2,883 | 2,868 | 15 | - | - | - |
| City | 2,483 | 2,370 | 113 | - | - | - |
| **Sub Total** | **5,366** | **5,238** | **128** | - | - | - |
| **Delivering Justice Directorate** | | | | | | |
| Delivering Justice Command | 844 | 978 | 159 | 293 | 332 | (39) |
| Criminal Justice | 5,986 | 5,560 | 59 | (367) | (338) | (29) |
| Serious Crime | 895 | 945 | - | 50 | 35 | 15 |
| Safeguarding | 1,823 | 1,731 | - | (92) | (112) | 20 |
| Forensic Services | 3,718 | 3,507 | 62 | (149) | (122) | (27) |
| Force Intelligence Bureau | 3,331 | 3,208 | 67 | (56) | (44) | (12) |
| Major Crime | 784 | 1,077 | - | 293 | 203 | 90 |
| **Sub Total** | **17,381** | **17,006** | **347** | **(28)** | **(46)** | **18** |
| **Tasking Directorate** | | | | | | |
| Contact Management Department | 7,735 | 7,695 | 39 | (1) | (2) | 1 |
| Operations | 2,702 | 2,614 | 81 | (7) | 22 | (29) |
| Specials | 116 | 101 | - | (15) | (20) | 5 |
| **Sub Total** | **10,553** | **10,410** | **120** | **(23)** | - | **(23)** |
| **Corporate Services Directorate** | | | | | | |
| Corporate Services | 1,434 | 1,399 | 35 | - | - | - |
| Corporate Communications | 610 | 513 | 97 | - | (65) | 65 |
| Professional Standards | 872 | 822 | 50 | - | 1 | (1) |
| **Sub Total** | **2,916** | **2,734** | **182** | - | **(64)** | **64** |
| **Departments** | | | | | | |
| Human Resources | 1,599 | 1,511 | 48 | (40) | (40) | - |
| HR Service Centre | 644 | 570 | - | (74) | (99) | 25 |
| Learning & Development | 1,561 | 1,448 | 8 | (105) | (38) | (67) |
| Information Technology | 5,247 | 5,181 | 65 | (1) | (12) | 11 |
| Procurement & Support Services | 1,927 | 1,900 | 27 | - | (4) | 4 |
| Estates | 1,671 | 1,671 | - | - | - | - |
| Finance | 969 | 945 | 24 | - | - | - |
| Transport Unit | 1,032 | 1,006 | 24 | (2) | - | (2) |
| **Sub Total** | **14,650** | **14,232** | **196** | **(222)** | **(193)** | **(29)** |
| **The Office of the PCC** | **1,050** | **1,050** | - | - | - | - |
| **OPCC - Community Safety Fund** | **1,105** | **1,105** | - | - | - | - |
| **TOTAL DELEGATED** | **53,021** | **51,775** | **973** | **(273)** | **(303)** | **30** |
| **REGIONAL COLLABORATION** | | | | | | |
| EMSOU (Leicestershire Cash Contribution) | 2,056 | 2,024 | - | (32) | 39 | (71) |
| Regional Collaboration Command Team | 227 | 208 | - | (19) | (20) | 1 |
| Regional Special Branch (inc. DSP) | 264 | 210 | 7 | (47) | - | (47) |
| Regional TSU (Cash Contribution) | 517 | 509 | - | (8) | (21) | 13 |
| Regional Major Crime (Command Team) | 326 | 326 | - | - | (6) | 6 |
| Regional Occupational Health (Cash Contribution) | 333 | 364 | - | 31 | 20 | 11 |
| Regional Learning & Development (Cash Contribution) | 676 | 635 | - | (41) | (63) | 22 |
| Regional Legal Services | 256 | 250 | - | (6) | (11) | 5 |
| Regional Operations | - | 24 | - | 24 | 25 | (1) |
| **TOTAL REGIONAL COLLABORATION** | **4,655** | **4,550** | **7** | **(98)** | **(37)** | **(61)** |
| **CORPORATE BUDGETS** | | | | | | |
| Central Items (Inflation, Financing etc.) | 6,954 | 7,040 | 1,172 | 1,258 | 1,111 | 147 |
| Non Main-Stream and BCU Funding | 6,328 | 6,305 | 23 | - | - | - |
| POCA | 2 | 2 | - | - | - | - |
| Police Community Support Officers | - | - | - | - | - | - |
| Police Pensions | 2,796 | 4,514 | - | 1,718 | 1,698 | 20 |
| Road Safety Unit | - | - | - | - | - | - |
| Vehicle Recovery Scheme | (10) | (52) | - | (42) | (33) | (9) |
| Police Pay, Allowances & Seconded Officers Income | 99,831 | 97,211 | - | (2,620) | (2,589) | (31) |
| ECU Forfeiture | - | - | - | - | - | - |
| Transfer to Earmarked Reserves | - | - | - | - | - | - |
| **TOTAL CORPORATE** | **115,901** | **115,020** | **1,195** | **314** | **187** | **127** |
| **GRAND TOTAL** | **173,577** | **171,345** | **2,175** | **(57)** | **(153)** | **96** |

NB. The revised budget figure of £173,577k differs from the approved 13/14 budget figure of £173,490k due to the retrospective award of additional DCLG grant of £87.9k

Reconciliation between segmental reporting & the intra-group transfer between the OPCC and OCC

| 2013/14 £000 | | Note | 2014/15 £000 |
|---|---|---|---|
| **171,345** | **Net expenditure per outturn report** | | **169,981** |
| (747) | Reverse transfer to the General Fund made in year | | - |
| - | Reverse Victims & Witnesses Grant | | (548) |
| **170,598** | **Revised net expenditure** | | **169,433** |
| (1,081) | (Remove)/add items not charged to "Cost of Services" on the Comprehensive Income & Expenditure Statement | | (756) |
| (2,205) | Remove revenue outturn for the OPCC | | (4,038) |
| 76 | Recharged expenditure from the OPCC related to Corporate Management | | 85 |
| 346 | Add revenue expenditure funded from capital under statute (REFCUS) | | 94 |
| 3,753 | Add charges for depreciation and amortisation of non-current assets | | 3,824 |
| - | Add surplus or deficit on revaluation of non-current assets (not covered by accumulated revaluation gains) | | 1,816 |
| 230 | Other Group Accounting adjustments | | (51) |
| **171,717** | **Intra-group transfer between OPCC and OCC in respect of resources consumed** | | **170,407** |

## *4. Financing and investment income & expenditure*

This line on the Comprehensive Income & Expenditure Statement includes the following items:

| 2013/14 Outturn £000 | | Note | 2014/15 Outturn £000 |
|---|---|---|---|
| 68,587 | Pensions net interest cost | *15* | 71,116 |
| **68,587** | | | **71,116** |

## 5. *Officers' remuneration*

*Senior officers and relevant police officers emoluments – (salary is between £50,000 and £150,000 per year)*

| 2014/15 | Salary | Benefits in kind | Other payments | Expense allowances | Pension contributions | Total |
|---|---|---|---|---|---|---|
| | £ | £ | £<br>Note 1 | £<br>Note 2 | £ | £ |
| **The Office of the CC** | | | | | | |
| Chief Constable | 141,330 | - | 4,540 | 5,430 | 34,202 | 185,502 |
| Deputy Chief Constable) | 116,596 | 6,238 | 6,960 | 62 | - | 129,856 |
| Assistant Chief Constable | | | | | | |
| Senior Police Officer I | 95,245 | 2,206 | 3,225 | 5,492 | 23,050 | 129,218 |
| Senior Police Officer J | 95,245 | 2,541 | 3,423 | 5,089 | 23,050 | 129,348 |
| Finance Director | 91,021 | - | - | 5,435 | 15,200 | 111,656 |
| Director of Human Resources | 92,539 | - | - | 5,494 | 15,454 | 113,487 |
| | 631,976 | 10,985 | 18,148 | 27,002 | 110,956 | 799,067 |

**Note 1** – Rent allowance is paid under Police Regulations 1987 as amended by the Police Regulations 1990 and 1994. Housing allowance is the alternative to rent allowance (dependant upon when the officer joined the Force).
**Note 2** - Expense allowances include car allowances for employees who provide their own vehicles, telephone allowances and private health care.
**Note 3** – All chief officers have forgone their eligibility to be considered for an annual performance related bonus payment.
**Note 4** – No Compensation payments for the loss of office have been made during 2014/15.

| 2013/14 | Notes | Salary | Benefits in kind | Other payments | Expense allowances | Pension contributions | Total |
|---|---|---|---|---|---|---|---|
| | | £ | £ | £<br>note 6 | £<br>note 7 | £ | £ |
| **The Office of the CC** | | | | | | | |
| Chief Constable | 1 | 139,931 | 3,716 | 4,540 | 1,231 | 33,863 | 183,281 |
| Deputy Chief Constable | 2 | 123,202 | 5,422 | 6,132 | 124 | 29,356 | 164,236 |
| Assistant Chief Constable | | | | | | | |
| Senior Police Officer D (Retired 8th January) | 3 | 85,130 | 1,229 | 3,031 | 2,753 | 20,319 | 112,462 |
| Senior Police Officer H (Retired 16th June) | 4 | 19,792 | 1,080 | 2,438 | 26 | 4,790 | 28,126 |
| Senior Police Officer I (Commenced 17th June) | 5 | 74,508 | 3,176 | 2,544 | 199 | 18,031 | 98,458 |
| Senior Police Officer J (Commenced 17th June) | 5 | 74,508 | 3,388 | 2,700 | 98 | 18,031 | 98,725 |
| Finance Director | | 90,480 | - | - | 5,403 | 14,205 | 110,088 |
| Director of Human Resources | | 91,988 | - | - | 5,409 | 14,442 | 111,839 |
| | | 699,539 | 18,011 | 21,385 | 15,243 | 153,037 | 907,215 |

**Note 1** – The annualised salary of the Chief Constable for Leicestershire is **£140,511** (01/09/2013).
**Note 2** – The annualised salary of the Deputy Chief Constable is **£115,920** (01/09/2013). The Deputy Chief Constable covered for the Chief Constable between the 2nd July and 28th October 2013.
**Note 3** – Senior Police Officer D was temporary promoted to the role of Deputy Chief Constable from the 2nd July 2013 until their retirement on the 8th January 2014.
**Note 4** – Temporary Promoted Senior Police Officer H (annualised salary **£90,726**) retired on the 16th June 2013.
**Note 5** – Senior Police Officers I & J commenced with the Force on the 17th June 2013 on an annualised of **£94,692**.
**Note 5** – Rent allowance is paid under Police Regulations 1987 as amended by the Police Regulations 1990 and 1994. Housing allowance is the alternative to rent allowance (dependant upon when the officer joined the Force).
**Note 7** - Expense allowances include car allowances for employees who provide their own vehicles, telephone allowances and private health care.

All chief officers have forgone their eligibility to be considered for an annual performance related bonus payment.

The number of employees whose remuneration, excluding employer's pension contributions, was £50,000 or more in bands of £5,000 were:

| Remuneration band £ | | 2013/14 number of employees | 2014/15 number of employees |
|---|---|---|---|
| 50,000 to 54,999 | | 3 | 6 |
| 55,000 to 59,999 | | 5 | 2 |
| 60,000 to 64,999 | | 4 | 6 |
| 65,000 to 69,999 | | 2 | 1 |
| 70,000 to 74,999 | | 1 | 2 |
| 75,000 to 79,999 | | 2 | - |
| 80,000 to 84,999 | | 4 | 5 |
| 85,000 to 89,999 | | 2 | 2 |
| 90,000 to 94,999 | | - | - |
| 95,000 to 99,999 | | 1 | - |
| 155,000 to 160,000 | | - | - |

- The bandings only include the remuneration of employees and relevant police officers who have not been disclosed individually. I.e. above the rank of Superintendent.
- Leicestershire OPCC is the lead employer for the following regional teams; East Midlands Special Operations Unit, East Midlands Collaborative Human Resources Service (EMCHRS) Learning & Development and Occupational Health and the Regional Collaboration Team, six of the police staff employees and three police officers included in the table above work in the regional teams. Leicestershire only meets its share of their costs with the remainder being funded by the other regional forces.

The numbers of exit packages with total cost per band and total cost of the compulsory and other redundancies are set out in the table below:

| exit package cost band (including special payments) | number of compulsory redundancies | | number of other departures agreed | | total number of exit packages by cost band | | total cost of exit packages in each band £ | |
|---|---|---|---|---|---|---|---|---|
| | 2013/14 | 2014/15 | 2013/14 | 2014/15 | 2013/14 | 2014/15 | 2013/14 | 2014/15 |
| £0 - £20,000 | 4 | 17 | 5 | 9 | 9 | 26 | £73,937 | £195,817 |
| £20,001 - £40,000 | 1 | 1 | - | 2 | 1 | 3 | £20,073 | £81,100 |
| £40,001 - £60,000 | - | - | - | - | - | - | - | - |
| £60,001 - £80,000 | - | - | - | - | - | - | - | - |
| £80,001 - £100,000 | - | - | - | - | - | - | - | - |
| total | 5 | 18 | 5 | 11 | 10 | 29 | £94,010 | £276,917 |

## 6. *Jointly Controlled Operations*

The OPCC/Group participates in nine collaborative arrangements with Nottinghamshire, Derbyshire, Lincolnshire and Northamptonshire. The police officers involved are seconded from the individual forces and all costs are borne in agreed proportions. Not all of the Collaborations include all 5 forces. The following table relates to Leicestershire's share only. Further details on the Group's collaborative units and partners is given in note 25 – accounting policy A23.

### 6.1 Comprehensive Income & Expenditure Statement Jointly Controlled Operations

| 2013/14 £000 | | 2014/15 £000 |
|---|---|---|
| 1,254 | Police pay & allowances | 1,290 |
| 2,010 | Police Staff pay & allowances | 3,315 |
| 75 | Other employees expenses | 94 |
| 125 | Premises | 53 |
| 308 | Transport | 223 |
| 662 | Supplies & services | 984 |
| (712) | Agency & contracted services | 45 |
| (574) | Income from Government Grants | (717) |
| (88) | Income from Fees & charges | (154) |
| (3,338) | Income from Partners | (5,503) |
| - | Revenue Expenditure Funded from Capital Resources | 3 |
| 98 | Depreciation & Amortisation | 110 |
| **(180)** | **Cost of Services** | **(257)** |
| 610 | Gains /Losses on disposal of non-current assets | - |
| (1,962) | Capital Grants & Contributions | (313) |
| **(1,532)** | **(Surplus) / Deficit on Provision of Services** | **(570)** |
| 743 | (Surplus) / Deficit on revaluation on non-current assets (covered by accumulated revaluation gains) | (35) |
| **(789)** | **Total Comprehensive Income & Expenditure** | **(605)** |

## 7. *Related parties*

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

Central government has significant control over the general operations of the OPCC and OCC (and therefore the Group). It is responsible for providing the statutory framework within which the OCC operates, and provides the majority of funding in the form of general or specific grants payable to the OPCC. The OPCC has effective control over the activities of the OCC in that the Police & Crime Commissioner sets the policing plan in consultation with the Chief Constable. The OPCC then provides resources to the OCC such that the requirements of that policing plan may be satisfied.

Senior officers of the OCC may be able to influence significantly the OCC's financial and operating policies although overall control is retained by the Police & Crime Commissioner and articulated within the Corporate Governance Framework. No material related party transactions have been identified following consultation with members and relevant officers.

The OPCC and OCC participates in nine jointly controlled operations (JCO) with other neighbouring OPCC's/OCC/s. Further information can be seen within the accounting policies (note 25 section A23) and within the OPCC/Group accounts where the financial statements for each JCO are reproduced for the reader's information.

In addition to the above, the OPCC also had transactions during the year with other local authorities and public bodies. The impact of many of these transactions is represented within the OCC's accounts via the intra-group transfer.

## 8. External audit costs

In 2014/15 the OCC incurred the following fees relating to external audit.

| 2013/14 £000 | | 2014/15 £000 |
|---|---|---|
| 17 | External audit services | 18 |
| **17** | **Total** | **18** |

## 9. Leases

All leases (whether as lessee or lessor) are held in the name of the Police & Crime Commissioner and hence appear within the OPCC/Group financial statements for disclosure purposes.

Under the Corporate Governance Framework, the Police & Crime Commissioner grants the Chief Constable the use of the assets, equipment and resources (whether leased or otherwise) held by the OPCC in order that the requirements of the policing plan can be fulfilled. No financial consideration is made between both parties for the use of any assets, equipment or resources other than the intra-group recharge shown on the Comprehensive Income & Expenditure Account. A formal agreement is in place that grants the Chief Constable use of the assets and chattels of the Police & Crime Commissioner, a peppercorn rent of £1 is payable on demand for the usage.

The intra-group transfer made between the OPCC and the OCC includes the costs for the use and consumption of the resources of the OPCC. It therefore includes the costs of insuring, maintaining and repairing assets together with a proxy for the depreciation incurred by the OPCC due to the finite life of those assets.

## 10. Debtors

| 31st March 2014 £000 | | 31st March 2015 £000 |
|---|---|---|
| | **Long-term debtors** | |
| 59 | Car loans to employees | 70 |
| - | Sundry debtors | - |
| **59** | | **70** |
| | **Short-term debtors** | |
| 6,187 | Central government bodies | 5,330 |
| 5 | Local authorities | 9 |
| 241 | Sundry debtors | 244 |
| 38 | Car loans to employees | 45 |
| - | Less: impairment allowance | - |
| **6,471** | | **5,628** |

At the balance sheet date, 16 car loans to employees were outstanding (2013/14 – 15). The loans are made to employees who are in posts who are designated as "essential car users", the interest rate applicable to each loan is fixed to the Bank of England base rate and is not variable during the life of the loan.

Central government bodies (above) includes £5,296k (as at 31st March 2014 - £6,146k) receivable from the Home Office in respect of the pensions fund holding account.

### 11. Creditors

| 31st March 2014 £000 | | 31st March 2015 £000 |
|---|---|---|
| | **Short-term creditors** | |
| (3,167) | Central government bodies | (2,994) |
| - | Local authorities | (46) |
| - | Capital creditors | - |
| (1,056) | Salary & overtime payments | (964) |
| 5 | Sundry creditors | - |
| **(4,218)** | | **(4,004)** |

### 12. Financial Instruments

A financial instrument is any contract that results in a financial asset on the balance sheet of one entity (for example the OPCC) and a financial liability or equity instrument on the balance sheet of another entity. The term "financial instrument" covers both financial assets and financial liabilities ranging from the most straightforward (i.e. cash investments, debtors and creditors) to the most complex (i.e. derivatives and embedded derivatives).

The financial assets as disclosed in the balance sheet have a carrying amount which is assumed to approximate the fair value due to the fact they are due to mature within 12 months of the balance sheet date (in the case of the short-term assets). The long-term debtors are also assumed to have a fair value equal to their carrying value. In the case of debtors and creditors, the fair value is taken to be the invoiced amount.

The carrying amounts and fair values of all financial assets and liabilities are therefore the same as those shown in the balance sheet.

### 13. Unusable reserves

The following reserves constitute *unusable reserves* as shown on the balance sheet. The balances on these reserves at the balance sheet date are set out below. Please refer to the relevant note as referenced below for a detailed analysis of any movements in these reserves.

| 31st March 2014 Restated £000 | | Note | 31st March 2015 £000 |
|---|---|---|---|
| (1,611,684) | Pension reserve | *14* | (1,848,799) |
| (3,094) | Accumulated absences account | *16* | (3,220) |
| **(1,614,778)** | **Total unusable reserves** | | **(1,852,019)** |

The OCC's unusable reserves are in deficit due in the main to the pension reserve. The pension reserve reflects the deficit on the OCC's defined benefit pension schemes and in particular the police schemes which are not funded by assets but are instead supported by central funding from the Home Office.

## 14. 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 OCC accounts for post employment benefits in the Comprehensive Income & 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 OCC makes employer's contributions to the pension funds.

The debit balance on the pensions reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the OCC has set aside to meet them. The pension contributions payable by both employer and employee are adjusted regularly via actuarial valuations – the aim being to reduce the shortfall over the longer term.

| 2013/14 Restated £000 | | Note | 2014/15 £000 |
|---|---|---|---|
| **(1,582,702)** | **Balance at 1st April** | | **(1,611,684)** |
| 37,217 | Actuarial gains or losses on pensions assets and liabilities | | (174,815) |
| (112,976) | Reversal of items relating to retirement benefits debited or credited to the *surplus/deficit on the provision of services* in the Comprehensive Income & Expenditure Statement | | (109,791) |
| 27,519 | Employer's pensions contributions and direct payments to pensioners payable in the year | | 26,578 |
| 19,257 | Pension fund grant from the Home Office in respect of the police pension schemes | | 20,913 |
| 1 | Impact of intra-group split of pension liabilities | | - |
| **(1,611,684)** | **Balance at 31st March** | | **(1,848,799)** |

Note 15 – Defined benefit pension schemes provides further analysis of the figures shown above together with an explanation for their existence.

## 15. Defined benefit pension schemes

*This note reports on the main pension funds of the OCC. The OPCC is only responsible for a small share of the Local Government Pension Scheme (LGPS) with the remainder appearing in the OCC's Balance Sheet.*

*Participation in pension schemes*

As part of the terms and conditions of employment of its officers and other employees, the OCC offers retirement benefits. Although these benefits will not actually be payable until employees retire, the OCC has a commitment to make payments that need to be disclosed at the time that employees earn their future entitlement.

The OCC participates in the following pension schemes:

**The Local Government Pension Scheme (LGPS)** for police staff is administered by Leicestershire County Council – this is a funded defined benefit scheme, meaning that the OCC and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets.
Due to changes under the Public Pension Services Act 2013, from the 1st April 2014 scheme members now accrue pension entitlements based on their career-average rather than their final salary.

**The Police Pension Scheme** for police officers is an unfunded single employer defined benefit scheme. This means 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 fall due. Two schemes were in operation during 2014/15 as well as injury awards:

- the *1987 scheme* which is based on a maximum pensionable service of 30 years (closed to new entrants on 31st March 2006), and the *2006 scheme* which was available to new entrants from 1st April 2006 onwards and is based on a maximum pensionable service of 35 years

Both of the 1987 and 2006 schemes provide pensions based on officers' final salaries. From 6 April 2015 a new Police Officer pension scheme came into existence (the Police Pension Scheme 2015) which will provide pensions based on career average salaries. All new officers and existing officers not covered by the protection arrangements will now be members of the 2015 scheme.
Employer contributions were paid at 24.2% during 2014/15 on both the 1987 and 2006 schemes.

Under the Police Pension Fund Regulations 2007, if the amount required to balance the pensions fund for the year is less than the amounts receivable (i.e. contributions from employees and employers), the OPCC/Group must annually transfer an amount required to meet the deficit to the pensions fund. Subject to parliamentary scrutiny and approval, up to 100% of this cost is met by central government pension top-up grant. If, however, the pensions fund is in surplus for the year, the surplus is required to be transferred from the pension fund to the OCC which then must repay the amount to central government.

Following a complaint from a retired firefighter, the Pensions Ombudsman found the Government Actuarial Office guilty of maladministration in failing to review commutation factors from 1998 to 2006 applicable to lump sum payments. The full determination is available at http://www.pensions-ombudsman.org.uk. The consequences of the case are that a number of police officers who retired between 1998 and 2006 may not have received the amount of commuted lump sum they were entitled to under the scheme.

The judgement was issued in May 2015 and has therefore been treated as an adjusting post balance sheet event due to the estimated value of the liability.

Our pension scheme administrators have identified the police officers who retired between 1st December 2001 and 30th November 2006 and initial estimates are that the additional lump sum payments due will be £ 4,508k and interest of £997k.

The additional liability due has been recognised as an actuarial loss under IAS19 by restating the opening Pension Liability and Reserve as at the **1st April 2013**.

As a consequence the following Prior Year figures have been restated by £5,505k:

Balance Sheet (page 7) – Pension Scheme Liability and Reserve as at 31st March 2014
Statement of Movement in Reserves (pages 8 & 9) – Balance as at 31st March 2013 and 2014
Note 13 Unusable Reserves (page 25) – Pension Reserve as at 31st March 2014
Note 14 Pensions Reserve (page 26) – Opening Balance as at the 1st April 2013 and closing balance as at 31st March 2014
Note 15 Defined Benefit Schemes (page 30) – Net liability arising from defined benefit obligation – Opening Balance as at the 1st April 2013 and Closing Balance as at the 31st March 2014.

*Transactions relating to post-employment benefits*

The OCC recognises 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 the OCC is 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 in the Statement of Movement in Reserves. The transactions within the Comprehensive Income & Expenditure Statement and Statement of Movement in Reserves are as follows:

| | Local Government Pension Scheme | | Police Pension Schemes | | Comprehensive Income & Expenditure Account | |
|---|---|---|---|---|---|---|
| | 2013/14 | 2014/15 | 2013/14 | 2014/15 | 2013/14 | 2014/15 |
| | £000 | £000 | £000 | £000 | £000 | £000 |
| **Cost of services:** | | | | | | |
| Current service cost | 7,712 | 7,833 | 36,647 | 31,638 | 44,359 | 39,471 |
| Past service cost | 30 | 46 | - | - | 30 | 46 |
| (Gain) / loss from settlements | - | (842) | - | - | - | (842) |
| | 7,742 | 7,037 | 36,647 | 31,638 | 44,389 | 38,675 |
| **Financing & investment income/expenditure:** | | | | | | |
| Net Interest cost | 2,299 | 3,045 | 66,288 | 68,071 | 68,587 | 71,116 |
| **Other** | | | | | | |
| Impact of intra-group split of pension liabilities | - | - | - | - | - | - |
| **Net charge to *surplus / deficit on provision of services*** | **10,041** | **10,082** | **102,935** | **99,709** | **112,976** | **109,791** |
| **Other comprehensive income & expenditure:** | | | | | | |
| Return on Plan Assets (excluding the amount included in the net interest expense) | (1,846) | (14,314) | - | - | (1,846) | (14,314) |
| Actuarial (gains)/losses on changes in demographic assumptions | 4,569 | - | 21,127 | - | 25,696 | - |
| Actuarial gains and losses arising on changes in financial assumptions | 4,263 | 40,080 | (76,382) | 273,346 | (72,119) | 313,426 |
| Home Office grant | - | - | (19,257) | (20,913) | (19,257) | (20,913) |
| Impact of intra-group split of pension liabilities | (1) | 1 | - | - | (1) | 1 |
| Other (if applicable) | 11,052 | (1,114) | - | (123,184) | 11,052 | (124,298) |
| **Net charge to *total comprehensive income & expenditure*** | **28,078** | **34,735** | **28,423** | **228,958** | **56,501** | **263,693** |
| **Statement of Movement in Reserves:** | | | | | | |
| Reversal of items not permitted to be charged to the general fund by statute | (28,078) | (34,735) | (28,423) | (228,958) | (56,501) | (263,693) |
| Employer Contributions | 5,355 | 5,902 | 22,164 | 20,676 | 27,519 | 26,578 |
| **Net charge to general fund** | **5,355** | **5,902** | **22,164** | **20,676** | **27,519** | **26,578** |
| Retirement benefits payable to pensioners | **n/a** | **n/a** | **n/a** | **n/a** | **n/a** | **n/a** |
| **Analysed as:** | | | | | | |
| Employers' contributions payable to schemes | 5,355 | 5,902 | 19,899 | 18,449 | 25,254 | 24,351 |
| Direct payments - Injury awards payable | - | - | 2,265 | 2,227 | 2,265 | 2,227 |
| **Total** | **5,355** | **5,902** | **22,164** | **20,676** | **27,519** | **26,578** |

Pensions Assets and Liabilities Recognised in the Balance Sheet

The amount included in the Balance Sheet arising from the authority's obligation in respect of its defined benefit plans is as follows

| | Local Government Pension Scheme | | Police Pension Schemes | | Balance Sheet | |
|---|---|---|---|---|---|---|
| | 2013/14 | 2014/15 | 2013/14 Restated | 2014/15 | 2013/14 Restated | 2014/15 |
| | £000 | £000 | £000 | £000 | £000 | £000 |
| Present value of the defined benefit obligation | (194,781) | (246,080) | (1,538,834) | (1,747,116) | (1,733,615) | (1,993,196) |
| Fair value of plan assets | 121,931 | 144,397 | - | - | 121,931 | 144,397 |
| **Sub total** | (72,850) | (101,683) | (1,538,834) | (1,747,116) | (1,611,684) | (1,848,799) |
| Other movements in the liability (asset) (if applicable) | - | - | - | - | - | - |
| **Net liability arising from defined benefit obligation** | **(72,850)** | **(101,683)** | **(1,538,834)** | **(1,747,116)** | **(1,611,684)** | **(1,848,799)** |

Reconciliation of the Movements in the Fair Value of Scheme (Plan) Assets

| | Local Government Pension Scheme | | Police Pension Schemes | |
|---|---|---|---|---|
| | 2013/14 | 2014/15 | 2013/14 | 2014/15 |
| | £000 | £000 | £000 | £000 |
| **Opening fair value of scheme assets** | **110,627** | **121,931** | - | - |
| Interest Income | 5,053 | 5,301 | - | - |
| Remeasurement gain/(loss) | | | | |
| The return on plan assets; excluding the amount included in the net interest expense | 1,846 | 14,314 | - | - |
| Other (if applicable) | - | - | - | - |
| The effect of changes in foreign exchange rates | - | - | - | - |
| Contributions from employer | 5,355 | 5,902 | 22,164 | 20,676 |
| Employer Contributions (Top Up Grant) | - | - | 19,257 | 20,913 |
| Contributions from employees into the scheme | 2,171 | 2,272 | 9,542 | 9,671 |
| Benefits paid | (3,121) | (3,707) | (50,963) | (51,260) |
| Other (if applicable) | - | (1,616) | - | - |
| **Closing fair value of scheme assets** | **121,931** | **144,397** | - | - |

Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation)

| | Local Government Pension Scheme | | Police Pension Schemes | |
|---|---|---|---|---|
| | 2013/14 | 2014/15 | 2013/14 Restated | 2014/15 |
| | £000 | £000 | £000 | £000 |
| **Opening balance at 1 April 2014** | **(160,754)** | **(194,781)** | **(1,532,575)** | **(1,538,834)** |
| Current Service Cost | (7,712) | (7,833) | (36,647) | (31,638) |
| Interest Cost | (7,352) | (8,346) | (66,288) | (68,071) |
| Contributions from scheme participants | (2,171) | (2,272) | (9,542) | (9,671) |
| Remeasurement (gains) and losses | | | | |
| • Actuarial gains/losses arising from changes in demographic assumptions | (4,569) | - | (21,127) | - |
| • Actuarial gains/losses arising from changes in financial assumptions | (4,263) | (40,080) | 76,382 | (273,346) |
| • Other (if applicable) | (11,052) | 1,114 | - | 123,184 |
| Past service cost | (30) | (46) | - | - |
| Losses/(gains) on curtailment (where relevant) | - | - | - | - |
| Liabilities assumed on entity combinations | - | - | - | - |
| Benefits paid | 3,121 | 3,707 | 50,963 | 51,260 |
| Liabilities extinguished on settlements (where relevant) | - | 2,457 | - | - |
| Impact of intra-group split of liabilities | 1 | - | - | - |
| **Closing balance at 31 March** | **(194,781)** | **(246,080)** | **(1,538,834)** | **(1,747,116)** |

The police pension schemes are unfunded in nature and hence have no scheme assets.

The actual return on scheme assets in the year for the LGPS was £14.5m (2013/14 £1.9m).

The liabilities show the underlying commitments that the OCC has in the long run to pay retirement benefits. The total liability of £1,849m has a substantial impact on the net worth of the OCC as recorded in the balance sheet, resulting in a negative overall balance of £1,852m. However, the statutory arrangements for funding the deficit mean that the financial position of the OCC remains stable.

The deficit on the local government pension scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary. With effect from 1st April 2014 the employer's contribution rate increased to 16.7% (15.7% for 2013/14) and is due to rise to 17.7% in 2015/16. The next valuation on the LGPS (for employer contribution purposes) will be as at 31/3/16 and will take place during 2016/17. It is expected that any change to the employer contribution rate will take effect from 1st April 2017.

The deficit on the LGPS scheme has increased by £51m between March 2014 and March 2015.

The rate (%) at which employer contributions are made to the police pension fund is set by the Home Office. An actuarial valuation during 2014/15 has resulted in a reduction in the employers contribution rate from 24.2% to 21.3% from April 2015. However, the Group will need to continue to make a total contribution equivalent to 24.2% of pensionable pay as the reduction in the rate of 2.9% will be retained by government by reducing the 'Top-Up' grant payable.

In addition, the introduction of the new Police Pension scheme from April 2015 means that benefits accrued from this date will be based on a retirement age of 60, which is later than previously, and career average salaries.

The Pension Liabilities have been valued on an actuarial basis using the projected unit method which assesses the future liabilities of the fund discounted to their present value as required by IAS 19 (and FRS 17 before it). The police schemes and the Local Government Pension Scheme liabilities have been valued by Mercer and Hymans Robertson respectively. Both are independent firms of actuaries. A full valuation has been undertaken on the Police Scheme liabilities as at the 31st March 2015.

Basis for Estimating Assets and Liabilities

| | Local Gov't Scheme | | Police Schemes | |
|---|---|---|---|---|
| | 2013/14 | 2014/15 | 2013/14 | 2014/15 |
| | Years | Years | Years | Years |
| **Long term expected rate of return on assets in the scheme** | | | | |
| • Equity investments | n/a | n/a | - | - |
| • Bonds | n/a | n/a | - | - |
| • Other | n/a | n/a | - | - |
| **Mortality assumptions: Longevity at 65 (60 for police schemes) for current pensioners:** | | | | |
| • Men | 22.2 | 22.2 | 27.0 | 28.1 |
| • Women | 24.3 | 24.3 | 30.0 | 30.6 |
| **Longevity at 65 (60 for police schemes) for future pensioners:** | | | | |
| • Men | 24.2 | 24.2 | 29.5 | 30.6 |
| • Women | 26.6 | 26.6 | 32.1 | 33.1 |

Impact on the Defined Benefit Obligation in the Scheme (provided by the Actuary)

| | Local Gov't Scheme | | Police Schemes | |
|---|---|---|---|---|
| | 2013/14 | 2014/15 | 2013/14 | 2014/15 |
| • rate of inflation (increase or decrease by 1%) | 3.6% | 3.2% | 2.4% | 2.0% |
| • rate of increase in salaries (increase or decrease by 1%) | 4.6% | 4.3% | 3.9% | 3.5% |
| • rate of increase in pensions (increase or decrease by 1%) | 2.8% | 2.4% | 2.4% | 2.0% |
| • rate for discounting scheme liabilities (increase or decrease by 1%) | 4.3% | 3.2% | 4.5% | 3.2% |

Assets in the pension fund administered by the county council are valued at fair value, principally market value for investments, and consist of:

Local Government Pension Scheme assets comprised

| 2013/14 £000 | Fair Value of Scheme Assets | 2014/15 £000 |
|---|---|---|
| 2,767 | Cash and cash equivalents | 1,447 |
| | *Equity instruments: by industry type* | |
| - | Consumer | - |
| - | Manufacturing | - |
| - | Energy and utilities | - |
| - | Financial institutions | - |
| - | Health and care | - |
| - | Information technology | - |
| 4,480 | Other | 4,480 |
| **4,480** | **Sub total equity** | **4,480** |
| | *Bonds: by sector* | |
| 1,509 | UK Government | 7,922 |
| 8,717 | Other | 5,938 |
| **10,226** | **Sub total bonds** | **13,860** |
| | *Property: by type* | |
| 11,399 | UK Property | 13,684 |
| - | Overseas Property | - |
| **11,399** | **Sub total property** | **13,684** |
| | *Private equity* | |
| 4,785 | All | 5,479 |
| **4,785** | **Sub total private equity** | **5,479** |
| | *Other investment funds* | |
| 61,476 | Equities | 72,804 |
| 8,024 | Bonds | 13,450 |
| 4,166 | Hedge Funds | 6,266 |
| 5,523 | Commodities | 6,066 |
| 2,767 | Infrastructure | 3,404 |
| 6,318 | Other | 2,650 |
| **88,274** | **Sub total other investment funds** | **104,640** |
| | *Derivatives* | |
| - | Forward foreign exchange contracts | **807** |
| **121,931** | **Total assets** | **144,397** |

### 16. 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 31st March. Statutory arrangements require that the impact on the general fund balance is neutralised by transfers to or from the account.

In 2014/15 Police Officer RDIL & TOIL Increased from £1.41 Million to £1.5 Million. The increase has been caused by reductions in Officer numbers and workloads remaining constant. Operations in year such as the King Richard III Burial also contributed to Officers accruing more RDIL & TOIL.

Police Staff RDIL & TOIL also increase in year from £148k to 195k. This was a result of Police Officer Posts being modernised, causing the number of Police Staff employees working shift patterns and being entitled to RDIL & TOIL to increase.

| 2013/14 £000 | | 2014/15 £000 |
|---|---|---|
| **(3,237)** | **Balance at 1st April** | **(3,094)** |
| 3,237 | Reversal of opening accrual made at the end of the preceding year | 3,094 |
| (3,094) | Amounts accrued at the end of the current year | (3,220) |
| **143** | Amounts by which remuneration charged to the Comprehensive Income & Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements | **(126)** |
| **(3,094)** | **Balance at 31st March** | **(3,220)** |

The balance shown above is a negative figure due to it being a deficit reserve on the OCC's balance sheet.

### 17. Cash flow statement – operating activities

#### 17.1 Adjustments to net (surplus) or deficit on the provision of services for non-cash movements.

| 2013/14 OCC £000 | | Note | 2014/15 OCC £000 |
|---|---|---|---|
| - | Depreciation | | - |
| - | Impairment and downward valuations | | - |
| - | Amortisation | | - |
| - | Increase/(decrease) in impairment bad debts | | - |
| 861 | Increase/(decrease) in creditors/RIA | | 212 |
| (861) | Increase/(decrease) in debtors/PIA | | (212) |
| - | Increase/(decrease) in inventories | | - |
| (85,457) | Movement in pension liability | | (83,213) |
| - | Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised | | - |
| 144 | Other non-cash items charged to the net surplus or deficit on the provision of services | | (127) |
| **(85,313)** | | | **(83,340)** |

## 17.2 net cash flows from operating activities include the following items:

| 2013/14 OCC £000 | | 2014/15 OCC £000 |
|---|---|---|
| 158,465 | Payments made in respect of employees, ill-health pensioners and injury awards | 154,593 |
| - | Interest paid | - |
| - | Council tax (Precept) income | - |
| - | National non-domestic rates income | - |
| - | Revenue support grant income | - |
| - | Police grant income | - |
| (4,658) | Other grant income | (4,535) |
| - | Interest received | - |

There are additional items that take place between the OCC/Group and the pension fund account. Amounts are paid by the OCC/Group – on behalf of the fund – in advance of receipt of the Home Office pension grant. The result is that the OCC/Group has lent the fund the value of the Home Office debtor. This will be reversed in 2014/15 on receipt of the outstanding pension grant - £838k (2013/14- £2,675k).

## 18. Events after the balance sheet date

Following a complaint from a retired firefighter, the Pensions Ombudsman found the Government Actuarial Office guilty of maladministration in failing to review commutation factors from 1998 to 2006 applicable to lump sum payments. The full determination is available at http://www.pensions-ombudsman.org.uk. The consequences of the case are that a number of police officers who retired between 1998 and 2006 may not have received the amount of commuted lump sum they were entitled to under the scheme.

The judgement was issued in May 2015 and has therefore been treated as an adjusting post balance sheet event due to the estimated value of the liability. The detailed impact of the changes are set out in **Note 30**

## 19. Accounting standards issued, not adopted

***Title of new standard***

*IFRS 13 Fair Value Measurement*

***Nature of change in accounting policy***

This standard introduces a new definition of 'fair value' measurement. Measurement is the process of determining the monetary amounts at which the elements of the financial statements are to be recognised and carried in the Balance Sheet.

***Date of application of new standard***

The revised standard will apply to the accounting period beginning 1st April 2015

***Impact of the introduction of new standard***

The authority has a number of 'Investment properties' and 'Assets held for Sale' that will require review and consideration against the requirements of this standard and materiality.

***Other new standards***

Annual Improvements to IFRS's including:

- *IFRS 1 International Financial Reporting standards - meaning of effective IFRSs;*
- *IFRS 3 Business Combinations – scope of exceptions for joint ventures*
- *IAS40 Investment Properties – clarifying the interrelationship of IFRS 3 Business Combinations and IAS40 Investment Property when classifying property as investment property or owner – occupied property.*

IFRIC 21 – *Levies*- covers the accounting to pay a levy if that liability is within the scope of IAS 37 Provisions, Contingent liabilities and Contingent Assets or whose timing and amount is certain.

The impact of these standards on the financial statements of the Group and OPCC is not expected to be material.

## *20. Critical judgements in applying accounting policies*

In applying the accounting policies set out in Note 25, the OCC has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- There is a high degree of uncertainty about future levels of funding for local government. However, the OPCC has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the OPCC might be impaired as a result of a need to close facilities and reduce levels of service provision. The OCC would be directly affected by changes in funding for local government as it would potentially impair the resources available for use.

## *21. 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 OCC/OPCC 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.

Some of the key areas that could be affected are covered within the OPCC/Group statement of accounts (note 43) and the OCC could potentially be affected by those sensitivities or movements via either the intra-group transfer from the OPCC or those costs directly charged to the OCC.

## *22. Material items of income and expense*

None currently

## *23. Termination benefits (OCC)*

The OCC/Group terminated the contracts of a number of employees in 2014/15, incurring liabilities of £277k (£94k in 2013/14) – see Note 5 for the number of exit packages and total cost per band. The £277k is payable to staff from a number of departments as part of the ongoing savings strategy.

## 24. Nature and extent of risks arising from financial instruments (OCC)

The OCC's activities expose it to a variety of financial risks which are interlinked with those of the OPCC/Group:

- *Credit risk* – the possibility that other parties might fail to pay amounts due to the OPCC/Group
- *Liquidity risk* – the possibility that the OPCC/Group might not have funds available to meet its commitments to make payments on behalf of the OCC
- *Market risk* – the possibility that financial loss might arise for the OPCC/Group as a result of changes in such measures as interest rates and stock market movements

### Credit risk

Credit risk for the OPCC/Group has two main sources. Firstly, the short-term (less than 12 months) lending of surplus cash funds to banks and other institutions and secondly the risk of customers failing to pay the OPCC/Group for goods/services provided.

The OPCC/Group follows a defined policy of only lending surplus cash resources to a limited list of banks / institutions in the United Kingdom. This list is regularly reviewed by the Chief Finance Officer of the OPCC. The banks on the OPCC/Group's lending list are carefully selected using credit ratings whilst the OPCC/Group sets a prudent maximum investment limit with each bank. All the banks are based in the United Kingdom.

The OPCC/Group does not expect any losses connected with the short-term investments placed with banks or the other institutions.

Customer credit risk has a very low overall effect on the OPCC/Group by virtue of income from customers being equal to only 4.06% of total income (2013/14 – 4.01%). The risk is managed via the OPCC/Group's credit control policy. This policy sets out the framework within which financial relationships with the OPCC/Group's customers are managed beginning with raising an invoice through to invoking legal action should it be required. The Chief Finance Officer for the OCC may authorise the write-off of unrecoverable amounts up to £10k. Amounts above £10k require the authorisation of the Chief Finance Officer for the OPCC.

To further mitigate the risk of customer credit default, the OPCC/Group makes a bad debt impairment each year. The impairment is equal to 0.01% of the total debtors value (2013/14 - 0.10 %). Further information concerning this impairment can be seen in Note 18 of the Group Accounts.

### Liquidity risk

The OPCC/Group's cash flow is managed on a daily basis to ensure that sufficient liquid cash resources are available to meet future payment obligations (for example payments to creditors and payments to and in respect *of* the OPCC/Group's employees).

If unexpected movements happen, the OPCC/Group has access to borrowings from both the money markets and the PWLB. There is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments.

Risk may arise should the OPCC/Group have to repay a significant proportion of its borrowing in any one financial year. This risk is limited by the fact that the OPCC/Group's PWLB debt portfolio has a spread of maturity dates across a number of financial years. For the maturity profile of the OPCC/Group's PWLB debt commitment, please see Note 22 – Long term borrowing of the Group Accounts.

All standard creditors are due to be paid within one year – further information can be found in Note 11 – Creditors.

### Market risk

*Interest rate risk*

The OPCC/Group is exposed to a limited degree of risk regarding interest rate fluctuations on both short-term investments and on new borrowings. Both short-term investments and new borrowings are entered into by the OPCC/Group at a fixed interest rate for the term of each. The risk therefore arises from the uncertainty of what level interest rates will be at when the OPCC/Group either makes a short-term investment or enters into a new borrowing arrangement with PWLB. A movement in interest rates could have a complex impact on the OPCC/Group. For instance, a rise in interest rates would have the following effects:

- Future borrowings would be more costly and result in a higher interest expense charged to the Comprehensive Income & Expenditure Statement
- The fair value of existing borrowings would alter
- Future short-term investments would realise a greater return and result in a higher interest receipt credited to the Comprehensive Income & Expenditure Statement

Borrowings are not carried at fair value in the balance sheet, so nominal gains and losses on fixed rate borrowings would not impact on the Comprehensive Income & Expenditure Statement or Statement of Movement in Reserves. Movements in the fair value of fixed rate short-term investments will be reflected in the Comprehensive Income & Expenditure Statement, although as the investments are due to mature within 12 months, no such movement is expected.

The OPCC/Group sets a prudential indicator regarding the percentage of borrowings held as variable rate loans. The limit is set at 40% and has not been breached during the financial year.

The OPCC/Group will consider during periods of falling interest rates, and where economic circumstances allow, the viability of repaying loans early in order to limit the OPCC/Group's exposure to interest rate risk.

*Price risk*

The OPCC/Group does not hold equity shares or other shareholdings and hence has no exposure to the gains or losses arising from a movement in the price of shares.

*Foreign exchange risk*

The OPCC/Group has no financial assets or liabilities in foreign currencies and hence has no exposure to losses arising from movements in exchange rates.

## *25. Accounting policies used by the Office of the Chief Constable for Leicestershire*

It should be noted that the Group (OPCC and OCC combined) share a common set of accounting policies. The Corporate Governance Framework controls what the OCC may show in it's statement of accounts, however applying these accounting policies can impact on the intra-group transfer that the OPCC makes to the OCC to reflect the cost of the resources consumed in the year. The accounting policies are therefore shown below in full, whether directly applicable or not.

## *A1 General principles*

The Office of the Police and Crime Commissioner (OPCC) and the Group is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2011, which those Regulations require to be prepared in accordance with proper accounting practice.

The Statement of Accounts summarises the OPCC and Group transactions for the 2014/15 financial year and its position at the year-end of 31st March 2015. The accounts have been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom 2014/15* (the Code) and the *Service Reporting Code of Practice 2015/16* (SeRCOP) as published by CIPFA, supported by International Financial Reporting Standards (IFRS).

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.

The OPCC/Group's accounting policies have been applied consistently over the current and comparative periods.

## A2 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 OPCC/Group 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 OPCC/Group.
- Revenue from the provision of services is recognised when the OPCC/Group 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 OPCC/Group.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the balance sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the balance sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

Grant income is recognised in the financial year to which it relates. Income received early is transferred to receipts in advance on the balance sheet before being transferred to the Comprehensive Income & Expenditure Statement in the appropriate year.

The only exceptions to this policy are transfer values in and out of the police pension scheme (in respect of employees either commencing or leaving the employment of the OPCC/Group) which are included in the pension fund account when they are received or paid.

## A3 Exceptional items

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

## A4 Prior period adjustments, changes in accounting policies and estimates and errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change, except for where the OPCC/Group is of the view that the change in estimate significantly affects year-on-year comparison. Where the change in estimate has a significant impact, the OPCC/Group will restate prior-year figures and provide a full explanation of the adjustments.

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

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

### *A5 Council tax – collection fund debtors/creditors and surplus/deficit*

The Code requires that council tax income included in the Comprehensive Income and Expenditure Statement be accounted for on an accruals basis. The difference between the amount shown in the Comprehensive Income and Expenditure Statement and the amount required to be transferred to the OPCC/Group under regulation is taken to the Collection Fund Adjustment Account on the Balance Sheet. A reconciling item is also included on the Movement in Reserves Statement.

In addition to the accounting requirements for the Comprehensive Income and Expenditure Statement, the Code requires that each major preceptor (the OPCC/Group in this case) recognises its share of the collection fund debtors and creditors held by each billing authority. Entries are therefore included within the OPCC/Group's debtor and creditor balances to represent its share of the following:

- Council tax arrears (debtor)
- Impairment allowance for bad/doubtful debts (debtor)
- Council tax overpayments and prepayments (creditor)
- Cash balances (debtor or creditor as appropriate)

The net effect of the debtor and creditor adjustments is balanced out by the entry on the Collection Fund Adjustment Account.

### *A6 Cash and cash equivalents*

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours.

Cash equivalents are investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

The OPCC/Group holds a number of accounts with its banking provider, the balances of which are set-off against each other at the close of each banking day. The net position of these accounts is shown within cash and cash equivalents (within current assets if in credit or within current liabilities if overdrawn).

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

### *A7 Financial instruments*

The OPCC/Group's balance sheet contains financial assets & liabilities valued at amortised cost. Examples of these assets or liabilities include debtors, creditors, cash overdrafts and short/long-term borrowings. 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.

Where assets or liabilities mature within 12 months of the balance sheet date the carrying amount is assumed to approximate the fair value. In the example of short-term cash investments this means that they are shown at cost plus accrued interest receivable at the balance sheet date as this approximates fair value. Short-term cash investments due to mature within three months of the balance sheet date are shown within "cash & cash equivalents" on the balance sheet.

Annual charges to the Comprehensive Income & Expenditure Statement for interest payable are based on the carrying amount of the liability. For example, interest payable on long-term borrowing (with the Public Works Loan Board or PWLB) is defined by the terms of each loan and the interest rate is fixed at the outset.

Annual credits to the Comprehensive Income & Expenditure Statement for interest receivable are based on the carrying amount of the asset (in this case the short-term cash investment) multiplied by the effective rate of interest (or in other words the agreed rate of return on the investment).

Deferred Liabilities (long-term borrowing with Leicestershire County Council) are accounted for on the basis of outstanding principal amounts as defined by statutory arrangements.

## A8 Interest

Interest payable on external borrowings and interest receivable on short-term investments are accounted for on an accruals basis within the accounts. This is to reflect the overall economic effect of the borrowings or investments.

## A9 Provisions & Contingent Liabilities

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

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

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

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

**Contingent Liabilities**

A contingent liability arises where an event has taken place that gives the OPCC/Group a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the authority. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably. Contingent liabilities are disclosed in a note to the accounts (Note 46 – Group Accounts).

## A10 Property, plant and equipment

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

***Recognition***

Expenditure – over the specified de minimis level – currently £5,000 - on the acquisition, creation or enhancement of property, plant and equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the OPCC/Group and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

***Measurement***

Assets are initially measured at cost, comprising:

- the purchase price, and
- any costs attributable to bringing the asset to the location and condition necessary for it to be capable of operating in the manner intended by management

The OPCC/Group does not capitalise borrowing costs incurred whilst assets are under construction.

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

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-specific Grant Income line of the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the donated assets account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the general fund balance to the Capital Adjustment Account in the Movement in Reserves Statement.

Assets are then carried in the balance sheet using the following measurement bases:

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

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

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

Assets included in the balance sheet at fair value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year-end, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains

Where decreases in value are identified, they are accounted for by:

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

The revaluation reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the capital adjustment account.

***Components***

The OPCC/Group has reviewed its land and buildings non-current assets for evidence of components. A component is a separately identifiable part of an asset which has both a different estimated useful life and also a value which is significant when considered against the total value of the asset.

In conjunction with the OPCC/Group's independent valuers, componentisation thresholds (i.e. the levels at which a component is considered to be worthy of separation) have been set to assist in future asset reviews. A component must constitute more than 25% of the value of the asset and be greater than £100k in value. In addition, the asset must have a useful life (for depreciation purposes) that is significantly different from that of the main structure. Components that are deemed to meet the criteria above are separated from the main structure on the OPCC/Group's asset registers and depreciation calculated separately.

***Impairment***

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

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

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

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

***Depreciation***

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

Depreciation is calculated on the following bases:

- buildings – straight-line allocation over the useful life of the property as estimated by the valuer
- vehicles, equipment and the helicopter – a percentage of the value of each class of assets in the balance sheet, as advised by a suitably qualified officer

Where an item of property, plant and equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately.

All assets are depreciated in the year of purchase but not in the year of disposal.

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

***Disposals and non-current assets held for sale***

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an asset held for sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously losses recognised in the Surplus or Deficit on Provision of Services.

Depreciation is not charged on assets held for sale.

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

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

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

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. The receipts are required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or set aside to reduce the OPCC/Group's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the reserve from the general fund balance in the Movement in Reserves Statement. Where assets are funded by grants or contributions from other bodies that are repayable when the asset is disposed of, appropriate adjustments are made on disposal to recognise a liability.

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

## *A11 Charges to revenue for non-current assets*

Services, support services and trading accounts are debited with the following amounts to record the cost of holding non-current assets during the year:

- depreciation attributable to the assets used by the relevant service
- revaluation and impairment losses on assets used by the service where there are no accumulated gains in the revaluation reserve against which the losses can be written off
- amortisation of intangible assets attributable to the service.

## *A12 Redemption of debt*

The OPCC/Group is not required to raise council tax to cover depreciation, impairment/revaluation losses or amortisation. However, it is required to make an annual provision from revenue (the "MRP" or "Minimum Revenue Provision") to contribute towards the reduction in its overall borrowing requirement (equal to either an amount calculated on a prudent basis determined by the OPCC/Group in accordance with statutory guidance, or loans fund principal charges). Depreciation, impairment/revaluation losses and amortisation are therefore replaced by the minimum 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.

## *A13 Capital receipts*

Capital receipts from the disposal of assets are held in the capital reserve until such time as they are used to finance other capital expenditure. Individual receipts of less than £10,000 are credited to the Comprehensive Income & Expenditure Statement and recognised as income.

## A14 Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

**The OPCC/Group as Lessee**

*Finance Leases*

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

Lease payments are apportioned between:

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

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

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

*Operating Leases*

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

**The OPCC/Group as Lessor**

*Finance Leases*

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

Lease rentals receivable are apportioned between:

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

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the general fund balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the general fund balance to the Capital Receipts Reserve in the Movement in Reserves Statement.

Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the general fund balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point, the deferred capital receipts are transferred to the Capital Receipts Reserve

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

*Operating Leases*

Where the OPCC/Group grants an operating lease over a property or an item of plant or equipment, the asset is retained in the balance sheet. Rental income is credited to the other operating expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

The OPCC/Group has a number of semi-formal arrangements with local authorities and other bodies to grant use of rooms or offices within the landlord's property. These arrangements (often used as community/beat offices for local police officers) are reviewed to assess the substance of the transaction using such criteria as:

- Are payments being made for use of the room/office?
- Is a lease document in place?
- Does the OPCC/Group have exclusive use of the room/office?
- Does the OPCC/Group have responsibility for the maintenance/repair of the room/office?
- Is a transfer of ownership likely as part of the arrangement?

Where such an arrangement is deemed to constitute a lease, it is disclosed within the *leases* note in the financial statements (Note 11 – Group Accounts).

## *A15 Government grants and contributions*

Government grants and other contributions are accounted for on an accruals basis and recognised in the financial statements when the conditions for their receipts have been complied with and there is reasonable assurance that the grant or contribution will be received.

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

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the balance sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the Comprehensive Income & Expenditure Statement. Specific revenue grants/contributions are credited to the relevant service line whilst non ring-fenced revenue grants and all capital grants are credited to Taxation and Non-Specific Grant Income in the Comprehensive Income & Expenditure Statement.

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

## *A16 Inventories*

Supplies of uniform, vehicle parts, vehicle fuel, stationery, catering supplies and other operating equipment are held. Cleaning materials and other items are fully charged to the Comprehensive Income & Expenditure Statement in the year of purchase.

Inventories are valued on the basis of average cost price.

## *A17 Reserves*

The OPCC/Group maintains reserves to finance expenditure on projects which will be carried out in future years and to protect the OPCC/Group against unexpected events.

Details of the nature of reserves made by the OPCC/Group are set out in the notes to the accounts.

## *A18 Investments*

Investments (all maturing within 12 months and hence short-term in nature) are included in the accounts at cost price plus accrued interest owed to the OPCC/Group at the balance sheet date. Where an investment has a short maturity – a period of three months or less from the date of acquisition of the investment – and is due to mature within three months of the balance sheet date, it is shown in cash and cash equivalents.

## *A19 Pensions*

The cost of retirement benefits is recognised in the net cost of services during the period when they are earned by employees, rather than when the benefits are actually paid as pensions in accordance with IAS 19. However, the charge we are required to make against government grants & council tax is based on the employer's contributions to each pension scheme during the year as assessed by an independent actuary.

Further details concerning the impact on the Statement of Accounts from the OPCC/Group's accounting policy for pensions can be seen in Note 30 (Group Accounts) – Defined Benefit Pension Schemes.

## *A20 Employee benefits*

### *Benefits payable during employment*

The OPCC/Group makes an accrual in the Comprehensive Income & Expenditure Account for the short-term employment benefits that were not taken during the financial year. These benefits are:

- Annual leave (the amount carried over)
- Time-off-in-lieu (the balance outstanding at year-end)
- Rest days (compensation where a rest day was cancelled)
- Flexi leave (the number of hours outstanding at year-end)

Data concerning the above is collated from the OPCC/Group's personnel systems and costed out at the prevailing rates of pay for the forthcoming year (in effect the rate of pay applicable on 1st April as future pay increases may be subject to change).

The accrual is charged to the Comprehensive Income & Expenditure Statement (within the surplus/deficit on the provision of services) and reversed out through the Movement in Reserves Statement. On the balance sheet, the accrual is shown in the creditors section (representing the fact that the employee benefits are due to be realised within the following twelve-month period) with a corresponding entry in the accumulated absences account in the lower half of the balance sheet.

Each financial year has an opening and closing accrual, the impact on the Comprehensive Income & Expenditure Statement is therefore the movement between the two figures.

***Termination benefits***

Termination benefits are amounts payable as a result of a decision by the OPCC/Group to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy and are charged on an accruals basis to the appropriate service in the Comprehensive Income and Expenditure Statement when the OPCC/Group is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

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

***Post-employment benefits***

Employees of the OPCC/Group are members of two separate pension schemes:

- Police staff

  The Local Government Pensions Scheme is administered by Leicestershire County Council. This is a funded scheme, meaning that the OPCC/Group and the employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

- Police officers

  The Police Pension Scheme (PPS) for police officers is an unfunded scheme, meaning that there are no investment assets built up to meet the pension liabilities, and cash has to be generated to meet actual pension payments as they eventually fall due. Under the Police Pension Fund Regulations 2007, if the amounts receivable by the pension fund for the year are less than amounts payable, the OPCC/Group 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 central government pension top-up grant. If however the pension fund is in surplus for the year, the surplus if required to be transferred from the pension fund to the OPCC/Group, which then must be repaid to central government. In April 2006 the Home Office introduced changes to the arrangements for police pension financing. The 1987 and 2006 police pension schemes are now closed to new members. New police recruits from the 6th April 2015 will join the new 2015 police pension scheme.

Both types of schemes provided defined benefits to members (retirement lump sums and pensions), earned whilst employees of the OPCC/Group.

**Police staff**

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

- The liabilities of the Leicestershire County Council pension fund attributable to the OPCC/Group are included in the balance sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions of mortality rates, employee turnover rates, etc. and projections of future earnings for current employees.

- Liabilities are discounted to their value at current prices.

The assets of Leicestershire County Council pension fund attributable to the OPCC/Group are included in the balance sheet at their fair value:

- Quoted securities – current bid price.
- Unquoted securities – professional estimate.
- Unitised securities – current bid price.
- Property – market value.

In relation to retirement benefits, statutory provisions require the general fund balance to be charged with the amount payable by the OPCC/Group to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the pensions reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable 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.

**Police officers**

The OPCC/Group participates in the following schemes:

- Police officers in service on or before 31 March 2006 are admitted to the 1987 Police Pensions Scheme - 1987 scheme.

- Police officers in service on or after 1 April 2006 are admitted to the 2006 Police Pension Scheme – 2006 scheme.

- From the 6th April 2015 a new Police Officer Pension Scheme came into existence (the Police Pension scheme 2015) which will provide pensions based on career average salaries. All new officers and existing officers not covered by the protection arrangements will now be members of the 2015 scheme.

Both of these schemes are defined benefit schemes and are unfunded, meaning that there are no investment assets built up to meet pensions liabilities.

The expenditure and income in respect of this scheme is accounted for in the police pension fund account with the exception of injury and some ill health retirement payments, which are charged to the Comprehensive Income and Expenditure Statement. The pensions top up grant, receivable by the fund, is initially credited to the Comprehensive Income and Expenditure Statement, and then transferred to the police pension fund account via the Movement in Reserves Statement.

The liability for future payments that will be made in relation to retirement benefits has been assessed by the Scheme's actuaries based on assumptions about mortality rates, employee turnover rates, and projections of future earnings for current employees.

The cost of future retirement benefits when they are earned by serving police officers are recognised in the Comprehensive Income and Expenditure Statement in accordance with *IAS 19, Accounting for Retirement Benefits*, and therefore form part of the net deficit for the year. In order to ensure that these costs have a neutral impact upon the amount raised from council tax, they are reversed out in the Movement in Reserves Statement.

**Discretionary benefits**

The OPCC/Group also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements due to medical reasons or injury. 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.

## *A21 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 2015/16* (SeRCOP). The total absorption costing principle is used – 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 OPCC/Group's status as a multifunctional, democratic organisation.
- Non distributed costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

These two cost categories are defined in SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of net expenditure on continuing services.

The Comprehensive Income & Expenditure Statement is produced by following the "Police Objective Analysis" approach to costing – this results in the net costs of the OPCC/Group being aligned to one of eleven key headings:

- Local policing
- Dealing with the public
- Criminal justice arrangements
- Road policing
- Specialist operations
- Intelligence
- Specialist investigation
- Investigative support
- National policing
- Non distributed costs
- Corporate and democratic core

There is also a “Subjective Analysis” version of the Comprehensive Income & Expenditure Statement (Note 2) provided which presents the same net costs of the OPCC/Group as under the “Police Objective Analysis” but by cost category instead. An example of such a cost category is “Police Officer Pay and Allowances” or “Supplies and Services”.

## *A22 Estimation techniques*

The following estimation techniques have been used in the accounts:

- Capital creditors – quantity surveyors estimate of the value of the work undertaken.
- IAS 19 Valuation – actuarial valuations of future pensions liabilities are provided by independent actuaries.
- Employee benefits – where employee benefits have been accrued for at the balance sheet date, they have been calculated using a sample of data taken from the various systems (whether manual or electronic) in which it is retained. This sample is analysed and extrapolated upwards to calculate the accrual for the population.
- Vehicle fleet residual values and depreciation rates – a comparison between estimated sales proceeds and the residual value of each vehicle (10% of purchase cost) is used to gain assurance that the valuation and depreciation policies remain appropriate.
- Civil claims provision – estimations of the OPCC/Group’s potential liability to civil claims is provided by the appointed claims handlers. See the specific accounting policy above.
- Bad debt provision – the OPCC/Group assesses the outstanding sales invoices at 31st March and makes specific provision for those invoices where it is considered unlikely payment will be received.
- The Police Pensions liability has been increased by £5.5 million to recognise in the Accounts the estimated cost of probable revised lump sum pension payments and interest for retired police officers - see **Note 15** for more detail. The increase in liability is based on initial calculations supplied by our Police Pensions Administrator.

## *A23 Jointly controlled operations*

The OPCC/Group has an interest in nine jointly controlled operations. It is the lead accounting body for five of these:

- East Midlands Air Support Unit (EMASU)
    - The additional partners are Northamptonshire Police and Warwickshire Police
- East Midlands Special Operations Unit (EMSOU)
- East Midlands Special Operations Unit – Major Crime (EMSOU-MC)
- East Midlands Collaborative Human Resources Services – Occupational Health Unit (EMCHRS-OHU)

  - The additional partners are Derbyshire Police, Lincolnshire Police, Northamptonshire Police and Nottinghamshire Police

- East Midlands Collaborative Human Resources Services – Learning & Development Unit (EMCHRS-LDU)

  - The additional partners are Derbyshire Police, Northamptonshire Police and Nottinghamshire Police

The lead accounting body for the remaining jointly controlled operations is Derbyshire Police:

- East Midlands Technical Surveillance Unit (EMTSU)
- East Midlands Legal Services Unit (EMLSU)
- East Midlands Forensic services (EMFSS) (Joined from the 1st April 2014)

  - The additional partners are Derbyshire Police, Lincolnshire Police, Northamptonshire Police and Nottinghamshire Police

East Midlands Collaborative Human Resources Services – HR Service Centre (EMCHRS-HRSC) – commenced during the 2014-15 financial year

  - The additional partners are Derbyshire Police

Adjustments have been made to the balance sheet to reflect the share of each jointly controlled operation's gross assets and liabilities controlled by the OPCC/Group as at 31st March 2015. Adjustments have also been made to the Comprehensive Income & Expenditure Statement to reflect the OPCC/Group's share of each jointly controlled operation's transactions during the year. These adjustments have no effect on the overall amount to be met from government grants and council tax. Further details are shown in Note 6.

Leicestershire contributes 1/3 (one third) to the net revenue budget of EMASU, 23% to EMSOU, EMSOU-MC, EMCHRS-OHU and EMTSU, EMFSS, 26.41% to EMCHRS-LDU, 21.1% to EMLSU and 51.2% to EMCHRS-HRSC.

During the course of 2013/14, EMASU's former operational responsibilities transferred to the National Police Air Service (NPAS) hosted by West Yorkshire Police. Several operational assets (most notably the helicopter) transferred to West Yorkshire Police with effect from 3rd October 2013. The hangar/buildings did not transfer however and are still held under the existing consortium agreement with costs being recharged to West Yorkshire Police. At 31st March 2015, the consortium is still in operation covering the ownership and management of the hangar.

## *A24 Events after the reporting period*

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

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events
- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a

material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts except in circumstances where their effect is considered to have already taken place using the "substance over form convention".

### A25 Investment property

These are non-current assets that are held solely to earn income and/or realise capital appreciation and are valued at market value as determined by the OPCC/Group's specialist valuers. Any change in the market value of the investment property (together with any income or expenditure that is generated) is debited or credited to the *financing and investment income and expenditure* section of the Comprehensive Income & Expenditure Statement. The same treatment is applied to gains and losses on disposal.

### A26 Non-current assets held for sale

Assets held for sale are those assets whose carrying amount is going to be recovered principally through a sale transaction rather than through continued use. Assets that are intended to be abandoned or scrapped at the end of their useful life are not covered by this definition. The Code sets a number of specific criteria, all of which must be met for an asset to be deemed "asset held for sale":

- The asset must be available for immediate sale in its present condition
- The sale must be highly probable and a plan to sell the asset in place
- The asset must be actively marketed for sale at a price that is reasonable in relation to the current value
- The sale should be expected to complete within one year of the date of classification as a asset held for sale

Where an asset meets these four criteria, it is revalued at fair value (existing use) and then transferred to the *assets held for sale* heading on the balance sheet. Assets held for sale are measured at the lower of (a) fair value (existing use) and (b) market value less disposal costs. Where the market value of an asset held for sale is deemed to have fallen below the current carrying value, the loss is charged to the Comprehensive Income & Expenditure Statement ("Other Operating Expenditure" line). However, as this is not a charge permitted by statute against the general fund, a reconciling entry is made in the Movement in Reserves Statement to reverse the transaction to the Capital Adjustment Account.

A subsequent increase in market value is credited to the Comprehensive Income & Expenditure Account in the same way but only up to the limit of the value the asset was held at when first reclassified as an asset held for sale. Any further gains in market value over and above the original carrying value will be realised when the asset is disposed of. It should be noted that a balance may remain on the revaluation reserve attributable to the asset. This balance is transferred to the capital adjustment account at the point of disposal.

### A27 Intangible assets

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

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the OPCC/Group can be determined by reference to an active market. In practice, no intangible asset held by the OPCC/Group meets this criterion, and they are therefore carried at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. An asset is tested for impairment whenever there

is an indication that the asset might be impaired – any losses recognised are posted to the relevant service line(s) in the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.
Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the general fund Balance. The gains and losses are therefore reversed out of the general fund balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

## *A28 Revenue expenditure funded from capital under statute (REFCUS)*

Expenditure that is financed by capital funding but does not result in either a new asset or an increase in value of an existing asset is classified as Revenue Expenditure Funded from Capital Under Statute and is amortised fully through the Comprehensive Income & Expenditure Statement in the year that the expenditure is incurred. A reversing entry is made in the Movement in Reserves Statement to neutralise the effect on the OPCC/Group's revenue funds

## *A29 VAT*

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

## *A30 Accounting for the costs of the carbon reduction commitment scheme*

The OPCC/Group has been informed by external advisers that it no longer meets the criteria for entry into the carbon reduction commitment scheme. Therefore all historic liabilities are now settled and no further liability is foreseen at this time. The OPCC/Group's requirement to account for its liabilities under this scheme are subject to regular review.

## Introduction

The police officer pension fund account was established under the Police Pension Fund Regulations 2007 (SI 2007 No. 1932). It is administered by the Chief Constable using the resources of the OPCC.

The fund receives income each year from:

- Employer's contributions from the OPCC based on a percentage of pay
- Home Office top-up grant
- Contributions from serving police officers
- Other receipts

Pensions to retired police officers, lump sum payments and other benefits are paid from the fund.

The following table shows the movements on the pension fund account for the year:

| 2013/14 £000 | | 2014/15 £000 |
|---|---|---|
| | **Contributions receivable:** | |
| | **OPCC** | |
| (17,682) | ■ employer's contributions | (17,048) |
| (2,217) | ■ early retirements | (1,401) |
| - | ■ reimbursement of unabated pensions of '30+' officers | - |
| (9,542) | ■ officers' contributions | (9,671) |
| (29,441) | | (28,120) |
| (763) | **Transfers in from other pension schemes** | (629) |
| | **Benefits payable:** | |
| 35,257 | ■ pensions | 37,469 |
| 10,101 | ■ commutations and lump sum retirement benefits | 9,669 |
| 3,305 | ■ ill-health commutations and lump sum retirement benefits | 1,805 |
| 251 | ■ lump sum death benefits | - |
| 48,914 | | 48,944 |
| | **Payments to and on account of leavers:** | |
| 11 | ■ refund of contributions | 15 |
| 536 | ■ transfers out to other Forces | 704 |
| 547 | | 719 |
| **19,257** | **Net amount payable for the year** | **20,913** |
| **(19,257)** | **Additional contribution from the OPCC** | **(20,913)** |

The following table identifies the net assets and liabilities of the fund:

| 31 March 2014 Restated £000 | | 31 March 2015 £000 |
|---|---|---|
| | **Current assets** | |
| 6,146 | Contributions due from the OPCC | 10,801 |
| | **Current liabilities** | |
| (5,505) | Unpaid pensions benefits | (5,505) |
| **641** | | **5,296** |

## Notes

### Note 1

The Chief Constable is required by law to operate a pension fund and the amounts that must be paid into and out of the fund are specified by regulation. Due to the fact that the OCC does not hold assets or liabilities, no cash is transacted by the Chief Constable. All payments and receipts into and out of the fund are made by the OPCC such that the OCC can fulfil the administration of the fund. The fund will be balanced to nil at the end of each financial year either by paying over any surplus to the Home Office or by receiving cash in the form of pension top-up grant from the Home Office to make up any deficit. The OPCC acts as intermediary where grant payment/receipt takes place – the grant is therefore shown on the OPCC's Comprehensive Income & Expenditure Statement but is transferred to the pension fund account by an adjustment in the Statement of Movement in Reserves. The fund does not hold any investment assets and follows the accounting policies of the OPCC/Group.

### Note 2

Details regarding the accounting policies are detailed within note 25, A19 and A20, notes to the core financial statements.

### Note 3

The pension fund does not take account of the liabilities to pay pensions and other benefits after the end of the financial year.

Details of the OPCC's long-term pension obligations can be found in the notes to the OPCC/Group's core financial statements at note 30

### Note 4

Employees' and employer's contribution levels are based on percentages of pensionable pay set nationally by the Home Office and subject to recalculation by the Government Actuary's Department.

| 2013/14 % | | 2014/15 % |
|---|---|---|
| 24.20 | Employer's contribution level | 24.20 |
| | Employees' contribution level | |
| 13.50 | ■ 1987 scheme | 14.25 |
| 11.50 | ■ 2006 scheme | 12.05 |

- The employees' contribution level figures are quoted for a tier 2 officer – those on a basic annual salary of more than £27k but less than £60k.

### Note 5

Unpaid pension benefits of £5.5 million have been recognised as a liability in the Pension Fund. This is to reflect the estimated cost of probable revised lump sum pension payments and interest for retired police officers. Following a complaint from a retired firefighter, the Pensions Ombudsman found the Government Actuarial Office guilty of maladministration in failing to review commutation factors from 1998 to 2006 applicable to lump sum payments. The full determination is available at http://www.pensions-ombudsman.org.uk. The consequences of the case are that a number of police officers who retired between 1998 and 2006 may not have received the amount of commuted lump sum they were entitled to under the scheme.

A corresponding debtor has been recognised as a Pension Fund asset to reflect the Home Office liability to make the additional top up payment as laid down in the Police Pension Fund Regulations 2007 through the local Policing Body.

## 1) Scope of Responsibility

The Chief Constable (CC) of Leicestershire is responsible for the delivery of policing service to the communities of Leicester, Leicestershire and Rutland and has direction and control over officers and staff operating with the Force. The CC holds office under the Crown and is appointed by the Police and Crime Commissioner (PCC).

The CC is accountable in law for the excise of policing powers and to the PCC for the delivery of efficient and effective policing, management of resources and expenditure by the Force. In discharging his overall responsibilities, the CC is responsible for establishing and maintaining appropriate risk management processes, governance arrangements and ensuring that there is a sound system of internal control which facilitates the effective exercise of these functions.

The CC also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

The CC has adopted the Corporate Governance Framework approved by the PCC, which is consistent with the principals of the CIPFA / SOLACE Framework *Delivering Good Governance in Local Government.* A copy of the Framework can be obtained from the Office of the Police and Crime Commissioner (OPCC), Leicestershire Police Headquarters, St Johns, Enderby, Leicester, LE19 2BX or on our website at www.leics.pcc.police.uk. This statement explains how the CC has complied with the code and also meets the requirements of the Accounts and Audit Regulations 2011 in relation to the publication of an annual governance statement.

The Chief Constable as a standalone corporation sole is legally required to produce an Annual Governance Statement. The statement assists the PCC in holding the CC to account for efficient and effective policing. The statement sits alongside the statutory accounts for the CC and gives assurance to the PCC of the CC's governance arrangements. The PCC produces their own statement.

## 2) The Purpose of the Governance Framework

The Corporate Governance Framework comprises the systems and processes, and culture and values, by which the CC is directed and controlled and its activities through which it accounts to, engages with and leads the community. It enables the CC to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, value for money services.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and 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 CC's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The Corporate Governance Framework was in place during 2014/15 and in line with good practice to review annually, the Framework was reviewed in March 2015 by the OPCC and the CC and includes revisions where required for changes under Stage 2.

### 3) The Governance Framework

The CC had previously put in place appropriate management and reporting arrangements to enable him to satisfy himself that his approach to corporate governance was both adequate and effective and supports the OPCC. These include:

- A Code of Corporate Governance;
- A risk management strategy;
- Responsibility given to the Director of Finance to oversee the implementation and monitoring of the operation of the Code and risk management strategy;
- Reviewing the operation of the Code and risk management strategy in practice;
- Ensuring that there is an effective internal audit function.

Baker Tilly (previously RSM Tenon), the internal auditors, have been given the responsibility to review independently the status of the PCC's & CC's internal control arrangements. Baker Tilley routinely report to and attend the Joint Audit, Risk and Assurance Panel (JARAP) to provide assurance on the adequacy and effectiveness of internal control.

The system of internal control is based on a framework of robust financial and contract procedure rules and processes, administrative procedures, management supervision and a system of delegation and accountability. Development and maintenance of the system is undertaken by managers within the OPCC and the Office of the Chief Constable (OCC) and is reviewed by internal and external audit. In particular the system includes:

- A detailed Force delivery plan which sets out how the CC intends to achieve the objectives contained within the PCC's Police and Crime Plan;
- Performance management framework, performance plans, targets and performance monitoring focused on achieving the objectives set out in the Plan;
- Comprehensive budget setting and management systems that seek to align resources against police and crime plan priorities;
- A Force Change Board which oversees the transformational change programme designed to deliver an affordable and sustainable medium term financial position;
- Robust financial reporting, which routinely projects end of year outturn positions to allow early corrective action;
- A Force Strategic Organisational Risk Board which is responsible for the identification of strategic risks, the development of risk mitigation strategies and ongoing monitoring;
- Engagement in value for money benchmarking such as is conducted by Her Majesty's Inspectorate of Constabulary (HMIC);
- Well researched and coherent Corporate Governance Framework (which was refreshed during the year) that sets out the rules and procedures for effective working within and between the OPCC and OCC;
- Appropriate statutory officers within both the OPCC and OCC, who are key members of respective leadership teams with relevant influence on strategic and tactical matters;
- An independent Joint Audit, Risk and Assurance Panel (JARAP) that is charged with seeking assurance over risk, governance and internal control for both the OPCC and OCC;
- Codes of conduct and standards of behaviour policies for both police officers and staff;
- Determining the conditions of employment and remuneration of police officers and staff, within appropriate national frameworks;
- Governance arrangements with Partners which oversee keys areas of strategic partnership working such as the Strategic Partnership Board, chaired by the PCC with the CC and other key stakeholders in attendance;

**Chief Finance Officer**

The CC formally appointed a professionally qualified Chief Financial Officer (CFO) for the Force with the effect from 22nd November 2012. Under the Police Reform and Social Responsibility Act 2011 the OCC CFO has a personal fiduciary duty by virtue of their appointment as the person responsible for the financial administration of the OCC. This includes requirements and formal powers to safeguard lawfulness and propriety of expenditure (Section 114 of the Local Government Act 1988 as amended by paragraph 188 of Schedule 16 to the Police Reform and Social Responsibility Act 2011).

The OCC complies with the CIPFA statement on the Role of the Chief Financial Officer in the Public Sector, the key principles and requirements which are summarised below.

The Chief Financial Officer in a public service organisation:

- is a key member of the Leadership Team, helping it to develop and implement strategy and to resource and deliver the Force's strategic objectives sustainably and in the public interest;
- must be actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered, and alignment with the Force's financial strategy; and
- must lead the promotion and delivery by the whole Force of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively.

**4) Review of Effectiveness**

The OPCC and OCC have responsibility for conducting, at least annually, a review of the effectiveness of the governance framework including the system of internal control. The review of effectiveness is informed by the work of the senior managers within the OPCC and OCC who have responsibility for the development and maintenance of the governance environment, the Head of Internal Audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

Considering the significant changes to the governance regime in 2012/13, the OPCC and OCC continued to invest in an internal audit programme for the year to give additional assurance under the new arrangements. The OPCC ensured specific audits on Governance and the Police and Crime plan took place to review the controls and assurances in place, these were found to be working and the audit assessments are detailed further in the document.

The JARAP meets on average five times during the year and considers the work of internal and external audit, the in house internal audit team, tracking of internal audit recommendations, risks and risk management, the Corporate Governance Framework and specific themes. In addition, the JARAP reviewed their terms of reference and produced an annual report of their work.

The Baker Tilly internal audit annual report covered the period 1 April 2014 to 31 March 2015 and was reported to and considered by the JARAP in June 2015.

The internal audit opinion for 2014/15 was as follows:

*"We are satisfied that sufficient internal audit work has been undertaken to allow us to draw a reasonable conclusion on the adequacy and effectiveness of the Office of the Leicestershire Police and Crime Commissioner's arrangements.*

*In our opinion, based upon the work we have undertaken, for the 12 months ended 31 March 2015 the Office of the Leicestershire Police and Crime Commissioner has adequate and effective risk management, control and governance processes to manage the achievement of the organisation's objectives."*

The basis of Baker Tilly's opinion was as follows:

***Governance** – "An audit of Governance for both the OPCC and the OCC was undertaken during the year which resulted in a substantial (Green) assurance opinion for both entities. We found that the governance framework was established with regular meetings being held and actions agreed and carried forward. Regular meetings were chaired by the PCC and used to set the strategic direction for Leicestershire Police and for monitoring purposes against the Plan. Meetings were also held in public with the aim of providing greater transparency.*

*We concluded that the governance arrangements in place for both the OPCC and the OCC were adequate and effective."*

***Risk Management** – "We undertook a review during the year of the Risk Management arrangements in place for the OCC and OPCC which resulted in an Amber/Green (reasonable) assurance opinion for each entity.*

*We found Risk Management Policies and Registers were in place; however, further work was required on the identification and use of assurances in the risk management process.*

*We concluded that the risk management arrangements in place for both the Office of the Police and Crime Commissioner and the Officer of the Chief Constable were adequate and effective."*

***Control** – "Nine other assurance audit reports were issued across the OPCC and Force in 2014/15, all of these except one was a Substantial (Green) assurance opinion. The one exception related to Seized and Found Property where we provided a "cannot take assurance" (Red opinion) on the controls in place. The main issues in this review related to the accuracy of the system and significant number of items "booked out to office" which required investigation, the use of the Paypal account and use of auction houses. Further to this we completed two advisory reviews which included a walkthrough of the key financial systems to ensure no significant changes in the control framework and a walkthrough of the new finance system where changes were proposed to ensure there was an adequate proposed control framework.*

*In addition, we undertook two reviews within the East Midlands on Collaboration:- the East Midlands Operational Support Service (EMOpSS) was provided with an Reasonable (Amber/Green) assurance opinion and the Innovation Fund was provided with a "cannot take assurance" (Red) Opinion as we found there was not a consistent, transparent and overarching governance framework in place to provide oversight and effective management of the Innovation Funds.*

*We concluded that the control arrangements in place for both the OPCC and OCC were adequate and effective, although some weaknesses and areas for improvement were identified."*

External audit (PricewaterhouseCoopers – PWC) issued their Annual Audit Letter for 2013/14 in October 2014. That Letter built on the report to those charged with governance considered by the JARAP in September 2014 and was intended to summarise the results of their 2013/14 audit. It noted that:

- an unqualified audit opinion on the Statement of Accounts was issued by 30 September 2014;
- the financial statements and supporting schedules were ready within the agreed timetable;
- the quality of the working papers and draft accounts were again of a high standard;
- the finance staff were helpful and co-operative throughout;
- our work on the systems identified no material weakness;
- no material errors (or errors above the reporting threshold) were found in our work on the accounts;
- As a consequence of the updated legislation and additional guidance and interpretations issued by CIPFA and the Audit Commission, it was decided by management that the financial statements should be revisited and updated. We reviewed management's assessment, approach and accounting treatment adopted for the 2013/14 financial statements. This resulted in us agreeing with the overall approach that management had taken when producing the financial statements, which was in line with the revised guidance;
- The 'going concern' assumption is appropriate;
- We issued an unqualified conclusion on the ability of the CC and PCC to secure proper arrangements to secure economy, efficiency and effectiveness in its use of resources; and
- We reviewed the AGS to consider whether it complied with the CIPFA/SOLACE guidance and whether it might be misleading or inconsistent with other information known to us from our audit work. We found no areas of concern to report in this context

JARAP members undertake portfolio and detailed reviews into key areas and also regularly attend pertinent meetings including regular attendance at the Strategic Organisational Risk Board (SORB).

JARAP have completed an annual report for 2014/15 which summarised the outcomes of their work and the areas reviewed to gain assurance and internal control. This included presentations and detailed reviews into thematic areas such as the updated actions being progressed in respect of seized and found property and other thematic areas including commissioning, communications and engagement, sentinel and operation tiger.

**5) Significant Governance Issues**

The following significant governance issues have been identified and are being addressed through appropriate action plans.

*Police and Crime Plan and Resources*

The Police and Crime Plan has been produced following thorough research and consultation. The objectives are clear and the targets are demanding. However, the extended period of austerity across the public sector has produced an estimated funding gap over the medium term to 2016/17 of some £20m for the OPCC for Leicestershire. In addition, a review of the funding formula is likely to have as yet unpredictable distributional impacts. There is a danger that as the funding gap is closed, the ability of the Force to address the Plan objectives and targets is reduced.

In order to seek to mitigate the potential impact of budget reductions, a programme of work took place that produced a comprehensive suite of change options to create a Force that is fit for 2016/17 and beyond. Detailed savings plans were developed and implemented, a new operating model was implemented (Project Edison) which reduced the savings to be found by 2016/17. The medium Term Financial Strategy was updated to 2019/20 and this highlighted further financial savings to be found beyond the 2016/17 target.

A refreshed Police and Crime Plan was produced during the year which incorporated a balanced medium term financial strategy (MTFS) and showed how the Plan can be delivered through implementing appropriate changes and utilising reserves and precept strategies.

*Partnerships and Commissioning*

The PCC is operating in a new environment of commissioning services from others with grants made available from the Home Office and elsewhere (aggregated into the Community Safety Fund - CSF). These grants were previously made available to other agencies directly, so there has been some sensitivity as to how they will be allocated in future. In addition, working in partnership with other agencies is crucial to the successful delivery of the ambitions set out in the Police and Crime Plan.

Considerable effort has been made to engage effectively with partners, to understand their aims and objectives and to recognise those and the partner contributions to delivery in the Plan. The proposals for effective commissioning were issued in the Commissioning Intentions during 2013/14 and the document was refreshed during both 2013/14 and 2014/15. A further refresh will take place in 2015/16.

*Regional Collaboration*

Both the OPCC and the OCC in Leicestershire are active supporters of regional collaboration on a range of support and front-line functions. There is, of course, a requirement to ensure that these arrangements are governed appropriately and are delivering value for money. The Chief Finance Officers of the region are concerned that increased collaboration needs to be implemented in line with an appropriate strategic direction and that risk as well as benefits are considered and internal controls put in place.

All OPCC and CCs set aside resources for collaborative audits and as highlighted from the Internal Audit Reviews above, the results of these audits have highlighted the need for improved internal controls, governance and assurances to be developed further in regional collaborative activities. As part of this work a collaboration-assurance approach has been designed and is being tested as a "proof of concept" on the shared regional area of Learning and Development, for which the results are anticipated in the near future.

In late 2014/15 and continuing into 2015/16, the Force identified a potential area of fraud and corruption in relation to regional seized property. In addition to a criminal investigation taking place, the Force has implemented an immediate review of controls and assurances in place, and of all safes within the Force Area.

The PCC was briefed and updates were provided to Regional PCCs and their statutory officers in addition to the JARAP chair and both Internal and External Auditors have been briefed and an action plan is being developed which will incorporate independent internal audit and input from regional statutory officers.

In terms of value for money, regional PCCs have set the Regional Collaboration team challenges to identify efficiencies, some of which have been implemented in the 2015/16 Regional budgets.

Work has continued on the implementation of Regional NICHE arrangements, custodial arrangements, Regional Innovation Funds and the East Midlands Operational Specialist Services.

*National Developments*

There are a number of national developments which continue to be proposed and which may have a direct or oblique impact on OPCCs and OCCs through reducing and/or increasing opportunities for collaboration and partnership working and/or adding more responsibility without compensating resources.

The OPCC and OCC are seeking to gather information on the proposals and to input where and when invited to do so. When more firm proposals are known, then detailed responses will be prepared.

*Conclusion*

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

**Simon Cole**
**Chief Constable**
**29 September 2015**

**Paul Dawkins**
**Chief Finance Officer**
**29 September 2015**

East Midlands Police Collaboration

Derbyshire Leicestershire Lincolnshire Northamptonshire Nottinghamshire

## ANNUAL GOVERNANCE STATEMENT FOR REGIONAL COLLABORATION 2014/15

I confirm that the relevant controls and procedures are in place to manage the following issues within Regional Collaboration for the East Midlands:

**1. The monitoring processes by which performance against operational, financial and other strategic plans are considered and key issues identified and tasked.**

DCC (East Midlands) monitors performance. This is reported to the East Midlands Police and Crime Commissioners (EMPCC) Board on a quarterly basis.

**2. Ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful.**

Compliance is monitored by management review, supported by specialist professional advice where appropriate. Where areas for improvement are identified these are subject to action plans that are revisited to ensure that they have been attended to.

Thematic inspections form part of the monitoring controls to ensure compliance with appropriate policies and regulations and demonstrate the effective and efficient use of resources.

In late 2014/15 and continuing into 2015/16, a potential area of fraud and corruption was identified in relation to regional seized property held within the Leicestershire area. In addition to a criminal investigation taking place, the EMSOU has implemented an immediate review of controls and assurances in place and of all safes within their control. The regional PCC's were briefed alongside their statutory officers. Internal and External Auditors have been informed and an action plan is being developed which will incorporate independent internal audit and input from regional statutory officers.

**3. That the appropriate controls are in place for the management of all resources deployed within Regional collaboration**

A management structure is in place, with clear lines of accountability for both operational issues and use of resources.

A budget is approved each year at the EMPCC's Board which defines the expenditure targets for each area of policing within regional collaboration. Each force actively supports the budget allocation and sets its own precept accordingly.

Management reports showing costs against budget are provided monthly. Unexpected variances are investigated and explained, ready for reporting to quarterly Management Boards and the EMPCC's Board. Monthly expenditure reports are shared across the region to provide each force with visibility over expenditure to date and projected outturn position.

**4. Incorporating good governance arrangements in respect of partnerships.**

The EMPCC's Board provides a forum for all members of collaboration to feedback their experiences of the partnership work. All forces can discuss governance, performance and financial issues at the quarterly meetings. The collaboration builds on best practice from across the region to improve performance as well as saving money.

**Signed** ____________________

**Date** 3/7/15.

Peter Goodman
**Deputy Chief Constable (East Midlands)**

***Independent auditors' report to The Chief Constable of Leicestershire (the "Chief Constable")***

## Report on the financial statements

### Our opinion

In our opinion, the Chief Constable of Leicestershire's financial statements (the "financial statements"):

- give a true and fair view of the state of the Chief Constable's affairs as at 31 March 2015 and of the income and expenditure and cash flows for the year then ended; and
- have been properly prepared in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and the CIPFA Service Reporting Code of Practice for Local Authorities 2014/15.

### What we have audited

The financial statements comprise:

- the Balance Sheet as at 31 March 2015;
- the Comprehensive Income and Expenditure Statement for the year then ended;
- the Statement of Movement in Reserves for the year then ended;
- the Cash Flow Statement for the year then ended;
- the notes to the financial statements, which include a summary of significant accounting policies and other explanatory information.

The financial reporting framework that has been applied in the preparation of the financial statements is the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 supported by the CIPFA Service Reporting Code of Practice for Local Authorities 2014/15.

In applying the financial reporting framework, the Chief Finance Officer has made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, he has made assumptions and considered future events.

### Opinion on other matter prescribed by the Code of Audit Practice

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

### Other matters on which we are required to report by exception

We have nothing to report in respect of the following matters where the Code of Audit Practice issued by the Audit Commission requires us to report to you if:

- in our opinion, the Annual Governance Statement does not comply with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007 (updated as at December 2012) or is misleading or inconsistent with information of which we are aware from our audit; or
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998 ; or
- we make any recommendations under section 11 of the Audit Commission Act 1998 that requires the Chief Constable to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998. Responsibilities for the financial statements and the audit

### Our responsibilities and those of the Responsible Chief Finance Officer

As explained more fully in the Statement of Responsibilities set out on page 5 the Chief Finance Officer is responsible for the preparation of the financial statements and for being satisfied that they give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 and the CIPFA Service Reporting Code of Practice for Local Authorities 2014/15.

Our responsibility is to audit and express an opinion on the financial statements in accordance with Part II of the Audit Commission Act 1998, the Code of Audit Practice 2010 – Local Government Bodies issued by the Audit Commission and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Chief Constable in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies – Local Government, published by the Audit Commission in March 2010. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

### What an audit of financial statements involves

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). 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 Chief Constable'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.

We primarily focus our work in these areas by assessing the Chief Finance Officer's judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Statement of Accounts to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Report on the pension fund accounts

### Our opinion

In our opinion, the pension fund accounts contained within the Statement of Accounts of the Chief Constable of Leicestershire (the "pension fund accounts"):

- give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2015, and the amount and disposition of the fund's assets and liabilities as at 31 March 2015; and

- have been properly prepared in accordance with the requirements of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

**What we have audited**

The pension fund accounts comprise:

- the Net Assets Statement as at 31 March 2015;
- the Fund Account for the year then ended; and
- the notes to the financial statements, which include explanatory information.

The financial reporting framework that has been applied in the preparation of the pension fund accounts is the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

In applying the financial reporting framework, the Chief Finance Officer has made a number of subjective judgements, for example in respect of significant accounting estimates. In making such estimates, he has made assumptions and considered future events.

**Opinion on other matter prescribed by the Code of Audit Practice**

In our opinion, the information given in the explanatory foreword for the financial year for which the pension fund accounts are prepared is consistent with the pension fund accounts.

**Responsibilities for the pension fund accounts and the audit**

**Our responsibilities and those of the Responsible Chief Finance Officer**

As explained more fully in the Statement of Responsibilities set out on page 5 the Chief Finance Officer is responsible for the preparation of the pensions fund accounts and for being satisfied that they give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2014/15.

Our responsibility is to audit and express an opinion on the pension fund accounts in accordance with Part II of the Audit Commission Act 1998, the Code of Audit Practice 2010 – Local Government Bodies issued by the Audit Commission and ISAs (UK & Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

This report, including the opinions, has been prepared for and only for the Authority's members as a body in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and of Audited Bodies – Local Government, published by the Audit Commission in March 2010. We do not, in giving these opinions, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

**What an audit of pension fund accounts involves**

We conducted our audit in accordance with International Standards on Auditing (UK and Ireland) ("ISAs (UK & Ireland)"). An audit involves obtaining evidence about the amounts and disclosures in the pension fund accounts sufficient to give reasonable assurance that the pension fund accounts are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Pension Fund'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 pension fund accounts.

We primarily focus our work in these areas by assessing the Chief Finance Officer judgements against available evidence, forming our own judgements, and evaluating the disclosures in the financial statements.

We test and examine information, using sampling and other auditing techniques, to the extent we consider necessary to provide a reasonable basis for us to draw conclusions. We obtain audit evidence through testing the effectiveness of controls, substantive procedures or a combination of both.

In addition, we read all the financial and non-financial information in the Statement of Accounts to identify material inconsistencies with the audited pension fund accounts and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

**Conclusion on the Chief Constable's arrangements for securing economy, efficiency and effectiveness in the use of resources**

**Conclusion**

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission on 13 October 2014, we are satisfied that, in all significant respects, the Chief Constable put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2015.

**What a review of the arrangements for securing economy, efficiency and effectiveness in the use of resources involves**

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission on 13 October 2014, as to whether the Chief Constable has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Chief Constable put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.
We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether, in all significant respects, the Chief Constable had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

**Our responsibilities and those of the Chief Constable**

The Chief Constable is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.
We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Chief Constable has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.
We report if significant matters have come to our attention which prevent us from concluding that the Chief Constable has put in place proper arrangements for securing economy, efficiency and

effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Chief Constable's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

**Certificate**

We certify that we have completed the audit of the financial statements of the Chief Constable of Leicestershire in accordance with the requirements of Part II of the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission.

Richard Bacon

Richard Bacon (Senior Statutory Auditor)
for and on behalf of PricewaterhouseCoopers LLP
Chartered Accountants and Statutory Auditors
Cornwall Court
19 Cornwall Street
Birmingham
B3 2DT

30 September 2015

(a)The maintenance and integrity of the Chief Constable for Leicestershire website is the responsibility of the Chief Constable; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.

(b)Legislation in the United Kingdom governing the preparation and dissemination of the financial statements may differ from legislation in other jurisdictions.

**Accounting policies**

These are a set of rules and codes of practice used in preparing the accounts.

**Accrual**

A sum included in the accounts to cover income or expenditure attributable to an accounting period for goods supplied and received or works done but for which payment has not been received or made by the end of the period.

**Actuarial gain/loss**

The change in pension liabilities that arises because either events have not coincided with the actuarial assumptions made for the last valuation (experience gains or losses) or because the actuarial assumptions themselves have changed.

**Actuarial Valuation**

A valuation of the assets of a pension scheme, an estimate of the present value of benefits to be paid and an estimate of the future required contributions into a pension scheme.

**Amortisation**

The annual amount charged to the Comprehensive Income & Expenditure Statement in respect of the consumption of intangible non-current assets (i.e. software licenses).

**Budget**

A statement of the OCC's plans in financial terms. A budget is prepared and approved by the Police & Crime Commissioner prior to the start of each financial year.

**Capital expenditure**

Expenditure on the acquisition of a non-current asset or expenditure which adds to and not merely maintains the value of an existing non-current asset.

**Capital financing requirement**

The capital financing requirement represents capital expenditure financed by external debt and not by capital receipts, revenue contributions, capital grants or third-party contributions at the time of spending. It measures the OPCC's underlying need to borrow for a capital purpose.

**Capital grant**

Grant received from central government that is used to finance specific schemes in the capital programme. Where capital grants are receivable, these are used as far as possible to finance relevant capital expenditure within the year they are received.

**Capital receipts**
Proceeds from the sale of an asset, which may be used to finance new capital expenditure or to repay outstanding loan debt as laid down within rules set by central government.

**CIPFA**

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

**Commuted lump sums**

These are the amounts paid to officers when they retire, if they choose to have a lower pension.

**Contingent liabilities**

A contingent liability is either:

- a possible obligation arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the OPCC's control, or
- a present obligation arising from past events where it is not probable that a transfer of economic benefits will be required or the amount of the obligation cannot be measured with sufficient reliability.

**Corporate and democratic core**

These represent the costs of delivering public accountability and representation in policy making and meeting our legal responsibilities.

**Creditors**

Amounts owed by the OPCC for work done, goods received or services rendered which have not been paid for by the end of the financial year.

**Current service cost (Pensions)**

The increase in the present value of pension liabilities generated in the financial year by employees. It is an estimate of the true economic cost of employing people in the financial year, earning service that will eventually entitle them to the receipt of pension benefits on retirement.

**Debtors**

Sums of money due to the OPCC for work done or services supplied but not received at the end of the period.

**Deferred liabilities**

Liabilities which by arrangement are payable beyond the next year at some point in the future or paid off by an annual sum over a period of time.

**Defined benefit scheme**

A pension or other retirement benefit scheme, with rules that usually define the benefits independently of the contributions payable and where the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded.

**Depreciation**

The measure of the cost or revalued amount of the benefits of the non-current asset that have been consumed during the period. Consumption includes the wearing out, using up or other reduction in the useful life of a non-current asset whether arising from use, passing of time or obsolescence through either changes in technology or the demand for the service produced by the asset.

**Financial regulations**

A written code of procedures approved by the OPCC and intended to provide a framework for the proper financial management of the OPCC. The financial regulations are supported by detailed financial instructions.

**Financial year**

The period of time commencing on the 1st April covered by the accounts.

**Formula spending share**

The proportion of spending by local authorities which the government considers should be attributed to each OPCC and used as a basis for distributing grant.

**Impairment**

A reduction in the value of a non-current asset below the amount shown on the balance sheet.

**Investment property**

Those assets held primarily to realise increases in their value and/or income (i.e. where rented to a third-party).

**Leasing**

A method of financing capital expenditure where a rental charge is paid for a specified period of time. There are two main types of leasing arrangements:

- finance leases which transfer all of the risks and rewards of ownership of a non-current asset to the lessee and such assets are included within the non-current assets in the balance sheet.
- operating leases where the ownership of the asset remains with the leasing company and the annual rental is charged direct to the service revenue accounts.

**Liquid resources**

Assets which can be realised within a very short period of time. For example cash held in an instant-access bank account is considered a liquid resource.

**Minimum revenue provision**

The minimum amount that the OPCC is statutorily required to set aside from revenue each year as a provision to meet credit liabilities. For the OPCC this relates to a principal sum based on a prudent assessment of the useful life of the asset, which is used for the redemption of external debt.

**Net book value**

The amount at which non-current assets are included in the balance sheet and being their historical cost or current value, less the cumulative amounts charged for depreciation, amortisation and any impairment losses.

**Non-current assets**

Tangible and intangible assets that yield benefits to the OPCC for a period of more than one year.

**Non distributed costs**

This is where overheads are not charged or apportioned to activities within the service expenditure analysis in the Comprehensive Income and Expenditure Account.

**Past service cost (pensions)**

Represents the increase in pension liabilities caused by decisions taken in the financial year concerning retirement benefits but whose financial effect is derived from pensionable service earned in earlier financial years.

**Precept**

The levy by which the OPCC obtains the income it requires from council tax.

**Public Works Loan Board (PWLB)**

A government agency that provides borrowing to local authorities at preferential interest rates.

**Receipts and payments**

Amounts actually paid or received in a given accounting period irrespective of the period for which they are due.

**Unusable reserves**

These are reserves resulting from the interaction of legislation and proper accounting practices. These reserves are not resource backed and cannot be used for any other purpose.

**Usable reserves**

These are held at the discretion of the OPCC and are resource backed. Usable reserves may either be general (in the case of the general fund) or specific (in the case of the earmarked reserves).