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FOIA – Open

Independent Audit Committee

Meeting: **Tuesday, 14th December, 2021 at 9.30 am**
Venue: **Microsoft Teams**

AGENDA

1. Apologies for absence

To record apologies for absence received from members.

2. Declarations of Interest, Equality and Health and Safety Obligations

To receive declarations by members of (a) personal interest [including their nature] and (b) prejudicial interests and to remind members of their responsibility to consider equality and health and safety in all of their decisions.

AGENDA ITEMS

3. Minute Items [FOIA - Open]

To confirm the minutes from the previous Independent Audit Committee.
To be presented by the Chair.

4. Action Log [FOIA - Open]

To review the action log and receive updates for ongoing actions.

5. Significant Committee Business [FOIA – Open]

To be presented by the Chair.

6. Update on Risk Management Deep Dive Exercise (ref. action 200) [FOIA - Open]

Mike Stamp to provide an update on the Risk Management Deep Dive Exercise

7. Strategic Risk Management Framework and Audit Report Findings [FOIA - Open]

To be presented by Karen James.

8. Code of Corporate Governance (Financial Regulations and Standing Orders on Contracts) [FOIA - Open]

To highlight the key differences between the two Codes of Governance.
To be presented by Karen James.

9. Devon and Cornwall Draft Strategies [FOIA - Open]

a) Draft Treasury Management Strategy

b) Draft Capital Strategy

c) Draft Reserves Strategy

To be presented by Nicola Allen.

10. Dorset Draft Strategies [FOIA - Open]

a) Draft Treasury Management Strategy

b) Draft Capital Strategies

c) Draft Reserves Strategy

To be presented by Julie Strange.

11. Treasury Management Mid-Year Report [FOIA - Open]

a) Devon and Cornwall

b) Dorset

To present the mid-year Treasury Management report in the financial year.
To be presented by Nicola Allen (a) and Julie Strange (b).

12. Internal Audit Quarterly Update and Highlights [FOIA - Open]

To present the Internal Audit Quarterly Update and Highlights.
To be presented by Laura Wicks.

13. Joint Annual Audit Letter for Devon and Cornwall [FOIA - Open]

~~To present the Joint Audit Letters for Devon and Cornwall.~~
~~To be presented by Alex Walling.~~

14. External Audit Certificate of Audit Completion and Value for Money Report for Devon and Cornwall [FOIA - Open]

To present the External Audit Certificate of Audit Completion and Value for Money Report.
To be presented by Alex Walling. (**Deferred to April 2022)**

15. External Audit Quarterly Report [FOIA - Open]

To present an update of work of external audit over the last quarter.
To be presented by Alex Walling/Mark Bartlett.

16. External Audit Appointment Process update [FOIA - Open]

To be presented by Sandy Goscomb.

17. Statement of Accounts for Dorset [FOIA - Open]

a) External Audit papers

b) The PCC and group accounts

c) The Chief Constable's accounts

d) Letters of Representation (Deferred to April 2022)

To be presented by Julie Strange and Tim Newman.

18. Budget Planning process for 2022/23 and beyond [FOIA - Open]

Report to be presented by Neal Butterworth.

19. Update on the Introduction of 'Sailpoint' to Manage Computer Permissions [FOIA - Open]

To be presented by Oliver Marks.

20. National Fraud Initiative Outturn Report [FOIA - Open]

To provide an update on the National Fraud Initiative Outturn Report.
To be presented by Karen James.

21. Verbal Update by Chief Constable/PCC (Open Invitation) - Devon and Cornwall (FOIA - Open)

To be presented by the PCC/Chief Constable.

22. Verbal Update by Chief Constable/PCC (Open Invitation) - Dorset (FOIA - Open)

To be presented by the PCC/Chief Constable.

Attendance

Helen Donnellan (Chair)	Chair
Tom Grainger (Vice-Chair)	Vice Chair
Jo Norton	Committee Member
Gordon Mattocks	Committee Member
David Bowles	Committee Member
Sandy Goscomb	Director of Finance and Resources
Tim Newman	Chief Finance Officer Dorset
David Sidwick	Police and Crime Commissioner Dorset
Oliver Marks	Alliance Information Management
Nicola Allen	Treasurer (OPCC Devon and Cornwall)
Neal Butterworth	Head of Finance (Devon and Cornwall and Dorset Police)
Julie Strange	Treasurer (OPCC Dorset)
Lucinda Hines	Head of Technical Accounting (Alliance)
Karen James	Head of Alliance Audit, Insurance and Strategic Risk Management
Jo George	Senior Audit Manager
Alex Walling	Director (Grant Thornton)
Mark Bartlett	Audit Manager (Grant Thornton)
Laura Wicks	Assistant Director (South West Audit Partnership)
Simon Bullock	Chief Executive (OPCC Dorset)
Mike Stamp	Director of Legal Services

Apologies

Alison Hernandez	Police and Crime Commissioner (Devon and Cornwall)
Shaun Sawyer	Chief Constable (Devon and Cornwall)
Frances Hughes	Chief Executive (OPCC Devon and Cornwall)
Scott Chilton	Chief Constable (Dorset)

The Public Sector Equality Duty (PSED) as set out in **section 149 of the Equality Act 2010** requires public bodies to have **due regard** to the need to:

1. Eliminate unlawful discrimination, harassment, victimisation and any other prohibited conduct prohibited by the Act; and

2. Advance equality of opportunity between people who share a protected characteristic and people who do not share it; and

3. Foster good relations between people who share a protected characteristic and people who do not share it.

Protected Characteristics are age; disability; gender reassignment; pregnancy and maternity; race (including ethnic or national origins, colour or nationality; religion or belief (including lack of belief); sex and sexual orientation.

Handling Instructions: For Independent Audit Committee use only
FOIA – Open

Independent Audit Committee

Tuesday 29th September 2021 at 09:30
Via Microsoft Teams

Attendance

Helen Donnellan (Chair)	Chair
Jo Norton	Committee Member
Gordon Mattocks	Committee Member
David Bowles	Committee Member
Sandy Goscomb	Director of Finance and Resources (Devon and Cornwall Police)
Tim Newman	Chief Finance Officer (Dorset Police)
Nicola Allen	Treasurer (Office of the Police and Crime Commissioner, Devon and Cornwall)
Julie Strange	Treasurer (Office of the Police and Crime Commissioner, Dorset)
Neal Butterworth	Head of Finance (Alliance)
Lucinda Hines	Head of Technical Accounting (Alliance)
Karen James	Head of Alliance Audit, Insurance and Strategic Risk Management
Alex Walling	Engagement Lead (Grant Thornton)
Mark Bartlett	Audit Manager (Grant Thornton)
Rupert Bamberger	Executive Director (SWAP)
Jo George	Senior Audit Manager (Alliance)
Sgt David Green	Health and Wellbeing Team (Alliance)
Frances Hughes	Chief Executive Officer (Office of the Police and Crime Commissioner, Devon & Cornwall)

Apologies

Tom Grainger (Vice-Chair)	Independent Audit Committee
Shaun Sawyer	Chief Constable Devon and Cornwall Police
Scott Chilton	Chief Constable Dorset Police

Simon Bullock	Chief Executive Officer (Office of the Police and Crime Commissioner, Dorset)
Laura Wicks	Assistant Director (SWAP)
Mike Stamp	Director of Legal Services, Reputation and Risk
Alison Hernandez	Police and Crime Commissioner, Devon and Cornwall
David Sidwick	Police and Crime Commissioner, Dorset

09/29/01 Apologies for absence

Apologies as recorded above.

Tim Newman introduced himself as the newly appointed Chief Finance Officer for Dorset Police and was welcomed to the meeting. The Committee members introduced themselves, together with others whom he had not formally met before the meeting.

09/29/02 Declarations of Interest, Equality and Health and Safety Obligations

The Chair stated that Equality and Health and Safety Regulations will be applied at Committee meetings to ensure everyone's wellbeing, with a ten-minute screen break after each 50 minutes. The Chair asked for clarity of communication and cameras to be switched off when not speaking. Committee members will leave their cameras on. All were asked to speak directly to their camera to assist anyone who may be lip reading; to be succinct, focussed and not repeat content of reports as these have already been read. The Chair apologised that questions had not been circulated until Monday, due to late papers.

No new declarations of interest were made and KJ and SG confirmed their previous declarations still apply. It was noted that the declarations are held in the Audit Committee document folder with other Committee records.

09/29/03 Open Minute Items [FOIA – Open]

The draft open minutes from the meeting of the Independent Audit Committee (IAC) on 27 July 2021 were agreed as a true and accurate record, except for the following points and amendments to be made.

- Amendment: HD has created a list of typing errors which will be shared with HM to update.
- Response to question: The Committee's IT issues have been resolved and thanks were expressed to Sandy Goscomb's Executive Assistant.
- Response to question: Treasury Management Strategy will be updated to reflect changes to deal with the cost of transferring receipts being greater than the interest earned. The revised strategy is an agenda item for the December 2021 IAC meeting.

- Response to question: Comparison of the Codes of Governance and Financial Regulations will be complete by the December 2021 IAC meeting.
- Some information has not been published for the Audit Committee on the OPCC websites for both forces, with some links broken and the information is not available.

ACTION: Both OPCC's to review the content and links within their websites. The IAC operating principles also need to be published when finalised.

09/29/04 Action Log [FOIA – Open]

The action log was reviewed and updated. The Chair asked for the action log item to be moved to the open agenda and closed actions to be dealt with by exception. All incomplete actions will require a timescale for completion.

Action 221 should be complete by the end of December 2021, so remains open.
Action 224 update suggests differing practices for declaring business interests in the two forces. SG is seeking evidence of the last review and will discuss with internal audit; therefore, the action will remain open.
There are two actions numbered 225, this error will be rectified.
The full detail of action 229 will be attached to these minutes as an addendum for a record of governance.
The action log will be updated to remove all items that are now closed.

09/29/05 Significant Items of Committee Business [FOIA – Open]

IAC is very concerned about the delays in completion of the accounts by Grant Thornton (GT) and the start of the audit of Dorset's accounts (November 8). Communication by GT with the CFO's about the delay, with notification only days before the originally agreed start date, was poor. The Chair reminded GT that IAC meeting dates were changed to accommodate the audit schedule agreed and the slippage of audits means that meeting dates do not align. Delays increase pressure on finance staff significantly and are unacceptable. Devon & Cornwall accounts will not be able to be signed off by the end of September. This also is totally unacceptable. The Chair asked that AW send the Grant Thornton formal complaints process to the four finance officers and herself today. SG added her full support, confirming that action needs to be taken.

The Chair advised that Public Service Audit Appointments Ltd (PSAA) has invited eligible bodies, including the four corporations sole, to state their intention to join the PSAA procurement process for the cycle of external audit allocation for five years from 2023. The deadline to declare intentions is March 11, 2022, allowing the four corporations sole sufficient time to consider options. This will be added to the December 14, 2021 IAC meeting agenda.

The Chair raised the issue of increasing costs faced by the forces during this year and welcomed that these are included in the budget planning process, with a report for the IAC meeting on December 14, 2021.

The Chair stated that the Committee continues efforts to build communication and collaboration with regional audit committees.

Action: Increases in building, gas and fuel costs to be included in the budget report for 2022/23 which will be brought to the December 14, 2021 IAC meeting.

09/29/06 Internal Audit Quarterly Update and Highlights [FOIA – Open]

RB provided an update on progress of the Internal Audit Plan during the last quarter and advised that all work is under way and audits moving forward. A one-page format has been trialled for the first time. The Chair advised that the Committee is positive about the format and added that further detail will be requested when required. GM asked if the report would include links to provide background information easily. RB confirmed this will be considered as the format evolves. SWAP is not aware of other forces using the one-page format, but it will now be explored with other forces.

The profiled performance of quarter 1 and 2 audits was presented. Completed - 36%, draft report -14%, fieldwork in progress - 43%, scoping fieldwork ready to start - 7%.

The Clinical Governance audit contains a significant risk with actions to be completed by 30 September 2021. Significant steps are being taken to ensure all actions are dealt with appropriately. The next Clinical Governance Board is in December 2021 and an action plan is in place to achieve the actions. Any request for an extension to the completion date for these recommendations will be taken to the Devon and Cornwall Resource Board and Dorset Resource Control Board.

The Key Financial Controls audit was planned to start in November 2021 and avoid overlapping work by Grant Thornton. This may now need to be rearranged due to the delays in Grant Thornton starting and completing their work.

Progress of audit delivery by year-end was updated to reflect current short-term staff vacancies within SWAP. These will have only a marginal impact and not affect delivery of the audits for police bodies.

Internal audit's rolling opinion is on the cusp of reasonable and limited assurance.

SG stated that the Committee can take assurance that the S151s undertake thorough reviews of the detailed audit reports and all recommendations, reiterating that the IAC is not the only scrutiny of the detail. IAC recognises that internal audit is a key source of assurance. JS stated that internal audit will always report concerns in internal audit reports regardless of their length.

TN asked how outstanding audit recommendations are managed. KJ advised that the detail on this will be covered in agenda item 11.

Action: RB to explore if technology will permit a link to detailed audit findings in the single-page report.

09/29/07 External Audit Quarterly Report [FOIA – Open]

AW presented an update on external audit over the last quarter and looking ahead to the next quarter.

Devon and Cornwall
While GT had hoped that the final accounts would be signed off after the IAC meeting, the pension audit letter remains outstanding. That letter is prepared by a different team at GT. They have given assurance that it will be available within the next two weeks (mid-October). Value for Money work will be completed by managers within the GT audit team and no delays are expected.

Dorset
GT acknowledged the Committee and officers' frustration about the delay in starting audit work for Dorset's 2020/2021 accounts. COVID and remote working still cause delays at GT and the increasing amount of information to satisfy regulations every year also adds to GT's workload. GT has a limited number of public sector auditors, which is a wider issue affecting audit bodies across the public sector.

AW apologised for not communicating the delay in starting audits earlier, agreed it was not acceptable and could have been avoided. JN added that poor communication is a serious concern especially when information is not provided at an early stage. She asked that Grant Thornton look at this issue and how to provide information at the earliest opportunity. AW will send the GT complaints process to the Chair and CFOs today.

The Committee asked if there are actions the four corporations sole can take to be better placed in GT's audit schedule. AW stated that GT risk assess audits, rating pension fund audits as high risk so are completed first as they impact on other public sector accounts. GT then audit larger unitary councils and add some smaller audits when gaps become available.

The Committee is concerned about the impact of this prioritising on the 2021/22 audits. AW stated that GT will reflect on priorities in their public sector workload across all teams. She confirmed that some 2021/22 audits will be late.

SG pointed out that GT had met with the S151s and agreed a deliverable schedule for 2020/21 audits. That schedule has not been delivered and the s151s request this is raised with higher levels of GT management. The agreed schedule was to allow staff to take leave when audits are not underway. However, the delays mean that some staff will be on leave during audits. JN expressed concerned about the impact on staffing due to these delays. NB confirmed that there will be an impact as audits will now coincide with budget setting.

The Chair asked if GT can be charged for the delay and impact on the finance and accounts teams. AW stated that the external audit contract is with PSAA not GT

directly. AW also stated that this issue might be considered when choosing external auditors for 2023-28.

NA suggested asking the corporation soles to correspond with the PSAA on these issues, pointing out closing the accounts now takes a 12-month period.

JS stated that the previous points had been well made and asked that GT ensure that once started the audit will progress with no further delay. If GT can suggest actions/tasks that can be taken before November 8, that would be welcomed. MB stated that GT also wish the Dorset audit to proceed smoothly.

JS asked GT to confirm what they will report to the December IAC meeting, due to the late start date. An update report will be presented at the December meeting.
SG expressed concern about the pattern of GT's late delivery alternating between the two forces. This reinforces the fact that GT need more resources to deliver their audit commitments.

Action: GT to send their complaints procedure to the Chair and the four section 151 Officers.

09/29/08 Statement of Accounts for Devon & Cornwall [FOIA – Open]

External Audit Papers
AW stated that GT worked remotely over the summer and identified some adjustments in the accounts as set out in the audit findings report. The areas outstanding are the Pension Fund Audit Letter, final checks and emerging issues. Once these are complete GT will obtain the letter of representation and signed sets of accounts from the PCCs and forces. The accounts presented to GT were satisfactory and AW gave all credit to the finance team for their work. Value for Money work will be presented to the IAC meeting on December 14, 2021. No statutory duties can be done until GT formally close the accounts. GT has not identified significant issues to raise with management. Additional fees are to be confirmed and cannot be set out until all work is complete. These fees go through PSAA scrutiny before being approved.

NA stated that management is confident with the approach for the depreciated replacement cost method of valuation and consider it appropriate for the organisations.

PCC and group accounts
The rounding error identified by IAC will be rectified.

Contact details for senior officers will be addressed.

Reconciliation of the unusable reserves was explained: the lower figure is the revenue reserve and the larger figure capital and revenue reserves combined.

NA agreed that when pension figures are included in the accounts the overall accounts appear less transparent. NA is a member of the CIPFA Police and Fire Panel which is

re-examining transparency of accounts and making them more understandable for the public.

GM sought reassurance that the G7 summit costs will be fully reimbursed. NA stated that written assurances from the Home Office have been received and non-payment is now considered low risk. SG advised that the risk of non-payment is managed through the G7 risk register and is now classed as extremely low risk.

GM questioned the decrease in calls to 101 and increase in email correspondence. NA verified that significant scrutiny of this has been done by the OPCC. SG added that the impact of the pandemic on public behaviour reflects this change.

ACTION: D&C PCC Treasurer to reflect if another sentence needs to be added to the paragraph in the accounts explaining the reduction in 101 calls.

Chief Constable's accounts
SG stated that COVID-19 made 2021/21 an unprecedented year financially with significant increases in PPE and other unpredictable costs. There were also cost reductions including travel. The force received additional funding from government, including the Home Office and Department of Health and Social Care. The force demand profile and activity changed with home working and this led to increased IT costs. SG clarified the increase in termination costs, due to changes in the number of PCSOs.

Action: SG to reflect on the wording in P13.2 to consider if more detail is required.

Action: SG to present a paper to the December IAC on PSAA procurement processes for external audit 2023-28.

Letters of Representation
This standard letter is from the PCC and CC to Grant Thornton and shows the implications of what they are signing off in the accounts. The additional paragraph in the PCC letter (paragraph 14) relates to replacement costs which are reported in the audit findings report.

NA confirmed the meeting with the force valuers to discuss their performance on response times and issues raised in this year's valuations.

Action: GT to inform the OPCC treasurer of issues they wish included in the discussion with the valuers.

09/29/09 Budget Planning Process [FOIA – Open]

DEFERRED PAPER. Paper to be presented at the December IAC meeting.

09/29/10 Budget 2021/2022 Update [FOIA – Open]

NB presented a detailed report on lessons learnt from the 2021/22 budget. IAC valued the open, transparent, well-written report reflecting the culture of the team who identified the technical error quickly. NB confirmed that the reconciliation of both force accounts will be complete by October 22, 2021 and the audit log to record changes of the spreadsheet has been implemented. The process of improving check cells to maintain the in-balance spreadsheet is underway and will continue as further approaches are identified. The learning from this work is being applied to other spreadsheets. Other feeder factors include the original data download, which is checked and reconciled for accuracy. All adjustments and improved controls have been implemented for both forces. NB is confident that the interventions will minimise recurrence of the error detected.

NA and SG will also add checks and balances to mitigate any further recurrence. SG confirmed full confidence in the staff in dealing with the technical error and rectifying the position. The open communication at all stages about the situation and preventing recurrence adds to confidence.

09/29/11 Audit Action Process Review Update [FOIA – Open]

KJ presented the audit action process review with quarterly monitoring to align with Resources Board and Resource Control Board meetings. Issues about completing actions can also be raised at other times. The internal auditors, SWAP, hold all audit actions in their secure database. An information-sharing protocol sets out ownership and control of the information held by SWAP. SWAP holds Cyber Essentials Certification confirming their compliance with data security credentials.

SWAP carries out random quality checks of evidence gathered to confirm completion of audit actions to ensure their satisfaction with the rigour of the audit action closure process. KJ stated that annual reporting of audit actions to IAC is considered adequate, as the S151 officers undertake significant scrutiny of audit actions and SWAP can report any concerns or issues directly to IAC. JS confirmed that overdue actions are taken to the Dorset Resources Board and not IAC, ensuring that all overdue actions are reported and discussed with the PCC, CC and CFO.

TN indicated his preference for quarterly reporting of overdue audit actions. IAC is concerned that the shorter internal audit report might lead to IAC being unaware of uncleared audit recommendations and actions not accepted.

Action: KJ: The annual report on audit actions will be presented to IAC at the same meeting as the AGS each year.

Action: KJ to ask SWAP to identify all actions not accepted by the forces when a final audit report is issued, in their quarterly reports to IAC.

09/29/12 Annual Assurance Mapping Report [FOIA – Open]

The assurance mapping process is a review of the escalation reporting structure through the levels of the organisation, not a detailed review of controls. The assurance mapping process was worthwhile as it highlighted issues as well as

producing the mapping report. One issue was clinical governance performance where the lack of a robust process to monitor and raise concerns was identified. Recommendations led to the relevant Board seeking appropriate documents to monitor performance and address issues. The internal auditors, SWAP, carried out a full audit of the relevant controls to ensure that any absence of controls was identified and rectified.

JG confirmed that the environmental assurance map is due for completion by March 2022 and a rolling plan reviewed by March 2022 to identify areas to cover in the next financial year.

KJ stated that business continuity is actively managed with a heightened profile since 2020. As a key part of the organisations' corporate risk registers it is actively monitored, managed and tested.

JG informed about the outstanding action. Meetings have been arranged in October 2022 to explore the corporate issue of decision-making logs and action logs from lower-level group meetings.

09/29/13 Annual Review of the Terms of Reference (ToR) and Operating Principles [FOIA – Open]

The review dates in the ToR for certain procedures and policies after each PCC appointment were discussed and it was agreed to amend the frequency of the reviews.

IAC asked about the review of governance and assurance arrangements for significant partnerships and collaborations (ToR, page 4). They sought assurance that this review takes place and about the outcome of such reviews, as IAC lacks information on this. KJ stated that an answer was not available and will be provided at, or before, the December 14, IAC meeting.

The Chair queried the absence of a reference to late papers in the revised operating principles and asked if this needs to be included. It was agreed that text will be added stating that late papers will be accepted by exception and must be agreed with the Chair in advance.

JN sought clarity on the number of IAC meetings each year and it was agreed that four meetings per year will be added to the ToR.

The term of election for the Chair and Vice Chair is usually agreed annually. It is noted that the ToR states that CIFPA allows longer appointments if the Committee so wish.

Recording of meetings will be removed from the ToR and replaced with transcription by exception for extraordinary circumstances.

The review of IAC expenses will be considered by the Resource Board and Resource Control Board, after which IAC members will be consulted before the matter is considered by the Working Together Board on November 25, 2021. It will then be an agenda item at the December 14, 2021 IAC meeting.

Action: KJ to report back on significant partnerships and collaborations review.

Action: KJ to add to the ToR that there are 4 meetings per year of the IAC.

Action: KJ to add to the Operating Principles that late papers can be accepted by exception when approved in advance by the Chair.

Action: The ToR and Operating Principles to be sent to the Committee before being finalised with the S151s and publication.

Action: The review of remuneration to be taken to the Working Together Board on November 25, 2021

Committee member DB left the meeting at 12:31. The Committee were still quorate and the meeting continued.

02/21/17 Update on the Pulse Survey Report Findings [FOIA – Open]

Sgt David Green presented the analysis of high-level findings from the 2021 Pulse Survey completed in March/April 2021. This was a year after the start of the first COVID lockdown. The significant impact of the pandemic on mental health was reflected in additional questions in the 2021 survey. It was noted that police and staff responses were lower across both forces than in 2020, which may have been due to the Pulse survey following shortly after the College of Policing's National Police Wellbeing Survey was released.

Sgt Green confirmed that benchmarking with other forces is not possible as the Pulse survey was designed specifically for Dorset, Devon & Cornwall. The analyses use the same graphical formats allowing meaningful comparison between the two forces for officers and staff.

The Health & Wellbeing team intends to use the responses to ensure that frontline police officers are given wider access to all wellbeing initiatives. To do this, physical visits have now started across the three counties, using the Wellbeing van, which allows staff and officers to meet the team and have face-to-face conversations about their wellbeing. This raises awareness to the frontline officers and staff that talking about anxieties, concerns and other issues is positive, as well as indicating options for support.

02/21/15 Closed Minute Items [FOIA – Open]

- The draft closed minutes from the meeting of the Independent Audit Committee (IAC) held on 27 July 2021 were agreed as a true and accurate record.

Action: JS to provide the paper submitted to the Police & Panel on the Dorset Police & Crime Plan.

02/21/16 Significant Items of Committee Business [FOIA –Open]

- Delay in the accounts and GT not starting the Dorset audit until November 8, 2021.
- GT were asked for their formal complaints process.
- A letter to PSAA raising concerns about GT performance.
- Increased costs to be included in the revenue and capital budgets.
- Reference documents need to be added to the IAC folder for information and a list is being prepared.
- Welcomed report on the lessons learnt from the Finance report.
- Welcomed the report on Health and Wellbeing.
- Requesting sight of the IAC remuneration report before December 14,2021.

02/21/17 Open Invitation to Chief Constables and PCCs [FOIA - Closed (various)]

Nothing to raise.

02/21/19 Summary update to the Chief Constables and PCCs [FOIA - Closed s.22]

Nothing to raise.

There being no other business the meeting closed at 12:45.

The next full IAC meeting is scheduled for December 14, 2021 at 09:30 via Microsoft Teams

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Independent Audit Committee Decision and Action List
Open Actions

Action No	Minute Reference/Item Name	Date	Action Required	Owner	Due date	Target For Completion	Remarks
198	03/20/21 Annual Review of the Terms of Reference and Operating Principles	29/10/20	KJ to initiate a review of expenses.	Karen James	26/01/2021 27/07/2021 29/09/2021 24/11/2021	31/12/2021	Draft report completed, and forwarded to s151 officers for review. Complete. IAC requested he outcome of the officers' review as the action does not appear to be complete. KJ stated she and JS have completed the review and it is with 151s but delayed due to the budget. HD asked KJ to separate this action into two. **Propose to Close action as now covered in action 246 below** Work is continuing with the S151 Officers to finalise the review of expenses. The review of TOR's and Operating Principles is within Action 212. Consultation on the review of expenses has now closed. The final report will now be forwarded to the executive in both Forces for confirmation. This is being led by Nicola Allen.
200	03/20/21 Risk Management Arrangements	29/10/20	MS to raise with Executives for consideration to provide IAC with reports from the deep dive meetings.	Mike Stamp	26/01/2021 27/07/2021 29/09/2021 23/11/2021	14/12/2021	The deep dive meeting in DCC has been rescheduled and is now taking place after the next IAC on 26th Jan 2021 , therefore the update will be moved to the next meeting in April 2021. NA advised this meeting includes Force & OPCC to look at consistency. NA advised the meeting rescheduled to June. MS advised a date was set however it will need to be rescheduled and will update following the next meeting. To be brought to the December IAC Meeting. The Deep Dive took place on 23rd November 2021. In attendance were colleagues from the DCC Executive / OPCC , as a joint team we examined both the Force and OPCC risk registers in detail , reviewing each individual risk, considering the gradings of those risks, the description of the risks and the appropriate mitigations. Mike Stamp will be in attendance at IAC on 14th Dec in order to amplify and take any questions.
221	02/21/09 Internal Audit Opinion	27/07/21	KJ to examine areas of the FMS not covered by Internal Audit and double check that assurance is being received from elsewhere.	Karen James	29/09/2021	14/12/2021	The work on this has commenced and will be reported once completed. TBC
225	02/21/15 Treasury Management Outturn	27/07/21	JS to check the Dorset figures for comparators with Arlingclose and update IAC.	Julie Strange	29/09/2021	14/12/2021	Awaiting for an update from Arlingclose on the benchmarking included in the report. First response was not accurate again and further questions have been sent to Arlingclose. Action to remain open.
231	02/21/27 Audit Action Log no. 200 and IT security raised by IAC	27/07/21	OM to update on the implementation of 'Sailpoint' at the meeting in September	Oliver Marks	29/09/2021	14/12/2021	ICT have confirmed the 'go live' for Sailpoint is scheduled for end of October. OM will provide a further update to the **December 2021 IAC meeting. Agenda Item 19** Acton Complete

Please note: from 27 July 2021 the action log will be unrestricted. The restricted action Log up to 27 July 2021 has been archived.

232	09/29/03 OPCC Audit Committee webpages	29/09/21	Both PCC offices to review the content and links within their websites. The IAC operating principles also need to be published when finalised.	Nicola Allen / Julie Strange	14/12/2021	14/12/2021	Operating Principles and Terms of Reference are now published. **Item to Close**
233	09/29/05 Budget Report for 2022/23	29/09/21	Increases in building, gas and fuel costs are being included in the budget report for 2022/23 which will be brought to the December 2021 IAC meeting.	Neal Butterworth	14/12/2021	14/12/2021	**Agenda item 18 - Item to Close**
234	09/29/06 Internal Audit Qtrly Update	29/09/21	RB to explore if technology will permit a link to detailed audit findings in the single-page report.	Rupert Bamberger (SWAP)	14/12/2021	14/12/2021	SWAP have identified that they need a secure document deposit within the force systems to ensure the links remain active. This is being investigated with the force Audit team.
235	09/29/07 External Audit Qurlrly Report	29/09/21	GT to send their complaints procedure to the Chair and the four section 151 officers.	Alex Walling (GT)	29/09/2021	29/2/2021	Complaints process sent by email on 29/9/2021 pm. **Action complete.**
236	09/29/08 D&C Statement of Accounts	29/09/21	D&C PCC Treasurer to reflect if another sentence is needed to be added to the paragraph in the accounts explaining the reduction in 101 calls.	Nicola Allen	14/12/2021	14/12/2021	
237	09/29/08 D&C Statement of Accounts	29/09/21	SG to reflect on the wording in P13.2 to consider if more detail is required.	Sandy Goscomb	14/12/2021	14/12/2021	Proposed wording was considered on the 29th September 2021 after the IAC meeting. It was agreed to review the wording again before the final accounts are published.
238	09/29/08 D&C Statement of Accounts	29/09/21	SG to present a paper to the December IAC on PSAA procurement.	Sandy Goscomb	14/12/2021	14/12/2021	Paper prepared and issued to IAC members. **Action Complete.**
239	09/29/08 D&C Statement of Accounts	29/09/21	GT to inform the PCC Treasurer of issues they wish included on their discussion with valuers.	Alex Walling (GT)			
240	09/29/11 Audit Action Process	29/09/21	The annual report on audit actions will be presented to IAC at the same meeting as the AGS each year.	Karen James	14/12/2021	April 2022 Meeting	Noted – AGS is due for April 2022 meeting of IAC. **Action Complete.**
241	09/29/11 Audit Action Process	29/09/21	KJ to ask SWAP to identify all actions not accepted within their quarterly report going forward.	Karen James	14/12/2021	14/12/2021	SWAP have confirmed that they will ensure any audit actions not accepted are reported to IAC in their quarterly reports. **Action Complete.**
242	09/29/11 Annual Review of TOR and Op Principles	29/09/21	KJ to report back on significant partnerships and collaborations review.	Karen James	14/12/2021	14/12/2021	A list of s22 partnership agreements are held by Legal Services. Any partner can trigger an audit, which is shared through the goverance for that partnership.
243	09/29/11 Annual Review of TOR and Op Principles	29/09/21	KJ to add to the TOR that there are four meetings per year of the IAC.	Karen James	14/12/2021	14/12/2021	TOR review completed and agreed with the Chair. **Action Complete.**
244	09/29/11 Annual Review of TOR and Op Principles	29/09/21	KJ to add to the Operating Principles that late papers can be accepted by exception when approved by the Chair in advance.	Karen James	14/12/2021	14/12/2021	OP updated and agreed with the Chair. **Action Complete.**
245	09/29/11 Annual Review of TOR and Op Principles	29/09/21	The ToR and Operating Principles to be sent to IAC before being finalised with the S151's and publication.	Karen James	14/12/2021	14/12/2021	Both have been agreed with the Chair, closed and published as requested. Item to be closed. **Action Complete**
246	09/29/11 Annual Review of TOR and Op Principles	29/09/21	The review of remuneration to be taken to the Working Together Board on November 25 2021.	Nicola Allen	14/12/2021	14/12/2021	
247	09/29/18 Closed Minute Items	29/09/21	JS to provide the paper submitted to the Police & Panel on the Dorset Police & Crime Plan.	Julie Strange	14/12/2021	14/12/2021	

Please note: from 27 July 2021 the action log will be unrestricted. The restricted action Log up to 27 July 2021 has been archived.

AGENDA NO: 7

INDEPENDENT AUDIT COMMITTEE

DATE OF MEETING: 14 DECEMBER 2021

FOIA OPEN

TITLE OF REPORT: STRATEGIC RISK MANAGEMENT FRAMEWORK

REPORT BY: KAREN JAMES

PURPOSE OF THE REPORT:
To present an update and provide assurance on one or more of the following areas:

Governance, Risk and Control	**X**
Internal Audit	
External Audit	
Financial reporting	
Other matter *(please specify here)*	
Appendices (*please specify the number)*	

RECOMMENDATIONS:
The Independent Audit Committee is asked to:

Review the Report	
Consider the Report	**X**
Note the report	
Other (please specify here)	

1. BACKGROUND INFORMATION

1.1 The Independent Audit Committee (IAC) are required to seek assurance on the effectiveness of risk management arrangements as part of their terms of reference.

1.2 Risk management arrangements were last reported to IAC in October 2020, at which time the decision was made to disband the Joint Risk and Assurance Board arrangement in favour of more focused Force specific arrangements.

1.3 This report provides an update on the risk management arrangements and developments over the last year in both Devon & Cornwall and Dorset Police.

2. DEVON & CORNWALL

2.1 There are long established and embedded arrangements in place for the updating and management of the Force Risk Register (FRR) in Devon & Cornwall. This is supported by an assurance statement-based approach for reporting risks, where each Executive lead provides a written narrative update on the risks, they own in their portfolio area.

2.2 The FRR is submitted to the Force Executive Board (FEB) and the newly formed Policing & Crime Joint Executive Board (PCJE) on a four-monthly cycle.

2.3 A Joint Risk Co-ordination Meeting (JRCM), which brings together the Executive from the Force and the OPCC has been established to support the PCJE in considering whether it is assured regarding risk.

2.4 The JCRM is the opportunity to consider the two organisational risk registers, to identify and discuss any significant interdependencies, common issues or concerns as well as providing the opportunity to ensure there is a smooth process in place to consider interdependent joint strategic risk and opportunity at the Executive level.

2.5 There is also an annual Force Executive Review of the Force Risk Register – 'Deep Dive'. A deep dive took place on 23 November 2021, the previous deep dive took place on 29 January 2021.

2.6 At a department and business command level there continues to be risk registers in place that link, where appropriate, to the Force Risk Register.

3. DORSET

3.1 Members will recall the day to day capture of risk in the Force moved to the Corporate Development Department in March 2019.

3.2 Risk management arrangements have continued to develop over the last year, with a well-established cycle of risk capture at the department and business command level of the Force informing the creation of the Force Risk Register. This includes the capture and reporting of risk for Dorset hosted alliance departments.

3.3 The new Executive in Dorset has provided renewed energy and leadership to risk management arrangements across the Force. This has brought about several changes.

3.4 With effect from 1 October 2021, a member of staff has been seconded from the Corporate Development Department to the Audit, Insurance and Strategic Risk Management Department to be a full-time risk manager dedicated to Dorset risk management arrangements.

3.5 The Deputy Chief Constable's Board has been designated as the Board responsible for Force Risk Management and maintaining oversight of the Force Risk Register.

3.6 At the October meeting of the Board, a full timetable of work to bring the risk capture and reporting arrangements for the business area and command risk registers together with the Force Risk Register, in line with Executive wishes by 31 March 2022, was agreed.

3.7 Initial meetings with each member of the new Executive have taken place to review existing risks and identify new risk for their portfolio areas. These meeting will now continue quarterly.

3.8 The new Force Risk Register will be presented at the next meeting of the Deputy Chief Constable's Board on 14 December 2021.

4. ALLIANCE ARRANGEMENTS

4.1 The risk registers for those departments that are part of the strategic alliance with Dorset are treated in a similar way to how risk registers for strategic alliance departments are managed in Devon & Cornwall. The host Force for the department is responsible for the capture and recording of risks on behalf of both Forces.

4.2 A consistent numbering, format and content for these department risks have been agreed, and work continues to develop a process that works for both Forces for the reporting of these risks into the respective Force risk registers.

5. AUDIT REPORT ON RISK MANAGEMENT ARRANGEMENTS

5.1 The South West Audit Partnership (SWAP) have been conducting an audit of risk management arrangements in Devon & Cornwall and Dorset. The scope of the audit includes, governance arrangements, policy and strategy, training and the effectiveness of alliance department risk capture, management, and reporting arrangements.

5.2 The audit report will be shared with the Committee as soon as it has been finalised.

5.3 The formal review of the alliance risk management policy has been ongoing during this period; however, consultation has not been finalised pending the findings of the audit report.

5.4 Separate Force specific risk procedure documents remain in place.

6. OTHER RISK MANAGEMENT ACTIVITY

6.1 Good risk management in both Forces extends beyond the maintenance of Force and business area risk registers.

6.2 Risk registers and risk management activity are embedded in all major Force events and programmes of work, as well as day to day operational and business activity. Recent examples from 2021 include:

- Operation Trelawny – where a risk manager was part of the Gold Group for the duration, planning and delivery of the operation.
- The Covid Response arrangements in both Forces throughout 2020 and 2021
- All major change programmes across both Forces.
- Gold groups in response to major operational events.

6.3 In addition, the strategic risk registers are also used as part of the development of the risk-based audit plan.

7. STRATEGIC RISKS

7.1 Copies of the strategic risks for both Forces will be shared separately with the Independent Audit Committee for information purposes and to support the Committee in fulfilling their obligations, as detailed in the CIPFA standard for the evaluation of effectiveness of an audit committee.

30 November 2021

AGENDA NO: 8

INDEPENDENT AUDIT COMMITTEE

DATE OF MEETING: 14 DECEMBER 2021

FOIA OPEN

TITLE OF REPORT: CODE OF CORPORATE GOVERANCE

REPORT BY: Karen James, Head of Audit, Insurance and Strategic Risk Management

PURPOSE OF THE REPORT:
To present an update and provide assurance on one or more of the following areas:

Governance, Risk and Control	**X**
Internal Audit	
External Audit	
Financial reporting	
Other matter *(please specify here)*	
Appendices (*please specify the number)*	**1**

RECOMMENDATIONS:
The Independent Audit Committee is asked to:

Review the Report	
Consider the Report	**X**
Note the report	
Other (please specify here)	

1. BACKGROUND INFORMATION

1.1 The Codes of Governance for Devon and Cornwall and Dorset Police have been presented to the Independent Audit Committee (IAC) at their January and July 2021 meetings respectively.

1.2 The intention was the two sets of documents that comprise the Code of Governance would largely mirror each other to support efficiency of work processes by Alliance departments.

1.3 The purpose of this paper is to highlight key differences between the two sets of documents. For this comparative exercise the Dorset documents have been compared to the Devon and Cornwall documents which were approved and implemented first.

2. DOCUMENT COMPARISON

2.1 The following documents have no material differences between them:

Part 1 – Summary of the Code of Governance

Part 2 – Statement of Corporate Governance

Part 3 D – Contract Standing Orders

Part 3 E – Meeting Structures

2.2 The following parts of the Code of Governance contain some differences:

Part 3A- Schedule of Roles and Responsibilities:

2.3 Some of the responsibilities of the Police and Crime Commissioner (PCC) and the Chief Executive have been put in a more logical order of delegations and responsibilities and any repetition removed; however, these changes do not change the overall responsibilities.

2.4 In the asset schedule of Part 3A Appendix 1, several assets held by the Chief Constable in Dorset are held by the PCC in Devon and Cornwall, for the use of the Chief Constable. These assets are information technology, vehicles, boats, and bicycles.

Part 3B – Scheme of Delegation and Consent:

2.5 Areas of substantive responsibility for the Chief Executive have been removed from this section to focus only on the delegations from the PCC to the Chief Executive and not the wider responsibilities that already sit with the role.

2.6 The most significant difference is in relation to the Estates function. The Head of Estates in Dorset is a Force employee under the Chief Constable; however, in Devon and Cornwall, the post sits in the Office of the Police and Crime Commissioner.

2.7 To support the effectiveness of the Estates functions, the PCC in Dorset has given delegations direct to the Head of Estates in the Force. In Devon and Cornwall, these delegated responsibilities sit with the Treasurer.

2.8 Paragraph 3B .44 and .45 relating to procurement matters have been removed and a new paragraph at 3B.40 inserted to highlight that the Chief Financial Officer is responsible for procurement and other such matters as detailed within Financial Regulations and Standing Orders on Contracts.

2.9 In January 2021 it was reported to IAC that the Dorset PCC would provide delegations to the Chief Constable to enter in to and sign contracts in their own name. Since that report a formal consent has been granted to the Chief Constable to enter in to contracts in their own name, up to the values shown in the financial regulations. This arrangement now mirrors that of Devon and Cornwall.

Part 3C – Financial Regulations

2.10 There are a few differences in this area that relate to financial limits. A summary document comparing all the financial limits between the two Forces is attached at Appendix A of this paper. Financial differences are highlighted in yellow.

2.11 The follow areas contain different financial limit:

- Contract Awards, Variations and Extensions – Award of new contracts, and Approval of Contract Extensions
- Notification of Relief Events
- Revenue Budget Virements – Approve virements over the financial limit
- Capital programme
- Capitalisation of Expenditure and Asset Registers
- Stocks and Inventories – Stock values that may be written off
- Income
- Cash Receipts and Money Laundering

2.12 For ease of reference within the Appendix, the green colour highlights text relating to Dorset and blue to Devon and Cornwall.

3 SUMMARY

3.1 In summary, the Codes of Governance largely mirror each other.

3.2 The only area of significant difference is around the Estates function sitting in the Force in Dorset and in the OPCC in Devon and Cornwall. Because of this, there are delegations in place to ensure the functions are delivered effectively.

3.3 The limited financial variances between the documents reflect the local appetite for financial risk between the Force and OPCC.

3.3 Going forward the Codes of Governance are subject to continuous review and monitoring to ensure they remain fit for purpose.

3.4 The comparison document will be used by each force to inform the formal review of the Code of Governance, scheduled in 2023.

Financial Regulations - Purchasing Limits

Blue text relates to Devon and Cornwall only. Green Text to Dorset only.

Contract Awards, Variation and Extension

The limits for contract awards, variations and extensions, are set out below. These limits should be applied in the context of the additional guidance provided, and based upon the total contract value for the life of the contract.

Area	Entity - Dorset	Limit	Approval by	Entity -D&C	Limit	Approved by
Award of new contracts	PCC	Up to £500,000	OPCC Treasurer	PCC	Up to £500,000	OPCC Treasurer
		Over £500,000	PCC		Over £500,000	PCC
	National Forensics Programme	Unlimited	OPCC Treasurer	n/a	n/a	n/a
	Chief Constable	Up to £500,000	Chief Constable's CFO	Chief Constable	Up to £500,000	Chief Constable's CFO
		Between £500,000 and £1m	Chief Constable		Over £500,000	Chief Constable
		Over £1m	PCC	n/a	n/a	n/a
Award of Renewals and Extensions	OPCC / Chief Constable	Unlimited	Treasurer / CFO as appropriate	n/a	n/a	n/a
Novel or Contentious Contracts	All	N/A	The PCC and the Chief Constable must be consulted before approving the contract.	D&C	n/a	The PCC and the Chief Constable must be consulted before approving the contract

Area	Entity - Dorset	Limit	Approval by	Entity -D&C	Limit	Approved by
Approve contract change	PCC	Up to £200,000	OPCC Treasurer	PCC	Up to £200,000	OPCC Treasurer
		Over £200,000	PCC		Over £200,000	PCC
	Chief Constable	Up to 200,000	Chief Constable's CFO	Chief Constable	Up to 200,000	Chief Constable's CFO
		Over £200,000	Chief Constable		Over £200,000	Chief Constable

A number of contracts will have an option to extend the initial contract period. In such circumstances a recommendation paper for the approval to extend a contract will be provided prior to signature. Limits for approval of extensions are:

Area	Entity D&C	Limit	Approval by
Approve contract Extensions	PCC	Up to £200,000	OPCC Treasurer
		Over £200,000	PCC
	Chief Constable	Up to 200,000	Chief Constable's CFO
		Over £200,000	Chief Constable

In exceptional circumstances it may be necessary to waive apply exemptions to Contract Standing Orders. On these occasions the decision must be recorded and made in consultation with the relevant Section 151 officer.

Area	Entity - Dorset	Limit	Approval by	Entity -D&C	Limit	Approved by
Approve the waiving of Contract Standing Orders	PCC	Up to £200,000	OPCC Treasurer	PCC	Up to £200,000	OPCC Treasurer
		Over £200,000	PCC		Over £200,000	PCC
	Chief Constable	Up to 200,000	Chief Constable's CFO	Chief Constable	Up to 200,000	Chief Constable's CFO
		Over £200,000	Chief Constable		Over £200,000	Chief Constable

Approval for Contracts

The Chief Executive of the OPCC will maintain a list of those supplies or works where the Chief Constable has consent to enter into contracts as set out in Part 3 of the Scheme of Governance (Approved by for Functions, Scheme of Consent or Delegation to Functions). The Chief Constable may only enter into contracts for the supply of good or works contained on this list.

Notification of Relief Events

Area	Entity – D & C	Limit	Approval by
From time to time suppliers may require to formally notify the Force of contractual relief events. In such circumstances notification of all relief events should be submitted to the following.	PCC	All	OPCC Chief Executive
	Chief Constable		Chief Constable's CFO

Revenue Budget Virements

The procedure for virements between the categories as set out in the Medium Term Financial Strategy is set out at paragraph 3C.76 3C 86 to 3C 87 of these regulations, the financial limits that apply to the virements set out below must be applied in the context of the overall guidance within the financial regulations.

Area	Entity - Dorset	Limit	Approval by	Entity -D&C	Limit	Approved by
Approve virements over the limit specified	OPCC for OPCC budgets	£100,000 for each approved subjective budget line	PCC	OPCC for OPCC budgets	£100,000 for each approved subjective budget line	PCC
	Chief Constable for Force staffing budgets	£250,000 for each approved CIPFA subjective line level	PCC	Chief Constable for Force staffing budgets	£100,000 for each approved subjective budget line (all staffing budget to be grouped as one budget line)	PCC
	Chief Constable for Force non staffing budgets	£250,000 for each approved CIPFA subjective budget line	PCC	Chief Constable for Force non staffing budgets	£100,000 for each approved subjective budget line	PCC

Below £100,000 the limits specified in the table above, approval will be with the Treasurer for the OPCC budgets and the CFO for the Chief Constable's budgets.

All virements above £100,000 must be reported to Resource Control Board for information.

Capital Programme

Detailed estimates for each scheme in the approved capital programme shall be prepared by the responsible officer before tenders are sought or commitments made. The estimate for each scheme will be approved by the relevant board Joint Leadership Board at the same time that the full business case is approved. Variations to project budgets that can be met from within the total capital programme may be approved as set out below.

Any increase in the budget outside of the capital programme must be identified and approved by the Treasurer.

Area	Entity - Dorset	Limit	Approval by
Virements within major headings		All	OPCC Treasurer in consultation with Chief Constable's CFO and appropriate programme board.
Virements between major headings		All	PCC in consultation with Resource Control Board

Area	Entity – D&C	Limit	Approval by
Approve increases to the project budgets and authority to incur additional expenditure	**PCC**	Less than £20,000	Chief Constable's CFO
		Between £20,000 and £100,000	OPCC Treasurer after consultation with the Resources Board
		£100,001 and over	OPCC Treasurer after consultation with the Resources Group and the PCC

All overspends of 10% or £50,000, whichever is smaller, must be reported to Resource Control Board.

Any increase in the overall capital programme must be identified and approved by the PCC.

Capitalisation of Expenditure and Asset Registers

The Chief Constable and the PCC shall maintain asset registers for all fixed assets (or programmes/classes of assets) under their respective control with a value in excess of the limits shown below.

Area	Classification	Entity - Dorset	Limit	Approval by	Entity - D&C	Limit	Approved by
Capitalise expenditure and record on asset register	Land and Buildings		£25,000	N/A	PCC	£20,000	N/A
	All Other assets		£10,000	N/A			

Property Leases

The following limits shall apply to the approval of new property leases:

Area	Entity- Dorset Police(Delegation)	Limit	Approval by	Entity – D&C	Limit	Approved by
Approval of property leases, finance leases or other credit arrangements	PCC	Up to £50,000 pa or with a duration of 3 year or less	Chief Constable's CFO	PCC	Up to £50,000 pa or with a duration of 3 year or less	Chief Constable's CFO
		In excess £50,000 pa or over 3 year's duration but less than 10 years	OPCC Treasurer in consultation with the Resource Control Board		In excess £50,000 pa or over 3 year's duration but less than 10 years	OPCC Treasurer in consultation with the Resources Board
		More than 10 years or that involves novel or contentious matters	PCC		More than 10 years or that involves novel or contentious matters	PCC

All renewals of property leases will be reported on an annual basis to the Resources Resource Control Board. Novel or contentious matters on an exceptional basis.

Asset Disposal- Land and Buildings

The following limits shall apply to the approval of property disposals

Area	Entity- Dorset Police(Delegation)	Limit	Approval by	Entity – D&C	Limit	Approved by
Agreement to dispose of property assets	PCC	Up to £500,000	OPCC Treasurer in consultation with the Resource Control Board	PCC	Up to £500,000	OPCC Treasurer in consultation with the Resources Board
		£500,001 and over	PCC in consultation with the Resource Control Board		£500,001 and over	PCC in consultation with the Resources Board

It is assumed that all Devon and Cornwall Dorset property assets that are brought forward for approval of disposal will have followed the consultation process set out in the agreed process for estates rationalisation and decision making.

Asset Disposal – Other Fixed Assets

The following limits shall apply to the approval of non-property fixed asset disposals.

Area	Entity- Dorset Police(Delegation)	Limit	Approval by	Entity – D&C	Limit	Approved by
Agreement to dispose of non-property fixed assets including method of disposal	PCC Assets for use of Chief Constable	Up to £25,000	Chief Constable's CFO	PCC Assets for use of Chief Constable	Up to £25,000	Chief Constable's CFO
		£25,001 and over	OPCC Treasurer after consultation with the Resource Control Board		£25,001 and over	OPCC Treasurer after consultation with the Resources Board
	PCC Assets for use of the PCC	Up to £25,000	OPCC Treasurer	PCC Assets for use of the PCC	Up to £25,000	OPCC Treasurer
		£25,001 and over	PCC		£25,001 and over	OPCC Treasurer after consultation with the Resources Board

Asset Disposal – Method of Disposal

Assets shall be disposed by public action or sealed bids after advertisement. Assets of value below £25,000 can be disposed of by an alternative approach by the Treasurer. Alternative methods for disposal above £25,000 will be referred to the Resources Resource Control Board.

Stocks and Inventories

Inventories will be maintained that record an adequate description of portable and desirable items (not already recorded on an asset register) for items with a value of more than the limit stated.

Area	Entity - Dorset	Limit	Approval by	Entity -D&C	Limit	Approved by
Inventories	All entities	£5,000	N/A	All entities	£5,000	n/a

Discrepancies between the actual level of stock and the book value of stock may be written off are as set out below. These limits also apply to the level for obsolete class of stock that may be written off. The key classes of stock are: Vehicles, Uniform and Equipment.

Area	Entity – Dorset	Limit	Approved by	Entity- D&C	Limit	Approval by
Stock values that may be written off	Chief Constable	Annual cumulative value of £5,000 per category	Chief Constable's CFO	Chief Constable	Individual value of £25,000 or annual cumulative value of £50,000 per category	Chief Constable's CFO
		Values over the limits set out above	To be approved by the Force Executive and reported to the Resources Control Board		Values over the limits set out above	To be approved by the Force Executive and reported to the Resources Board

Liability Claims

Area	Entity - Dorset	Limit	Approval by	Entity -D&C	Limit	Approved by
Liability Claims	PCC or Chief Constable	Up to £80,000	DCC	PCC or Chief Constable	Up to £80,000	DCC
		£80,001 and over	Chief Executive		£80,001 and over	Treasurer or Chief Executive

Joint Legal Services shall be authorised to make payments in settlement of liability claims for the Chief Constable and PCC for Devon and Cornwall Dorset (including costs) up to the value shown below in conjunction as required, with relevant insurer. All such claims will have been approved for payment as set out in the Joint Legal Services Department Memorandum of Understanding for taking instructions in Liability Claims.

Non Insurance Claims/Employment Matters

Non insurable employment claims will be approved for payment as set out below:

Area	Entity - Dorset	Limit- value of reserve	Approval by	Entity -D&C	Limit – value of reserve	Approved by
Non Insurance Claims/Employment Matters		£0 - £5,000	Head of HR Operations	Non Insurance Claims/Employment Matters	£0 - £5,000	Head of HR Operations
		£5,000 - £25,000	Lead on Human Resources		£5,000 - £25,000	Lead on Human Resources
		£25,000 - £80,000	Deputy Chief Constable		£25,000 - £80,000	Deputy Chief Constable
		£80,000 and above	Deputy Chief Constable and the Chief Executive for the Force named in litigation.		£80,000 and above	Deputy Chief Constable and the Chief Executive or Treasurer of the OPCC for the Force named in litigation.

Income

The approval of individual bad debts* will be as follows:

Area	Entity - Dorset	Limit	Approval by	Entity -D&C	Limit	Approved by
Write off of bad debts *	PCC	Up to £10,000	Chief Constable's CFO or OPCC Treasurer as appropriate	PCC	Up to £25,000	Chief Constable's CFO or OPCC Chief Executive as appropriate
		£10,001 and over	OPCC Treasurer in consultation with Resource Control Board		£25,001 and over	OPCC Treasurer after consultation with the Resources Board

* Bad Debt is defined as money owing to the OPCC where there is no realistic prospect of recovery once all reasonable avenues for recovery have been exhausted.

Cash Receipts and Money Laundering

Cash banking and cash receipts will be subject to the controls outlined in the money laundering policy.

Area	Entity - Dorset	Limit	Approval by	Entity -D&C	Limit	Approved by
Cash Receipts and Money Laundering	All entities	Over £10,000	All employees	All entities	Over £15,000	All employees

Retirement and Redundancy

Pensions Discretions

The PCC and the Chief Constable will maintain and publish policies and/or regulations with regard to the application of those discretions provided within Local Government Pensions Scheme and Public Service Pensions Act.

Any decisions with regard to enhancements or application of the discretions will be referred to the CFO and the Treasurer.

Employment Termination Costs

The CFO must be consulted on the overall cost of any staff reduction exercise will be notified to the CFO, in liaison with the Treasurer, in order to ensure that adequate financial provision is in place and value for money is achieved.

Area	Entity - Dorset	Limit	Approval by	Entity -D&C	Limit	Approved by
Approval of overall costs staff reduction exercises	Chief Constable	All reduction exercises to be approved	Chief Constable (in consultation with Force Executive)	Chief Constable	All reduction exercises to be approved	Chief Constable (in consultation with Force Executive)
	PCC	All reduction exercises to be approved	PCC	PCC	All reduction exercises to be approved	PCC
Approval of individual termination packages	Chief Constable	Over £50,000	Chief Constable (in consultation with Force Executive)	Chief Constable	Over £50,000	Chief Constable (in consultation with Force Executive)
	PCC	Over £50,000	PCC	PCC	Over £50,000	PCC

Ex Gratia Payments

Ex gratia payments up to the level shown below in any individual instance, for damage or loss to property or for personal injury or costs incurred as a result of police action where such a payment is likely to facilitate or is conducive or incidental to the discharge of any of the functions of the Chief Constable or the PCC.

Area	Entity - Dorset	Limit	Approval by	Entity -D&C	Limit	Approved by
Ex Gratia Payments	PCC or Chief Constable	Up to £10,000	Chief Constable's CFO or OPCC CEO as appropriate	PCC or Chief Constable	Up to £10,000	Chief Constable's CFO or OPCC Chief Executive as appropriate
		£10,001 and over	PCC		£10,001 and over	OPCC Treasurer in consultation with the OPCC CEO and/or Chief Constable's CFO

Any payment ex gratia or otherwise relating to damage or loss will be subject to the liability limits set out in para 3C.306 289 above.

Gifts and Sponsorship

This section of financial regulations relates to Corporate Gifts and Sponsorship only.

Personal gifts and hospitality are recorded and managed via the Professional Standards Department for which there are specific policies. All such instances must be referred there.

The following limits apply to the acceptance of corporate gifts and sponsorship

Area	Entity - Dorset	Limit	Approval by	Entity -D&C	Limit	Approved by
Limit beyond which individual gifts, loans and sponsorship must be referred for approval.	PCC and Chief Constable	£1,000	PCC	PCC and Chief Constable	£1,000	PCC

AGENDA NO: 9

INDEPENDENT AUDIT COMMITTEE

DATE OF MEETING: 14 December2021

FOIA OPEN

TITLE OF REPORT: TREASURY MANAGEMENT, CAPITAL AND RESERVE STRATEGIES COVERING REPORT

REPORT BY: Nicola Allen, Chief Financial Officer to the OPCC

PURPOSE OF THE REPORT:
To present an update and provide assurance on one or more of the following areas:

Governance, Risk and Control	**YES**
Internal Audit	**-**
External Audit	**-**
Financial reporting	**-**
Other matter *(please specify here)*	**-**

RECOMMENDATIONS:
The Independent Audit Committee is asked to:

Review the Report	**YES**
Consider the Report	**-**
Note the report	**-**
Other (please specify here)	**-**

1. STRATEGIC ISSUE FOR CONSIDERATION

1.1 This report sets out three 2022/23 draft Strategies: Treasury Management Strategy, Capital Strategy and Reserves Strategy.

1.2 All three Strategies are intrinsic to the annual Budget and Medium Term Financial Strategy which will be considered by the Police and Crime Panel on the 28 January 2022.

1.3 The Independent Audit Committee are asked to consider these strategies prior to the approval by the Police and Crime Commissioner.

2. TREASURY MANAGEMENT STRATEGY

2.1 The Police and Crime Commissioner (PCC) has adopted the Chartered Institute of Public Finance and Accountancy's (CPIFA's) Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the PCC to approve a Treasury Management Strategy before the start of each financial year.

2.2 The figures included in this draft version will be updated as the budget position for 2022/23 is finalised.

2.3 There are some presentational changes in the 2022/23 Treasury Management Strategy. The key substantive content change is noted below:

2.4 Operational limit

The requirement to report against the operational limit has been removed as this is not a strategic limit but a daily operational limit for managing the cashflow. This limit will therefore be removed from the quarterly reports presented to the committee.

2.5 Strategic Pooled Funds limit

The sector limit has reduced from £30m to £11m which is a more realistic limit and is in line with the 2022/23 minimum reserves level.

2.6 The Draft 2022/23 Treasury Management Strategy is shown in Appendix a.

3. CAPITAL STRATEGY

3.1 The Prudential Code for Capital Finance in Local Authorities (*2017 Edition)* requires Police and Crime Commissioners to produce a capital strategy in order to help demonstrate that capital expenditure and investment decisions are taken in line with service objectives and properly take account of stewardship, value for money, prudence, sustainability and affordability.

3.2 There are some presentational changes in the Capital Strategy which is shown in Appendix b.

4. RESERVES STRATEGY

4.1 The Chartered Institute of Public Finance and Accountancy's (CPIFA's) sets out guidance on establishing and maintaining reserves and balances. This guidance is a foundation for good financial management and has been adopted by the Police and Crime Commissioner (PCC).

4.2 The Reserves Strategy is reviewed annually and discloses each reserve held, its purpose and expected balances over the medium term.

4.3 The CIPFA guidance identifies that Revenue Reserves can be held for 3 main purposes:

- As a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing (this forms part of general reserves);

- As a contingency to cushion the impact of unexpected events or emergencies (this also forms part of general reserves);

- As a means of building up funds to meet known or predicted requirements; these specific reserves are known as earmarked reserves and remain legally part of the total “General Fund”.

4.4 In addition, the PCC holds the following usable reserve:

- Capital Receipts Reserve – this reserve holds the proceeds from the sale of assets and can only be used for capital purposes (as specified in the capital finance and accounting regulations).

4.5 The Home Office issued specific **Police finance reserves guidance** on 31 January 2018, which is provided in the draft Strategy. They also publish the details of all police reserves annually.

4.6 Based on the current position, the level of general balances equates to 4.43% of the overall revenue funding which is within the reserves policy range.

4.7 There are some presentational changes in the Reserves Strategy. The key substantive content changes are noted below:

4.8 A review of their adequacy as well as a risk assessment has been undertaken. It was concluded that the level of reserves is adequate to cover unknown or unexpected events.

4.9 The figures included in this draft version will be updated as the budget position for 2022/23 is finalised.

4.10 The Draft 2022/23 Reserves Strategy is shown in Appendix c.

Nicola Allen
Chief Financial Officer to the OPCC

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Appendix 9a

POLICE AND CRIME COMMISSIONER FOR DEVON AND CORNWALL

TREASURY MANAGEMENT STRATEGY 2022/23

POLICE AND CRIME COMMISSIONER FOR DEVON AND CORNWALL
2022/23 TREASURY MANAGEMENT STRATEGY STATEMENT

1.0 Introduction

1.1 This is the Treasury Management Strategy Statement for the Police and Crime Commissioner (PCC) for Devon and Cornwall.

1.2 The PCC has adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code) which requires the PCC to approve a Treasury Management Strategy before the start of each financial year.

1.3 In addition, this strategy also complies with elements of the Local Government Act 2003, the CIPFA Prudential Code, the Ministry of Housing, Communities and Local Government (MHCLG) MRP Guidance and MHCLG Investment Guidance.

1.4 This report fulfils the PCC's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the MHCLG Guidance.

1.5 Treasury Management is the management of the PCC's cash flows, borrowing and investments, and the associated risks. **The PCC funds are exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates as well as ensuring that revenue cash flow is adequately planned and funding is available to meet capital expenditure plans.** The successful identification, monitoring and control of financial risk are therefore central to the PCC's prudent financial management.

1.6 In accordance with the MHCLG Guidance, the PCC will be asked to approve a revised Treasury Management Strategy Statement should the assumptions on which this report is based change significantly. Such circumstances would include, for example, a large unexpected change: in interest rates; in the PCC's capital programme; or in the level of its investment balances.

1.7 The Treasury Management Strategy is integral to the Medium Term Financial Strategy (MTFS) and this document should be read in conjunction with the report on the MTFS for 2022/23 to 2025/26.

1.8 This Strategy includes the Borrowing Strategy, the Investment Strategy and Prudential Indicators.

2.0 Treasury Management Strategy

2.1 On 31 March 2021 the PCC held treasury investments totalling £27.675m and £48.400m external debt.

2.2 This is set out in further detail in Appendix 1 Table 1. Forecast changes in these sums are shown in the balance sheet analysis in Appendix 1 Table 2.

2.3 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The PCC's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

2.4 Over the forecast period CFR will decrease by the amounts reflecting the reduction in the existing liabilities (e.g. minimum revenue provision) and will increase by any new unfinanced capital expenditure.

2.5 CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the total debt should be lower than its highest forecast CFR over the next three years. Appendix 2 Table 8 shows that the PCC expects to comply with this recommendation during 2022/23.

2.6 The economic background, credit outlook and interest rate forecasts, provided by Arlingclose, is shown at Appendix 5.

2.7 Given that investment interest rates are currently negligible with little prospect of significant short term changes, a budget of £12.7k has been set for 2022/23. For new borrowing the rate range is 0.02% to 2.00% depending on the term and source of the loan.

2.8 **Liability benchmark**: To compare the PCC's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This benchmark is the minimum amount of debt that the PCC would hold if internal borrowing was used up to the maximum level possible (i.e. using all reserves and cashflow surpluses). The PCC's liability benchmark is shown at Appendix 1 Table 3. This assumes the same forecasts as Appendix 1 Table 2, but that cash and investment balances are kept to a minimum level of £10m at each year-end to maintain sufficient liquidity but minimise credit risk.

2.9 Following on from the medium-term forecasts in Appendix 1 Table 3, the long-term liability benchmark assumes capital expenditure funded by external and internal borrowing; and minimum revenue provision on new capital expenditure based on various years depending on the type of asset.

3.0 Borrowing Strategy

3.1 As at the 31 March 2021, the PCC held long term borrowing of £30.277m with PWLB, £18m short term borrowing with Local Authorities and finance leases of £0.123m. The balance sheet forecast in Appendix 1 Table 2 shows that the PCC expects to borrow in 2022/23. The PCC may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing which is shown in Appendix 2 Table 10.

3.2 **Objectives:** The chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the PCC's long-term plans change is a secondary objective.

3.3 **Strategy:** Given the significant cuts in funding, the PCC's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

By doing so, the PCC is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal or short term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the PCC Treasurer with this 'cost of carry' and breakeven analysis. Its output may determine whether the PCC borrows additional sums at long-term fixed rates in 2022/23 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

The PCC will consider PWLB as a source of borrowing as well as other sources including banks, pensions and local authorities, and will investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code. The PWLB lending terms have been revised so that loans are no longer available to authorities that plan on buying investment assets primarily for yield. The PCC has no intention of undertaking this type of activity and so the access to PWLB loans is retained.

Alternatively, the PCC may arrange forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

In addition, the PCC may borrow short-term loans to cover temporary cash flow shortages.

3.4 **Sources of borrowing:** The approved sources of long-term and short-term borrowing are:

- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
- any institution approved for investments
- any other bank or building society authorised to operate in the UK
- any other UK public sector body
- UK public and private sector pension funds (except the Devon and Cornwall Police Pension Fund)
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

Other sources of debt finance: In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- leases
- hire purchase
- Private Finance Initiative
- sale and leaseback

The PCC will only borrow from organisations that have signed up to the Modern Slavery Statement.

3.5 **Municipal Bonds Agency:** UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It issues bonds on the capital markets and lends the proceeds to local authorities. This is a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to the PCC.

3.6 **Short-term and variable rate loans**: These loans leave the PCC exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate exposure limits in the treasury management indicators below. Financial derivatives may be used to manage this interest rate risk.

3.7 **Debt rescheduling:** The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The PCC may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

4.0 Investment Strategy

4.1 The PCC holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the first 7 months of 2021/22, the PCC's investment balance has ranged between £18.688m and £69.112m. These levels may reduce in the forthcoming year.

4.2 **Objectives:** The CIPFA Code and the MHCLG Guidance requires the PCC to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The PCC's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the PCC will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

4.3 **Negative interest rates:** The COVID-19 pandemic has increased the risk that the Bank of England will set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. Since investments cannot pay negative income, negative rates will be applied by reducing the value of investments. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

4.4 **Strategy:** Given the increasing risk and very low returns from short-term unsecured bank investments, the PCC aims to diversify into more secure and/or higher yielding asset classes during 2022/23. This aim may however become secondary if the advice from Arlingclose differs as we have seen in previous years.

4.5 **Business Model:** Under the IFRS 9 Financial Instruments standard, the accounting for certain investments depends on the PCC's approach to managing them. The PCC aims to realise value from its internally managed treasury investments and uses two business models to achieve this. One collects contractual cashflows e.g. a bank notice account and the other covers non-contractual investments such as pooled funds which include money market funds.

The accounting treatment is different for each model with an unusable reserve used to recognise fair value gains and losses for the latter model.

4.6 **Approved counterparties:** The PCC may invest its surplus funds with any of the counterparty types shown in Appendix 1 Table 4, subject to the cash and time limits. The PCC will only invest with those counterparties recommended by Arlingclose. *CIPFA's revised (2021) Treasury Management Code which is due for release in December 2021 includes the requirement for a policy to be disclosed on the environmental, social and governance (ESG) investment considerations. This strategy will be updated to include a policy once further details are released.*

4.7 **Minimum credit rating:** Treasury investments in the sectors marked with an asterisk in Table 4 will only be made with entities whose lowest published long-term credit rating is no lower than A-. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

For entities without published credit ratings, investments may be made only where external advice indicates the entity to be of similar credit quality.

4.8 **Banks and building societies (unsecured):** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

4.9 **Secured investments:** Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.

4.10 **Government:** Loans to, bonds and bills issued or guaranteed by, national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Government are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.

4.11 **Registered providers (unsecured):** Loans to, and bonds issued or guaranteed by, registered providers of social housing and registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department of Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

4.12 **Money market funds:** Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the PCC will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

4.13 **Strategic pooled funds:** Bond, equity and property funds offer enhanced returns over the longer term but are more volatile in the short term. These allow the PCC to diversify into asset classes other than cash without the need to own and manage the underlying investments. As these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the PCC's investment objectives will be monitored regularly. Any such investment would require the explicit approval of the PCC.

4.14 **Operational bank accounts:** The PCC may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, therefore where the credit rating falls below A- balances will be kept below £1.250m, otherwise the standard counterparty limit will apply, except for:

(i) When the only investment option available incurs a negative interest rate then excess funds will be left in the bank account unless:

- The total amount remaining in the bank exceeds £6m in line with the cash limit for investment to a single organisation,
- Or the bank account interest rate falls below 0% or the investment rate pertaining to the investment.

(ii) Where unscheduled income is received after the counterparty investment cut off times, the balance may exceed £1.250m. The Treasury team will advise the Treasurer accordingly and ensure that the balance is brought back down to below £1.250m the next working day.

The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the PCC maintaining operational continuity.

4.15 **Risk assessment and credit ratings**: Credit ratings are obtained and monitored by the PCC's treasury advisers, who will notify changes in ratings as they occur. The credit rating agencies in current use are listed in the Treasury Management Practices document. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "negative watch") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

4.16 **Other information on the security of investments**: The PCC understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press and analysis and advice from the PCC's treasury management advisor. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the PCC will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the PCC's cash balances, then the surplus will be deposited with the UK Government or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.

4.17 **Investment limits**: The PCC's revenue reserves available to cover investment losses are forecast to be £38.379m on 31 March 2022. The maximum that will be lent to any one organisation (other than the UK Government) is set out in Appendix 1 Table 4. A group of entities under the same ownership will be treated as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts and foreign countries. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries. Investment limits are shown in Appendix 1 Table 5.

4.18 **Liquidity management**: The PCC uses a purpose-built cash flow forecasting spreadsheet to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the PCC being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the PCC's medium term financial plan and cash flow forecast.

The PCC will spread its liquid cash to ensure that access to cash is maintained in the event of operational difficulties of any one provider.

5.0 2018 MHCLG Investment Guidance

5.1 The contribution that Treasury Management Investments make to the objectives of the PCC is to support effective treasury management activities.

5.2 The statutory guidance issued by MHCLG in January 2018 requires authorities to report also on their investment strategy with regard to the following purposes:

- To support local public services by lending to or buying shares in other organisations (service investments), and
- To earn investment income (known as commercial investments where this is the main purpose)

5.3 The PCC does not have any current plans for such investments. Should these plans change in the future a full assessment will be made and an appropriate Investment Strategy Report will be prepared.

5.4 Financial guarantees are not strictly counted as investments, since no money has exchanged hands yet, but they do carry risks. The PCC provides two financial guarantees: one for the Police ICT company amounting to £124k and another to the APCC pension fund held by Merseyside LGPS amounting to £21k. This would be covered within the General Fund Balance reserve.

6.0 Prudential Code Indicators

6.1 The Local Government Act 2003 requires the PCC to have regard to the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of the PCC are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the PCC has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

(i) **Estimates of Capital Expenditure:** The PCC's planned capital expenditure and financing is shown in Table 6 in Appendix 2 as well as the **estimates of Capital Financing Requirement:** The Capital Financing Requirement (CFR) (Table 7 in Appendix 2) measures the PCC's underlying need to borrow for a capital purpose.

(ii) **Gross Debt and the Capital Financing Requirement:** In order to ensure that over the medium term debt will only be for a capital purpose, the PCC should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence which is shown in Appendix 2 Table 8.

(iii) **Operational Boundary for External Debt:** The operational boundary shown in Appendix 2 Table 9 is based on the PCC's estimate of most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the PCC's estimates of capital expenditure, the capital financing requirement, finance leases and cash flow requirements, and is a key management tool for in-year monitoring.

(iv) **Authorised Limit for External Debt:** The authorised limit shown in Appendix 2 Table 10 is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the PCC can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

(v) **Ratio of Financing Costs to Net Revenue Stream:** This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs. This is shown in Appendix 2 Table 11.

7.0 Treasury Management Code Prudential Indicators

7.1 The PCC measures and manages its exposures to treasury management risks using the following indicators.

7.2 **Security:** The PCC has adopted a voluntary measure of its exposure to credit risk by monitoring the weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

Credit risk indicator	Target
Portfolio average credit rating	A+

7.3 **Liquidity:** Minimum limits are set for short term cash in order that sufficient liquidity is available to meet unexpected variation in the cash flow:

Liquidity risk indicator	Target
Minimum limit at less than 31 days duration	£6m

7.4 **Interest rate exposures**: This indicator is set to control the PCC's exposure to interest rate risk. The upper limits on the one year revenue impact of a 1% rise or fall in interest rates will be:

Interest rate risk indicator	Limit
Upper limit on 1 year revenue impact of a 1% rise in interest rates	(£420k)
Upper limit on 1 year revenue impact of a 1% fall in interest rates	£420k

The impact of a change to the variable interest rates is calculated on the assumption that maturing loans and investments will be replaced at new market rates.

It should be noted that all loan arrangements in place and those forecast have fixed interest rates and have been excluded from the calculations.

7.5 **Maturity structure of borrowing:** This indicator is set to control the PCC's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

Refinancing rate risk indicator	Upper Limit	Lower Limit
Under 12 months	100%	0%
12 months and within 24 months	55%	0%
24 months and within 5 years	65%	0%
5 years and within 10 years	80%	0%
10 years and above	100%	0%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

7.6 **Principal sums invested for periods longer than a year:** The purpose of this indicator is to control the PCC's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

Long term treasury management investments indicator	2022/23	2023/24	2024/25	2025/26
Counterparty Limit on principal invested beyond year end	£6m	£5.5m	£5m	£4.5m

8.0 Other Items

8.1 The CIPFA Code requires the PCC to include the following in its Treasury Management Strategy.

8.2 **Financial derivatives:** In the absence of any explicit legal power to do so, the PCC will not use standalone financial derivatives (such as swaps, forwards, futures and options). Derivatives embedded into loans and investments, including pooled funds and forward starting transactions, may be used, and the risks that they present will be managed in line with the overall treasury risk management strategy.

8.3 **Investment training:** The needs of the PCC's treasury management staff for training in investment management are assessed on an ongoing basis and as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change.

Staff attend internal training courses and/or training courses, seminars and conferences provided by Arlingclose and CIPFA.

8.4 **Investment advisers:** The PCC has appointed Arlingclose Limited as treasury management advisers and receive specific advice on investment, debt and capital finance issues.

8.5 **Investment of money borrowed in advance of need**: The PCC may, from time to time, borrow in advance of need, where this is expected to provide the best long-term value for money. Since amounts borrowed will be invested until spent, the PCC is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the PCCs overall management of its treasury risks.

The total amount borrowed will not exceed the authorised borrowing limit. The maximum period between borrowing and expenditure is expected to be two years, although the PCC is not required to link particular loans with particular items of expenditure.

8.6 The Minimum Revenue Provision (MRP) Policy Statement is shown in Appendix 4. MRP is an amount charged to the revenue budget for the repayment of debt. The Local Government Act 2003 requires the PCC to have regard to the MHCLG Guidance on Minimum Revenue Provision most recently issued in 2018.

9.0 Financial Implications

9.1 The budget for investment income in 2022/23 is £12.7k, based on an average investment portfolio of £25m at an average interest rate of 0.05%. The budget for debt interest payable in 2022/23 is £1.341m. If actual levels of investments and borrowing, and actual interest rates differ from those forecast, performance against budget will be correspondingly different.

10.0 Other Options Considered

10.1 The MHCLG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Treasurer, having consulted the PCC believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are considered below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater

Invest in a wider range of counterparties and/or for longer times	Interest income will be higher	Increased risk of losses from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

11.0 Governance Arrangements

11.1 The Treasury Management governance arrangements are set out in Appendix 5.

Include

Appendices

Appendix 1: Investment Strategy
Appendix 2: Prudential Indicators
Appendix 3: Budget
Appendix 4: Minimum Revenue Provision Statement
Appendix 5: Economic Context
Appendix 6: Governance
Appendix 7: Glossary

INVESTMENT STRATEGY **Appendix 1**

Table 1: Existing Investment and Debt Portfolio Position

Actual Portfolio as at 31/03/2021	
	£'000
External Borrowing:	
Short-term borrowing	(18,000)
Long-term borrowing	(30,277)
Total External Borrowing	(48,277)
Finance Leases	
Finance lease liabilities	(123)
Total Finance Leases	(123)
Total Gross External Debt	**(48,400)**
Treasury Investments:	
Short-term investments	18,157
Cash and cash equivalents	9,518
Total Treasury Investments	**27,675**
Net Debt	**(20,725)**

Table 2: Balance Sheet Summary and Forecast

	31/03/2021	31/03/2022	31/03/2023	31/03/2024	31/03/2025	31/03/2026
	Actual	**Forecast**	**Estimate**	**Estimate**	**Estimate**	**Estimate**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Total Capital Financing Requirement	**67,477**	**68,575**	**76,271**	**81,927**	**87,410**	**84,457**
Less: External Borrowing	(30,277)	(33,616)	(43,585)	(51,488)	(59,970)	(60,626)
Less: Finance Leases	(123)	(56)	0	(207)	(135)	(63)
Internal Borrowing	**37,077**	**34,903**	**32,686**	**30,232**	**27,305**	**23,768**
Less: Balance Sheet Resources						
Usable Reserves	(46,089)	(39,339)	(28,980)	(23,763)	(17,128)	(17,128)
Working Capital	(18,664)	(18,664)	(18,664)	(18,664)	(18,664)	(18,664)
Total Funds	**(64,753)**	**(58,003)**	**(47,644)**	**(42,427)**	**(35,792)**	**(35,792)**
New borrowing or (Treasury investments)	**(27,676)**	**(23,100)**	**(14,958)**	**(12,195)**	**(8,487)**	**(12,024)**

INVESTMENT STRATEGY **Appendix 1**

Table 3: Liability Benchmark

	31/03/2021	31/03/2022	31/03/2023	31/03/2024	31/03/2025	31/03/2026
	Actual	Forecast	Estimate	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000	£'000
Total Capital Financing Requirement	**67,477**	**68,575**	**76,271**	**81,927**	**87,410**	**84,457**
Less: Finance Leases	(123)	(56)	0	(207)	(135)	(63)
Less: Balance Sheet Resources						
Usable Reserves	(46,089)	(39,339)	(28,980)	(23,763)	(17,128)	(17,128)
Working Capital	(18,664)	(18,664)	(18,664)	(18,664)	(18,664)	(18,664)
Plus: Liquidity Allowance	10,000	10,000	10,000	10,000	10,000	10,000
Liability Benchmark	**12,601**	**20,516**	**38,627**	**49,293**	**61,483**	**58,602**

Table 4: Treasury Investment Counterparties and Limits

Sector	Time Limit	Counterparty Limit	Sector Limit
The UK Government	50 years	Unlimited	n/a
Local Authorities and Other Government Entities	25 years	£6m	Unlimited
Secured Investments*	25 years	£6m	Unlimited
Banks (unsecured) *	13 months	£3m	Unlimited
Building Societies (unsecured) *	13 months	£3m	£6m
Registered Providers (unsecured) *	5 years	£3m	£6m
Money Market Funds*	n/a	£6m	Unlimited
Strategic Pooled Funds	n/a	£6m	£11m

*Please refer to the section on minimum credit rating.

**This sector limit is in line with the minimum level of reserves.

Table 5: Additional Investment Limits

	Cash Limit
Any group of Strategic Pooled Funds under the same management	£6m per manager
Negotiable instruments held in a broker's nominee account	£15m per broker
Foreign countries	£6m per country

PRUDENTIAL INDICATORS **Appendix 2**

Table 6: Estimates of Capital Expenditure

	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
	Actual	Forecast	Estimate	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000	£'000
Total Expenditure	**17,469**	**14,568**	**24,490**	**18,971**	**22,789**	**9,574**
Capital Grants	1,417	864	967	459	350	296
Capital Receipts	173	0	0	879	81	0
Earmarked Reserves	6,922	5,836	8,172	3,858	7,004	750
Revenue Contribution to Capital	4,287	4,529	5,382	5,872	6,872	7,872
Borrowing	4,670	3,339	9,969	7,903	8,482	656
Total Financing	**17,469**	**14,568**	**24,490**	**18,971**	**22,789**	**9,574**

Table 7: Estimates of Capital Financing Requirement

	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
	Actual	Forecast	Estimate	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000	£'000
Opening CFR	**64,532**	**67,477**	**68,575**	**76,271**	**81,927**	**87,410**
Capital expenditure to be funded by borrowing	4,671	3,339	9,969	7,903	8,482	656
Finance Leases	0	0	0	278	0	0
Less: Minimum Revenue Provision	(1,683)	(2,174)	(2,217)	(2,454)	(2,926)	(3,537)
Less: Finance Leases Repayment	(43)	(67)	(56)	(72)	(71)	(72)
Closing CFR	**67,477**	**68,575**	**76,271**	**81,927**	**87,410**	**84,457**

PRUDENTIAL INDICATORS **Appendix 2**

Table 8: Gross Debt and the Capital Financing Requirement

Debt	2020/21 Actual £'000	2021/22 Forecast £'000	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000	2025/26 Estimate £'000
External Borrowing	30,277	33,616	43,585	51,488	59,970	60,626
Finance Leases	123	56	0	207	135	63
Internal Borrowing	37,077	34,903	32,686	30,232	27,305	23,768
Total Debt	**67,477**	**68,575**	**76,271**	**81,927**	**87,410**	**84,457**

Table 9: Operational Boundary for External Debt

Operational Boundary	2020/21 Actual £'000	2021/22 Forecast £'000	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000	2025/26 Estimate £'000
External Borrowing	30,277	33,616	43,585	51,488	59,970	60,626
Finance Leases	123	56	0	207	135	63
Maximum forecast cashflow deficit arising from revenue budget operations	10,000	20,000	25,000	25,000	25,000	25,000
Total Operational Boundary	**40,400**	**53,672**	**68,585**	**76,695**	**85,105**	**85,689**

Table 10: Authorised Limit for External Debt

Authorised Limit	2020/21 Actual £'000	2021/22 Forecast £'000	2022/23 Estimate £'000	2023/24 Estimate £'000	2024/25 Estimate £'000	2025/26 Estimate £'000
Total Operational Boundary Debt	40,400	53,672	68,585	76,695	85,105	85,689
Additional margin for unforeseen circumstances/capital receipt	10,000	10,000	10,000	10,000	10,000	10,000
Total Authorised Limit	**50,400**	**63,672**	**78,585**	**86,695**	**95,105**	**95,689**

Table 11: Ratio of Financing Costs to Net Revenue Stream

	2020/21 Actual	2021/22 Forecast	2022/23 Estimate	2023/24 Estimate	2024/25 Estimate	2025/26 Estimate
Ratio of Financing Costs to Net Revenue Stream	**0.39%**	**0.37%**	**0.36%**	**0.40%**	**0.42%**	**0.43%**

BUDGET **Appendix 3**

Table 12: Budget

	2022/23 Budget £'000
Interest Income	**(13)**
Interest Payments	**1,342**

MINIMUM REVENUE PROVISION **Appendix 4**

Annual Minimum Revenue Provision Statement 2022/23

Where the PCC finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the PCC to have regard to the former Ministry of Housing, Communities and Local Government's (MHCLG) Guidance on Minimum Revenue Provision most recently issued in 2018. The broad aim of the MHCLG Guidance is to ensure that capital expenditure is financed over a period that is either commensurate with that over which the capital expenditure provides benefits.

The MHCLG Guidance requires the PCC to approve an Annual MRP Statement each year, and provides four options for calculating an amount to put aside to revenue over time to cover the CFR i.e. the MRP. The PCC has opted for option 3; the Asset Life Method. The Asset Life Method determines that MRP is calculated on the basis of charging the unfinanced capital expenditure over the expected useful life of the relevant assets based on either an equal instalment method or an annuity method. The PCC has opted for the equal instalment method. This method will be reviewed to ensure its continued suitability. This is applied from the year after the asset becomes operational. For assets acquired by finance leases, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.

Where former operating leases have been brought onto the balance sheet on 1 April 2022 due to the adoption of the IFRS 16 Leases accounting standard, and the asset values have been adjusted for accruals, prepayments, premiums and/or discounts, then the annual MRP charges will be adjusted so that the total charge to revenue remains unaffected by the new standard.

The PCC can choose to make more MRP than considered the prudent minimum.

The maximum asset life used in MRP calculations is 50 years, unless a longer life is certified by an appropriately qualified professional adviser, or the asset has been acquired on a lease of longer than 50 years. For those assets purchased before 1st April 2018 that have an asset life of more than 50 years, the Code does not require a retrospective adjustment.

Based on the PCC's latest estimate of its Capital Financing Requirement on 31 March 2022, the budget for MRP has been set as follows:

	2022/23 Estimated CFR	2022/23 Estimated MRP
	£'000	£'000
Unsupported capital expenditure after 31.03.2008	76,271	2,273

ECONOMIC CONTEXT **Appendix 5**

Arlingclose Economic Context as of 5 November 2021

Economic background: The ongoing impact on the UK from coronavirus, together with higher inflation, the likelihood of higher interest rates, and the country's trade position post-Brexit, will be major influences on the treasury management strategy for 2022/23.

The Bank of England (BoE) held Bank Rate at 0.10% in November 2021 and maintained its Quantitative Easing programme at £895 billion. The Monetary Policy Committee (MPC) voted 7-2 to keep rates on hold and 6-3 to maintain the asset purchase programme. Within the announcement the MPC suggested interest rates would be increased soon, but not to the 1% level expected by financial markets. Within the November 2021 Monetary Policy Report, the Bank expected consumer price index (CPI) inflation to peak at around 5% in April 2022 before falling back as the impact from higher energy prices fade and demand slows.

UK CPI for September 2021 registered 3.1% year on year, slightly down from 3.2% in the previous month. Core inflation, which excludes the more volatile components, fell to 2.9% y/y from 3.1%. The most recent labour market data for the three months to August 2021 showed the unemployment rate fell to 4.5% while the employment rate rose to 75.3%. Both measures were helped by the extension of the government's furlough scheme, but this ended in September 2021 and while this may put some pressure on the jobs market, it is not expected to be material, with the BoE forecasting unemployment will only increase modestly in Q4 2021 according to its November 2021 Monetary Policy Report but remain low overall.

In August 2021, the headline 3-month average annual growth rate for wages were 7.2% for total pay and 6.0% for regular pay. In real terms, after adjusting for inflation, total pay growth was up 4.7% while regular pay was up 3.4%. These figures should be interpreted with caution, however, as pay growth is now being impacted by base effects compared to 12 months ago when earnings were first affected by the coronavirus pandemic. Moreover, there has also been a fall in the number and proportion of lower paid jobs, helping to push up the average earnings figure.

Gross domestic product (GDP) grew by 5.5% in the second calendar quarter of 2021, compared to a fall of -1.6% q/q in the previous three months, with the annual rate jumping to 23.6% from -6.1%. Here too, base effects from 2020 have resulted in the high Q2 2021 data. Monthly GDP estimates have shown the economy is recovering, with the economy now just 0.8% below its pre-pandemic level. Looking ahead, the BoE's November 2021 Monetary Policy Report forecasts economic growth will rise by 1.5% in Q3 2021, 1.0% in Q4 2021 with the economy expected to get back to its pre-pandemic level in Q1 2022. GDP growth is now expected to be around 5% in 2022 (revised down from 6%), before slowing to 1.5% in 2023 and 1% in 2024.

ECONOMIC CONTEXT **Appendix 5**

GDP growth in the euro zone increased by 2.2% in calendar Q3 2021 following a gain of 2.1% in the second quarter and a decline of -0.3% in the first. Headline inflation has been strong, with CPI registering 4.1% year-on-year in October, the fourth successive month of inflation. Core CPI inflation was 2.1% y/y in October, the third month of successive increases from July's 0.7% y/y. At these levels, inflation is above the European Central Bank's target of 'below, but close to 2%', putting some pressure on its long-term stance of holding its main interest rate of 0%.

The US economy expanded at an annualised rate of 2.0% in Q3 2021, slowing sharply from gains of 6.7% and 6.3% in the previous two quarters. In its November 2021 interest rate announcement, the Federal Reserve continue to maintain the Fed Funds rate at between 0% and 0.25% but outlined its plan to reduce its asset purchase programme. Having bought $120 billion of bonds each month during the pandemic to keep interest rates low, the Fed confirmed that purchases will be scaled back, starting with a $15 billion reduction in November 2021. In terms of the timing of any interest rate hikes, Fed Chair Jerome Powell said the central bank can be patient about doing so.

Credit outlook: Since the start of 2021, relatively benign credit conditions have led to credit default swap (CDS) prices for the larger UK banks to remain low and have steadily edged down throughout the year to almost pre-pandemic levels. The improved economic outlook during 2021 helped bank profitability and reduced the level of impairments many had made as provisions for bad loans. However, the relatively recent removal of coronavirus-related business support measures by the government means the full impact on bank balance sheets may not be known for some time.

The improved economic picture during 2021 led the credit rating agencies to reflect this in their assessment of the outlook for the UK sovereign as well as several financial institutions, revising them from negative to stable.

Looking ahead, while there is still the chance of bank losses from bad loans as government and central bank support is removed, the institutions on the counterparty list are well-capitalised and general credit conditions across the sector are expected to remain benign. Duration limits for counterparties on the lending list are under regular review and will continue to reflect economic conditions and the credit outlook.

Interest rate forecast: The treasury management adviser Arlingclose is forecasting that Bank Rate will rise in calendar Q2 2022 to subdue inflationary pressures and the perceived desire by the BoE to move away from emergency levels of interest rates.

Investors continue to price in multiple rises in Bank Rate over the next forecast horizon, and Arlingclose believes that although interest rates will rise, the increases will not be to the extent predicted by financial markets. In the near-term, the risks around

ECONOMIC CONTEXT **Appendix 5**

Arlingclose's central case are to the upside while over the medium-term the risks shift towards the downside.

Gilt yields had increased sharply on the back of higher inflation and anticipated central bank action, however in its November MPC meeting, the committee noted that market expectations for rates were excessive, and yields have since fallen back. Yields are expected to remain broadly at current levels over the medium-term, with the 5, 10 and 20 year gilt yields expected to average around 0.60%, 1.0%, and 1.35% respectively. The risks around the gilt yield forecast are judged to be broadly balanced in the near-term and to the downside over the remainder of the forecast horizon. As ever, there will almost certainly be short-term volatility due to economic and political uncertainty and events.

Arlingclose Economic and Interest Rate Forecast – October 2021

Underlying assumptions:

- The global economy continues to recover from the pandemic but has entered a more challenging phase. The resurgence of demand has led to the expected rise in inflationary pressure, but disrupted factors of supply are amplifying the effects, increasing the likelihood of lower growth rates ahead. This is particularly apparent in the UK due to the impact of Brexit.
- While Q2 UK GDP expanded more quickly than initially thought, the 'pingdemic' and more latterly supply disruption will leave Q3 GDP broadly stagnant. The outlook also appears weaker. Household spending, the driver of the recovery to date, is under pressure from a combination of retail energy price rises, the end of government support programmes and soon, tax rises. Government spending, the other driver of recovery, will slow considerably as the economy is taken off life support.
- Inflation rose to 3.2% in August. A combination of factors will drive this to over 4% in the near term. While the transitory factors affecting inflation, including the low base effect of 2020, are expected to unwind over time, the MPC has recently communicated fears that these transitory factors will feed longer-term inflation expectations that require tighter monetary policy to control. This has driven interest rate expectations substantially higher.
- The supply imbalances are apparent in the labour market. While wage growth is currently elevated due to compositional and base factors, stories abound of higher wages for certain sectors, driving inflation expectations. It is uncertain whether a broad-based increase in wages is possible given the pressures on businesses.
- Government bond yields increased sharply following the September FOMC and MPC minutes, in which both central banks communicated a lower tolerance for higher inflation than previously thought. The MPC in particular has doubled-down

ECONOMIC CONTEXT **Appendix 5**

on these signals in spite of softer economic data. Bond investors expect higher near-term interest rates but are also clearly uncertain about central bank policy.

- The MPC appears to be playing both sides, but has made clear its intentions to tighten policy, possibly driven by a desire to move away from emergency levels. While the economic outlook will be challenging, the signals from policymakers suggest Bank Rate will rise unless data indicates a more severe slowdown.

Forecast:

- Arlingclose expects Bank Rate to rise in Q2 2022. We believe this is driven as much by the Bank's desire to move from emergency levels as by fears of inflationary pressure.
- Investors have priced in multiple rises in Bank Rate to 1% by 2024. While we believe Bank Rate will rise, it is by a lesser extent than expected by markets.
- Gilt yields have risen sharply as investors factor in higher interest rate and inflation expectations. From here, we believe that gilt yields will be broadly steady, before falling as inflation decreases and market expectations fall into line with our forecast.
- The risk around our forecasts for Bank Rate is to the upside over the next few months, shifting to the downside in the medium term. The risks around the gilt yield forecasts are initially broadly balanced, shifting to the downside later.

	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Official Bank Rate													
Upside risk	0.15	0.15	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Arlingclose Central Case	0.10	0.10	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside risk	0.00	0.00	-0.15	-0.15	-0.15	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40
3-month money market ra													
Upside risk	0.10	0.15	0.20	0.20	0.30	0.30	0.30	0.30	0.35	0.35	0.35	0.35	0.35
Arlingclose Central Case	0.10	0.15	0.35	0.40	0.45	0.60	0.65	0.65	0.60	0.60	0.60	0.60	0.60
Downside risk	0.00	-0.05	-0.25	-0.25	-0.30	-0.45	-0.50	-0.50	-0.45	-0.45	-0.45	-0.45	-0.45
5yr gilt yield													
Upside risk	0.25	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30
Arlingclose Central Case	0.65	0.65	0.65	0.65	0.65	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60
Downside risk	-0.25	-0.25	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40
10yr gilt yield													
Upside risk	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35
Arlingclose Central Case	1.05	1.05	1.05	1.05	1.05	1.05	1.00	0.95	0.95	0.95	0.90	0.90	0.90
Downside risk	-0.25	-0.35	-0.40	-0.40	-0.40	-0.40	-0.45	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50
20yr gilt yield													
Upside risk	0.30	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40
Arlingclose Central Case	1.40	1.40	1.40	1.40	1.35	1.35	1.30	1.30	1.30	1.30	1.30	1.30	1.30
Downside risk	-0.35	-0.40	-0.45	-0.45	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
50yr gilt yield													
Upside risk	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40
Arlingclose Central Case	1.30	1.30	1.30	1.30	1.25	1.25	1.20	1.20	1.20	1.20	1.20	1.20	1.20
Downside risk	-0.35	-0.35	-0.35	-0.40	-0.40	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50

PWLB certainty rate = relevant gilt yield + 0.80%

GOVERNANCE **Appendix 6**

Treasury Management Governance Arrangements

The PCC is responsible for:

- receiving and reviewing reports on treasury management policies, practices and activities;
- approval of annual strategy.
- approval of/amendments to the treasury management policy statement and treasury management practices;
- budget consideration and approval;
- approval of the division of responsibilities;
- receiving and reviewing regular monitoring reports and acting on recommendations;
- approving the selection of external service providers and agreeing terms of appointment.

The Independent Audit Committee is responsible for:

- scrutinising the treasury management policy and procedures and making recommendations to the PCC.

The Treasurer is responsible for:

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers.

GLOSSARY **Appendix 7**

Annuity	A method of repaying a loan where the cash payment remains constant over the life of the loan, but the proportion of interest reduces and the proportion of principal repayment increases over time. Repayment mortgages and personal loans tend to be repaid by the annuity method.
Authorised limit	The maximum amount of *debt* that a local authority may legally hold, set annually in advance by the authority itself. One of the *Prudential Indicators*.
Bail-in	A method of rescuing a failing *financial institution* by cancelling some of its *deposits* and *bonds*. Investors may suffer a *haircut* but may be given *shares* in the bank as part compensation.
Bank	Regulated firm that provides financial services to customers. But see also *Bank of England*.
Bank of England	The *central bank* of the UK, based in London, sometimes just called "the Bank". See also *Monetary Policy Committee*.
Bank Rate	The official interest rate set by the *Monetary Policy Committee*, and the rate of interest paid by the *Bank of England* on commercial bank deposits. Colloquially termed the "base rate".
Bid	A bid to buy a *security* at a certain price (the bid price), or a bid to borrow money at a certain interest rate (the bid rate).
Bill	A certificate of *short-term* debt issued by a company, government, or other institution, which is tradable on financial markets
Bond	A certificate of *long-term* debt issued by a company, government, or other institution, which is tradable on financial markets.
Borrowing	Usually refers to the stock of outstanding loans owed and *bonds* issued.
Broker	Regulated firm that matches either borrowers and lenders (a money broker) or buyers and sellers of *securities* (a stockbroker) with each other in order to facilitate transactions.
Building society	A mutual organisation that performs similar functions to a *retail bank* but is owned by its customers.
Capital	**(1)** Long-term, as in *capital expenditure* and *capital receipt.* **(2)** Principal, as in *capital gain* and capital value. **(3)** Investments in *financial institutions* that will absorb losses before *senior unsecured creditors.*
Capital expenditure	Expenditure on the acquisition, creation or enhancement of fixed assets that are expected to provide value for longer than one year, such as property and equipment, plus expenditure defined as capital in legislation such as the purchase of certain investments.
Capital finance	Arranging and managing the cash required to finance *capital expenditure*, and the associated accounting.
Capital financing requirement (CFR)	A local authority's underlying need to hold debt for capital purposes, representing the cumulative capital expenditure that has been incurred but not yet financed. The CFR increases with *capital expenditure* and decreases with *capital finance* and *MRP*.
Capital markets	The markets for long-term finance, including *bonds* and *shares*. See also *money markets*.

GLOSSARY **Appendix 7**

Capital receipt	Cash obtained from the sale of an item whose purchase would be *capital expenditure*. The law only allows local authorities to spend capital receipts on certain items, such as new capital expenditure. They are therefore held in a capital receipts reserve until spent.
Cash plus fund	A *pooled fund is* similar to a *money market fund* but with a *WAM* up to around six months.
Central bank	A government agency responsible for setting interest rates, regulating banks and maintaining financial stability.
Certificate of deposit (CD)	A short-term *debt* instrument, similar to a *deposit*, but that is tradable on the *money markets*.
CIPFA	The Chartered Institute of Public Finance and Accountancy - the professional body for accountants working in the public sector. CIPFA also sets various standards for local government.
Commercial investment	An investment whose main purpose is generating income, such as *investment property*.
Cost of carry	When a loan is borrowed in advance of need, the difference between the interest payable on the loan and the income earned from investing the cash in the interim.
Counterparty	The other party to a loan, investment or other contract.
Counterparty limit	The maximum amount an investor is willing to lend to a *counterparty*, in order to manage *credit risk*.
Covered bond	*Bond* issued by a *financial institution* that is secured on that institution's assets, usually residential mortgages, and is therefore lower risk than unsecured bonds. Covered bonds are exempt from *bail-in*.
CPI	Consumer Price Index - the measure of inflation targeted by the *Monetary Policy Committee*, measured on a harmonised basis across the European Union.
Credit default swap (CDS)	*Derivative* for swapping *credit risk* on a particular issuer, similar to an insurance policy where the buyer pays a *premium* against the risk of default. Also used as an indicator of credit risk: the higher the premium, the higher the perceived risk.
Credit rating	Formal opinion by a *credit rating agency* of a *counterparty*'s future ability to meet its financial obligations. As it is only an opinion, there is no guarantee that a highly rated organisation will not default.
Credit rating agency	An organisation that publishes *credit ratings*. The three largest agencies are Fitch, Moody's and Standard & Poor's but there are many smaller ones.
Credit risk	The risk that a *counterparty* will *default* on its financial obligations.
Debt	**(1)** A contract where one party owes money to another party, such as a *loan*, *deposit* or *bond*. Contrast with *equity*. **(2)** In the *Prudential Code*, the total outstanding *borrowing* plus *other long-term liabilities.*
Default	Failure to meet an obligation under a debt contract, including the repayment of cash or compliance with a *covenant*, usually as a result of being in financial difficulty (rather than an administrative oversight).

GLOSSARY **Appendix 7**

Deflation	Negative inflation, which central banks are keen to avoid since households tend to delay spending waiting for prices to fall further, leading to further deflation.
Deposit	A regulated placing of cash with a *financial institution*. Deposits are not tradable on financial markets.
Derivative	Financial instrument whose value is derived from an underlying instrument or index, such as a *swap*, *option* or *future*. Derivatives can be used to gain exposure to, or to help protect against, changes in the value of the underlying.
Discount	**(1)** The amount that the early repayment cost of a loan is below its principal, or the price of a bond is below its nominal value. **(2)** To calculate the *present value* of an investment taking account of the time value of money.
Diversification	The spreading of risk across a variety of exposures in order to reduce the risk. For example, investing in a range of *counterparties* to limit *credit risk* or borrowing to a range of *maturity* dates to limit *refinancing risk*.
Duration	In relation to a *bond* or *bond fund*, the weighted average time of the future cash flows from today, usually expressed in years. The longer the duration, the more the price moves for a given change in interest rates.
ECB	European Central Bank – the *central bank* of the Eurozone, based in Frankfurt, Germany.
Embedded derivative	A *derivative* that is combined into another financial instrument, such as the *options* embedded in a *LOBO*.
Equity	**(1)** The residual value of an entity's assets after deducting its liabilities. **(2)** An investment in the residual value of an entity, for example ordinary shares.
Fair value	*IFRS* term for the price that would be obtained by selling an investment, or paid to transfer debt, in a market transaction.
Federal Reserve	The *central bank* of the USA, often just called "the Fed".
Financial instrument	*IFRS* term for investments, borrowing and other cash payable and receivable.
Financing costs	In the *Prudential Code*, interest payable on *debt* less investment income plus *premiums* less *discounts* plus *MRP*.
Future	A *derivative* whose payments depend on the future value of a variable.
Fund manager	Regulated firm that manages *pooled funds*.
GDP	Gross domestic product – the value of the national aggregate production of goods and services in the economy. Increasing GDP is known as economic growth.
General Fund	A local authority reserve that holds the accumulated surplus or deficit on revenue income and expenditure, except on council housing.
Gilt	Bond issued by the UK Government, taking its name from the gilt-edged paper they were originally printed on.
Gilt yield	*Yield* on *gilts*. Commonly used as a measure of risk-free long-term interest rates in the UK.
Guarantee	An arrangement where a third party agrees to pay the contractual payments on a *loan* to the lender if the borrower *defaults*.

GLOSSARY **Appendix 7**

IFRS	International Financial Reporting Standards, the set of accounting rules in use by UK local authorities since 2010.
Impairment	A reduction in the value of an investment caused by the *counterparty* being in financial difficulty.
Interest	Compensation for the use of cash paid by borrowers to lenders on *debt* instruments.
Interest rate risk	The risk that unexpected changes in interest rates cause an unplanned loss, for example by increased payments on borrowing or lower income on investments.
Internal borrowing	A local government term for when actual "external" *debt* is below the *capital financing requirement*, indicating that difference has been borrowed from internal resources instead; in reality this is not a form of borrowing.
Investment guidance	Statutory guidance issued by MHCLG and the devolved governments on local government investments. Local authorities are required by law to have regard to the relevant investment guidance.
Investment strategy	A document required by *investment guidance* that sets out a local authority's investment plans and parameters for the coming year. Sometimes forms part of the authority's *treasury management strategy*.
Lease	A contract where one party permits another to make use of an asset in return for a series of payments. It is economically similar to buying the asset and borrowing a loan, and therefore leases are often counted as a type of *debt*.
Liability benchmark	Term in CIPFA's Risk Management Toolkit which refers to the minimum amount of borrowing required to keep investments at a minimum liquidity level. Used to compare against the actual and forecast level of borrowing.
Loan	Contract where the lender provides a sum of money (the *principal*) to a borrower, who agrees to repay it in the future together with *interest*. Loans are not normally tradable on financial markets. There are specific definitions in government *investment guidance*.
Long-term	Usually means longer than one year.
Maturity	**(1)** The date when an investment or borrowing is scheduled to be repaid. **(2)** A type of loan where the principal is only repaid on the maturity date.
MHCLG	Ministry of Housing, Communities and Local Government – the central government department that oversees local authorities in England.
Monetary policy	Measures taken by *central banks* to boost or slow the economy, usually via changes in interest rates. Monetary easing refers to cuts in interest rates, making it cheaper for households and businesses to borrow and hence spend more, boosting the economy, while monetary tightening refers to the opposite.
Monetary Policy Committee (MPC)	Committee of the *Bank of England* responsible for implementing *monetary policy* in the UK by changing *Bank Rate* and *quantitative easing* with the aim of keeping *CPI* inflation at around 2%.
Money market fund (MMF)	A *pooled fund* which invests in a range of short-term assets providing high credit quality and high liquidity. Usually refers to *CNAV* and *LVNAV* funds with a *WAM* under 60 days which offer instant access, but the European Union definition extends to include *cash plus funds*.
Money markets	The markets for short-term finance, including *deposits* and *T-bills*.

GLOSSARY **Appendix 7**

MRP	Minimum revenue provision **- a**n annual amount that local authorities are required to set aside and charge to revenue for the repayment of debt associated with capital expenditure. Local authorities are required by law to have regard to government guidance on MRP.
Municipal bond	*Bond* issued or guaranteed by local authorities.
Municipal bonds agency	Company that issues *bonds* in the *capital market* and lends the proceeds back to local authorities. The bonds are guaranteed by the local authorities.
Net borrowing	*Borrowing* minus *treasury investments*.
Net revenue stream	In the *Prudential Code*, income from general government grants, Council Tax and rates.
Notice account	A *deposit* account where the cash can be called back after a given notice period.
Other long-term liabilities	*Prudential Code* term for *credit arrangements*.
Operational boundary	A *prudential indicator* showing the most likely, prudent, estimated level of external *debt*, but not the worst-case scenario. Regular breaches of the operational boundary should prompt management action.
Option	A *derivative* where the holder pays a *premium* to have the right, but not the obligation, to buy or sell a security or enter into a defined transaction.
Outlook	A *credit rating agency's* expected direction of travel in the *long-term rating* over the next two years.
Pension Fund	Ringfenced account for the income, expenditure and investments of the local government pension scheme. Pension fund investments are not considered to be part of *treasury management*.
Pooled fund	Scheme in which multiple investors collectively hold units or shares. The investment assets in the fund are not held directly by each investor, but as part of a pool (hence these funds are also referred to as 'pooled funds').
Premium	**(1)** The amount that the early repayment cost of a loan is above the principal, or the price of a bond is above its nominal value. **(2)** The initial payment made under a *derivative*.
Principal	The amount of money originally lent on a *debt* instrument.
Private Finance Initiative (PFI)	A government scheme where a private company designs, builds, finances and operates assets on behalf of the public sector, in exchange for a series of payments, typically over 30 years. Counts as a *credit arrangement* and *debt.*
Property fund	A *pooled fund* that mainly invests in property. Due to the costs of buying and selling property, including *stamp duty land tax*, there is usually a significant fee charged on initial investment, or a significant difference between the *bid* and *offer* price.
Prudential Code	Developed by CIPFA and introduced in April 2004 as a professional code of practice to support local authority capital investment planning within a clear, affordable, prudent and sustainable framework and in accordance with good professional practice. Local authorities are required by law to have regard to the Prudential Code.
Prudential indicators	Indicators required by the *Prudential Code* and determined by the local authority to define its capital expenditure and asset management framework. They are designed to support and record local decision making in a manner that is publicly accountable.

GLOSSARY **Appendix 7**

PWLB	Public Works Loans Board - a statutory body operating within the *DMO* that lends money from the National Loans Fund to local authorities and other prescribed bodies and collects the repayments. Not available in Northern Ireland.
Redemption	The process of withdrawing cash from a *pooled fund* and cancelling the units of shares. Redemptions can be suspended in certain circumstances detailed in the *prospectus*.
Refinancing risk	The risk that maturing loans cannot, be refinanced, or only at higher than expected interest rates leading to an unplanned loss. Managed by maintaining a smooth *maturity profile*.
Registered Provider of Social Housing (RP)	An organisation that is registered to provide social housing, such as a housing association. Also known as a registered social landlord or RSL.
Sector limit	The maximum amount an investor is willing to lend to all *counterparties* in a particular industry sector, in order to manage *credit risk*.
Security	**(1)** A *financial instrument* that can be traded on a *secondary market.* **(2)** The concept of low *credit risk.* **(3)** *Collateral.*
Secured investment	An investment that is backed by *collateral* and is therefore normally lower *credit risk* and lower yielding than an equivalent unsecured investment.
Service investments	Investments made to promote a local authority's public service objectives, for example a *loan* to a local charity or *shares* in a local company.
Share	An *equity* investment, which usually also confers ownership and voting rights.
Short-term	Usually means less than one year.
Swap	A *derivative* where the *counterparties* exchange cash flows, for example fixed rate interest and variable rate interest.
Total return	The overall return on an investment, including *interest*, *dividends*, *rent*, fees and *capital gains and losses*.
Treasury bill	Treasury bill - a *bill* issued by a government.
Treasury investments	Investments made for *treasury management* purposes, as opposed to *commercial investments* and *service investments*.
Usable reserves	Resources available to finance future *revenue* and/or *capital expenditure.* Some usable reserves are ringfenced by law for certain expenditure such as on schools or council housing.
Volatility	A measure of the variability of a price or index, usually expressed as the annualised standard deviation.
Working capital	The cash surplus or deficit arising from the timing differences between income/expenditure in accounting terms and receipts/payments in cash terms.
Yield	A measure of the return on an investment, especially a *bond*. The yield on a fixed rate bond moves inversely with its price.

Appendix 9b

POLICE AND CRIME COMMISSIONER FOR DEVON AND CORNWALL

CAPITAL STRATEGY 2022/23 to 2025/26

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POLICE AND CRIME COMMISSIONER FOR DEVON AND CORNWALL
CAPITAL STRATEGY 2022/23 to 2025/26

1.0 INTRODUCTION

1.1 The Office of the Police and Crime Commissioner (OPCC) has adopted the Chartered Institute of Public Finance and Accountancy's (CIPFA) Capital Strategies and Programming Guidance which requires the OPCC to approve a Capital Strategy before the start of each financial year.

1.2 The Capital Strategy is integral to the Medium Term Financial Strategy (MTFS) and should be read in conjunction with the report on the MTFS and Reserves Strategy for 2022/23 to 2025/26.

1.3 The Capital Strategy should also be read in conjunction with the approved Capital Programme for 2022/23 to 2025/26.

1.4 The Police and Crime Commissioner (PCC) will apply the principles set out in the CIPFA Prudential Code to test the affordability of the Capital Strategy. It is therefore also closely linked to the Reserves Strategy and Treasury Management Strategy which includes the Investment Strategy, Borrowing Strategy and Prudential Indicators.

1.5 The Capital Strategy provides a framework for the development of the Capital Programme which sets out the investment in assets and identifies the resources required for that investment.

1.6 These assets are essential to the provision of the policing service. In order to sustain this service and meet the objectives set out in the Police and Crime Plan, the Capital Strategy also gives an overview of how associated risk is managed and covers the implications for future financial sustainability of the Capital Programme.

1.7 The PCC has developed this Capital Strategy in consultation with the Force who are the primary users of the capital assets.

2.0 CAPITAL PROGRAMME

2.1 The Capital Strategy is led by the priorities outlined in the OPCC's Police and Crime Plan. It translates these priorities into a programme of projects in the OPCC's Capital Programme that will achieve the intended outcome.

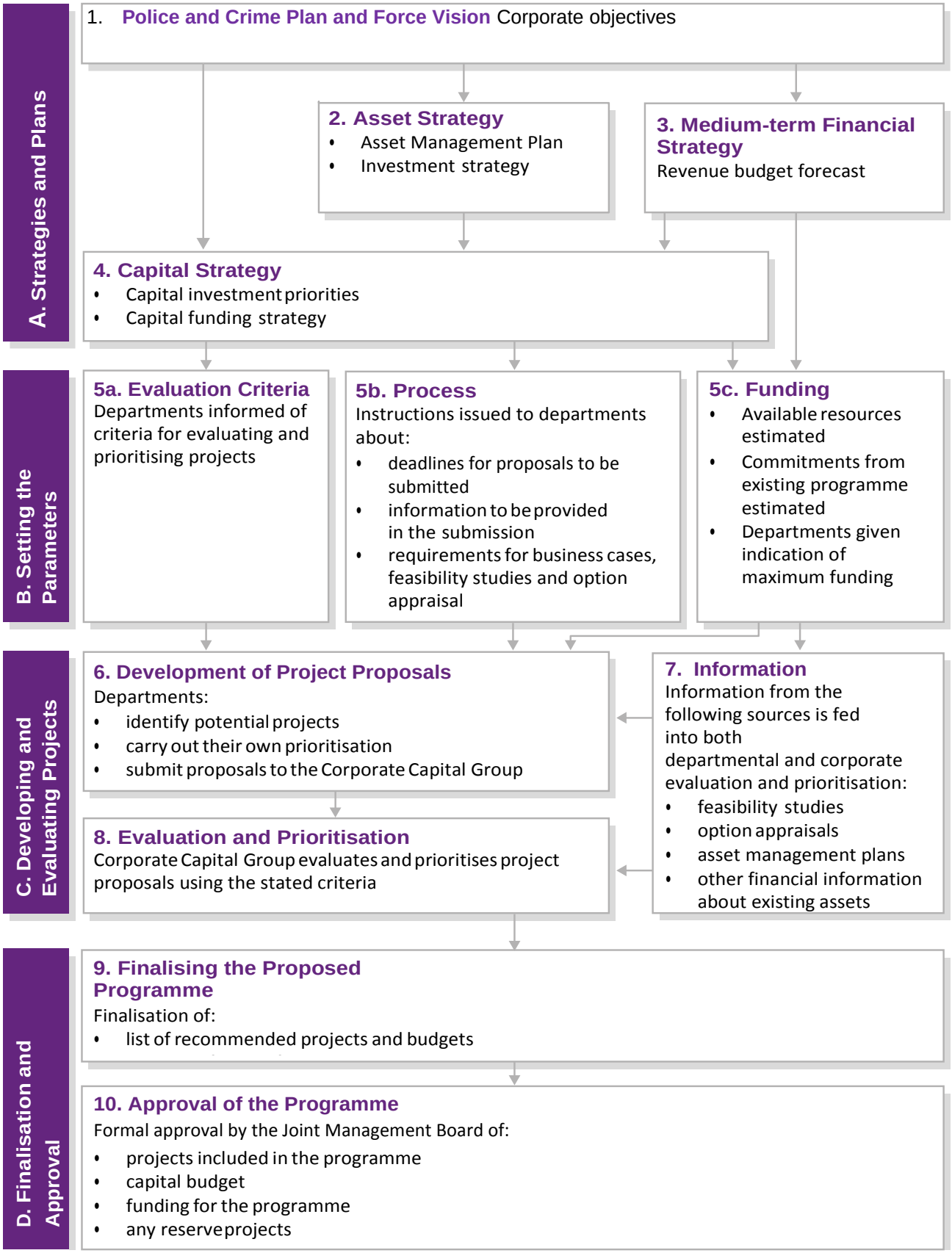
2.2 These priorities could include the effective maintenance, enhancement or disposal of existing assets as well as investment in new capital assets.

2.3 Assets are vital to the delivery of efficient services, and so the optimum use of resources whilst securing best value in relation to both cost and quality are key considerations. This is done by following best practice in relation to procurement, sales and construction and taking external legal advice where required.

2.4 IT, Equipment and Vehicles are managed and maintained by their respective departments overseen by the Chief Constable with Estates being overseen by the PCC. An asset management plan/strategy for each asset classification is held and contains specific details of each asset including the longevity and optimum replacement cycles. The information is consolidated into the Capital Programme.

2.5 To ensure the Capital Programme is delivered effectively it is important that the programme is realistic in what is included in terms of continuing and new projects. All projects should be delivered on time, in budget and achieve the desired outcomes.

2.6 The OPCC and Chief Constable have a number of programme management procedures in place to help to ensure successful delivery of the capital programme. This is summarised in the flow chart below:-


A. Strategies and Plans
1. Police and Crime Plan and Force Vision Corporate objectives
2. Asset Strategy
• Asset Management Plan
• Investment strategy
3. Medium-term Financial Strategy
Revenue budget forecast
4. Capital Strategy
• Capital investment priorities
• Capital funding strategy
B. Setting the Parameters
5a. Evaluation Criteria
Departments informed of criteria for evaluating and prioritising projects
5b. Process
Instructions issued to departments about:
• deadlines for proposals to be submitted
• information to be provided in the submission
• requirements for business cases, feasibility studies and option appraisal
5c. Funding
• Available resources estimated
• Commitments from existing programme estimated
• Departments given indication of maximum funding
C. Developing and Evaluating Projects
6. Development of Project Proposals
Departments:
• identify potential projects
• carry out their own prioritisation
• submit proposals to the Corporate Capital Group
7. Information
Information from the following sources is fed into both departmental and corporate evaluation and prioritisation:
• feasibility studies
• option appraisals
• asset management plans
• other financial information about existing assets
8. Evaluation and Prioritisation
Corporate Capital Group evaluates and prioritises project proposals using the stated criteria
D. Finalisation and Approval
9. Finalising the Proposed Programme
Finalisation of:
• list of recommended projects and budgets
10. Approval of the Programme
Formal approval by the Joint Management Board of:
• projects included in the programme
• capital budget
• funding for the programme
• any reserve projects

2.7 Identifying and prioritising capital projects

2.7.1 New capital project proposals are considered and prioritised with reference to a business case. In some cases, the Capital Programme will include ongoing budgets for replacement projects, i.e. laptops/vehicles. However, business cases would still be required where the request is significant, novel or contentious. To aid the decision, the business case must cover the following key elements:

- Definition of objectives
- Baseline assessment (including user specification and force standards)
- List of possible options
- Broad assessment of viable options
- Challenge and shortlisting by the appropriate board
- Detailed feasibility studies and option appraisal
- Financial appraisal including whole life costs and ongoing revenue impact
- Cashflow forecast
- Review and solution approved by the appropriate board as per the Financial Regulations
- Risk appraisal
- Sustainability

Priority will be given to Health and Safety requirements, compliance requirements and 'business critical' projects.

2.7.2 The business case is then assessed against the following factors:

- Strategic importance – how the project supports the Police and Crime Plan priorities
- Operational fit – how the project supports operational delivery across the service
- The outcomes that will be achieved and the specific benefits and impacts
- Sustainability – whether costs are realistic, value for money is achieved and the impact of future revenue implications
- Impact on non Devon and Cornwall users
- How likely is it that the project will be delivered on time and within budget
- Possible negative effects of the project

2.7.3 All projects will have a two stage approval process. Each project will have an indicative planning cost which will facilitate overall programme planning and approved project cost.

2.7.4 For planning purposes, the MTFS may include projects that have not yet been approved. These allocations cannot be spent until full approval has been obtained. Approved projects will be included in the four year capital programme at the value set out in the approved business case.

2.7.5 Lower priority projects which cannot be delivered within available resources can only be considered and undertaken if additional resources or an under spend on the approved capital programme is identified during the year through Resources Board.

2.8 Implementing and monitoring capital projects

2.8.1 Following approval of the capital programme, a project manager and a user representative is nominated for each capital project. The project manager is responsible for managing the project implementation and delivering its objectives.

2.8.2 Heads of Department have overall responsibility for ensuring that the objectives are met for all projects, but particular focus will be placed on ensuring that:

- high-profile projects are delivered on time and achieve the intended outcome
- good progress is being made in delivering the programme in general
- the overall use of capital and revenue funding is as close as possible to the plans set out in the current year's budget, the Capital Programme and the MTFS.
- that when these factors are not achieved, variations are reported to the Resources Board

2.8.3 Progress against capital schemes is reported on a quarterly and annual basis to the Resources Board. In terms of capital financing, this is covered in the Treasury Management report which is produced on a quarterly and annual basis to the Resources Board.

2.8.4 Approval of business cases for projects included in the annual programme at estimated cost will lead to variations in the programme if the cost in the business case is different from the actual cost. Any changes that increase the overall cost of the programme will only be approved if additional capital financing resources are identified.

2.8.5 In year changes to the total value of an individual project can be funded by a virement between projects within each major budget heading and agreed under delegated approval. The delegation limits are set in the financial regulations. Any increase to the total value of an individual project in excess of the limits set out in the financial regulations will require a revision and re-submission of the business case to the PCC for re-approval.

2.8.6 The following measures have been put in place to mitigate the risk of slippage in the Capital Programme:

- Comprehensive assessment of project risks during the development of the business case for each scheme
- Continual monitoring of the project's progress will help to identify reasons for delays in delivery so that appropriate action can be taken.

2.9 Evaluating completed capital projects

2.9.1 To evaluate the actual success and outcomes of the capital projects a post project review is also carried out. The review is in effect a check of performance against the original proposal. It focuses on the outcomes achieved, the extent to which the benefits claimed are being realised, the actual costs, both revenue and capital and the impact on other funding.

3.0 CAPITAL FUNDING STRATEGY

3.1 Under the provisions of the Prudential Code, the OPCC can invest in a capital programme so long as its capital spending plans are “affordable, prudent and sustainable”.

3.2 The Capital Programme is reflected in the OPCC’s Treasury Management Strategy, which is presented annually to the Police and Crime Panel and reviewed by the Independent Audit Committee. It sets out the Prudential Indicators, which determine the limits set against the requirements of affordability, prudence and sustainability.

3.3 The OPCC in consultation with the Chief Constable will identify available sources of funding for the Medium Term Capital Programme including the identification of potential capital receipts from the disposal of property.

3.4 The sources of funding available to the OPCC to finance capital expenditure are detailed below:

3.4.1 Grants

An annual capital grant is received from the Home Office. There are also additional grants that may become available for specific projects.

3.4.2 Capital Receipts

The financing of the estates development programme is dependent on the release of property assets for sale. Achieving the full investment programme will be dependent on progressing schemes listed on the development schedule or identifying alternative assets for disposal.

3.4.3 Reserves

Revenue may be set aside into an earmarked reserve in one financial year to be used against a capital scheme in that year or in future years.

3.4.4 Revenue Contribution to Capital (RCCO)

Revenue budgets can be set to provide a contribution to the Capital Programme, this provides funding for short term assets.

3.4.5 Borrowing

Borrowing can be by way of internal or external borrowing. Internal borrowing is the preferred option. External borrowing will be made with regard to cashflow and prevailing market rates as set out in the Treasury Management Strategy.

In principle, the sources of funding will be applied in the order detailed above before borrowing is undertaken. However, there are circumstances where this may differ. Funding

will be detailed in each business case. Capital receipts and Reserves will be used mainly to fund short term assets. Borrowing will usually be used to fund long term assets.

3.5 Unfinanced capital expenditure occurs when there is insufficient financing available, or a decision is taken not to apply resources, the expenditure will give rise to a financing need, which may or may not lead to external borrowing depending on the OPCC's cash flow position.

3.6 Borrowing/Other debt instruments is at the discretion of the OPCC and must be in accordance with the Prudential Code. Borrowing/other debt must be prudent, affordable and sustainable as set out in the Treasury Management Strategy.

3.7 Opportunities to generate capital receipts from the disposal of the OPCC's assets to support the capital programme, are kept under review through the dynamic management of the estate portfolio. This involves:

- Assessing future demand
- Reviewing existing arrangements
- Seeking opportunities to rationalise the estate

3.8 The OPCC will monitor the availability of capital financing resources including capital receipts and report any variations quarterly alongside the capital expenditure monitoring report.

4.0 CAPITAL FUNDING FOR THE PROGRAMME

4.1 It is intended that the capital programme will be financed through a combination of capital receipts, borrowing, capital grant, use of reserves and direct revenue financing.

5.0 REVENUE IMPLICATIONS OF CAPITAL INVESTMENT

5.1 Capital expenditure has an impact on the revenue budget which is built into the MTFS.

5.2 The level of any borrowing used to fund the capital programme must be affordable in terms of the impact of the loan repayments and interest on the revenue budget.

5.3 There is a requirement to make a prudent amount of minimum revenue provision (MRP) and set aside some revenue budget as provision for debt.

5.4 All potential capital bids need to identify ongoing revenue costs and consider how these can be met.

6.0 RISK APPETITE

6.1 Risk is managed through a joint OPCC/Force risk register. The effectiveness of the controls are tested as part of the Audit Plan and subject to the scrutiny of the Independent Audit Committee. The Resources Board will consider risk as part of the individual business cases and monitoring of activity. It can also identify risks and ensure their inclusion in the risk register. Further oversight is provided by the formal meeting of the executive. New risks can be added to the risk register at any time.

7.0 GOVERNANCE

7.1 The OPCC in consultation with the Chief Constable will prepare a minimum of a four year programme of proposed capital expenditure for approval by the Police and Crime Commissioner. Quarterly and annual reporting is provided to the Resources Board.

7.2 Senior Management are responsible for leading the capital programming process and for advising those charged with the governance on the decisions that they take. A diagram showing the governance structure is attached as Appendix A. (More detailed guidance is issued to those completing business cases). The Capital Strategy Group will cover all aspects of the existing and proposed projects and all aspects of capital financing. This will provide an overall view of the capital programme and the impact of any changes to funding sources.

7.3 All disposals of surplus land and buildings must be approved by the PCC. When making any decision to dispose of assets the PCC must have regard to the right of the Chief Constable to have unfettered access to operational assets. The PCC shall consult with the relevant governance board and notify the Chief Constable. The PCC will have regard to the views expressed by the relevant governance board and the Chief Constable but the final decisions will be a matter for the PCC.

8.0 ALTERNATIVE WAYS OF PROCURING ASSETS

8.1 Consideration will be given to alternative options for the procurement of assets and how they are funded. This could be renting, leasing or partnership arrangements.

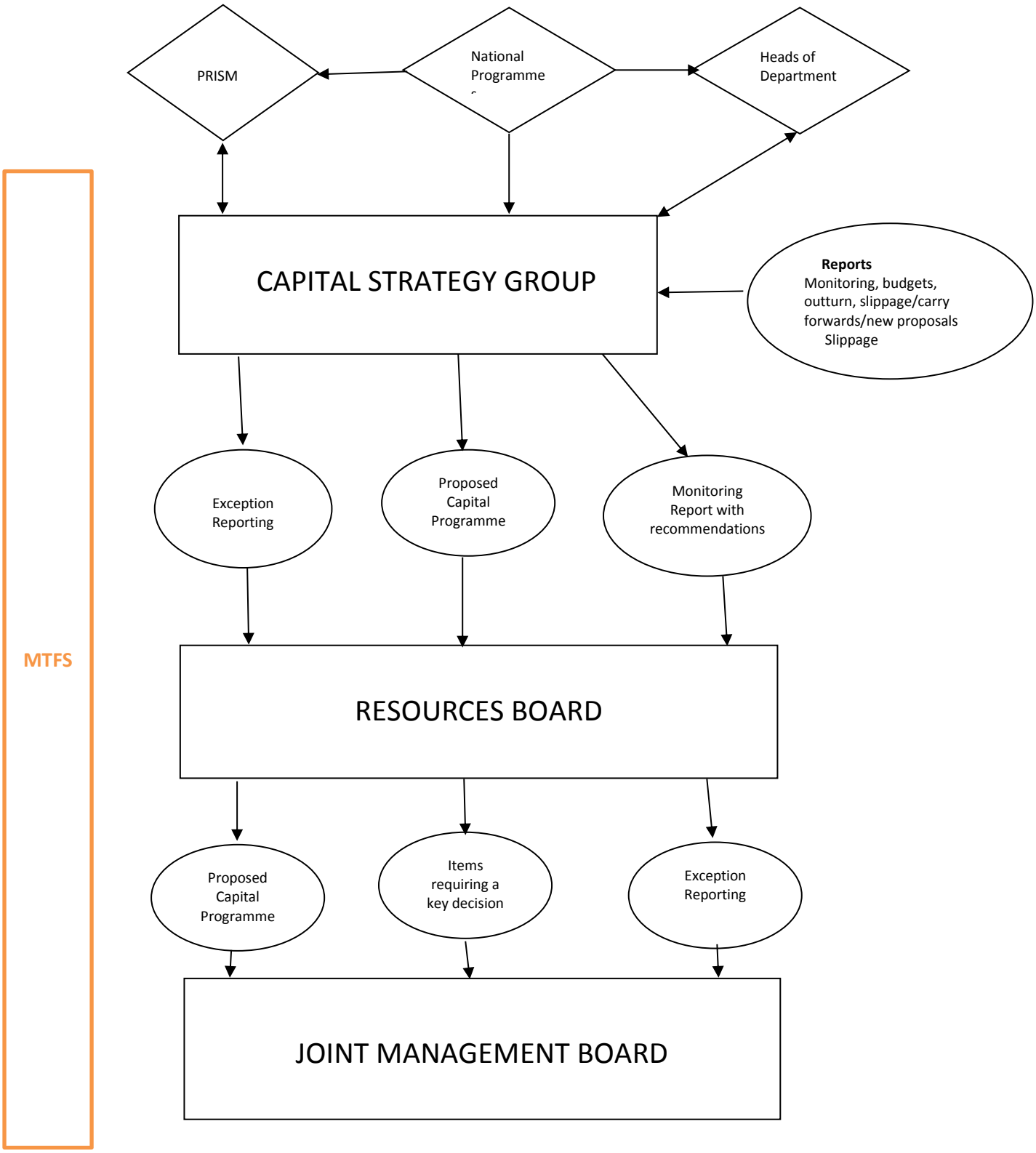
8.2 Consideration of the future impact on revenue budgets would need to be assessed.

9.0 SHARED SERVICES/COLLABORATION

9.1 Shared Service and Police Collaboration agreements already exist; details of the ownership of assets are outlined in the section 22 agreements of the Police Act 1996.

9.2 In delivering each element of the strategy, the PCC plans take account of the continuing collaboration agenda and will take every opportunity to engage with other Forces and Authorities in developing strategies to counter common problems. This Capital Strategy takes account of the continuing need to invest in these key priority areas working with partners in the future.

APPENDIX A


PRISM
National Programme
Heads of Department
CAPITAL STRATEGY GROUP
Reports
Monitoring, budgets, outturn, slippage/carry forwards/new proposals
Slippage
Exception Reporting
Proposed Capital Programme
Monitoring Report with recommendations
RESOURCES BOARD
Proposed Capital Programme
Items requiring a key decision
Exception Reporting
JOINT MANAGEMENT BOARD
MTFS

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PCC
Office of the Police and Crime Commissioner
Devon and Cornwall

RESERVES STRATEGY 2022/23 TO 2025/26

1. The Chartered Institute of Public Finance & Accountancy (CIPFA) maintains guidance on the establishment and maintenance of local authority reserves and balances, which is a foundation for good financial management, and is followed by PCCs. The Guidance identifies that Reserves can be held for 3 main purposes:

   - As a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of general reserves.
   - As a contingency to cushion the impact of unexpected events or emergencies –this also forms part of general reserves.
   - As a means of building up funds to meet known or predicted requirements; these specific reserves are known as earmarked reserves and remain legally part of the total "General Fund".

   In addition, PCCs hold the following usable reserves:

   - Capital Receipts Reserve – this reserve holds the proceeds from the sale of assets and can only be used for capital purposes (as specified in the capital finance and accounting regulations).

2. In addition, the Home Office issued specific **Police finance reserves guidance** on 31 January 2018, which is provided in full below.

   Guidance

   Each PCC should publish their reserves strategy on their website, either as part of their medium-term financial plan or in a separate reserves strategy document. The reserves strategy should include details of current and future planned reserve levels, setting out a total amount of reserves and the amount of each specific reserve held for each year. The reserves strategy should cover resource and capital reserves and provide information for the period of the medium-term financial plan (and at least two years ahead).

   Sufficient information should be provided to enable understanding of the purpose(s) for which each reserve is held and how holding each reserve supports the PCC's medium term financial plan.

   The strategy should be set out in a way that is clear and understandable for members of the public, and should include:

- *how the level of the general reserve has been set;*
- *justification for holding a general reserve larger than five percent of budget;*
- *details of the activities or items to be funded from each earmarked reserve, and how these supports the PCC and Chief Constable's strategy to deliver a good quality service to the public. Where an earmarked reserve is intended to fund a number of projects or programmes (for example, a change or transformation reserve), details of each programme or project to be funded should be set out.*

  The information on each reserve should make clear how much of the funding falls into the following three categories:

- *Funding for planned expenditure on projects and programmes over the period of the current medium term financial plan.*
- *Funding for specific projects and programmes beyond the current planning period.*
- *As a general contingency or resource to meet other expenditure needs held in accordance with sound principles of good financial management (e.g. insurance).*

Reserves Strategy

3. The PCC's Reserve Strategy has the following key principles: -

   - The reserves policy for Devon and Cornwall will be looking to maintain general balances at no more than 5% and no less than 3% of overall funding levels each year.
   - The requirement for the Reserves will be reviewed at least annually. Those reserves no longer required for their intended purpose will be identified and made available for other defined priorities.
   - Reserves will be assessed annually to ensure adequacy.
   - Risk assumptions used when assessing reserves will be reviewed annually.
   - A long-term view will be used when assessing the use of reserves to ensure all assets that support policing are maintained.
   - General balances cover the general financial risks. This will include unexpected or unavoidable additional costs, such as a major operations, uninsured liabilities, or treasury management risks.

4. The total general and earmarked reserves are estimated to be £38.379m as of 31 March 2022. The level of general balances will sit at £15.484m which equates to 4.43% of the overall revenue funding. This level of general balances is within the overall parameters set within the strategy.

5. A significant element of the reserves will go towards the funding of the capital programme.

Planned Use of Reserves

6. The reserves position is shown in Table 1 below and indicates that overall level of reserves will reduce from £46.089m as at 31/03/21 to £17.128m as at 31/03/26.

Table 1: Projected Reserve Levels to 31/03/2026

	Actual Balance 31/3/2021 £m	Forecast Balance 31/3/2022 £m	Estimate Balance 31/3/2023 £m	Estimate Balance 31/3/2024 £m	Estimate Balance 31/3/2025 £m	Estimate Balance 31/3/2026 £m
Earmarked Reserves						
Estates Development Reserve	0.608	0.298	0.000	0.000	0.000	0.000
Capital Financing Reserve	12.293	7.207	0.000	0.000	0.000	0.000
ESN Capital Reserve	10.225	10.225	10.009	6.901	0.647	0.647
Budget Management Fund	3.812	2.764	1.836	0.906	0.906	0.906
Police and Crime Plan Reserve	0.991	0.991	0.991	0.991	0.991	0.991
PEQF Reserve	0.127	0.000	0.000	0.000	0.000	0.000
Uplift Reserve	3.631	1.410	0.000	0.000	0.000	0.000
Total Earmarked Reserves	**31.687**	**22.895**	**12.836**	**8.798**	**2.544**	**2.544**
Capital Reserves						
Capital Grant	0.000	0.000	0.000	0.000	0.000	0.000
Capital Receipts	0.000	0.960	0.960	0.081	0.000	0.000
Total Capital Reserves	**0.000**	**0.960**	**0.960**	**0.081**	**0.000**	**0.000**
General Balances	**14.402**	**15.484**	**15.184**	**14.884**	**14.584**	**14.584**
Total Reserves and Balances	**46.089**	**39.339**	**28.980**	**23.763**	**17.128**	**17.128**

7. Earmarked reserves relate to specific projects or liabilities, where the anticipated extent of the liability, and the timescales involved, are estimated. Reserves have been set aside for significant areas and items of expenditure, and if required will be brought into revenue in the year in which expenditure is incurred.

   The earmarked reserves in the table above are held for the following reasons:-

a. **The Estates Development Reserve** is used to fund the costs of rationalising and developing the estate. Including feasibility work, planning applications, consultancy costs and project management.

b. **The Capital Financing Reserve is** used to fund the capital programme.

c. **The ESN Capital Reserve** is used to enable work and the acquisition of new national communication systems and hardware.

d. **The Budget Management Fund** allows the transfer of carry-forward requests to the following year.

e. **The Police and Crime Plan Reserve** is used to fund innovation projects in support of the Police and Crime Plan objectives and local PCC priorities.

f. **The PEQF Reserve** is used to fund police qualifications.

g. **The Uplift Reserve** is used to fund infrastructure relating to the future years uplift programme.

h. **General Balances** are used to mitigate against unknown or unexpected events that occur and that cannot be accommodated within the revenue or capital budgets. These balances are maintained at no more than 5% and not less than 3% of the annual revenue budget.

8. **The Capital Reserves** relates to setting aside unused capital finances that are expected to have been received, but not applied, in any year. It is currently expected that this will relate to unused capital grant and capital receipts. These reserves may only be used for capital purposes.

9. The key risks and liabilities covered by reserves and provisions are shown in Table 4. In each case, the timing and amount cannot be exactly predicted, but the figures shown reflect the latest assessment of potential cost.

Home Office Classifications

10. The Home Office have set our clear guidance on publishing the reserves strategy. This included information on each of the reserves and how they fall within the classifications shown in Table 2 below.

Table 2: Home Office Classifications

	Actual Balance 31/3/2021 £m	Forecast Balance 31/3/2022 £m	Estimate Balance 31/3/2023 £m	Estimate Balance 31/3/2024 £m	Estimate Balance 31/3/2025 £m	Estimate Balance 31/3/2026 £m
Planned Programme and Projects within the current MTFS period	31.687	23.855	13.796	8.879	2.544	2.544
Specific Projects and Programmes beyond the current MTFS period	0.000	0.000	0.000	0.000	0.000	0.000
General Contingency	14.402	15.484	15.184	14.884	14.584	14.584
Total	**46.089**	**39.339**	**28.980**	**23.763**	**17.128**	**17.128**

Review of Reserves & Risk Assumptions

11. The main financial risks contained on the joint force/OPCC risk register are shown below and inform the reserves policy:

- Agreed pay awards exceed the budget assumptions.
- Insufficient grant and council tax by 2022/23 to fund the Police and Crime plan.
- Demand increases above the levels that are affordable within the set budget.
- The council tax base does not increase as assumed.
- The council tax surplus is not generated to the levels assumed.

12. In addition to these wider risks the following areas are kept under review:

- Increased funding is required for the Force change programme.
- Revenue savings are not delivered on time.
- Increases in long term interest rates.
- Over reliance on internal borrowing to temporarily fund the capital programme.
- The review of Home Office formula grant funding introduces annual losses of grant.
- The top-slice funding in future years depletes resources without reciprocal benefit to the revenue budget.
- Budget uncertainty through assumption changes.
- Major incident cost overrun.
- Further cost transfers from the centre (e.g. Emergency Services Network and IT company costs).
- Reductions in local authority funding placing pressure on the police service.

Assessing Adequacy

13. The current expected use of earmarked reserves shows a significant reduction in the balance available by the end of 2022/23. This assumes that the capital programme is delivered on time and within budget. A target to increase the revenue contribution to capital over the life of the MTFS has been included in 2022/23.

14. In addition to the risks covered by earmarked reserves, there are further, unquantified risks and liabilities. The main source of funding for these risks is General Balances.

15. The key financial risks are summarised below. For each, an assessment of potential risk is shown, but clearly, in each case the actual risk could be significantly different, and an assessment of these risks will need to be reviewed regularly. Full details of each risk are set out in the Reserves Policy.

Table 4: The Financial Risks

Identified Risk	**£m's**
Future capital funding	2.0
Increased pay award above assumptions	1.5
Council Tax Volatility	1.5
Major Operations	2.9
Uninsured Liabilities and claims	2.0
Treasury Management	1.5
Other Unexpected Expenditure / Working Capital	2.0
Total Financial Liability	**13.4**

16. The financial risks shown in the table above would be temporary one-off funding. For those items that have an impact annually the funding would be used to allow time to deliver permanent savings.

17. The pandemic increased the risk around the council tax volatility. This is in terms of the affect on the council tax base and the impact on the delayed and non-payment of bills.

18. The actual limit of general risks, such as major operations or uninsured losses, could of course be significantly more than the assessment shown. Risks around significant major operations are increasing, with increased reliance on more costly resourcing options such as overtime or mutual aid. If such a significant risk were realised, further funding would be sought in the first instance by re-prioritising the use of earmarked reserves.

19. The above risks can be mitigated by the funding allocation on General Balances. General Balances exists to cover the general financial risks faced by the Force, such as major operations, uninsured liabilities, or treasury management risks.

20. The total funding available on General Balances fully meets the assessed risks and liabilities. The level of General Balances is forecast to be £15.484m as of 31 March 2022.

21. On the basis of the above and given that risk calculation is not an exact science, the reserves and balances generally cover known liabilities and commitments and provide adequate cover for unknown liabilities at the assessed level for 2022/23.

22. Reserves will continue to be monitored and reviewed regularly throughout the year and as stated above, will be the subject of more transparency.

23. The Treasurer as statutory Section 151 officer confirms that these reserves provide an adequate level given the identified financial risks in the budget.

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AGENDA NO: 10

INDEPENDENT AUDIT COMMITTEE

DATE OF MEETING: 14 December 2021

FOIA OPEN

TITLE OF REPORT: DORSET TREASURY MANAGEMENT, CAPITAL AND RESERVE STRATEGIES COVERING REPORT

REPORT BY: Julie Strange, Chief Financial Officer to the OPCC

PURPOSE OF THE REPORT:
To present an update and provide assurance on one or more of the following areas:

Governance, Risk and Control	**YES**
Internal Audit	**-**
External Audit	**-**
Financial reporting	**-**
Other matter *(please specify here)*	**-**

RECOMMENDATIONS:
The Independent Audit Committee is asked to:

Review the Report	**YES**
Consider the Report	**-**
Note the report	**-**
Other (please specify here)	**-**

1. **STRATEGIC ISSUE FOR CONSIDERATION**

1.1 This report sets out three 2022/23 draft Strategies: Treasury Management Strategy, Capital Strategy and Reserves Strategy.

1.2 All three Strategies are intrinsic to the annual Budget and Medium Term Financial Strategy which will be considered by the Police and Crime Panel on the 3 February 2022.

1.3 The Independent Audit Committee are asked to consider these strategies prior to the approval by the Police and Crime Commissioner.

2. TREASURY MANAGEMENT STRATEGY

2.1 The Police and Crime Commissioner (PCC) has adopted the Chartered Institute of Public Finance and Accountancy's (CPIFA's) Treasury Management in the Public Services: Code of Practice (the CIPFA Code) which requires the PCC to approve a Treasury Management Strategy before the start of each financial year.

2.2 The figures included in this draft version will be updated as the budget position for 2022/23 is finalised.

2.3 There are some presentational changes in the 2022/23 Treasury Management Strategy. The key substantive content change is noted below:

2.4 Operational limit

The requirement to report against the operational limit has been removed as this is not a strategic limit but a daily operational limit for managing the cashflow. This limit will therefore be removed from the quarterly reports presented to the committee.

2.5 Strategic Pooled Funds limit

The sector limit has reduced from £15m to £4.7m which is a more realistic limit and is in line with the 2022/23 minimum reserves level.

2.6 The Draft 2022/23 Treasury Management Strategy is shown in Appendix a.

3. CAPITAL STRATEGY

3.1 The Prudential Code for Capital Finance in Local Authorities (*2017 Edition)* requires Police and Crime Commissioners to produce a capital strategy in order to help demonstrate that capital expenditure and investment decisions are taken in line with service objectives and properly take account of stewardship, value for money, prudence, sustainability and affordability.

3.2 There are some presentational changes in the Capital Strategy which is shown in Appendix b.

4. RESERVES STRATEGY

4.1 The Chartered Institute of Public Finance and Accountancy's (CPIFA's) sets out guidance on establishing and maintaining reserves and balances. This guidance is a foundation for good financial management and has been adopted by the Police and Crime Commissioner (PCC).

4.2 The Reserves Strategy is reviewed annually and discloses each reserve held, its purpose and expected balances over the medium term.

4.3 The CIPFA guidance identifies that Revenue Reserves can be held for 3 main purposes:

- As a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing (this forms part of general reserves);

- As a contingency to cushion the impact of unexpected events or emergencies (this also forms part of general reserves);

- As a means of building up funds to meet known or predicted requirements; these specific reserves are known as earmarked reserves and remain legally part of the total “General Fund”.

4.4 In addition, the PCC holds the following usable reserve:

- Capital Receipts Reserve – this reserve holds the proceeds from the sale of assets and can only be used for capital purposes (as specified in the capital finance and accounting regulations).

4.5 The Home Office issued specific **Police finance reserves guidance** on 31 January 2018, which is provided in the draft Strategy. They also publish the details of all police reserves annually.

4.6 Based on the current position, the level of general balances equates to 3.74% of the overall revenue funding which is within the reserves policy range.

4.7 There are some presentational changes in the Reserves Strategy, including reflecting the updated Financial Regulations.

4.8 The figures included in this draft version will be updated as the budget position for 2022/23 is finalised.

4.9 The Draft 2022/23 Reserves Strategy is shown in Appendix c.

Julie Strange
Chief Financial Officer to the OPCC

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POLICE AND CRIME COMMISSIONER FOR DORSET

TREASURY MANAGEMENT STRATEGY 2022/23

POLICE AND CRIME COMMISSIONER FOR DORSET
2022/23 TREASURY MANAGEMENT STRATEGY STATEMENT

1.0 Introduction

1.1 This is the Treasury Management Strategy Statement for the Police and Crime Commissioner (PCC) for Dorset.

1.2 The PCC has adopted the Chartered Institute of Public Finance and Accountancy's Treasury Management in the Public Services: Code of Practice 2017 Edition (the CIPFA Code) which requires the PCC to approve a Treasury Management Strategy before the start of each financial year.

1.3 In addition, this strategy also complies with elements of the Local Government Act 2003, the CIPFA Prudential Code, the Ministry of Housing, Communities and Local Government (MHCLG) MRP Guidance and MHCLG Investment Guidance.

1.4 This report fulfils the PCC's legal obligation under the Local Government Act 2003 to have regard to both the CIPFA Code and the MHCLG Guidance.

1.5 Treasury Management is the management of the PCC's cash flows, borrowing and investments, and the associated risks. **The PCC funds are exposed to financial risks including the loss of invested funds and the revenue effect of changing interest rates as well as ensuring that revenue cash flow is adequately planned and funding is available to meet capital expenditure plans.** The successful identification, monitoring and control of financial risk are therefore central to the PCC's prudent financial management.

1.6 In accordance with the MHCLG Guidance, the PCC will be asked to approve a revised Treasury Management Strategy Statement should the assumptions on which this report is based change significantly. Such circumstances would include, for example, a large unexpected change: in interest rates; in the PCC's capital programme; or in the level of its investment balances.

1.7 The Treasury Management Strategy is integral to the Medium Term Financial Strategy (MTFS) and this document should be read in conjunction with the report on the MTFS for 2022/23 to 2025/26.

1.8 This Strategy includes the Borrowing Strategy, the Investment Strategy and Prudential Indicators.

2.0 Treasury Management Strategy

2.1 On 31 March 2021 the PCC held treasury investments totalling £17.127m and £39.571m external debt.

2.2 This is set out in further detail in Appendix 1 Table 1. Forecast changes in these sums are shown in the balance sheet analysis in Appendix 1 Table 2.

2.3 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment. The PCC's current strategy is to maintain borrowing and investments below their underlying levels, sometimes known as internal borrowing.

2.4 Over the forecast period CFR will decrease by the amounts reflecting the reduction in the existing liabilities (e.g. minimum revenue provision) and will increase by any new unfinanced capital expenditure.

2.5 CIPFA's Prudential Code for Capital Finance in Local Authorities recommends that the total debt should be lower than its highest forecast CFR over the next three years. Appendix 2 Table 8 shows that the PCC expects to comply with this recommendation during 2022/23.

2.6 The economic background, credit outlook and interest rate forecasts, provided by Arlingclose, is shown at Appendix 5.

2.7 Given that investment interest rates are currently negligible with little prospect of significant short term changes, a budget of £6k has been set for 2022/23. For new borrowing the rate range is 0.02% to 2.00% depending on the term and source of the loan.

2.8 **Liability benchmark**: To compare the PCC's actual borrowing against an alternative strategy, a liability benchmark has been calculated showing the lowest risk level of borrowing. This benchmark is the minimum amount of debt that the PCC would hold if internal borrowing was used up to the maximum level possible (i.e. using all reserves and cashflow surpluses). The PCC's liability benchmark is shown at Appendix 1 Table 3. This assumes the same forecasts as Appendix 1 Table 2, but that cash and investment balances are kept to a minimum level of £10m at each year-end to maintain sufficient liquidity but minimise credit risk.

2.9 Following on from the medium-term forecasts in Appendix 1 Table 3, the long-term liability benchmark assumes capital expenditure funded by external and internal borrowing; and minimum revenue provision on new capital expenditure based on various years depending on the type of asset.

3.0 Borrowing Strategy

3.1 As at the 31 March 2021, the PCC held £22.653m of PFI loans, £0.846m of other long term loans, £16m short term borrowing with Local Authorities and finance leases of £72k. The balance sheet forecast in Appendix 1 Table 2 shows that the PCC expects to borrow in 2022/23. The PCC may also borrow additional sums to pre-fund future years' requirements, providing this does not exceed the authorised limit for borrowing which is shown in Appendix 2 Table 10.

3.2 **Objectives:** The chief objective when borrowing money is to strike an appropriately low risk balance between securing low interest costs and achieving certainty of those costs over the period for which funds are required. The flexibility to renegotiate loans should the PCC's long-term plans change is a secondary objective.

3.3 **Strategy:** Given the significant cuts in funding, the PCC's borrowing strategy continues to address the key issue of affordability without compromising the longer-term stability of the debt portfolio. With short-term interest rates currently much lower than long-term rates, it is likely to be more cost effective in the short-term to either use internal resources, or to borrow short-term loans instead.

By doing so, the PCC is able to reduce net borrowing costs (despite foregone investment income) and reduce overall treasury risk. The benefits of internal or short term borrowing will be monitored regularly against the potential for incurring additional costs by deferring borrowing into future years when long-term borrowing rates are forecast to rise modestly. Arlingclose will assist the PCC Treasurer with this 'cost of carry' and breakeven analysis. Its output may determine whether the PCC borrows additional sums at long-term fixed rates in 2022/23 with a view to keeping future interest costs low, even if this causes additional cost in the short-term.

The PCC will consider PWLB as a source of borrowing as well as other sources including banks, pensions and local authorities, and will investigate the possibility of issuing bonds and similar instruments, in order to lower interest costs and reduce over-reliance on one source of funding in line with the CIPFA Code. The PWLB lending terms have been revised so that loans are no longer available to authorities that plan on buying investment assets primarily for yield. The PCC has no intention of undertaking this type of activity and so the access to PWLB loans is retained.

Alternatively, the PCC may arrange forward starting loans, where the interest rate is fixed in advance, but the cash is received in later years. This would enable certainty of cost to be achieved without suffering a cost of carry in the intervening period.

In addition, the PCC may borrow short-term loans to cover temporary cash flow shortages.

3.4 **Sources of borrowing:** The approved sources of long-term and short-term borrowing are:

- HM Treasury's PWLB lending facility (formerly the Public Works Loan Board)
- any institution approved for investments
- any other bank or building society authorised to operate in the UK
- any other UK public sector body
- UK public and private sector pension funds (except the Dorset Police Pension Fund)
- capital market bond investors
- UK Municipal Bonds Agency plc and other special purpose companies created to enable local authority bond issues

Other sources of debt finance: In addition, capital finance may be raised by the following methods that are not borrowing, but may be classed as other debt liabilities:

- leases
- hire purchase
- Private Finance Initiative
- sale and leaseback

3.5 **Municipal Bonds Agency:** UK Municipal Bonds Agency plc was established in 2014 by the Local Government Association as an alternative to the PWLB. It issues bonds on the capital markets and lends the proceeds to local authorities. This is a more complicated source of finance than the PWLB for two reasons: borrowing authorities will be required to provide bond investors with a guarantee to refund their investment in the event that the agency is unable to for any reason; and there will be a lead time of several months between committing to borrow and knowing the interest rate payable. Any decision to borrow from the Agency will therefore be the subject of a separate report to the PCC.

3.6 **Short-term and variable rate loans**: These loans leave the PCC exposed to the risk of short-term interest rate rises and are therefore subject to the interest rate

exposure limits in the treasury management indicators below. Financial derivatives may be used to manage this interest rate risk.

3.7 **Debt rescheduling:** The PWLB allows authorities to repay loans before maturity and either pay a premium or receive a discount according to a set formula based on current interest rates. Other lenders may also be prepared to negotiate premature redemption terms. The PCC may take advantage of this and replace some loans with new loans, or repay loans without replacement, where this is expected to lead to an overall cost saving or a reduction in risk.

4.0 Investment Strategy

4.1 The PCC holds invested funds, representing income received in advance of expenditure plus balances and reserves held. In the first 7 months of 2021/22, the PCC's investment balance has ranged between £4.695m and £30.693m. These levels may reduce in the forthcoming year.

4.2 **Objectives:** The CIPFA Code and the MHCLG Guidance requires the PCC to invest its treasury funds prudently, and to have regard to the security and liquidity of its investments before seeking the highest rate of return, or yield. The PCC's objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income. Where balances are expected to be invested for more than one year, the PCC will aim to achieve a total return that is equal or higher than the prevailing rate of inflation, in order to maintain the spending power of the sum invested.

4.3 **Negative interest rates:** The COVID-19 pandemic has increased the risk that the Bank of England will set its Bank Rate at or below zero, which is likely to feed through to negative interest rates on all low risk, short-term investment options. Since investments cannot pay negative income, negative rates will be applied by reducing the value of investments. In this event, security will be measured as receiving the contractually agreed amount at maturity, even though this may be less than the amount originally invested.

4.4 **Strategy:** Given the increasing risk and very low returns from short-term unsecured bank investments, the PCC aims to diversify into more secure and/or higher yielding asset classes during 2022/23. This aim may however become secondary if the advice from Arlingclose differs as we have seen in previous years.

4.5 **Business Model:** Under the IFRS 9 Financial Instruments standard, the accounting for certain investments depends on the PCC's approach to managing them. The PCC aims to realise value from its internally managed treasury investments and uses two business models to achieve this. One collects

contractual cashflows e.g. a bank notice account and the other covers non-contractual investments such as pooled funds which include money market funds. The accounting treatment is different for each model with an unusable reserve used to recognise fair value gains and losses for the latter model.

4.6 **Approved counterparties:** The PCC may invest its surplus funds with any of the counterparty types shown in Appendix 1 Table 4, subject to the cash limits and time limits. The PCC will only invest with those counterparties recommended by Arlingclose. *CIPFA's revised (2021) Treasury Management Code which is due for release in December 2021 includes the requirement for a policy to be disclosed on the environmental, social and governance (ESG) investment considerations. (This strategy will be updated to include a policy once further details are released).*

4.7 **Minimum credit rating:** Treasury investments in the sectors marked with an asterisk in Table 4 will only be made with entities whose lowest published long-term credit rating is no lower than A-. Where available, the credit rating relevant to the specific investment or class of investment is used, otherwise the counterparty credit rating is used. However, investment decisions are never made solely based on credit ratings, and all other relevant factors including external advice will be taken into account.

For entities without published credit ratings, investments may be made only where external advice indicates the entity to be of similar credit quality.

4.8 **Banks and building societies (unsecured):** Accounts, deposits, certificates of deposit and senior unsecured bonds with banks and building societies, other than multilateral development banks. These investments are subject to the risk of credit loss via a bail-in should the regulator determine that the bank is failing or likely to fail. See below for arrangements relating to operational bank accounts.

4.9 **Secured investments:** Investments secured on the borrower's assets, which limits the potential losses in the event of insolvency. The amount and quality of the security will be a key factor in the investment decision. Covered bonds and reverse repurchase agreements with banks and building societies are exempt from bail-in. Where there is no investment specific credit rating, but the collateral upon which the investment is secured has a credit rating, the higher of the collateral credit rating and the counterparty credit rating will be used. The combined secured and unsecured investments with any one counterparty will not exceed the cash limit for secured investments.

4.10 **Government:** Loans to, bonds and bills issued or guaranteed by, national governments, regional and local authorities and multilateral development banks. These investments are not subject to bail-in, and there is generally a lower risk of insolvency, although they are not zero risk. Investments with the UK Government

are deemed to be zero credit risk due to its ability to create additional currency and therefore may be made in unlimited amounts for up to 50 years.

4.11 **Registered providers (unsecured):** Loans to, and bonds issued or guaranteed by, registered providers of social housing and registered social landlords, formerly known as housing associations. These bodies are regulated by the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Welsh Government and the Department of Communities (in Northern Ireland). As providers of public services, they retain the likelihood of receiving government support if needed.

4.12 **Money market funds:** Pooled funds that offer same-day or short notice liquidity and very low or no price volatility by investing in short term money markets. They have the advantage over bank accounts of providing wide diversification of investment risks, coupled with the services of a professional fund manager in return for a small fee. Although no sector limit applies to money market funds, the PCC will take care to diversify its liquid investments over a variety of providers to ensure access to cash at all times.

4.13 **Strategic pooled funds:** Bond, equity and property funds offer enhanced returns over the longer term but are more volatile in the short term. These allow the PCC to diversify into asset classes other than cash without the need to own and manage the underlying investments. As these funds have no defined maturity date, but are available for withdrawal after a notice period, their performance and continued suitability in meeting the PCC's investment objectives will be monitored regularly. Any such investment would require the explicit approval of the PCC.

4.14 **Operational bank accounts:** The PCC may incur operational exposures, for example though current accounts, collection accounts and merchant acquiring services, to any UK bank with credit ratings no lower than BBB- and with assets greater than £25 billion. These are not classed as investments but are still subject to the risk of a bank bail-in, therefore where the credit rating falls below A- balances will be kept below £1.250m, otherwise the standard counterparty limit will apply.

The Bank of England has stated that in the event of failure, banks with assets greater than £25 billion are more likely to be bailed-in than made insolvent, increasing the chance of the PCC maintaining operational continuity.

4.15 **Risk assessment and credit ratings**: Credit ratings are obtained and monitored by the PCC's treasury advisers, who will notify changes in ratings as they occur. The credit rating agencies in current use are listed in the Treasury Management Practices document. Where an entity has its credit rating downgraded so that it fails to meet the approved investment criteria then:

- no new investments will be made,
- any existing investments that can be recalled or sold at no cost will be, and
- full consideration will be given to the recall or sale of all other existing investments with the affected counterparty.

Where a credit rating agency announces that a credit rating is on review for possible downgrade (also known as "negative watch") so that it may fall below the approved rating criteria, then only investments that can be withdrawn on the next working day will be made with that organisation until the outcome of the review is announced. This policy will not apply to negative outlooks, which indicate a long-term direction of travel rather than an imminent change of rating.

4.16 **Other information on the security of investments**: The PCC understands that credit ratings are good, but not perfect, predictors of investment default. Full regard will therefore be given to other available information on the credit quality of the organisations in which it invests, including credit default swap prices, financial statements, information on potential government support and reports in the quality financial press and analysis and advice from the PCC's treasury management advisor. No investments will be made with an organisation if there are substantive doubts about its credit quality, even though it may otherwise meet the above criteria.

When deteriorating financial market conditions affect the creditworthiness of all organisations, as happened in 2008 and 2020, this is not generally reflected in credit ratings, but can be seen in other market measures. In these circumstances, the PCC will restrict its investments to those organisations of higher credit quality and reduce the maximum duration of its investments to maintain the required level of security. The extent of these restrictions will be in line with prevailing financial market conditions. If these restrictions mean that insufficient commercial organisations of high credit quality are available to invest the PCC's cash balances, then the surplus will be deposited with the UK Government, or with other local authorities. This will cause investment returns to fall but will protect the principal sum invested.

4.17 **Investment limits**: The PCC's revenue reserves available to cover investment losses are forecast to be £8.445m on 31 March 2022. The maximum that will be lent to any one organisation (other than the UK Government) is set out in Appendix 1 Table 4. A group of entities under the same ownership will be treated

as a single organisation for limit purposes. Limits will also be placed on fund managers, investments in brokers' nominee accounts and foreign countries. Investments in pooled funds and multilateral development banks do not count against the limit for any single foreign country, since the risk is diversified over many countries. Investment limits are shown in Appendix 1 Table 5.

4.18 **Liquidity management**: The PCC uses a purpose-built cash flow forecasting spreadsheet to determine the maximum period for which funds may prudently be committed. The forecast is compiled on a prudent basis to minimise the risk of the PCC being forced to borrow on unfavourable terms to meet its financial commitments. Limits on long-term investments are set by reference to the PCC's medium term financial plan and cash flow forecast.

The PCC will spread its liquid cash to ensure that access to cash is maintained in the event of operational difficulties of any one provider.

5.0 2018 MHCLG Investment Guidance

5.1 The contribution that Treasury Management Investments make to the objectives of the PCC is to support effective treasury management activities.

5.2 The statutory guidance issued by MHCLG in January 2018 requires authorities to report also on their investment strategy with regard to the following purposes:

- To support local public services by lending to or buying shares in other organisations (service investments), and
- To earn investment income (known as commercial investments where this is the main purpose)

5.3 The PCC does not have any current plans for such investments. Should these plans change in the future a full assessment will be made and an appropriate Investment Strategy Report will be prepared.

5.4 Financial guarantees are not strictly counted as investments, since no money has exchanged hands yet, but they do carry risks. The PCC, along with all other PCCs, provide a financial guarantee to the APCC pension fund held by Merseyside LGPS amounting to £21k. This would be covered within the General Fund Balance reserve.

6.0 Prudential Code Indicators

6.1 The Local Government Act 2003 requires the PCC to have regard to the CIPFA Prudential Code for Capital Finance in Local Authorities (the Prudential Code) when determining how much money it can afford to borrow. The objectives of the Prudential Code are to ensure, within a clear framework, that the capital investment plans of the PCC are affordable, prudent and sustainable, and that treasury management decisions are taken in accordance with good professional practice. To demonstrate that the PCC has fulfilled these objectives, the Prudential Code sets out the following indicators that must be set and monitored each year.

(i) **Estimates of Capital Expenditure:** The PCC's planned capital expenditure and financing is shown in Table 6 in Appendix 2 as well as the **estimates of Capital Financing Requirement:** The Capital Financing Requirement (CFR) (Table 7 in Appendix 2) measures the PCC's underlying need to borrow for a capital purpose.

(ii) **Gross Debt and the Capital Financing Requirement:** In order to ensure that over the medium term debt will only be for a capital purpose, the PCC should ensure that debt does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years. This is a key indicator of prudence which is shown in Appendix 2 Table 8.

(iii) **Operational Boundary for External Debt:** The operational boundary shown in Appendix 2 Table 9 is based on the PCC's estimate of most likely (i.e. prudent but not worst case) scenario for external debt. It links directly to the PCC's estimates of capital expenditure, the capital financing requirement, finance leases, Private Finance Initiative, other liabilities and cash flow requirements, and is a key management tool for in-year monitoring.

(iv) **Authorised Limit for External Debt:** The authorised limit shown in Appendix 2 Table 10 is the affordable borrowing limit determined in compliance with the Local Government Act 2003. It is the maximum amount of debt that the PCC can legally owe. The authorised limit provides headroom over and above the operational boundary for unusual cash movements.

(v) **Ratio of Financing Costs to Net Revenue Stream:** This is an indicator of affordability and highlights the revenue implications of existing and proposed capital expenditure by identifying the proportion of the revenue budget required to meet financing costs. This is shown in Appendix 2 Table 11.

7.0 Treasury Management Code Prudential Indicators

7.1 The PCC measures and manages its exposures to treasury management risks using the following indicators.

7.2 **Security:** The PCC has adopted a voluntary measure of its exposure to credit risk by monitoring the weighted average credit rating of its investment portfolio. This is calculated by applying a score to each investment (AAA=1, AA+=2, etc.) and taking the arithmetic average, weighted by the size of each investment. Unrated investments are assigned a score based on their perceived risk.

Credit risk indicator	Target
Portfolio average credit rating	A+

7.3 **Liquidity:** Minimum limits are set for short term cash in order that sufficient liquidity is available to meet unexpected variation in the cash flow:

Liquidity risk indicator	Target
Minimum limit at less than 31 days duration	£3m

7.4 **Interest rate exposures**: This indicator is set to control the PCC's exposure to interest rate risk. The upper limits on the one year revenue impact of a 1% rise or fall in interest rates will be:

Interest rate risk indicator	Limit
Upper limit on 1 year revenue impact of a 1% rise in interest rates	(£200k)
Upper limit on 1 year revenue impact of a 1% fall in interest rates	£200k

The impact of a change to the variable interest rates is calculated on the assumption that maturing loans and investments will be replaced at new market rates.

It should be noted that all forecast loan arrangements have fixed interest rates and have been excluded from the calculations.

7.5 **Maturity structure of borrowing:** This indicator is set to control the PCC's exposure to refinancing risk. The upper and lower limits on the maturity structure of fixed rate borrowing will be:

Refinancing rate risk indicator	Upper Limit	Lower Limit
Under 12 months	100%	0%
12 months and within 24 months	55%	0%
24 months and within 5 years	65%	0%
5 years and within 10 years	80%	0%
10 years and above	100%	0%

Time periods start on the first day of each financial year. The maturity date of borrowing is the earliest date on which the lender can demand repayment.

7.6 **Principal sums invested for periods longer than a year:** The purpose of this indicator is to control the PCC's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end will be:

Long term treasury management investments indicator	2022/23	2023/24	2024/25	2025/26
Counterparty Limit on principal invested beyond year end	£3m	£2.5m	£2m	£1.5m

8.0 Other Items

8.1 The CIPFA Code requires the PCC to include the following in its Treasury Management Strategy.

8.2 **Financial derivatives:** In the absence of any explicit legal power to do so, the PCC will not use standalone financial derivatives (such as swaps, forwards, futures and options). Derivatives embedded into loans and investments, including pooled funds and forward starting transactions, may be used, and the risks that they present will be managed in line with the overall treasury risk management strategy.

8.3 **Investment training:** The needs of the PCC's treasury management staff for training in investment management are assessed on an ongoing basis and as part of the staff appraisal process, and additionally when the responsibilities of individual members of staff change.

Staff attend internal training courses and/or training courses, seminars and conferences provided by Arlingclose and CIPFA.

8.4 **Investment advisers:** The PCC has appointed Arlingclose Limited as treasury management advisers and receive specific advice on investment, debt and capital finance issues.

8.5 **Investment of money borrowed in advance of need**: The PCC may, from time to time, borrow in advance of need, where this is expected to provide the best long-term value for money. Since amounts borrowed will be invested until spent, the PCC is aware that it will be exposed to the risk of loss of the borrowed sums, and the risk that investment and borrowing interest rates may change in the intervening period. These risks will be managed as part of the PCCs overall management of its treasury risks.

The total amount borrowed will not exceed the authorised borrowing limit. The maximum period between borrowing and expenditure is expected to be two years, although the PCC is not required to link particular loans with particular items of expenditure.

8.6 The Minimum Revenue Provision (MRP) Policy Statement is shown in Appendix 4. MRP is an amount charged to the revenue budget for the repayment of debt. The Local Government Act 2003 requires the PCC to have regard to the MHCLG Guidance on Minimum Revenue Provision most recently issued in 2018.

9.0 Financial Implications

9.1 The budget for investment income in 2022/23 is £6k, based on an average investment portfolio of £11.5m at an average interest rate of 0.05%. The budget for external debt interest payable in 2022/23 is £91k. If actual levels of investments and borrowing, and actual interest rates differ from those forecast, performance against budget will be correspondingly different.

10.0 Other Options Considered

10.1 The MHCLG Guidance and the CIPFA Code do not prescribe any particular treasury management strategy for local authorities to adopt. The Treasurer, having consulted the PCC believes that the above strategy represents an appropriate balance between risk management and cost effectiveness. Some alternative strategies, with their financial and risk management implications, are considered below.

Alternative	Impact on income and expenditure	Impact on risk management
Invest in a narrower range of counterparties and/or for shorter times	Interest income will be lower	Lower chance of losses from credit related defaults, but any such losses may be greater
Invest in a wider range of	Interest income will be	Increased risk of losses

counterparties and/or for longer times	higher	from credit related defaults, but any such losses may be smaller
Borrow additional sums at long-term fixed interest rates	Debt interest costs will rise; this is unlikely to be offset by higher investment income	Higher investment balance leading to a higher impact in the event of a default; however long-term interest costs may be more certain
Borrow short-term or variable loans instead of long-term fixed rates	Debt interest costs will initially be lower	Increases in debt interest costs will be broadly offset by rising investment income in the medium term, but long-term costs may be less certain
Reduce level of borrowing	Saving on debt interest is likely to exceed lost investment income	Reduced investment balance leading to a lower impact in the event of a default; however long-term interest costs may be less certain

11.0 Governance Arrangements

11.1 The Treasury Management governance arrangements are set out in Appendix 5.

Appendices

Appendix 1: Investment Strategy
Appendix 2: Prudential Indicators
Appendix 3: Budgets
Appendix 4: Minimum Revenue Provision Statement
Appendix 5: Economic Context
Appendix 6: Governance
Appendix 7: Glossary

INVESTMENT STRATEGY **Appendix 1**

Table 1: Existing Investment and Debt Portfolio Position

Actual Portfolio as at 31/03/2021	
	£'000
External Borrowing:	
Short-term borrowing	(16,000)
Total External Borrowing	(16,000)
Other Long-Term Liabilities:	
Private Finance Initiative	(22,653)
Other long term liabilities	(846)
Total Other Long-Term Liabilities	(23,499)
Finance Leases	
Finance lease liabilities	(72)
Total Finance Leases	(72)
Total Gross External Debt	**(39,571)**
Treasury Investments:	
Short-term investments	4,000
Cash and cash equivalents	13,127
Total Treasury Investments	**17,127**
Net Debt	**(22,444)**

Table 2: Balance Sheet Summary and Forecast

	31/03/2021	31/03/2022	31/03/2023	31/03/2024	31/03/2025	31/03/2026
	Actual	Forecast	Estimate	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000	£'000
Total Capital Financing Requirement	**29,803**	**34,343**	**50,533**	**54,205**	**52,453**	**48,877**
Less: PFI	(22,653)	(22,416)	(20,360)	(18,305)	(16,333)	(14,706)
Less: Other Long Term Liabilities	(846)	(727)	(607)	(489)	(382)	(274)
Less: External Borrowing	0	(5,145)	(24,311)	(31,563)	(33,872)	(33,838)
Less: Finance Leases	(72)	(42)	(12)	(0)	(88)	(59)
Internal Borrowing	**6,232**	**6,013**	**5,243**	**3,848**	**1,778**	**0**
Less: Balance Sheet Resources						
Usable Reserves	(10,120)	(8,761)	(7,377)	(6,182)	(6,077)	(6,172)
Working Capital	(13,239)	(13,239)	(13,239)	(13,239)	(13,239)	(13,239)
Total Funds	**(23,359)**	**(22,000)**	**(20,616)**	**(19,421)**	**(19,316)**	**(19,411)**
New borrowing or (Treasury investments)	**(17,127)**	**(15,987)**	**(15,373)**	**(15,573)**	**(17,538)**	**(19,411)**

INVESTMENT STRATEGY **Appendix 1**

Table 3: Liability Benchmark

	31/03/2021	31/03/2022	31/03/2023	31/03/2024	31/03/2025	31/03/2026
	Actual	Forecast	Estimate	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000	£'000
Total Capital Financing Requirement	**29,803**	**34,343**	**50,533**	**54,205**	**52,453**	**48,877**
Less: PFI	(22,653)	(22,416)	(20,360)	(18,305)	(16,333)	(14,706)
Less: Other Long Term Liabilities	(846)	(727)	(607)	(489)	(382)	(274)
Less: Finance Leases	(72)	(42)	(12)	(0)	(88)	(59)
Less: Balance Sheet Resources						
Usable Reserves	(10,120)	(8,761)	(7,377)	(6,182)	(6,077)	(6,172)
Working Capital	(13,239)	(13,239)	(13,239)	(13,239)	(13,239)	(13,239)
Plus: Liquidity Allowance	10,000	10,000	10,000	10,000	10,000	10,000
Liability Benchmark	**(7,127)**	**(842)**	**18,938**	**25,990**	**26,334**	**24,427**

Table 4: Treasury Investment Counterparties and Limits

Sector	Time Limit	Counterparty Limit	Sector Limit
The UK Government	50 years	Unlimited	n/a
Local Authorities and Other Government Entities	25 years	£3m	Unlimited
Secured Investments*	25 years	£3m	Unlimited
Banks (unsecured) *	13 months	£1.5m	Unlimited
Building Societies (unsecured) *	13 months	£1.5m	£3m
Registered Providers (unsecured) *	5 years	£1.5m	£3m
Money Market Funds(including Cash Plus Funds)*	n/a	£3m	Unlimited
Strategic Pooled Funds**	n/a	£3m	£4.7m

*Please refer to the section on minimum credit rating.

**This sector limit is in line with the minimum level of reserves.

Table 5: Additional Investment Limits

	Cash Limit
Any group of Strategic Pooled Funds under the same management	£3m per manager
Negotiable instruments held in a broker's nominee account	£7.5m per broker
Foreign countries	£3m per country

PRUDENTIAL INDICATORS **Appendix 2**

Table 6: Estimates of Capital Expenditure

	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
	Actual	Forecast	Estimate	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000	£'000
Total Expenditure	**17,469**	**9,261**	**22,527**	**11,223**	**7,030**	**5,341**
Capital Grants	1,417	588	110	110	110	110
Capital Receipts	173	756	0	0	0	0
Earmarked Reserves	6,922	0	0	0	0	0
Revenue Contribution to Capital	4,287	2,772	3,251	3,861	4,611	4,611
Borrowing	4,670	5,145	19,166	7,252	2,309	620
Total Financing	**17,469**	**9,261**	**22,527**	**11,223**	**7,030**	**5,341**

Table 7: Estimates of Capital Financing Requirement

	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
	Actual	Forecast	Estimate	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000	£'000
Opening CFR	**30,802**	**29,803**	**34,343**	**50,533**	**54,205**	**52,453**
Capital expenditure to be funded by borrowing	2,598	5,145	19,166	7,252	2,309	620
Capital expenditure to be funded by PFI	1,461	2,482	507	630	868	1,394
Finance Leases	0	0	0	0	118	0
Less: Minimum Revenue Provision	(110)	(216)	(771)	(1,395)	(2,070)	(2,432)
Less: PFI Repayment	(4,782)	(2,721)	(2,563)	(2,685)	(2,840)	(3,021)
Less: Other Long Term Liabilities Repayment	(120)	(120)	(119)	(118)	(107)	(107)
Less: Finance Leases Repayment	(46)	(30)	(30)	(12)	(30)	(30)
Closing CFR	**29,803**	**34,343**	**50,533**	**54,205**	**52,453**	**48,877**

PRUDENTIAL INDICATORS **Appendix 2**

Table 8: Gross Debt and the Capital Financing Requirement

Debt	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
	Actual	Forecast	Estimate	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000	£'000
PFI	22,653	22,416	20,360	18,305	16,333	14,706
Other Long Term Liabilities	846	727	607	489	382	274
External Borrowing	0	5,145	24,311	31,563	33,872	33,838
Finance Leases	72	42	12	0	88	59
Internal Borrowing	6,232	6,013	5,243	3,848	1,778	0
Total Debt	**29,803**	**34,343**	**50,533**	**54,205**	**52,453**	**48,877**

Table 9: Operational Boundary for External Debt

Operational Boundary	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
	Actual	Forecast	Estimate	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000	£'000
PFI	22,653	22,416	20,360	18,305	16,333	14,706
Other Long Term Liabilities	846	727	607	489	382	274
External Borrowing	0	5,145	24,311	31,563	33,872	33,838
Finance Leases	72	42	12	0	88	59
Maximum forecast cashflow deficit arising from revenue budget operations	15,000	15,000	20,000	20,000	20,000	20,000
Total Operational Boundary	**38,571**	**43,330**	**65,290**	**70,357**	**70,675**	**68,877**

Table 10: Authorised Limit for External Debt

Authorised Limit	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
	Actual	Forecast	Estimate	Estimate	Estimate	Estimate
	£'000	£'000	£'000	£'000	£'000	£'000
Total Operational Boundary Debt	38,571	43,330	65,290	70,357	70,675	68,877
Additional margin for unforeseen circumstances/capital receipt	5,000	5,000	5,000	5,000	5,000	5,000
Total Authorised Limit	**43,571**	**48,330**	**70,290**	**75,357**	**75,675**	**73,877**

Table 11: Ratio of Financing Costs to Net Revenue Stream

	2020/21	2021/22	2022/23	2023/24	2024/25	2025/26
	Actual	Forecast	Estimate	Estimate	Estimate	Estimate
Ratio of Financing Costs to Net Revenue Stream	**0.01%**	**0.00%**	**0.06%**	**0.26%**	**0.33%**	**0.34%**

BUDGET **Appendix 3**

Table 12: Budget

	2022/23 Budget £'000
Interest Income	**(6)**
Interest Payments	**91**

MINIMUM REVENUE PROVISION **Appendix 4**

Annual Minimum Revenue Provision Statement 2022/23

Where the PCC finances capital expenditure by debt, it must put aside resources to repay that debt in later years. The amount charged to the revenue budget for the repayment of debt is known as Minimum Revenue Provision (MRP), although there has been no statutory minimum since 2008. The Local Government Act 2003 requires the PCC to have regard to the former Ministry of Housing, Communities and Local Government's (MHCLG) Guidance on Minimum Revenue Provision most recently issued in 2018. The broad aim of the MHCLG Guidance is to ensure that capital expenditure is financed over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits.

The MHCLG Guidance requires the PCC to approve an Annual MRP Statement each year, and provides four options for calculating an amount to put aside to revenue over time to cover the CFR i.e. the MRP. The PCC has opted for option 3; the Asset Life Method. The Asset Life Method determines that MRP is calculated on the basis of charging the unfinanced capital expenditure over the expected useful life of the relevant assets based on either an equal instalment method or an annuity method. The PCC has opted for the equal instalment method. This is applied from the year after the asset becomes operational. For assets acquired by finance leases or the Private Finance Initiative, MRP will be determined as being equal to the element of the rent or charge that goes to write down the balance sheet liability.

Where former operating leases have been brought onto the balance sheet on 1 April 2022 due to the adoption of the IFRS 16 Leases accounting standard, and the asset values have been adjusted for accruals, prepayments, premiums and/or discounts, then the annual MRP charges will be adjusted so that the total charge to revenue remains unaffected by the new standard.

The PCC can choose to make more MRP than considered the prudent minimum.

The maximum asset life used in MRP calculations is 50 years, unless a longer life is certified by an appropriately qualified professional adviser, or the asset has been acquired on a lease of longer than 50 years. For those assets purchased before 1st April 2018 that have an asset life of more than 50 years, the Code does not require a retrospective adjustment.

Based on the PCC's latest estimate of its Capital Financing Requirement on 31 March 2022, the budget for MRP has been set as follows:

	2022/23 Estimated CFR	2022/23 Estimated MRP
	£'000	£'000
Unsupported capital expenditure after 31.03.2008	50,533	801

ECONOMIC CONTEXT **Appendix 5**

Arlingclose Economic Context as of 5 November 2021

Economic background: The ongoing impact on the UK from coronavirus, together with higher inflation, the likelihood of higher interest rates, and the country's trade position post-Brexit, will be major influences on the treasury management strategy for 2022/23.

The Bank of England (BoE) held Bank Rate at 0.10% in November 2021 and maintained its Quantitative Easing programme at £895 billion. The Monetary Policy Committee (MPC) voted 7-2 to keep rates on hold and 6-3 to maintain the asset purchase programme. Within the announcement the MPC suggested interest rates would be increased soon, but not to the 1% level expected by financial markets. Within the November 2021 Monetary Policy Report, the Bank expected consumer price index (CPI) inflation to peak at around 5% in April 2022 before falling back as the impact from higher energy prices fade and demand slows.

UK CPI for September 2021 registered 3.1% year on year, slightly down from 3.2% in the previous month. Core inflation, which excludes the more volatile components, fell to 2.9% y/y from 3.1%. The most recent labour market data for the three months to August 2021 showed the unemployment rate fell to 4.5% while the employment rate rose to 75.3%. Both measures were helped by the extension of the government's furlough scheme, but this ended in September 2021 and while this may put some pressure on the jobs market, it is not expected to be material, with the BoE forecasting unemployment will only increase modestly in Q4 2021 according to its November 2021 Monetary Policy Report but remain low overall.

In August 2021, the headline 3-month average annual growth rate for wages were 7.2% for total pay and 6.0% for regular pay. In real terms, after adjusting for inflation, total pay growth was up 4.7% while regular pay was up 3.4%. These figures should be interpreted with caution, however, as pay growth is now being impacted by base effects compared to 12 months ago when earnings were first affected by the coronavirus pandemic. Moreover, there has also been a fall in the number and proportion of lower paid jobs, helping to push up the average earnings figure.

Gross domestic product (GDP) grew by 5.5% in the second calendar quarter of 2021, compared to a fall of -1.6% q/q in the previous three months, with the annual rate jumping to 23.6% from -6.1%. Here too, base effects from 2020 have resulted in the high Q2 2021 data. Monthly GDP estimates have shown the economy is recovering, with the economy now just 0.8% below its pre-pandemic level. Looking ahead, the BoE's November 2021 Monetary Policy Report forecasts economic growth will rise by 1.5% in Q3 2021, 1.0% in Q4 2021 with the economy expected to get back to its pre-pandemic level in Q1 2022. GDP growth is now expected to be around 5% in 2022 (revised down from 6%), before slowing to 1.5% in 2023 and 1% in 2024.

ECONOMIC CONTEXT **Appendix 5**

GDP growth in the euro zone increased by 2.2% in calendar Q3 2021 following a gain of 2.1% in the second quarter and a decline of -0.3% in the first. Headline inflation has been strong, with CPI registering 4.1% year-on-year in October, the fourth successive month of inflation. Core CPI inflation was 2.1% y/y in October, the third month of successive increases from July's 0.7% y/y. At these levels, inflation is above the European Central Bank's target of 'below, but close to 2%', putting some pressure on its long-term stance of holding its main interest rate of 0%.

The US economy expanded at an annualised rate of 2.0% in Q3 2021, slowing sharply from gains of 6.7% and 6.3% in the previous two quarters. In its November 2021 interest rate announcement, the Federal Reserve continue to maintain the Fed Funds rate at between 0% and 0.25% but outlined its plan to reduce its asset purchase programme. Having bought $120 billion of bonds each month during the pandemic to keep interest rates low, the Fed confirmed that purchases will be scaled back, starting with a $15 billion reduction in November 2021. In terms of the timing of any interest rate hikes, Fed Chair Jerome Powell said the central bank can be patient about doing so.

Credit outlook: Since the start of 2021, relatively benign credit conditions have led to credit default swap (CDS) prices for the larger UK banks to remain low and have steadily edged down throughout the year to almost pre-pandemic levels. The improved economic outlook during 2021 helped bank profitability and reduced the level of impairments many had made as provisions for bad loans. However, the relatively recent removal of coronavirus-related business support measures by the government means the full impact on bank balance sheets may not be known for some time.

The improved economic picture during 2021 led the credit rating agencies to reflect this in their assessment of the outlook for the UK sovereign as well as several financial institutions, revising them from negative to stable.

Looking ahead, while there is still the chance of bank losses from bad loans as government and central bank support is removed, the institutions on the counterparty list are well-capitalised and general credit conditions across the sector are expected to remain benign. Duration limits for counterparties on the lending list are under regular review and will continue to reflect economic conditions and the credit outlook.

Interest rate forecast: The treasury management adviser Arlingclose is forecasting that Bank Rate will rise in calendar Q2 2022 to subdue inflationary pressures and the perceived desire by the BoE to move away from emergency levels of interest rates.

Investors continue to price in multiple rises in Bank Rate over the next forecast horizon, and Arlingclose believes that although interest rates will rise, the increases will not be to the extent predicted by financial markets. In the near-term, the risks around

ECONOMIC CONTEXT **Appendix 5**

Arlingclose's central case are to the upside while over the medium-term the risks shift towards the downside.

Gilt yields had increased sharply on the back of higher inflation and anticipated central bank action, however in its November MPC meeting, the committee noted that market expectations for rates were excessive, and yields have since fallen back. Yields are expected to remain broadly at current levels over the medium-term, with the 5, 10 and 20 year gilt yields expected to average around 0.60%, 1.0%, and 1.35% respectively. The risks around the gilt yield forecast are judged to be broadly balanced in the near-term and to the downside over the remainder of the forecast horizon. As ever, there will almost certainly be short-term volatility due to economic and political uncertainty and events.

Arlingclose Economic and Interest Rate Forecast – October 2021

Underlying assumptions:

- The global economy continues to recover from the pandemic but has entered a more challenging phase. The resurgence of demand has led to the expected rise in inflationary pressure, but disrupted factors of supply are amplifying the effects, increasing the likelihood of lower growth rates ahead. This is particularly apparent in the UK due to the impact of Brexit.
- While Q2 UK GDP expanded more quickly than initially thought, the 'pingdemic' and more latterly supply disruption will leave Q3 GDP broadly stagnant. The outlook also appears weaker. Household spending, the driver of the recovery to date, is under pressure from a combination of retail energy price rises, the end of government support programmes and soon, tax rises. Government spending, the other driver of recovery, will slow considerably as the economy is taken off life support.
- Inflation rose to 3.2% in August. A combination of factors will drive this to over 4% in the near term. While the transitory factors affecting inflation, including the low base effect of 2020, are expected to unwind over time, the MPC has recently communicated fears that these transitory factors will feed longer-term inflation expectations that require tighter monetary policy to control. This has driven interest rate expectations substantially higher.
- The supply imbalances are apparent in the labour market. While wage growth is currently elevated due to compositional and base factors, stories abound of higher wages for certain sectors, driving inflation expectations. It is uncertain whether a broad-based increase in wages is possible given the pressures on businesses.
- Government bond yields increased sharply following the September FOMC and MPC minutes, in which both central banks communicated a lower tolerance for higher inflation than previously thought. The MPC in particular has doubled-down

ECONOMIC CONTEXT **Appendix 5**

on these signals in spite of softer economic data. Bond investors expect higher near-term interest rates but are also clearly uncertain about central bank policy.

- The MPC appears to be playing both sides, but has made clear its intentions to tighten policy, possibly driven by a desire to move away from emergency levels. While the economic outlook will be challenging, the signals from policymakers suggest Bank Rate will rise unless data indicates a more severe slowdown.

Forecast:

- Arlingclose expects Bank Rate to rise in Q2 2022. We believe this is driven as much by the Bank's desire to move from emergency levels as by fears of inflationary pressure.
- Investors have priced in multiple rises in Bank Rate to 1% by 2024. While we believe Bank Rate will rise, it is by a lesser extent than expected by markets.
- Gilt yields have risen sharply as investors factor in higher interest rate and inflation expectations. From here, we believe that gilt yields will be broadly steady, before falling as inflation decreases and market expectations fall into line with our forecast.
- The risk around our forecasts for Bank Rate is to the upside over the next few months, shifting to the downside in the medium term. The risks around the gilt yield forecasts are initially broadly balanced, shifting to the downside later.

	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Official Bank Rate													
Upside risk	0.15	0.15	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Arlingclose Central Case	0.10	0.10	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside risk	0.00	0.00	-0.15	-0.15	-0.15	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40
3-month money market ra													
Upside risk	0.10	0.15	0.20	0.20	0.30	0.30	0.30	0.30	0.35	0.35	0.35	0.35	0.35
Arlingclose Central Case	0.10	0.15	0.35	0.40	0.45	0.60	0.65	0.65	0.60	0.60	0.60	0.60	0.60
Downside risk	0.00	-0.05	-0.25	-0.25	-0.30	-0.45	-0.50	-0.50	-0.45	-0.45	-0.45	-0.45	-0.45
5yr gilt yield													
Upside risk	0.25	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30	0.30
Arlingclose Central Case	0.65	0.65	0.65	0.65	0.65	0.60	0.60	0.60	0.60	0.60	0.60	0.60	0.60
Downside risk	-0.25	-0.25	-0.35	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40	-0.40
10yr gilt yield													
Upside risk	0.30	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35	0.35
Arlingclose Central Case	1.05	1.05	1.05	1.05	1.05	1.05	1.00	0.95	0.95	0.95	0.90	0.90	0.90
Downside risk	-0.25	-0.35	-0.40	-0.40	-0.40	-0.40	-0.45	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50
20yr gilt yield													
Upside risk	0.30	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40
Arlingclose Central Case	1.40	1.40	1.40	1.40	1.35	1.35	1.30	1.30	1.30	1.30	1.30	1.30	1.30
Downside risk	-0.35	-0.40	-0.45	-0.45	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50
50yr gilt yield													
Upside risk	0.35	0.35	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40
Arlingclose Central Case	1.30	1.30	1.30	1.30	1.25	1.25	1.20	1.20	1.20	1.20	1.20	1.20	1.20
Downside risk	-0.35	-0.35	-0.35	-0.40	-0.40	-0.45	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50	-0.50

PWLB certainty rate = relevant gilt yield + 0.80%

GOVERNANCE **Appendix 6**

Treasury Management Governance Arrangements

The PCC is responsible for:

- receiving and reviewing reports on treasury management policies, practices and activities;
- approval of annual strategy.
- approval of/amendments to the treasury management policy statement and treasury management practices;
- budget consideration and approval;
- approval of the division of responsibilities;
- receiving and reviewing regular monitoring reports and acting on recommendations;
- approving the selection of external service providers and agreeing terms of appointment.

The Independent Audit Committee is responsible for:

- scrutinising the treasury management policy and procedures and making recommendations to the PCC.

The Treasurer is responsible for:

- recommending clauses, treasury management policy/practices for approval, reviewing the same regularly, and monitoring compliance;
- submitting regular treasury management policy reports;
- submitting budgets and budget variations;
- receiving and reviewing management information reports;
- reviewing the performance of the treasury management function;
- ensuring the adequacy of treasury management resources and skills, and the effective division of responsibilities within the treasury management function;
- ensuring the adequacy of internal audit, and liaising with external audit;
- recommending the appointment of external service providers.

GLOSSARY **Appendix 7**

Annuity	A method of repaying a loan where the cash payment remains constant over the life of the loan, but the proportion of interest reduces and the proportion of principal repayment increases over time. Repayment mortgages and personal loans tend to be repaid by the annuity method.
Authorised limit	The maximum amount of *debt* that a local authority may legally hold, set annually in advance by the authority itself. One of the *Prudential Indicators*.
Bail-in	A method of rescuing a failing *financial institution* by cancelling some of its *deposits* and *bonds*. Investors may suffer a *haircut* but may be given *shares* in the bank as part compensation.
Bank	Regulated firm that provides financial services to customers. But see also *Bank of England*.
Bank of England	The *central bank* of the UK, based in London, sometimes just called "the Bank". See also *Monetary Policy Committee*.
Bank Rate	The official interest rate set by the *Monetary Policy Committee*, and the rate of interest paid by the *Bank of England* on commercial bank deposits. Colloquially termed the "base rate".
Bid	A bid to buy a *security* at a certain price (the bid price), or a bid to borrow money at a certain interest rate (the bid rate).
Bill	A certificate of *short-term* debt issued by a company, government, or other institution, which is tradable on financial markets
Bond	A certificate of *long-term* debt issued by a company, government, or other institution, which is tradable on financial markets.
Borrowing	Usually refers to the stock of outstanding loans owed and *bonds* issued.
Broker	Regulated firm that matches either borrowers and lenders (a money broker) or buyers and sellers of *securities* (a stockbroker) with each other in order to facilitate transactions.
Building society	A mutual organisation that performs similar functions to a *retail bank* but is owned by its customers.
Capital	**(1)** Long-term, as in *capital expenditure* and *capital receipt.* **(2)** Principal, as in *capital gain* and capital value. **(3)** Investments in *financial institutions* that will absorb losses before *senior unsecured creditors.*
Capital expenditure	Expenditure on the acquisition, creation or enhancement of fixed assets that are expected to provide value for longer than one year, such as property and equipment, plus expenditure defined as capital in legislation such as the purchase of certain investments.
Capital finance	Arranging and managing the cash required to finance *capital expenditure*, and the associated accounting.
Capital financing requirement (CFR)	A local authority's underlying need to hold debt for capital purposes, representing the cumulative capital expenditure that has been incurred but not yet financed. The CFR increases with *capital expenditure* and decreases with *capital finance* and *MRP*.
Capital markets	The markets for long-term finance, including *bonds* and *shares*. See also *money markets*.

GLOSSARY **Appendix 7**

Capital receipt	Cash obtained from the sale of an item whose purchase would be *capital expenditure*. The law only allows local authorities to spend capital receipts on certain items, such as new capital expenditure. They are therefore held in a capital receipts reserve until spent.
Cash plus fund	A *pooled fund is* similar to a *money market fund* but with a *WAM* up to around six months.
Central bank	A government agency responsible for setting interest rates, regulating banks and maintaining financial stability.
Certificate of deposit (CD)	A short-term *debt* instrument, similar to a *deposit*, but that is tradable on the *money markets*.
CIPFA	The Chartered Institute of Public Finance and Accountancy - the professional body for accountants working in the public sector. CIPFA also sets various standards for local government.
Commercial investment	An investment whose main purpose is generating income, such as *investment property*.
Cost of carry	When a loan is borrowed in advance of need, the difference between the interest payable on the loan and the income earned from investing the cash in the interim.
Counterparty	The other party to a loan, investment or other contract.
Counterparty limit	The maximum amount an investor is willing to lend to a *counterparty*, in order to manage *credit risk*.
Covered bond	*Bond* issued by a *financial institution* that is secured on that institution's assets, usually residential mortgages, and is therefore lower risk than unsecured bonds. Covered bonds are exempt from *bail-in*.
CPI	Consumer Price Index - the measure of inflation targeted by the *Monetary Policy Committee*, measured on a harmonised basis across the European Union.
Credit default swap (CDS)	*Derivative* for swapping *credit risk* on a particular issuer, similar to an insurance policy where the buyer pays a *premium* against the risk of default. Also used as an indicator of credit risk: the higher the premium, the higher the perceived risk.
Credit rating	Formal opinion by a *credit rating agency* of a *counterparty*'s future ability to meet its financial obligations. As it is only an opinion, there is no guarantee that a highly rated organisation will not default.
Credit rating agency	An organisation that publishes *credit ratings*. The three largest agencies are Fitch, Moody's and Standard & Poor's but there are many smaller ones.
Credit risk	The risk that a *counterparty* will *default* on its financial obligations.
Debt	**(1)** A contract where one party owes money to another party, such as a *loan*, *deposit* or *bond*. Contrast with *equity*. **(2)** In the *Prudential Code*, the total outstanding *borrowing* plus *other long-term liabilities.*
Default	Failure to meet an obligation under a debt contract, including the repayment of cash or compliance with a *covenant*, usually as a result of being in financial difficulty (rather than an administrative oversight).

GLOSSARY **Appendix 7**

Deflation	Negative inflation, which central banks are keen to avoid since households tend to delay spending waiting for prices to fall further, leading to further deflation.
Deposit	A regulated placing of cash with a *financial institution*. Deposits are not tradable on financial markets.
Derivative	Financial instrument whose value is derived from an underlying instrument or index, such as a *swap*, *option* or *future*. Derivatives can be used to gain exposure to, or to help protect against, changes in the value of the underlying.
Discount	**(1)** The amount that the early repayment cost of a loan is below its principal, or the price of a bond is below its nominal value. **(2)** To calculate the *present value* of an investment taking account of the time value of money.
Diversification	The spreading of risk across a variety of exposures in order to reduce the risk. For example, investing in a range of *counterparties* to limit *credit risk* or borrowing to a range of *maturity* dates to limit *refinancing risk*.
Duration	In relation to a *bond* or *bond fund*, the weighted average time of the future cash flows from today, usually expressed in years. The longer the duration, the more the price moves for a given change in interest rates.
ECB	European Central Bank – the *central bank* of the Eurozone, based in Frankfurt, Germany.
Embedded derivative	A *derivative* that is combined into another financial instrument, such as the *options* embedded in a *LOBO*.
Equity	**(1)** The residual value of an entity's assets after deducting its liabilities. **(2)** An investment in the residual value of an entity, for example ordinary shares.
Fair value	*IFRS* term for the price that would be obtained by selling an investment, or paid to transfer debt, in a market transaction.
Federal Reserve	The *central bank* of the USA, often just called "the Fed".
Financial instrument	*IFRS* term for investments, borrowing and other cash payable and receivable.
Financing costs	In the *Prudential Code*, interest payable on *debt* less investment income plus *premiums* less *discounts* plus *MRP*.
Future	A *derivative* whose payments depend on the future value of a variable.
Fund manager	Regulated firm that manages *pooled funds*.
GDP	Gross domestic product – the value of the national aggregate production of goods and services in the economy. Increasing GDP is known as economic growth.
General Fund	A local authority reserve that holds the accumulated surplus or deficit on revenue income and expenditure, except on council housing.
Gilt	Bond issued by the UK Government, taking its name from the gilt-edged paper they were originally printed on.
Gilt yield	*Yield* on *gilts*. Commonly used as a measure of risk-free long-term interest rates in the UK.
Guarantee	An arrangement where a third party agrees to pay the contractual payments on a *loan* to the lender if the borrower *defaults*.

GLOSSARY **Appendix 7**

IFRS	International Financial Reporting Standards, the set of accounting rules in use by UK local authorities since 2010.
Impairment	A reduction in the value of an investment caused by the *counterparty* being in financial difficulty.
Interest	Compensation for the use of cash paid by borrowers to lenders on *debt* instruments.
Interest rate risk	The risk that unexpected changes in interest rates cause an unplanned loss, for example by increased payments on borrowing or lower income on investments.
Internal borrowing	A local government term for when actual "external" *debt* is below the *capital financing requirement*, indicating that difference has been borrowed from internal resources instead; in reality this is not a form of borrowing.
Investment guidance	Statutory guidance issued by MHCLG and the devolved governments on local government investments. Local authorities are required by law to have regard to the relevant investment guidance.
Investment strategy	A document required by *investment guidance* that sets out a local authority's investment plans and parameters for the coming year. Sometimes forms part of the authority's *treasury management strategy*.
Lease	A contract where one party permits another to make use of an asset in return for a series of payments. It is economically similar to buying the asset and borrowing a loan, and therefore leases are often counted as a type of *debt*.
Liability benchmark	Term in CIPFA's Risk Management Toolkit which refers to the minimum amount of borrowing required to keep investments at a minimum liquidity level. Used to compare against the actual and forecast level of borrowing.
Loan	Contract where the lender provides a sum of money (the *principal*) to a borrower, who agrees to repay it in the future together with *interest*. Loans are not normally tradable on financial markets. There are specific definitions in government *investment guidance*.
Long-term	Usually means longer than one year.
Maturity	**(1)** The date when an investment or borrowing is scheduled to be repaid. **(2)** A type of loan where the principal is only repaid on the maturity date.
MHCLG	Ministry of Housing, Communities and Local Government – the central government department that oversees local authorities in England.
Monetary policy	Measures taken by *central banks* to boost or slow the economy, usually via changes in interest rates. Monetary easing refers to cuts in interest rates, making it cheaper for households and businesses to borrow and hence spend more, boosting the economy, while monetary tightening refers to the opposite.
Monetary Policy Committee (MPC)	Committee of the *Bank of England* responsible for implementing *monetary policy* in the UK by changing *Bank Rate* and *quantitative easing* with the aim of keeping *CPI* inflation at around 2%.
Money market fund (MMF)	A *pooled fund* which invests in a range of short-term assets providing high credit quality and high liquidity. Usually refers to *CNAV* and *LVNAV* funds with a *WAM* under 60 days which offer instant access, but the European Union definition extends to include *cash plus funds*.
Money markets	The markets for short-term finance, including *deposits* and *T-bills*.

GLOSSARY **Appendix 7**

MRP	Minimum revenue provision **- a**n annual amount that local authorities are required to set aside and charge to revenue for the repayment of debt associated with capital expenditure. Local authorities are required by law to have regard to government guidance on MRP.
Municipal bond	*Bond* issued or guaranteed by local authorities.
Municipal bonds agency	Company that issues *bonds* in the *capital market* and lends the proceeds back to local authorities. The bonds are guaranteed by the local authorities.
Net borrowing	*Borrowing* minus *treasury investments*.
Net revenue stream	In the *Prudential Code*, income from general government grants, Council Tax and rates.
Notice account	A *deposit* account where the cash can be called back after a given notice period.
Other long-term liabilities	*Prudential Code* term for *credit arrangements*.
Operational boundary	A *prudential indicator* showing the most likely, prudent, estimated level of external *debt*, but not the worst-case scenario. Regular breaches of the operational boundary should prompt management action.
Option	A *derivative* where the holder pays a *premium* to have the right, but not the obligation, to buy or sell a security or enter into a defined transaction.
Outlook	A *credit rating agency's* expected direction of travel in the *long-term rating* over the next two years.
Pension Fund	Ringfenced account for the income, expenditure and investments of the local government pension scheme. Pension fund investments are not considered to be part of *treasury management*.
Pooled fund	Scheme in which multiple investors collectively hold units or shares. The investment assets in the fund are not held directly by each investor, but as part of a pool (hence these funds are also referred to as 'pooled funds').
Premium	**(1)** The amount that the early repayment cost of a loan is above the principal, or the price of a bond is above its nominal value. **(2)** The initial payment made under a *derivative*.
Principal	The amount of money originally lent on a *debt* instrument.
Private Finance Initiative (PFI)	A government scheme where a private company designs, builds, finances and operates assets on behalf of the public sector, in exchange for a series of payments, typically over 30 years. Counts as a *credit arrangement* and *debt.*
Property fund	A *pooled fund* that mainly invests in property. Due to the costs of buying and selling property, including *stamp duty land tax*, there is usually a significant fee charged on initial investment, or a significant difference between the *bid* and *offer* price.
Prudential Code	Developed by CIPFA and introduced in April 2004 as a professional code of practice to support local authority capital investment planning within a clear, affordable, prudent and sustainable framework and in accordance with good professional practice. Local authorities are required by law to have regard to the Prudential Code.
Prudential indicators	Indicators required by the *Prudential Code* and determined by the local authority to define its capital expenditure and asset management framework. They are designed to support and record local decision making in a manner that is publicly accountable.

GLOSSARY **Appendix 7**

PWLB	Public Works Loans Board - a statutory body operating within the *DMO* that lends money from the National Loans Fund to local authorities and other prescribed bodies and collects the repayments. Not available in Northern Ireland.
Redemption	The process of withdrawing cash from a *pooled fund* and cancelling the units of shares. Redemptions can be suspended in certain circumstances detailed in the *prospectus*.
Refinancing risk	The risk that maturing loans cannot, be refinanced, or only at higher than expected interest rates leading to an unplanned loss. Managed by maintaining a smooth *maturity profile*.
Registered Provider of Social Housing (RP)	An organisation that is registered to provide social housing, such as a housing association. Also known as a registered social landlord or RSL.
Sector limit	The maximum amount an investor is willing to lend to all *counterparties* in a particular industry sector, in order to manage *credit risk*.
Security	**(1)** A *financial instrument* that can be traded on a *secondary market.* **(2)** The concept of low *credit risk.* **(3)** *Collateral.*
Secured investment	An investment that is backed by *collateral* and is therefore normally lower *credit risk* and lower yielding than an equivalent unsecured investment.
Service investments	Investments made to promote a local authority's public service objectives, for example a *loan* to a local charity or *shares* in a local company.
Share	An *equity* investment, which usually also confers ownership and voting rights.
Short-term	Usually means less than one year.
Swap	A *derivative* where the *counterparties* exchange cash flows, for example fixed rate interest and variable rate interest.
Total return	The overall return on an investment, including *interest*, *dividends*, *rent*, fees and *capital gains and losses*.
Treasury bill	Treasury bill - a *bill* issued by a government.
Treasury investments	Investments made for *treasury management* purposes, as opposed to *commercial investments* and *service investments*.
Usable reserves	Resources available to finance future *revenue* and/or *capital expenditure.* Some usable reserves are ringfenced by law for certain expenditure such as on schools or council housing.
Volatility	A measure of the variability of a price or index, usually expressed as the annualised standard deviation.
Working capital	The cash surplus or deficit arising from the timing differences between income/expenditure in accounting terms and receipts/payments in cash terms.
Yield	A measure of the return on an investment, especially a *bond*. The yield on a fixed rate bond moves inversely with its price.

Appendix 10b

DORSET POLICE & CRIME COMMISSIONER

CAPITAL STRATEGY

2022/23

CAPITAL STRATEGY 2022/23

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CAPITAL STRATEGY 2022/23

1. Introduction

1.1. The Police and Crime Commissioner (PCC) has adopted the Chartered Institute of Public Finance and Accountancy's (CIPFA) Capital Strategies and Programming Guidance which requires the PCC to approve a Capital Strategy before the start of each financial year. The Capital Strategy supports the Medium Term Financial Strategy (MTFS) and the Treasury Management Strategy.

1.2. The Capital Strategy provides a framework for the development of the Capital Programme which sets out the investment in assets and identifies the resources required for that investment. These assets are considered essential to the provision of the policing service and meet the objectives set out in the Police and Crime Plan. The PCC has developed this Capital Strategy in consultation with the Force who are the primary users of the capital assets.

2. Capital Programme

2.1. The Capital Strategy is led by the priorities outlined in the PCC's Police and Crime Plan. It translates these priorities into a programme of projects in the Capital Programme to achieve the intended outcomes. These priorities will include the continuation of or enhancement of existing assets as well as investment in new capital assets.

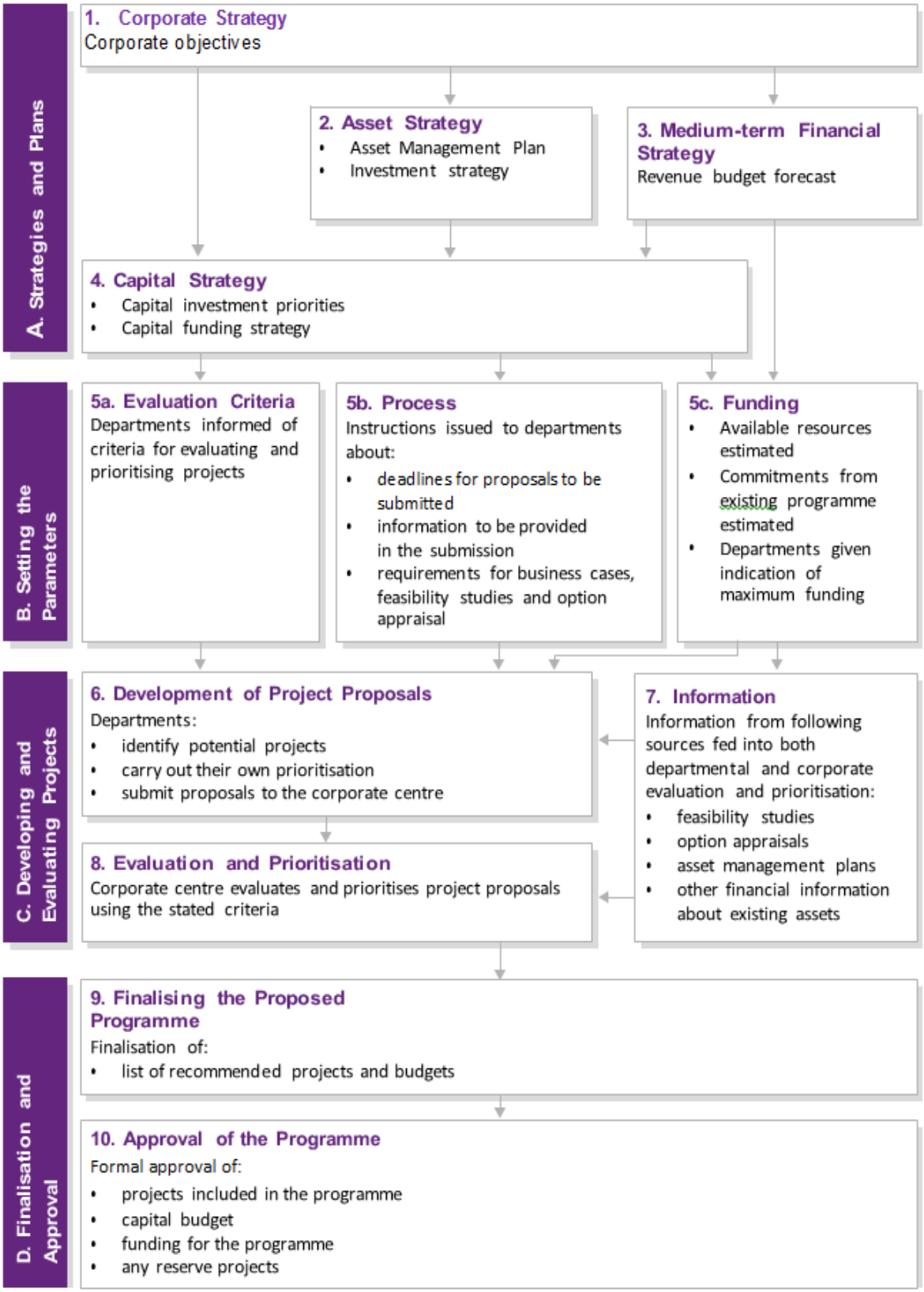
2.2. Assets are vital to the delivery of efficient services, and so the optimum use of resources whilst securing best value in relation to both cost and quality are key considerations. This is done by following best practice in relation to procurement and construction and taking external legal advice where required.

2.3. Estates, IT, Equipment and Vehicles are managed and maintained by their respective departments overseen by the Chief Constable. An asset management plan for each asset classification is held and contains specific details of each asset including the expected life and optimum replacement cycles. The information is consolidated into the Capital Programme.

2.4. To ensure the Capital Programme is delivered effectively it is important that the programme is realistic in terms of what is included within it in respect of continuing and new projects. All projects should be delivered on time, in budget and achieve the desired outcomes.

2.5. The PCC and Chief Constable have programme management procedures in place to help to ensure successful delivery of the capital programme. This is illustrated in the following flowchart:-

EXTRACT FROM CIPFA GUIDANCE "CAPITAL STRATEGIES AND PROGRAMMING"



3. Identifying and Prioritising Capital Projects

3.1. New capital project proposals are considered and prioritised with reference to a business case. In some cases, the Capital Programme will include ongoing budgets for replacement projects, i.e. laptops/vehicles. However, business cases would still be required where the request is significant, novel or contentious. To aid the decision, the business case must cover the following key elements:

- Defining objectives
- Baseline assessment (including user specification and force standards)
- Listing possible options
- Broad assessment of viable options
- Challenge and shortlisting by the appropriate board
- Detailed feasibility studies and option appraisal
- Review and solution approved by the appropriate board as per the Financial Regulations
- Risk appraisal
- Sustainability

3.2. The business case is then assessed against the following factors:

- Strategic importance – how the project supports the Police and Crime Plan priorities
- The outcomes that will be achieved and the specific benefits and impacts
- Sustainability – whether costs are realistic, value for money is achieved and the impact of future revenue implications
- How likely it is that the project will be delivered on time and within budget
- Possible negative effects of the project

3.3. All projects have a two stage approval process. Each project will have an indicative planning cost which will facilitate overall programme planning and approved project cost.

3.4. For planning purposes, the MTFS may include projects that have not yet been approved. These allocations cannot be spent until full approval has been obtained. Approved projects will be included in the four year capital programme at the value set out in the approved business case.

3.5. Lower priority projects which cannot be delivered within available resources may only be considered and undertaken if additional resources or an underspend on the approved capital programme is identified during the year.

3.6. The revenue consequences of all potential capital bids will be taken into account in the MTFS, including any minimum revenue provision (MRP) and financing costs. The Minimum Revenue Provision Policy is included in the annual Treasury Management Strategy.

4. Implementing and Monitoring Capital Projects

4.1. Following approval of the capital programme, a project manager and a user representative is identified for each capital project. The project manager is responsible for managing the project implementation and delivering its objectives.

4.2. Senior management have overall responsibility for ensuring that the objectives are met for all projects, but particular focus will be placed on ensuring that:

- high-profile projects are delivered on time and achieve the intended outcome
- good progress is being made in delivering the programme in general

- the overall use of capital and revenue funding is as close as possible to the plans set out in the current year's budget, the Capital Programme and the MTFS.

4.3. Capital expenditure and capital financing is reported quarterly to the Capital Strategy Group and Resource Control Board.

4.4. Approval of business cases for projects included in the annual programme at estimated cost will lead to variations in the programme if the cost in the business case is different from the actual cost. Any changes that increase the overall cost of the programme will only be approved if additional capital financing resources are identified.

4.5. In year changes to the total value of an individual project which can be funded by virement between projects within each major budget heading can be approved by the Treasurer under delegated approval. Changes between major budget headings require the approval of the PCC. Any increase to the total value of an individual project in excess of the limits set out in the Financial Regulations will require a revision and re-submission of the business case to the PCC for re-approval.

4.6. The following measures have been put in place to mitigate the risk of slippage in the Capital Programme:

- Comprehensive assessment of project risks during the development of the business case for each scheme,
- Regular monitoring of the project's progress to help to identify reasons for delays in delivery so that appropriate action can be taken, and
- Quarterly budget monitoring of the capital programme by the Resource Control Board

5. Evaluating Completed Capital Projects

5.1. A post project review is carried out to evaluate the actual outcomes of the most significant capital projects. The review is in effect a check of performance against the original proposal. It focuses on the outcomes achieved, the extent to which the benefits claimed are being realised, the actual costs, both revenue and capital and the impact on other funding.

6. Funding Approach

6.1. The PCC has adopted the "Prudential Code for Capital Finance in Local Authorities" (The Code). This gives discretion over the funding of capital expenditure especially with the freedom to determine, within the regulatory framework of the Code, the level of borrowing they wish to undertake to deliver their capital plans and programmes. Under the provisions of the Prudential Code, the PCC can invest in a capital programme provided its capital spending plans are "affordable, prudent and sustainable". Under most forms of capital funding the cost of providing assets ultimately falls on revenue budgets, therefore it is the long term revenue budget position that is the ultimate constraint.

6.2. The Capital Programme is reflected in the PCC's Treasury Management Strategy, which is approved annually and sets out the Prudential Indicators, which determine the limits set against the requirements of affordability, prudence and sustainability.

6.3. The PCC in consultation with the Chief Constable will identify available sources of funding for the Medium Term Capital Programme including the identification of potential capital receipts from the disposal of property.

6.4. The sources of funding available to the PCC to finance capital expenditure include:-

- Grants and third party contributions

- Capital receipts
- Revenue contributions
- Borrowing

These are considered in more detail below:

6.4.1. Grants and third party contributions

An annual capital grant is received from the Home Office. This is usually applied first to fund capital expenditure in the year of receipt.

Specific capital grants and contributions will be applied for the purposes provided and in accordance with any conditions attached. The Commissioner and the Force will continue to seek opportunities to bid for future resource allocations for example through Police Transformation Fund, Enterprise Zones, and Regional Growth Funds etc.

6.4.2. Capital Receipts

Capital receipts are the proceeds from the disposal of assets, usually land and buildings. Receipts from disposals represent a finite funding source and it is imperative that a planned and structured manner of disposals is followed in order to best support capital spending priorities.

Opportunities to generate capital receipts from the disposal of assets to support the capital programme are identified through the annual medium term planning cycle and take into account the following:

- Reviewing existing arrangements
- Assessing future demand
- Seeking opportunities to rationalise the estate

6.4.3. Revenue Contributions

Revenue contributions from the current year's revenue budget can be either used to fund capital expenditure incurred in the current year or held in an earmarked reserve to meet capital expenditure in the future. The overall impact of capital funding on revenue budgets is an essential consideration.

6.4.4. Borrowing

Whilst Police and Crime Commissioners have the power to borrow, their ability to do so is ultimately constrained by the longer-term revenue budget position. The capital financing regime prescribes what may be classed as capital and how it may be financed. The Prudential Code requires that prudent provision is made from revenue budgets to cover capital commitments. The key objective of the Prudential Code is to provide a framework for local authority investment in capital projects to ensure that:

- Capital expenditure plans are affordable;
- All external borrowing and other long term liabilities are within prudent and sustainable levels; and
- Treasury Management decisions are taken in accordance with professional good practice.

The Borrowing Strategy is set out in the annual Treasury Management Strategy. Whilst borrowing is an important funding source, the revenue implications can be significant for shorter life assets.

Therefore, the aspiration is to move to a position where borrowing is only used to fund assets with a life of more than 15 years.

7. Risk Appetite

7.1. The PCC's risk appetite is set by Chief Officers in the context of the Police and Crime Plan and reflects the culture and values that exist in policing and the Force in particular. It also takes into account the wider context of policing and the general regulatory environment, including the known position of the Home Office, HMICFRS, the College Policing, and Independent Office of Police Complaints.

7.2. The risk appetite reflects the differing requirements at strategic, tactical and operational levels which are set out in the risk management strategy and policy document.

7.3. Risk is monitored at the Strategic level by the Chief Officer teams and by Departments and Command leads for operational level risks, focusing on those risks that if materialised would undermine the delivery of the Police and Crime Plan or damage the Force reputation. The risk management arrangements are also subject to scrutiny by the Independent Audit Committee.

7.4. The effectiveness of Force's controls are tested as part of the Audit plan.

7.5. Risk appraisals are undertaken for all significant capital project proposals.

8. Governance process for determining the capital programme

8.1. The Capital Strategy sets out the principles to be applied in determining the Capital Programme and financing which feeds into the Medium Term Financial Strategy, Treasury Management Strategy, and the Reserves Strategy. These financial documents support the delivery of the Police and Crime Plan and inform and are informed by the Force Management Statement.

8.2. Governance arrangements for capital planning are set out in Financial Regulations and the Code of Corporate Governance and comply with the Financial Management Code.

8.3. The Capital Strategy Group provides oversight of the capital programme prior to the budget being set during the year. This includes reviewing all business cases and bids for capital funding prior to making recommendations to Resource Control Board, as well as additional challenge of the in year position. Quarterly reporting is provided to the Resource Control Board, which is chaired by the Chief Constable and attended by the OPCC.

8.4. All disposals of surplus land and buildings must be approved by the PCC. When making any decision to dispose of assets the PCC must have regard to the right of the Chief Constable to have unfettered access to operational assets. The PCC shall consult with the relevant governance board and notify the Chief Constable. The PCC will have regard to the views expressed by the relevant governance board and the Chief Constable but the final decisions will be a matter for the PCC.

9. Alternative Ways of Procuring Assets

9.1. There are an increasing number of mechanisms to procure assets to provide services without incurring capital expenditure. For example through:-

- Renting and operating leases
- Public-private partnerships and outsourcing
- Software as a service

9.2. In addition to increasing the options available in financing future requirements, these options may provide an overall more efficient service by creating a simplified delivery structure and continued service delivery providing for maintenance, upgrades, automatic replacement of failed items.

9.3. Where these options are available full consideration will be given to them, based on value for money considerations. All proposed capital expenditure will be assessed in order to identify whether there is an alternate route that could provide enhanced benefit to the Force when evaluating the whole life cost.

10. Shared Services/ Collaboration

10.1 Shared Service and Collaboration agreements already exist, details of which and the ownership of assets are outlined in the Collaboration Agreements under Section 22, Police Act 1996 (as amended).

10.2 In delivering each element of the strategy, the PCC plans take account of the continuing collaboration agenda and will take every opportunity to engage with other Forces and Authorities in developing strategies to counter common problems. This Capital Strategy takes account of the continuing need to work with partners in the future.

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Agenda Item 10c

DORSET POLICE & CRIME COMMISSIONER

RESERVES STRATEGY

2022/23

RESERVES STRATEGY 2022/23

Background

1 In January 2018 the Home Office issued guidance setting out the government's expectations around the information to be published by Police and Crime Commissioners on their financial reserves strategies.

2 The reserves strategy supports the annual budget and medium term financial plan, as reported to the Police and Crime Panel in February each year.

Scope

3 Police and Crime Commissioners (PCCs) can keep part of their funding in reserves to help manage financial risk and to fund major future costs such as change programmes aimed at improving services to the public.

4 Reserves are required to be classified as either Usable or Unusable. Usable reserves are those that can be used to support future service provision. Unusable reserves are not available to be used to support services; they include unrealised gains and losses which will only become available if for example assets are sold, and accounting timing differences which will be realised at a future date.

5 This Reserves Strategy sets out the PCC's approach to the management of Usable Reserves.

Guidance

6 Sections 32 and 43 of the Local Government Finance Act 1992 require precepting bodies to have regard to the level of resources needed to meet estimated future expenditure when calculating the annual budget requirement. This is further supported by the balanced budget requirement: England, sections 31A, 42A of the Local Government Finance Act 1992. Moreover as part of the budget setting process, the Chief Finance Officer is required to comment on the adequacy of reserves. This relates to earmarked reserves as well as the General Balance, and is a critical part in making the statutory Section 25 judgement on the robustness and sustainability of the PCC's budget proposals.

7 This strategy has regard to LAAP Bulletin 99 'Local Authority Reserves and Balances', issued in July 2014, and complies with the Home Office Guidance issued in January 2018, and the Revised Financial Management Code of Practice, issued in July 2018 by the Home Office.

8 Reserves are sums of money held to meet future expenditure. When reviewing the medium term financial plan and preparing the annual budget PCCs should consider the establishment and maintenance of reserves.

9 Reserves can be held for three main purposes:

- a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of general reserves;
- a contingency to cushion the impact of unexpected events or emergencies. This also forms part of general reserves;

- a means of building up funds, often referred to as earmarked reserves, to meet known or predicted requirements; earmarked reserves are accounted for separately but remain legally part of the General Fund.

10 CIPFA recommends that for each earmarked reserve held there should be a clear protocol setting out:

- the reason for / purpose of the reserve;
- how and when the reserve can be used;
- procedures for the reserve's management and control; and
- a process and timescale for review of the reserve to ensure continuing relevance and adequacy.

Responsibilities

11 The respective responsibilities in relation to reserves are set out in the Financial Regulations (see Appendix A).

Policy Statement

The PCC will not plan to hold significant reserves above those required by the Medium Term Financial Plan.

In considering earmarked reserves, the Chief Finance Officer will have regard to relevant matters in respect of each reserve and will advise the PCC accordingly.

The key principles to be adopted in setting reserves are:

General Balances
The PCC will seek to maintain a general reserve at between 3% and 5% of Net Revenue Expenditure. This will be supported by an annual budget risk assessment which will also identify the need for any specific earmarked reserves.

Earmarked Reserves
The need for earmarked reserves will be assessed annually through the budget setting process, to confirm the continuing relevance and adequacy of each earmarked reserve in addition to identifying any new reserves that may be required.

This Strategy will be reviewed annually by the OPCC Treasurer and consulted on with the Force Chief Finance Officer and the Joint Leadership Board.

Earmarked Reserves

The following earmarked reserves balances are held:

Name of earmarked reserve	Purpose	Opening balance 1 April 2021 £'000s	Target level
Budget Management Fund	To hold year end underspends for carry forward to the following year.	1,238	nil annually
Police and Crime Plan	To fund planned Police and Crime Plan developments.	917	Nil by 2024
OPCC Legal Reserve	To fund future legal costs	96	Nil by 2023
Workforce Change Reserve	To fund one-off and transitional costs of change programmes including the Strategic Alliance with Devon & Cornwall Police.	643	Nil by 2026
Regional Collaboration Reserve	To hold funds related to past underspends and future planned spending for regional collaborations	260	Nil by 2023
Learning and Development Reserve	Used for the benefit of Dorset Police Officers and Dorset Police Staff for training and development purposes	46	Reduce to zero
Uplift Reserve	To hold funds for infrastructure relating to future years uplift programme	200	Nil by 2023
PEQF Reserve	To fund the costs of the PEQF across the MTFF	265	Nil by 2024

Home Office Classifications

The Earmarked reserves in the table above meet the HO classification: *Funding for planned expenditure on projects and programmes over the period of the current medium term financial plan*

In addition **General Balances** are held: *As a general contingency or resource to meet other expenditure needs held in accordance with sound principles of good financial management.*

There is no material*: Funding for specific projects and programmes beyond the current planning period.*

Forecast Usable Reserves

The forecasts for Usable Reserves over the period of the Medium Term Financial Plan are set out below.

USABLE RESERVES						
	2020/21	**2021/22**	**2022/23**	**2023/24**	**2024/25**	**2025/26**
Forecast closing balance at:	**31/3/21**	**31/3/22**	**31/3/23**	**31/3/24**	**31/3/25**	**31/3/26**
	£000's	**£000's**	**£000's**	**£000's**	**£000's**	**£000's**
Budget Management Fund	**1,238**	186	0	0	0	0
Police & Crime Plan Reserve	**917**	850	400	200	0	0
OPCC Legal Reserve	**96**	176	50	0	0	0
Workforce Change Reserve	**643**	643	643	0	0	0
Regional Collaboration Reserve	**260**	71	0	0	0	0
Learning and Development Reserve	**46**	46	30	15	10	5
PEQF Reserve	**265**	316	287	0	0	0
Uplift	**200**	606	100	0	0	0
Total Earmarked Reserves	**3,665**	**2,894**	**1,510**	**215**	**10**	**5**
General Fund Balance	**5,699**	5,551	5,551	5,651	5,751	5,851
Total Revenue Reserves	**9,364**	**8,445**	**7,061**	**5,866**	**5,761**	**5,856**
Capital Receipts Reserve	**756**	316	316	316	316	316
Total Usable Reserves	**10,120**	**8,761**	**7,377**	**6,182**	**6,077**	**6,172**

RESERVES PRESENTED AS REQUIRED BY THE HOME OFFICE STRATEGY GUIDANCE						
Funding for projects & programmes over the period of the current MTFP	**4,421**	3,210	1,826	531	326	321
Funding for projects & programmes beyond the current MTFP	**0**	0	0	0	0	0
General Contingency	**5,699**	5,551	5,551	5,651	5,751	5,851
Total	**10,120**	**8,761**	**7,377**	**6,182**	**6,077**	**6,172**

FINANCIAL REGULATIONS [extract]

Maintenance of Reserves and Balances

3C.44 The PCC holds all reserves and balances.

3C.45 The Treasurer is responsible for creating a reserves strategy in consultation with the CFO.

3C.46 The Treasurer is responsible for advising the PCC about the level of reserves that the PCC holds and for ensuring there are clear protocols for their establishment and use. For each earmarked reserve held by the PCC there should be a clear protocol setting out:

a. The reason for/purpose of the reserve.

b. How and when the reserve can be used.

c. Procedures for the reserve's management and control.

d. A process and timescale for review of the reserve to ensure continuing relevance and adequacy.

3C.47 The Treasurer and the CFO will keep any legal or constructive obligations (liabilities) under review throughout the year. Any changes to the provisions or reserves required in relation to such liabilities will be reflected in the regular budget monitoring reports to the Resource Control Board.

3C.48 In addition to the regular review outlined above the Director of Legal, Reputation and Risk will report formally to the appropriate governance board on the level of the outstanding liabilities and potential liabilities of the PCC and the Chief Constable as at 30 September and 31 March of any given financial year.

3C.49 The Treasurer and CFO have a duty to report on the robustness of estimates and the adequacy of reserves and provisions when the PCC is considering the budget. In particular the Treasurer must assess the adequacy of unallocated general reserves taking into account the strategic, operational and financial risks facing the PCC. In coming to this view the Treasurer must seek the advice of the CFO and of the Chief Constable on major policing risks facing the Force.

3C.50 The PCC shall approve the creation of reserves and appropriations to and from general balances and reserves. To enable the PCC to reach their decision the Treasurer shall report the factors that influenced their judgement, and ensure the advice given is recorded formally.

AGENDA NO: 11a

INDEPENDENT AUDIT COMMITTEE

DATE OF MEETING: 14 December 2021

FOIA OPEN

DEVON AND CORNWALL TREASURY MANAGEMENT QUARTER 2 REPORT

REPORT BY: Nicola Allen, Chief Financial Officer to the OPCC

PURPOSE OF THE REPORT:
To present an update and provide assurance on one or more of the following areas:

Governance, Risk and Control	**Yes**
Internal Audit	**-**
External Audit	**-**
Financial reporting	**Yes**
Other matter	**-**

RECOMMENDATIONS:
The Independent Audit Committee is asked to:

Review the Report	**Yes**
Consider the Report	-
Note the report	-
Other	-

1.0 Background Information

1.1 The purpose of this report is to present the treasury management quarter 2 report for Devon and Cornwall, for comment prior to approval by the Police and Crime Commissioner (PCC).

2.0 Introduction

2.1 The Treasury Management Strategy for 2021/22 is underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2011, which includes the requirement for determining a treasury strategy on the likely financing and investment activity for the forthcoming financial year.

2.2 The Code also recommends a report on Treasury Management activities at least twice a year; a mid-year, and a year-end (outturn) report, and both of these are reported to the Independent Audit Committee. This report sets out the performance of the treasury management function for the period from 1 April to September 2021.

2.3 Treasury management is defined as:

"The management of the PCC's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks".

2.4 Operational treasury management activity is undertaken by the Alliance finance function, supported by the treasury advisors Arlingclose Limited, under the direction of the Chief Financial Officer (Treasurer), and in accordance with the strategy and practices approved by the PCC.

3.0 External Context

3.1 The Bank of England (BoE) held Bank Rate at 0.1% throughout the period and maintained its Quantitative Easing programme at £895 billion, unchanged since the November 2020 meeting.

A fuller explanation of the external context, as provided by the Treasury Management Advisors, Arlingclose Limited, is provided in Appendix 4.

4.0 Investment Activity

4.1 On the 30 September 2021 the total of short-term investments and cash equivalents held was £51.154m. Year to date cash and cash equivalent balances ranged between £688k and £55.112m. The period-end investment position and the year-to-date change is shown at Appendix 1 Table 2.

4.2 Both the CIPFA Code and government guidance require funds to be invested prudently with regard to security and liquidity of investments before seeking the highest rate of return, or yield. The objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

4.3 Investments are reviewed quarterly and benchmarked against other similar organisations by Arlingclose Limited. The quarter 2 benchmarking is provided at

Appendix 1 - Table 3. The income return on the Devon and Cornwall balances was the same (0.04%) as the average return achieved by other Police and Fire Authorities. Whilst the total cash plus return for Devon and Cornwall was higher at 0.21% compared with 0.18%.

4.4 The internal borrowing balance on the 30 September 2021 was £37.449m. We continue to use our own funds to fund the capital programme. We recognise that using our own funds in this way reduces the opportunity for investing, which impacts on the amount of interest we can earn; however, we take this approach because it is more cost effective than borrowing funds externally.

4.5 You will also see that 90% of the funds are held in money market funds which have reasonable diversification particularly the cash plus funds. These money market fund rates remain in positive territory albeit still around the bank base rate. This investment approach is in line with Arlingclose's current advice.

5.0 Borrowing Activity

5.1 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment.

5.2 On the 30 September 2021 the underlying need to borrow for capital purposes (CFR) was £67.816m and forecast for the year is £68.468m. This forecast is a reduction against the estimate of £78.264m which is mainly due to slippage in the delivery of capital projects.

5.3 **Short Term Borrowing:** There was no short-term borrowing as at the 30 September 2021 (£0m as at 30 September 2020).

5.4 **Long Term Borrowing:** No new long term external borrowing has been arranged. Existing borrowing is with PWLB and the next loan to mature will be in 2025.

5.5 **Revised PWLB Guidance:** HM Treasury published further guidance on PWLB borrowing in August 2021 providing additional detail and clarifications predominantly around the definition of an 'investment asset primarily for yield'. The principal aspects of the new guidance are:

- Capital expenditure incurred or committed to before 26 November 2020 is allowable even for an 'investment asset primarily for yield'.

- Capital plans should be submitted by local authorities via a DELTA return. These open for the new financial year on 1 March and remain open all year. Returns must be updated if there is a change of more than 10%.

- An asset held primarily to generate yield that serves no direct policy purpose should not be categorised as service delivery.

- Further detail on how local authorities purchasing investment assets primarily for yield can access the PWLB for the purposes of refinancing existing loans or externalising internal borrowing.
- Additional detail on the sanctions which can be imposed for inappropriate use of the PWLB loan. These can include a request to cancel projects, restrictions to accessing the PLWB and requests for information on further plans.

PWLB Terms and Conditions have changed with effect from 8 September 2021: The settlement time for a PWLB loan has been extended from two workings days (T+2) to five working days (T+5). In a move to protect the PWLB against negative interest rates, the minimum interest rate for PWLB loans has also been set at 0.01% and the interest charged on late repayments will be the higher of Bank of England Base Rate or 0.1%.

Local authorities can borrow from the PWLB provided they can confirm they are not planning to purchase 'investment assets primarily for yield' in the current or next two financial years, with confirmation of the purpose of capital expenditure from the Section 151 Officer.

Acceptable use of PWLB borrowing includes service delivery, housing, regeneration, preventative action, refinancing and treasury management.

Competitive market alternatives may be available for authorities with or without access to the PWLB. However, the financial strength of the individual authority and borrowing purpose will be scrutinised by commercial lenders. Further changes to the CIPFA Prudential Code expected in December 2021 are likely to prohibit borrowing for the primary purpose of commercial return even where the source of borrowing is not the PWLB.

The PCC has no plans to hold investment assets primarily for yield.

6.0 Performance Report

6.1 The financial performance of treasury management activities is measured both in terms of its impact on the revenue budget and its relationship to benchmark interest rates. The Arlingclose benchmarking is provided at Appendix 1 Table 3.

6.2 Interest receivable forecast for the year is £15k compared to a budgeted amount of £12k. Longer term investment options are currently being investigated with Arlingclose.

6.3 Funds are diversified where possible and we continue to explore placing investments with Local Authorities. However due to Local Authorities receiving additional funding, this option is limited.

6.4 On the 30 September 2021, all treasury activity complied with the PCC's Treasury Management Strategy and Investment Strategy as well as all relevant statute, guidance and accounting standards.

Nicola Allen

Chief Financial Officer to the OPCC

Appendices
Appendix 1 – Investments
Appendix 2 – Treasury Management Indicators
Appendix 3 – Prudential Indicators
Appendix 4 – Economic Update provided by Arlingclose Ltd
Appendix 5 – Outlook for the remainder of 2020/21 provided by Arlingclose Ltd

INVESTMENTS **Appendix 1**

Table 1: Investment Limits

Sector	Counterparty Limit	Sector Limit	30/09/2021
The UK Government	Unlimited	n/a	£1.050m
Local Authorities and Other Government Entities	£6m	Unlimited	£0m
Secured Investments	£6m	Unlimited	£0m
Banks (unsecured)	£3m	Unlimited	£3m
Building Societies (unsecured)	£3m	£6m	£0m
Registered Providers (unsecured)	£3m	£15m	£0m
Money Market Funds (includes Cash Plus Funds)	£6m	Unlimited	£45.950m
Strategic Pooled Funds	£6m	£30m	£0m
Operational Bank Account	£1.25m	n/a	£1.154m

Table 2: Investment Position

	31/03/2021 Actual Portfolio £'000	30/09/2021 Actual Portfolio £'000	Movement £'000
External Borrowing:			
Short Term Borrowing	(18,000)	0	18,000
Long Term Borrowing	(30,277)	(30,277)	0
Finance Leases	(123)	(90)	33
Total Gross External Debt	**(48,400)**	**(30,367)**	**18,033**
Treasury Investments:			
Short Term Investments	18,157	18,000	(157)
Cash and Cash Equivalents	9,518	33,154	23,636
Total Treasury Investments	**27,675**	**51,154**	**23,479**
Net Investments/(Debt)	**(20,725)**	**20,787**	**41,512**

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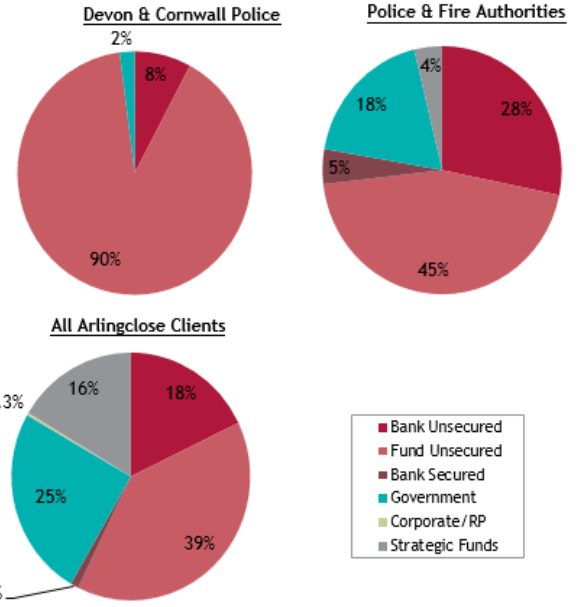
INVESTMENTS **Appendix 1**

Table 3: Benchmarking Information

arlingclose

Investment Benchmarking
30 September 2021

	Devon & Cornwall Police	10 Police & Fire Authorities Average	129 LAs Average
Internal Investments	£33.0m	£32.4m	£72.7m
Cash Plus & Short Bond Funds	£18.2m	£2.3m	£2.2m
Strategic Pooled Funds	£0.0m	£2.1m	£13.1m
TOTAL INVESTMENTS	**£51.2m**	**£36.8m**	**£87.9m**
Security			
Average Credit Score	4.73	4.45	4.69
Average Credit Rating	A+	AA-	A+
Average Credit Score (time-weighted)	4.73	4.17	4.53
Average Credit Rating (time-weighted)	A+	AA-	A+
Number of Counterparties / Funds	11	11	13
Proportion Exposed to Bail-in	97%	75%	69%
Liquidity			
Proportion Available within 7 days	100%	78%	56%
Proportion Available within 100 days	100%	90%	75%
Average Days to Maturity	1	22	10
Market Risks			
Average Days to Next Rate Reset	43	40	44
Strategic Fund Volatility	-	1.4%	3.9%
Yield			
Internal Investment Return	0.04%	0.04%	0.08%
Cash Plus Funds - Income Return	0.00%	0.03%	0.33%
Strategic Funds - Income Return	-	4.73%	4.27%
Total Investments - Income Return	**0.02%**	**0.22%**	**0.78%**
Cash Plus Funds - Capital Gain/Loss	0.21%	0.15%	-0.15%
Strategic Funds - Capital Gain/Loss	-	12.61%	9.42%
Total Investments - Total Return	**0.10%**	**0.73%**	**2.35%**



Notes

- Unless otherwise stated, all measures relate to internally managed investments only, i.e. excluding external pooled funds.
- Averages within a portfolio are weighted by size of investment, but averages across authorities are not weighted.
- Credit scores are calculated as AAA = 1, AA+ = 2, etc.
- Volatility is the standard deviation of weekly total returns, annualised.

TREASURY MANAGEMENT INDICATORS **Appendix 2**

Table 4: Security

The PCC has adopted a voluntary measure of its exposure to credit risk by monitoring the weighted average credit rating of its investment portfolio.

	2021/22	30/09/2021	Complied?
	Target	Actual	
Portfolio average credit rating	A+	A+	Yes

Table 5: Liquidity

The PCC has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected variation in the cash flow:

	2021/22	30/09/2021	Complied?
	Target	Actual	
Minimum limit at less than 31 days duration	£6m	£51m	Yes

The £51m is mainly held with money markets which are very liquid in nature. £18m is held with enhanced cash plus money market funds for the long term as advised by Arlingclose. We therefore do not draw on these funds unless the cost of borrowing funds externally is more than the interest rate of return on these enhanced funds.

Table 6: Interest Rate Exposures

This indicator is set to control the PCC's exposure to interest rate risk.

	2021/22	30/09/2021	Complied?
	Limit	Actual	
Upper limit on 1 year revenue impact of a 1% rise in interest rates	(£455k)	(£301k)	Yes
Upper limit on 1 year revenue impact of a 1% fall in interest rates	£455k	£301k	Yes

Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate.

TREASURY MANAGEMENT INDICATORS **Appendix 2**

Table 7: Maturity Structure of Borrowing

This indicator is set to control the PCC's exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing were:

	2021/22		30/09/2021	Complied?
	Upper Limit	**Lower Limit**	**Actual**	
Under 12 months	100%	0%	0%	Yes
12 months and within 24 months	55%	0%	0%	Yes
24 months and within 5 years	65%	0%	7%	Yes
5 years and within 10 years	80%	0%	29%	Yes
10 years and above	100%	0%	64%	Yes

Table 8: Principal Sums Invested for Periods Longer than 365 days

The purpose of this indicator is to control the PCC's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

	2021/22	**2022/23**	**2023/24**	**2024/25**
Limit on principal invested beyond year end	£3m	£2m	£1m	£0m
Actual principal invested beyond year end	£0m	£0m	£0m	£0m
Complied?	Yes	Yes	Yes	Yes

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PRUDENTIAL INDICATORS **Appendix 3**

Table 9: Debt Limits

	2021/22 Estimate £'000	30/09/2021 Actual £'000	Operational Boundary £'000	Authorised Limit £'000	
External Borrowing	47,990	30,277	68,039	78,039	**Complied?**
Finance Leases	49	90			
Total	**48,039**	**30,367**	**68,039**	**78,039**	**Yes**

Table 10: Capital Financing Requirement (CFR)

	2021/22 Estimate £'000	30/09/2021 Actual £'000	2021/22 Forecast £'000
Opening CFR	**68,819**	**67,477**	**67,477**
Capital expenditure to be funded by borrowing	11,685	1,463	3,239
Finance Leases	0	0	0
Less: Minimum Revenue Provision	(2,181)	(1,091)	(2,181)
Less: Finance Leases	(59)	(33)	(67)
Closing CFR	**78,264**	**67,816**	**68,468**

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ECONOMIC UPDATE provided by Arlingclose Ltd. **Appendix 4**

External Context

Economic background: The economic recovery from coronavirus pandemic continued to dominate the first half of the financial year. By the end of the period over 48 million people in the UK had received their first dose of a COVID-19 vaccine and almost 45 million their second dose.

The Bank of England (BoE) held Bank Rate at 0.1% throughout the period and maintained its Quantitative Easing programme at £895 billion, unchanged since the November 2020 meeting. In its September 2021 policy announcement, the BoE noted it now expected the UK economy to grow at a slower pace than was predicted in August, as the pace of the global recovery had shown signs of slowing and there were concerns inflationary pressures may be more persistent. Within the announcement, Bank expectations for GDP growth for the third (calendar) quarter were revised down to 2.1% (from 2.9%), in part reflecting tighter supply conditions. The path of CPI inflation is now expected to rise slightly above 4% in the last three months of 2021, due to higher energy prices and core goods inflation. While the Monetary Policy Committee meeting ended with policy rates unchanged, the tone was more hawkish.

Government initiatives continued to support the economy over the quarter but came to an end on 30th September 2021, with businesses required to either take back the 1.6 million workers on the furlough scheme or make them redundant.
The latest labour market data showed that in the three months to July 2021 the unemployment rate fell to 4.6%. The employment rate increased, and economic activity rates decreased, suggesting an improving labour market picture. Latest data showed growth in average total pay (including bonuses) and regular pay (excluding bonuses) among employees was 8.3% and 6.3% respectively over the period. However, part of the robust growth figures is due to a base effect from a decline in average pay in the spring of last year associated with the furlough scheme.

Annual CPI inflation rose to 3.2% in August, exceeding expectations for 2.9%, with the largest upward contribution coming from restaurants and hotels. The Bank of England now expects inflation to exceed 4% by the end of the calendar year owing largely to developments in energy and goods prices. The Office of National Statistics' (ONS') preferred measure of CPIH which includes owner-occupied housing was 3.0% year/year, marginally higher than expectations for 2.7%.

The easing of restrictions boosted activity in the second quarter of calendar year, helping push GDP up by 5.5% q/q (final estimate vs 4.8% q/q initial estimate). Household consumption was the largest contributor. Within the sector breakdown production contributed 1.0% q/q, construction 3.8% q/q and services 6.5% q/q, taking all of these close to their pre-pandemic levels.

The US economy grew by 6.3% in Q1 2021 (Jan-Mar) and then by an even stronger 6.6% in Q2 as the recovery continued. The Federal Reserve maintained its main interest rate at between 0% and 0.25% over the period but in its most recent meeting made suggestion that monetary policy may start to be tightened soon.

ECONOMIC UPDATE provided by Arlingclose Ltd. **Appendix 4**

The European Central Bank maintained its base rate at 0%, deposit rate at -0.5%, and asset purchase scheme at €1.85 trillion.

Financial markets: Monetary and fiscal stimulus together with rising economic growth and the ongoing vaccine rollout programmes continued to support equity markets over most of the period, albeit with a bumpy ride towards the end. The Dow Jones hit another record high while the UK-focused FTSE 250 index continued making gains over pre-pandemic levels. The more internationally focused FTSE 100 saw more modest gains over the period and remains below its pre-crisis peak.

Inflation worries continued during the period. Declines in bond yields in the first quarter of the financial year suggested bond markets were expecting any general price increases to be less severe, or more transitory, that was previously thought. However, an increase in gas prices in the UK and EU, supply shortages and a dearth of HGV and lorry drivers with companies willing to pay more to secure their services, has caused problems for a range of industries and, in some instance, lead to higher prices.

The 5-year UK benchmark gilt yield began the financial year at 0.36% before declining to 0.33% by the end of June 2021 and then climbing to 0.64% on 30th September. Over the same period the 10-year gilt yield fell from 0.80% to 0.71% before rising to 1.03% and the 20-year yield declined from 1.31% to 1.21% and then increased to 1.37%.

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Over the period Fitch and Moody's upwardly revised to stable the outlook on a number of UK banks and building societies on our counterparty list, recognising their improved capital positions compared to last year and better economic growth prospects in the UK.

Fitch also revised the outlooks for Nordea, Svenska Handelsbanken and Handelsbanken plc to stable from negative. The rating agency considered the improved economic prospects in the Nordic region to have reduced the baseline downside risks it previously assigned to the lenders.

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ECONOMIC UPDATE provided by Arlingclose Ltd. **Appendix 4**

At the end of the period Arlingclose had completed its full review of its credit advice on unsecured deposits. The outcome of this review included the addition of NatWest Markets plc to the counterparty list together with the removal of the suspension of Handelsbanken plc. In addition, the maximum duration for all recommended counterparties was extended to 100 days.

As ever, the institutions and durations on the Authority's counterparty list recommended by treasury management advisors Arlingclose remain under constant review.

OUTLOOK for the remainder of 2021/22 provided by Arlingclose Ltd. Appendix 5

Arlingclose's Economic Outlook for the remainder of 2021/22 (based on the October 2021 interest rate forecast)

	Dec-21	Mar-22	Jun-22	Sep-22	Dec-22	Mar-23	Jun-23	Sep-23	Dec-23	Mar-24	Jun-24	Sep-24	Dec-24
Official Bank Rate													
Upside risk	0.00	0.15	0.00	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25	0.25
Arlingclose Central Case	0.10	0.10	0.25	0.25	0.25	0.50	0.50	0.50	0.50	0.50	0.50	0.50	0.50
Downside risk	0.00	0.00	0.15	0.15	0.15	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40

Arlingclose expects Bank Rate to rise in Q2 2022. We believe this is driven as much by the Bank of England's desire to move from emergency levels as by fears of inflationary pressure.

Investors have priced in multiple rises in Bank Rate to 1% by 2024. While Arlingclose believes Bank Rate will rise, it is by a lesser extent than expected by markets.

The global economy continues to recover from the pandemic but has entered a more challenging phase. The resurgence of demand has led to the expected rise in inflationary pressure, but disrupted factors of supply are amplifying the effects, increasing the likelihood of lower growth rates ahead. This is particularly apparent in the UK due to the impact of Brexit.

While Q2 UK GDP expanded more quickly than initially thought, the 'pingdemic' and more latterly supply disruption will leave Q3 GDP broadly stagnant. The outlook also appears weaker. Household spending, the driver of the recovery to date, is under pressure from a combination of retail energy price rises, the end of government support programmes and soon, tax rises. Government spending, the other driver of recovery, will slow considerably as the economy is taken off life support.

Inflation rose to 3.2% in August. A combination of factors will drive this to over 4% in the near term. While the transitory factors affecting inflation, including the low base effect of 2020, are expected to unwind over time, the MPC has recently communicated fears that these transitory factors will feed longer-term inflation expectations that require tighter monetary policy to control. This has driven interest rate expectations substantially higher.
The supply imbalances are apparent in the labour market. While wage growth is currently elevated due to compositional and base factors, stories abound of higher wages for certain sectors, driving inflation expectations. It is uncertain whether a broad-based increased in wages is possible given the pressures on businesses.

Government bond yields increased sharply following the September FOMC and MPC minutes, in which both central banks communicated a lower tolerance for higher inflation than previously thought. The MPC in particular has doubled down on these signals in spite of softer economic data. Bond investors expect higher near-term interest rates but are also clearly uncertain about central bank policy. The MPC appears to be playing both sides, but has made clear its intentions to tighten policy, possibly driven by a desire to move away from emergency levels. While the economic outlook will be challenging, the signals from policymakers suggest Bank Rate will rise unless data indicates a more severe slowdown.

AGENDA NO: 11b

INDEPENDENT AUDIT COMMITTEE

DATE OF MEETING: 14 December 2021

FOIA OPEN

DORSET TREASURY MANAGEMENT QUARTER 2 REPORT

REPORT BY: Julie Strange, Chief Financial Officer to the OPCC

PURPOSE OF THE REPORT:
To present an update and provide assurance on one or more of the following areas:

Governance, Risk and Control	**Yes**
Internal Audit	**-**
External Audit	**-**
Financial reporting	**Yes**
Other matter	**-**

RECOMMENDATIONS:
The Independent Audit Committee is asked to:

Review the Report	**Yes**
Consider the Report	-
Note the report	-
Other	-

1.0 Background Information

1.1 The purpose of this report is to present the 2021/22 quarter 2 treasury management for Dorset, for comment prior to approval by the Police and Crime Commissioner (PCC).

2.0 Introduction

2.1 The Treasury Management Strategy for 2021/22 is underpinned by the adoption of the Chartered Institute of Public Finance and Accountancy's (CIPFA) Code of Practice on Treasury Management 2011, which includes the requirement for determining a treasury strategy on the likely financing and investment activity for the forthcoming financial year.

2.2 The Code also recommends a report on Treasury Management activities at least twice a year; a mid-year, and a year-end (outturn) report, and both of these are reported to the Independent Audit Committee. This report sets out the performance of the treasury management function for the period from 1 April to 30 September 2021.

2.3 Treasury management is defined as:

"The management of the PCC's investments and cash flows, its banking, money market and capital market transactions; the effective control of the risks associated with those activities; and the pursuit of optimum performance consistent with those risks".

2.4 Operational treasury management activity is undertaken by the Alliance finance function, supported by the treasury advisors Arlingclose Limited, under the direction of the Chief Financial Officer (Treasurer), and in accordance with the strategy and practices approved by the PCC.

3.0 External Context

3.1 The Bank of England (BoE) held Bank Rate at 0.1% throughout the period and maintained its Quantitative Easing programme at £895 billion, unchanged since the November 2020 meeting.

A fuller explanation of the external context, as provided by the Treasury Management Advisors, Arlingclose Limited, is provided in Appendix 4.

4.0 Investment Activity

4.1 On the 30 September 2021 the total of short-term investments and cash equivalents held was £14.660m. Year to date cash and cash equivalent balances ranged between £695k and £25.193m. The period-end investment position and the year-to-date change is shown at Appendix 1 Table 2.

4.2 Both the CIPFA Code and government guidance require funds to be invested prudently with regard to security and liquidity of investments before seeking the highest rate of return, or yield. The objective when investing money is to strike an appropriate balance between risk and return, minimising the risk of incurring losses from defaults and the risk of receiving unsuitably low investment income.

4.3 Investments are reviewed quarterly and benchmarked against other similar organisations by Arlingclose Limited. The quarter 2 benchmarking is provided at Appendix 1 - Table 3. The income return on the Dorset balances was slightly higher (Internal investment return: 0.05% and Cash Plus Funds: 0.06%), compared with the average of Police and Fire Authorities (Internal investment return: 0.04% and Cash Plus Funds: 0.03%).

4.4 The internal borrowing balance on the 30 September 2021 was £6.684m. We continue to use our own funds to fund the capital programme. We recognise that using our own funds in this way reduces the opportunity for investing, which impacts on the amount of interest we can earn; however, we take this approach because it is more cost effective than borrowing funds externally.

4.5 You will also see that 85% of the funds are held in money market funds which have reasonable diversification particularly the cash plus funds. These money market fund rates remain in positive territory albeit still around the bank base rate. This investment approach is in line with Arlingclose's advice.

5.0 Borrowing Activity

5.1 The underlying need to borrow for capital purposes is measured by the Capital Financing Requirement (CFR), while usable reserves and working capital are the underlying resources available for investment.

5.2 On the 30 September 2021 the underlying need to borrow for capital purposes (CFR) was £30.061m and forecast for the year is £33.749m. This forecast is a reduction against the estimate of £42.456m which is mainly due to slippage in the delivery of capital projects

5.3 **Short Term Borrowing:** There was no short-term borrowing outstanding on the 30 September 2021 (£0m on the 30 September 2020).

5.4 **Long Term Borrowing:** No new long-term external borrowing has been arranged.

5.5 **Revised PWLB Guidance:** HM Treasury published further guidance on PWLB borrowing in August 2021 providing additional detail and clarifications predominantly around the definition of an 'investment asset primarily for yield'. The principal aspects of the new guidance are:

- Capital expenditure incurred or committed to before 26 November 2020 is allowable even for an 'investment asset primarily for yield'.

- Capital plans should be submitted by local authorities via a DELTA return. These open for the new financial year on 1 March and remain open all year. Returns must be updated if there is a change of more than 10%.

- An asset held primarily to generate yield that serves no direct policy purpose should not be categorised as service delivery.

- Further detail on how local authorities purchasing investment assets primarily for yield can access the PWLB for the purposes of refinancing existing loans or externalising internal borrowing.
- Additional detail on the sanctions which can be imposed for inappropriate use of the PWLB loan. These can include a request to cancel projects, restrictions to accessing the PLWB and requests for information on further plans.

PWLB Terms and Conditions have changed with effect from 8 September 2021: The settlement time for a PWLB loan has been extended from two workings days (T+2) to five working days (T+5). In a move to protect the PWLB against negative interest rates, the minimum interest rate for PWLB loans has also been set at 0.01% and the interest charged on late repayments will be the higher of Bank of England Base Rate or 0.1%.

Local authorities can borrow from the PWLB provided they can confirm they are not planning to purchase 'investment assets primarily for yield' in the current or next two financial years, with confirmation of the purpose of capital expenditure from the Section 151 Officer.

Acceptable use of PWLB borrowing includes service delivery, housing, regeneration, preventative action, refinancing and treasury management.

Competitive market alternatives may be available for authorities with or without access to the PWLB. However, the financial strength of the individual authority and borrowing purpose will be scrutinised by commercial lenders. Further changes to the CIPFA Prudential Code expected in December 2021 are likely to prohibit borrowing for the primary purpose of commercial return even where the source of borrowing is not the PWLB.

The PCC has no plans to hold investment assets primarily for yield.

6.0 Performance Report

6.1 The financial performance of treasury management activities is measured both in terms of its impact on the revenue budget and its relationship to benchmark interest rates. The Arlingclose benchmarking is provided at Appendix 1 Table 3.

6.2 Interest receivable forecast for the year is £7,356 compared to a budgeted amount of £40,000. The budget has two elements to it: interest receivable from long term investments estimated at £35,000; and interest receivable from short term investments of £5,000. The forecast interest of £7,356 relates to short term investments. Longer term investment options are currently being investigated with Arlingclose.

6.3 Funds are diversified where possible and we continue to explore placing investments with Local Authorities. However due to Local Authorities receiving additional funding, this option is limited.

6.4 On the 30 September 2021, all treasury activity complied with the PCC's Treasury Management Strategy and Investment Strategy as well as all relevant statute, guidance and accounting standards.

Julie Strange
Chief Financial Officer to the OPCC

Appendices
Appendix 1 – Investments
Appendix 2 – Treasury Management Indicators
Appendix 3 – Prudential Indicators
Appendix 4 – Economic Update provided by Arlingclose Ltd
Appendix 5 – Outlook for the remainder of 2021/22 provided by Arlingclose Ltd

INVESTMENTS **Appendix 1**

Table 1: Investment Limits

Sector	Counterparty Limit	Sector Limit	30/09/2021
The UK Government	Unlimited	n/a	£0m
Local Authorities and Other Government Entities	£3m	Unlimited	£0m
Secured Investments	£3m	Unlimited	£0m
Banks (unsecured)	£1.5m	Unlimited	£1.5m
Building Societies (unsecured)	£1.5m	£3m	£0m
Registered Providers (unsecured)	£1.5m	£7.5m	£0m
Money Market Funds (includes Cash Plus Funds)	£3m	Unlimited	£12.3m
Strategic Pooled Funds	£3m	£15m	£0m
Operational Bank Account	£1.25m	n/a	£0.86m

Table 2: Investment Position

	31/03/2021 Actual Portfolio £'000	30/09/2021 Actual Portfolio £'000	Movement £'000
External Borrowing:			
Short Term Borrowing	(16,000)	0	16,000
Private Finance Initiatives	(22,653)	(22,535)	118
Other Long Term Liabilities	(846)	(786)	60
Finance Leases	(72)	(57)	15
Total Gross External Debt	**(39,571)**	**(23,378)**	**16,193**
Treasury Investments:			
Short Term Investments	4,000	4,000	0
Cash and Cash Equivalents	13,127	10,660	(2,467)
Total Treasury Investments	**17,127**	**14,660**	**(2,467)**
Net Investments/(Debt)	**(22,444)**	**(8,718)**	**13,726**

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INVESTMENTS **Appendix 1**

Table 3: Benchmarking Information

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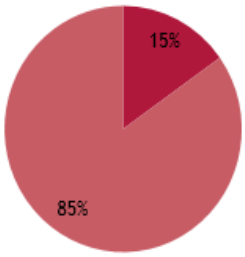
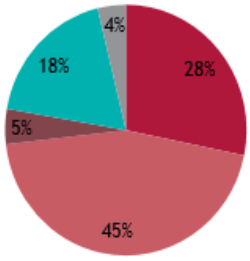
Investment Benchmarking
30 September 2021

	Dorset Police	10 Police & Fire Authorities Average	129 LAs Average
Internal Investments	£10.5m	£32.4m	£72.7m
Cash Plus & Short Bond Funds	£4.0m	£2.3m	£2.2m
Strategic Pooled Funds	£0.0m	£2.1m	£13.1m
TOTAL INVESTMENTS	**£14.5m**	**£36.8m**	**£87.9m**
Security			
Average Credit Score	4.67	4.45	4.69
Average Credit Rating	A+	AA-	A+
Average Credit Score (time-weighted)	4.67	4.17	4.53
Average Credit Rating (time-weighted)	A+	AA-	A+
Number of Counterparties / Funds	7	11	13
Proportion Exposed to Bail-in	100%	75%	69%
Liquidity			
Proportion Available within 7 days	100%	78%	56%
Proportion Available within 100 days	100%	90%	75%
Average Days to Maturity	1	22	10
Market Risks			
Average Days to Next Rate Reset	44	40	44
Strategic Fund Volatility	-	1.4%	3.9%
Yield			
Internal Investment Return	0.05%	0.04%	0.08%
Cash Plus Funds - Income Return	0.06%	0.03%	0.33%
Strategic Funds - Income Return	-	4.73%	4.27%
Total Investments - Income Return	**0.05%**	**0.22%**	**0.78%**
Cash Plus Funds - Capital Gain/Loss	0.09%	0.15%	-0.15%
Strategic Funds - Capital Gain/Loss	-	12.61%	9.42%
Total Investments - Total Return	**0.08%**	**0.73%**	**2.35%**

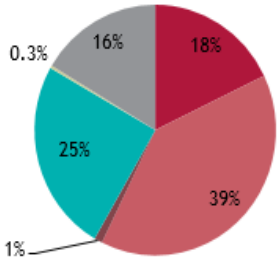
Dorset Police



Police & Fire Authorities



All Arlingclose Clients



Notes

- Unless otherwise stated, all measures relate to internally managed investments only, i.e. excluding external pooled funds.
- Averages within a portfolio are weighted by size of investment, but averages across authorities are not weighted.
- Credit scores are calculated as AAA = 1, AA+ = 2, etc.
- Volatility is the standard deviation of weekly total returns, annualised.

TREASURY MANAGEMENT INDICATORS **Appendix 2**

Table 4: Security

The PCC has adopted a voluntary measure of its exposure to credit risk by monitoring the weighted average credit rating of its investment portfolio.

	2021/22	30/09/2021	Complied?
	Target	Actual	
Portfolio average credit rating	A+	A+	Yes

Table 5: Liquidity

The PCC has adopted a voluntary measure of its exposure to liquidity risk by monitoring the amount of cash available to meet unexpected variation in the cash flow:

	2021/22	30/09/2021	Complied?
	Target	Actual	
Minimum limit at less than 31 days duration	£3m	£13m	Yes

The £13m is held with money markets which are very liquid in nature. £4m is held with enhanced cash plus money market funds for the long term as advised by Arlingclose. We therefore do not draw on these funds unless the cost of borrowing funds externally is more than the interest rate of return on these enhanced funds.

Table 6: Interest Rate Exposures

This indicator is set to control the PCC's exposure to interest rate risk.

	2021/22	30/09/2021	Complied?
	Limit	Actual	
Upper limit on 1 year revenue impact of a 1% rise in interest rates	(£200k)	(£104k)	Yes
Upper limit on 1 year revenue impact of a 1% fall in interest rates	£200k	£104k	Yes

Fixed rate investments and borrowings are those where the rate of interest is fixed for at least 12 months, measured from the start of the financial year or the transaction date if later. All other instruments are classed as variable rate.

TREASURY MANAGEMENT INDICATORS **Appendix 2**

Table 7: Maturity Structure of Borrowing

This indicator is set to control the PCC's exposure to refinancing risk. The upper and lower limits on the maturity structure of all borrowing were:

	2021/22		30/09/2021	Complied?
	Upper Limit	Lower Limit	Actual	
Under 12 months	100%	0%	0%	Yes
12 months and within 24 months	55%	0%	0%	Yes
24 months and within 5 years	65%	0%	0%	Yes
5 years and within 10 years	80%	0%	0%	Yes
10 years and above	100%	0%	0%	Yes

Table 8: Principal Sums Invested for Periods Longer than 365 days

The purpose of this indicator is to control the PCC's exposure to the risk of incurring losses by seeking early repayment of its investments. The limits on the long-term principal sum invested to final maturities beyond the period end were:

	2021/22	2022/23	2023/24	2024/25
Limit on principal invested beyond year end	£1.5m	£1m	£0m	£0m
Actual principal invested beyond year end	£0m	£0m	£0m	£0m
Complied?	Yes	Yes	Yes	Yes

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PRUDENTIAL INDICATORS **Appendix 3**

Table 9: Debt Limits

	2021/22 Estimate £'000	30/09/2021 Actual £'000	Operational Boundary £'000	Authorised Limit £'000	
External Borrowing	13,804	0	54,135	59,135	**Complied?**
Private Finance Initiatives	24,563	22,535			
Other Long Term Liabilities	726	786			
Finance Leases	42	57			
Total	**39,135**	**23,378**	**54,135**	**59,135**	**Yes**

Table 10: Capital Financing Requirement (CFR)

	2021/22 Estimate £'000	30/09/2021 Actual £'000	2021/22 Forecast £'000
Opening CFR	**34,224**	**29,803**	**29,803**
Capital expenditure to be funded by borrowing	8,934	609	4,648
Capital expenditure to be funded by PFI	2,482	1,242	2,482
Finance Leases	0	0	0
Less: Repayment of PFI	(2,719)	(1,360)	(2,719)
Less: Repayment of Other Long Term Liabilities	(120)	(60)	(120)
Less: Minimum Revenue Provision	(315)	(158)	(315)
Less: Finance Leases	(30)	(15)	(30)
Closing CFR	**42,456**	**30,061**	**33,749**

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ECONOMIC UPDATE provided by Arlingclose Ltd. **Appendix 4**

External Context

Economic background: The economic recovery from coronavirus pandemic continued to dominate the first half of the financial year. By the end of the period over 48 million people in the UK had received their first dose of a COVID-19 vaccine and almost 45 million their second dose.

The Bank of England (BoE) held Bank Rate at 0.1% throughout the period and maintained its Quantitative Easing programme at £895 billion, unchanged since the November 2020 meeting. In its September 2021 policy announcement, the BoE noted it now expected the UK economy to grow at a slower pace than was predicted in August, as the pace of the global recovery had shown signs of slowing and there were concerns inflationary pressures may be more persistent. Within the announcement, Bank expectations for GDP growth for the third (calendar) quarter were revised down to 2.1% (from 2.9%), in part reflecting tighter supply conditions. The path of CPI inflation is now expected to rise slightly above 4% in the last three months of 2021, due to higher energy prices and core goods inflation. While the Monetary Policy Committee meeting ended with policy rates unchanged, the tone was more hawkish.

Government initiatives continued to support the economy over the quarter but came to an end on 30th September 2021, with businesses required to either take back the 1.6 million workers on the furlough scheme or make them redundant.
The latest labour market data showed that in the three months to July 2021 the unemployment rate fell to 4.6%. The employment rate increased, and economic activity rates decreased, suggesting an improving labour market picture. Latest data showed growth in average total pay (including bonuses) and regular pay (excluding bonuses) among employees was 8.3% and 6.3% respectively over the period. However, part of the robust growth figures is due to a base effect from a decline in average pay in the spring of last year associated with the furlough scheme.

Annual CPI inflation rose to 3.2% in August, exceeding expectations for 2.9%, with the largest upward contribution coming from restaurants and hotels. The Bank of England now expects inflation to exceed 4% by the end of the calendar year owing largely to developments in energy and goods prices. The Office of National Statistics' (ONS') preferred measure of CPIH which includes owner-occupied housing was 3.0% year/year, marginally higher than expectations for 2.7%.

The easing of restrictions boosted activity in the second quarter of calendar year, helping push GDP up by 5.5% q/q (final estimate vs 4.8% q/q initial estimate). Household consumption was the largest contributor. Within the sector breakdown production contributed 1.0% q/q, construction 3.8% q/q and services 6.5% q/q, taking all of these close to their pre-pandemic levels.

The US economy grew by 6.3% in Q1 2021 (Jan-Mar) and then by an even stronger 6.6% in Q2 as the recovery continued. The Federal Reserve maintained its main interest rate at between 0% and 0.25% over the period but in its most recent meeting made suggestion that monetary policy may start to be tightened soon.

ECONOMIC UPDATE provided by Arlingclose Ltd. **Appendix 4**

The European Central Bank maintained its base rate at 0%, deposit rate at -0.5%, and asset purchase scheme at €1.85 trillion.

Financial markets: Monetary and fiscal stimulus together with rising economic growth and the ongoing vaccine rollout programmes continued to support equity markets over most of the period, albeit with a bumpy ride towards the end. The Dow Jones hit another record high while the UK-focused FTSE 250 index continued making gains over pre-pandemic levels. The more internationally focused FTSE 100 saw more modest gains over the period and remains below its pre-crisis peak.

Inflation worries continued during the period. Declines in bond yields in the first quarter of the financial year suggested bond markets were expecting any general price increases to be less severe, or more transitory, that was previously thought. However, an increase in gas prices in the UK and EU, supply shortages and a dearth of HGV and lorry drivers with companies willing to pay more to secure their services, has caused problems for a range of industries and, in some instance, lead to higher prices.

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The Sterling Overnight Rate (SONIA) averaged 0.05% over the quarter.

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Over the period Fitch and Moody's upwardly revised to stable the outlook on a number of UK banks and building societies on our counterparty list, recognising their improved capital positions compared to last year and better economic growth prospects in the UK.

Fitch also revised the outlooks for Nordea, Svenska Handelsbanken and Handelsbanken plc to stable from negative. The rating agency considered the improved economic prospects in the Nordic region to have reduced the baseline downside risks it previously assigned to the lenders.

The successful vaccine rollout programme is credit positive for the financial services sector in general and the improved economic outlook has meant some institutions have been able to reduce provisions for bad loans. While there is still uncertainty around the full extent of the losses banks and building societies will suffer due to the pandemic-related economic slowdown, the sector is in a generally better position now compared to earlier this year and 2020.

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At the end of the period Arlingclose had completed its full review of its credit advice on unsecured deposits. The outcome of this review included the addition of NatWest Markets plc to the counterparty list together with the removal of the suspension of Handelsbanken plc. In addition, the maximum duration for all recommended counterparties was extended to 100 days.

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Downside risk	0.00	0.00	0.15	0.15	0.15	0.40	0.40	0.40	0.40	0.40	0.40	0.40	0.40

Arlingclose expects Bank Rate to rise in Q2 2022. We believe this is driven as much by the Bank of England's desire to move from emergency levels as by fears of inflationary pressure.

Investors have priced in multiple rises in Bank Rate to 1% by 2024. While Arlingclose believes Bank Rate will rise, it is by a lesser extent than expected by markets.

The global economy continues to recover from the pandemic but has entered a more challenging phase. The resurgence of demand has led to the expected rise in inflationary pressure, but disrupted factors of supply are amplifying the effects, increasing the likelihood of lower growth rates ahead. This is particularly apparent in the UK due to the impact of Brexit.

While Q2 UK GDP expanded more quickly than initially thought, the 'pingdemic' and more latterly supply disruption will leave Q3 GDP broadly stagnant. The outlook also appears weaker. Household spending, the driver of the recovery to date, is under pressure from a combination of retail energy price rises, the end of government support programmes and soon, tax rises. Government spending, the other driver of recovery, will slow considerably as the economy is taken off life support.

Inflation rose to 3.2% in August. A combination of factors will drive this to over 4% in the near term. While the transitory factors affecting inflation, including the low base effect of 2020, are expected to unwind over time, the MPC has recently communicated fears that these transitory factors will feed longer-term inflation expectations that require tighter monetary policy to control. This has driven interest rate expectations substantially higher.
The supply imbalances are apparent in the labour market. While wage growth is currently elevated due to compositional and base factors, stories abound of higher wages for certain sectors, driving inflation expectations. It is uncertain whether a broad-based increased in wages is possible given the pressures on businesses.

Government bond yields increased sharply following the September FOMC and MPC minutes, in which both central banks communicated a lower tolerance for higher inflation than previously thought. The MPC in particular has doubled down on these signals in spite of softer economic data. Bond investors expect higher near-term interest rates but are also clearly uncertain about central bank policy. The MPC appears to be playing both sides, but has made clear its intentions to tighten policy, possibly driven by a desire to move away from emergency levels. While the economic outlook will be challenging, the signals from policymakers suggest Bank Rate will rise unless data indicates a more severe slowdown.

Devon & Cornwall Police and The Office of the Police & Crime Commissioner (OPCC)

Dorset Police and The Office of the Police & Crime Commissioner (OPCC)

Report of Internal Audit Activity – December 2021

Internal Audit ▪ Risk ▪ Special Investigations ▪ Consultancy

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Unrestricted

Executive Summary

Rolling Opinion

Overall, we are just able to provide a Reasonable rolling assurance opinion for the year, however this has been impacted by the recent Limited assurance opinions issued and High corporate risk reported previously. We will continue to update this rolling opinion in subsequent Committee updates.

Internal Audit Assurance Opinions 2021/22

	Oct - Dec	YTD
Substantial	2	2
Reasonable	0	2
Limited	4	6
No Assurance	0	0
Total	6	10

Internal Audit Agreed Actions 2021/22

	Oct - Dec	YTD
Priority 1	2	3
Priority 2	20	32
Priority 3	9	11
Total	31	46

Progress Update Since Previous Committee

4 Limited Opinions provided
0 No Assurance Opinions
2 Priority 1 Actions; 20 Priority 2 Actions

Limited Assurance Opinion Summary
Limited assurance opinions were provided for the Complaints Handling, Seized Property Brought Back into Force Use, Social Media Use and Review of Global Rostering System (GRS) audits.

Significant Risks
We do not have any Significant Risks to report from our audit work since the previous Committee.

10 reviews have been finalised as part of the 2021/22 Internal Audit Plan
Good progress has been made since the previous update, however we will also provide a verbal update on progress to the Committee, as we hope to have progressed a number of the audits in Fieldwork between the date of paper submission and the meeting date.

Changes to the Internal Audit Plan since the Previous Committee
There have been a number of changes to this year's audit plan since the last Committee. The audits of Partnership Governance and Operational Contact Management (Dorset Only) have been removed from the Plan due to focussing time on higher risk areas. A Review of the Global Rostering System (GRS) for Devon & Cornwall only has been completed and additional days have been added to the Project Voyager work.

Progress with Delivery by Year-End
We remain confident of completing 90% or above of the annual audit plan by year-end in line with the Partnership agreement. We have already started some of the Q4 work whilst waiting for information on those audits currently in the Fieldwork stage.

Profiled Performance of Audits (25) in Quarters 1-3

Performance Measure	Performance
Completed	40%
Work at Draft Report Stage	16%
Fieldwork in Progress	44%
Scoped – Fieldwork Ready to Start	0%
Scoping	0%
Not Yet Started	0%

Overall Performance (35) with 2021/22 Plan YTD

Performance Measure	Performance
Completed	29%
Work at Draft Report Stage	12%
Fieldwork in Progress	35%
Scoped – Fieldwork Ready to Start	6%
Scoping	6%
Not Yet Started	12%

Internal Audit Plan Progress 2021/22 Appendix A

Audit Type	Audit Area	Audit Partner	Audit Days	Period	Status	Opinion	No of Recs	1 = Major	↔	3 = Minor
								Recommendation		
								1	2	3
Report Stage										
Force Wellbeing	H&S of Front-Line Officers and Staff - TRiM	DP & DCP	15	Q1	Complete	Reasonable	5	-	4	1
Finance	Accelerated Increments	DP & DCP	10	Q1	Complete	Limited	2	-	1	1
Deferred from 20/21 Responding to the Public	Complaints Handling	DP & DCP	12	Q1	Complete	Limited	5	-	3	2
Protecting Vulnerable People	Clinical Governance – Prescription Drugs	DP & DCP	20	Q1	Complete	Limited	8	1	7	-
Force Functions	Seized Property Brought Back into Force Use	DP & DCP	15	Q1	Complete	Limited	5	-	3	2
Force Wellbeing Finance	Approach to Overpayments	DP & DCP	10	Q1	Complete	Reasonable	0	-	-	-
OPCC Specific Activity Finance	Ministry of Justice Victims Services Grant	OPCCs	15	Q2	Complete	Substantial	0	-	-	-
Force Functions Knowledge Management & ICT	Social Media use	DP & DCP	10	Q2	Complete	Limited	9	-	4	5
Knowledge Management & ICT Force Functions	Review of Global Rostering System (GRS)	DCP	15	Q3	Complete	Limited	12	2	10	-
OPCC Specific Activity Responding to the Public (Deferred from 20/21)	Complaints Review Process	OPCCs	8	Q3	Complete	Substantial	0	-	-	-
Protecting Vulnerable People OPCC Specific Activity	Victim Support Re-Commissioning	D&C OPCC	10	Q2	Draft Report	TBC	-	-	-	-
Governance, Fraud & Risk Management	Risk Management	DP & DCP	15	Q2	Draft Report	TBC	-	-	-	-
Knowledge Management & ICT	Disaster Recovery/Back Ups	DP & DCP	15	Q2	Draft Report	TBC	-	-	-	-

Internal Audit Plan Progress 2021/22 Appendix A

Audit Type	Audit Area	Audit Partner	Audit Days	Period	Status	Opinion	No of Recs	1 = Major	↔	3 = Minor
								Recommendation		
								1	2	3
In Progress										
Force Functions	Learning & Development - Mandatory Training	DP & DCP	15	Q2	Fieldwork	-	-	-	-	-
Knowledge Management & ICT	Implementation of NICHE/ Project Voyager	DP & DCP	29	Q2	Fieldwork	-	-	-	-	-
Force Wellbeing Finance	Operational Overtime Review	DP & DCP	15	Q2	Fieldwork	-	-	-	-	-
Finance	Operation Trelawny Grant Review	DCP	10	Q3-Q4	Fieldwork					
Force Functions	Fire Safety Equipment Testing	D&C OPCC	10	Q3	Fieldwork	-	-	-	-	-
Finance	POCA Follow Up Audit	DP & DCP	12	Q3	Fieldwork	-	-	-	-	-
Force Functions Finance	Abnormal Load Management	DP & DCP	15	Q3	Fieldwork	-	-	-	-	-
Deferred from 2020/21 Finance	Making Tax Digital	DP & DCP	13	Q3	Fieldwork	-	-	-	-	-
Finance	Budget Monitoring	DP & DCP	63	Q3	Draft Report	TBC				
Finance	Treasury Management			Q3	Fieldwork	-				
Finance	Accounts Receivable			Q3	Fieldwork	-				
Finance	Payroll			Q3	Fieldwork	-				
Finance	Accounts Payable			Q4	Fieldwork Ready to Start	-				
Finance	Main Accounting			Q4	Fieldwork Ready to Start	-				
Force Functions	Follow Up Audit on Vehicle Safety Checks	DP & DCP	10	Q4	Fieldwork	-	-	-	-	-
Finance	Follow Up Audit of Accounts Payable in Estates and Fleet	DP & DCP	5	Q4	Scoping	-	-	-	-	-
Force Functions	Ammunition and Armoury Management	DP & DCP	15	Q4	Scoping	-	-	-	-	-
Governance, Fraud & Risk Mgt.	Regional Audit Allocation*	DP & DCP	10	Q1-4	Draft Report/ Fieldwork	-	-	-	-	-

Audit Type	Audit Area	Audit Partner	Audit Days	Period	Status	Opinion	No of Recs	1 = Major	↔	3 = Minor
								Recommendation		
								1	2	3
Not Yet Started										
Force Functions	D&C Fire Safety Management	D&C OPCC	10	Q4	Not Yet Started	-	-	-	-	-
Governance, Fraud & Risk Management	Financial Governance	DP & DCP	20	Q4	Not Yet Started	-	-	-	-	-
Force Functions	Annual Leave Central Record	Dorset Police & OPCC	13	Q4	Not Yet Started	-	-	-	-	-
Knowledge Management & ICT	Boundary Defences	DP & DCP	15	Q4	Not Yet Started	-	-	-	-	-

* Not included within performance figures

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Audit Progress Report and Sector Update

Devon and Cornwall Police and Crime Commissioner and Chief Constable
Dorset Police and Crime Commissioner and Chief Constable

Year ending 31 March 2021

December 2021

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Sector Update	7

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the entity or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Introduction

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This paper provides the Independent Audit Committee with a report on progress in delivering our responsibilities as your external auditors.

The paper also includes a summary of emerging national issues and developments that may be relevant to you as a police body.

Members of the Independent Audit Committee can find further useful material on our website, where we have a section dedicated to our work in the public sector. Here you can download copies of our publications www.grantthornton.co.uk

If you would like further information on any items in this briefing or would like to register with Grant Thornton to receive regular email updates on issues that are of interest to you, please contact either your Engagement Lead or Engagement Manager.

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Progress at 1 December 2021

Financial Statements Audits

Devon and Cornwall

We issued our opinions on the financial statements for Devon & Cornwall Police on 29 October 2021 following receipt of the assurance letter from the pension fund auditor.

Dorset

Our work on the Dorset Police draft financial statements started in November and is currently in progress. We have included a Joint Audit Findings Report on the agenda of this meeting.

An updated Audit Findings Report will be issued when the work is nearing completion, which we anticipate to be in January 2022 given the Christmas/New Year break (subject to the receipt of the Assurance Letter from the Dorset Pension Fund auditor).

Value for Money

The new Code of Audit Practice (the "Code") came into force on 1 April 2020 for audit years 2020/21 and onwards. The most significant change under the new Code is the introduction of an Auditor's Annual Report, containing a commentary on arrangements to secure value for money and any associated recommendations, if required.

Under the 2020 Code of Audit Practice, for relevant authorities other than local NHS bodies, we are required to issue our Auditor's Annual Report no later than 30 September or, where this is not possible, issue an audit letter setting out the reasons for delay.

As a result of the ongoing pandemic, and the impact it has had on both preparers and auditors of accounts to complete their work as quickly as would normally be expected, the National Audit Office (NAO) updated its guidance to auditors to allow us to postpone completion of our work on arrangements to secure value for money and focus our resources firstly on the delivery of our opinions on the financial statements. This is intended to help ensure as many as possible accounts opinions could be issued in line with national timetables and legislation. The extended deadline is now no more than three months after the date of the opinion on the financial statements.

Earlier in the year we had planned to issue our Auditor's Annual Report for Devon & Cornwall Police by 31 December. This was when we had anticipated the opinions on the financial statements being issued in September. We now plan to issue the Auditor's Annual Report by 31 January 2022, which is within the three month timetable set by the NAO.

For Dorset Police we had originally planned to issue our Auditor's Annual Report by 31 January 2022. Due to the audit opinions now being in January 2022, we now plan to issue the Auditor's Annual Report by 28 February 2022.

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Progress at 1 December 2021 (cont.)

Other areas

Meetings

We meet with Finance Officers regularly as part of our quarterly liaison meetings and continue to be in discussions with finance staff regarding emerging developments and to ensure the audit process is smooth and effective.

Your officers will be invited to attend our Financial Reporting Workshop in January and February 2022, which will help to ensure that members of your Finance Team are up to date with the latest financial reporting requirements for local authority accounts.

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Audit Deliverables

2020/21 Deliverables	Planned Date	Status
Accounts Audit Plan		
We are required to issue detailed accounts audit plans to the Independent Audit Committee setting out our proposed approach in order to give opinions on the 2020-21 financial statements.	April 2021	Complete
Interim Audit Findings		
We will report to you the findings from our interim audits within our Progress Report.	July 2021	Complete
Audit Findings (ISA260) Report		
The Joint Audit Findings Reports will be reported to:		
• Devon & Cornwall Police	September 2021	Complete
• Dorset Police	December 2021	In progress
Auditor's Reports		
This is the opinion on your financial statements and annual governance statement(s):		
• Devon & Cornwall Police	October 2021	Complete
• Dorset Police	January 2022	Not due yet
Auditor's Annual Report		
The key output from local audit work on arrangements to secure VFM is an annual commentary on arrangements, which will be published as part of the Auditor's Annual Reports (AAR):		
• Devon & Cornwall Police	January 2022	Not due yet
• Dorset Police	February 2022	Not yet due

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Sector Update

Policing services are rapidly changing. Increased demand from the public and more complex crimes require a continuing drive to achieve greater efficiency in the delivery of police services. Public expectations of the service continue to rise in the wake of recent high-profile incidents, and there is an increased drive for greater collaboration between Forces and wider blue-light services.

Our sector update provides you with an up to date summary of emerging national issues and developments to support you. We cover areas which may have an impact on your organisation, the wider Police service and the public sector as a whole. Links are provided to the detailed report/briefing to allow you to delve further and find out more.

Our public sector team at Grant Thornton also undertake research on service and technical issues. We will bring you the latest research publications in this update. We also include areas of potential interest to start conversations within the organisation and with audit committee members, as well as any accounting and regulatory updates.

- **Grant Thornton Publications**
- **Insights from sector specialists**
- **Accounting and regulatory updates**

More information can be found on our dedicated public sector and police sections on the Grant Thornton website by clicking on the logos below:

Public Sector

Police

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Financial Reporting Council annual report

On 29 October, the Financial Reporting Council (FRC) published its annual report setting out the findings of its review of the work of local auditors. The report summarises the results of the FRC's inspections of twenty audit files for the last financial year. A link to the report is here:

FRC AQR Major Local Audits_October 2021

Grant Thornton are one of seven firms which currently delivers local audit work. Of our 330 local government and NHS audits, 87 are currently defined as 'major audits' which fall within the scope of the AQR. This year, the FRC looked at nine of our audits.

Our file review results

The FRC reviewed nine of our audits this year. It graded six files (67%) as 'Good' and requiring no more than limited improvements. No files were graded as requiring significant improvement, representing an impressive year-on-year improvement. The FRC described the improvement in our audit quality as an 'encouraging response by the firm to the quality findings reported in the prior year.' Our Value for Money work continues to be delivered to a high standard, with all of the files reviewed requiring no more than limited improvement. We welcome the FRC findings and conclusions which demonstrate the impressive improvement we have made in audit quality over the past year.

The FRC also identified a number of good practices including effective challenge of management's valuer, use of an auditor's expert to assist with the audit of a highly specialised property valuation, and the extent and timing of involvement by the audit partner on the VFM conclusion.

Our "Opinion" results over the past three years are shown in the table below:

Grade	Number 2020/21	Number 2019/20	Number 2018/19
Good with limited improvements (Grade 1 or 2)	6	1	1
Improvements required (Grade 3)	3	5	2
Significant improvements required (Grade 4)	0	0	1
Total	9	6	4

Our "VFM" results over the past two years are shown in the table below. The FRC did not review VFM in 2018/19:

Grade	Number 2020/21	Number 2019/20
Good with limited improvements (Grade 1 or 2)	6	6
Improvements required (Grade 3)	0	0
Significant improvements required (Grade 4)	0	0
Total	6	6

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FRC report (cont.)

Our continued commitment to Audit quality and continuous improvement

Our work over the past year has been undertaken during the backdrop of COVID-19, when the public sector has faced the huge challenge of providing essential services and helping safeguard the public during the pandemic. Our NHS bodies in particular have been at the forefront of the public health crisis. As auditors we have had to show compassion to NHS staff deeply affected by the crisis, whilst staying focused on the principles of good governance and financial management, things which are more important than ever. We are very proud of the way we have worked effectively with audited bodies, demonstrating empathy in our work whilst still upholding the highest audit quality.

Over the coming year we will make further investments in audit quality including strengthening our quality and technical support functions, and increasing the level of training, support and guidance for our audit teams. We will address the specific improvement recommendations raised by the FRC, including:

- Enhanced training for local auditors on key assumptions within property valuations, and how to demonstrate an increased level of challenge
- Formalising our arrangements for the consideration of complex technical issues by Partner Panels.

As part of our enhanced Value for Money programme, we will focus on identifying the scope for better use of public money, as well as highlighting weaknesses in governance or financial stewardship where we see them.

Conclusion

Local audit plays a critical role in the way public sector audits and society interact, and it depends on the trust and confidence of all those who rely on it. As a firm we're proud to be doing our part to promote good governance, effective stewardship and appropriate use of public funds.

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What can be learned from Public Interest Reports?– Grant Thornton

2020 will be remembered as a tumultuous year in local government, with the pandemic creating unprecedented pressure on the sector. It also saw the appearance of two Public Interest Reports (PIRs), followed by another in January this year – the first to be issued in the sector since 2016. PIR's can be issued by local auditors if there are significant concerns around council activity, such as major failings in finance and governance.

The recent PIRs have made headlines because, up to this point, very few have ever been issued. But, as our latest report "Lessons from recent Public Interest Reports" explores, all three illustrate some of the fundamental issues facing the wider sector and provide a lesson for all local authorities around: weaknesses in financial management; governance and scrutiny practices; and council culture and leadership; which, when combined, can provide fertile ground for the kind of significant issues we might see in a PIR.

The COVID-19 pandemic highlighted four essential factors we probably always knew about local government, have often said, but which are now much better evidenced:

1) Local government has provided fantastic support to its communities in working with the NHS and other partners to deal with the multifaceted challenges of the pandemic.
2) Britain's long centralised approach to government has been exposed to some degree in terms of its agility to tailor pandemic responses to regional and local bodies. This is recognised by the current government who continue to pursue the options for devolution of powers to local bodies. Track and Trace delivered centrally has not been as successful as anticipated and, according to government figures, local interventions have had more impact.
3) Years of reduced funding from central government have exposed the underlying flaws in the local authority business model, with too much reliance on generating additional income.
4) Not all authorities exercise appropriate care with public money; not all authorities exercise appropriate governance; and not all authorities have the capability of managing risk, both short and long term. Optimism bias has been baked into too many councils' medium-term plans.

The PIRs at Nottingham City Council (August 2020), the London Borough of Croydon (October 2020), and Northampton Borough Council (January 2021) are clear illustrations of some of the local government issues identified above. The audit reports are comprehensive and wide-ranging and a lesson for all local authorities. Local authorities have a variety of different governance models. These range from elected mayor to the cabinet and a scrutiny system approach, while others have moved back to committee systems. Arguments can be made both for and against all of these models. However, in the recent PIR cases, and for many other local authorities, it's less about the system of governance and more about how it operates, who operates it and how willing they are to accept scrutiny and challenge.

There are a number of lessons to be learned from the recent PIR reports and these can be broken down into three key areas which are explored further in our report:

1) The context of local government in a COVID-19 world
2) Governance, scrutiny, and culture
3) Local authority leadership.

The full report is available here:

https://www.grantthornton.co.uk/en/insights/lessons-from-recent-public-interest-reports/

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Government response to MHCLG Select Committee report on Local Authority financial sustainability & the section 114 regime – MHCLG

Government has published a response to the Housing, Communities & Local Government (HCLG) Committee report on local authority financial sustainability and the section 114 regime, published in July.

The HCLG report states "In recent years, the financial sustainability of local government has faced successive challenges, including increased demand for services, especially social care, changes to the level of funding equalisation between councils and, most recently, the COVID-19 pandemic. In some instances, councils have been in such acute financial trouble that they have approached the Ministry of Housing, Communities and Local Government for financial assistance; three of these—Northamptonshire in 2018, Croydon in late 2020 and Slough in July 2021—issued section 114 notices, essentially declaring they had run out of money. Our inquiry has sought to identify the most serious threats facing local councils' finances. In light of the various factors we consider in the report, including the somewhat delayed Fairer Funding Review, renewed discussion about property taxes and the need to reform funding for social care, the time is right to consider a more radical review of local government finances—and our report makes various recommendations about how this should be done. We also consider what happened at Croydon—which prompted us to look at the section 114 regime—in the annex to our report."

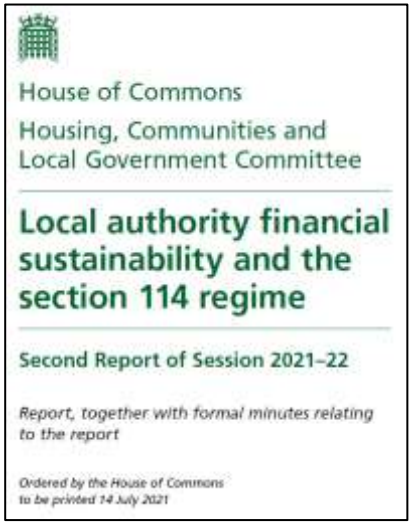
The report includes sections on:

- Social Care
- Funding
- COVID-19
- Local authority commercial investment
- Audit and control

The report made 13 recommendations, and the Government response to these was published in October. The response notes "Moving forward, we will work to provide the sector with a sustainable financial footing, enabling it to deliver vital frontline service and support other government priorities. We will also take stock, including of the impact of the pandemic on local authority resources and service pressures, to determine any future reforms."

The initial report can be found here: https://committees.parliament.uk/publications/6777/documents/72117/default/

Government response can be found here: https://www.gov.uk/government/publications/local-authority-financial-sustainability-and-the-section-114-regime


House of Commons
Housing, Communities and Local Government Committee

Local authority financial sustainability and the section 114 regime

Second Report of Session 2021–22

Report, together with formal minutes relating to the report

Ordered by the House of Commons to be printed 14 July 2021

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Public Accounts Committee (PAC) – Local auditor reporting on local government in England & government response

The PAC inquiry examined the timeliness of auditor reporting on English local public bodies' financial statements covering 2019-20. The National Audit Office (NAO) report, on which this inquiry is based, found that "delays in the delivery of audit opinions beyond the deadlines for publishing local authority accounts, alongside concerns about audit quality and doubts over audit firms' willingness to continue to audit local public bodies, highlight that the situation needs urgent attention."

The PAC report found "Without urgent action from government, the audit system for local authorities in England may soon reach breaking point. With approximately £100 billion of local government spending requiring audit each year, the Ministry of Housing, Communities & Local Government (the Department) has become increasingly complacent in its oversight of a local audit market now entirely reliant upon only eight firms, two of which are responsible for up to 70% of local authority audits. This has not been helped by the growing complexity of local authority accounts, with audit firms now asked to carry out more work in each audit, comply with new regulatory demands and adapt to the new multifaceted landscape in which local authorities operate, while also struggling to hire and retain experienced auditors."

Key conclusions were:

- The marked decline in the timeliness of external audit undermines accountability and hampers effective decision-making.
- There is a pressing risk of market collapse due to an over reliance on a small number of audit firms and significant barriers to entry.
- The commercial attractiveness to audit firms of auditing local authorities has declined.
- The rapidly diminishing pool of suitably qualified and experienced staff increases the risks to the timely completion of quality audits.
- We are not convinced that the recently announced new local audit arrangements will meet the pressing need for effective system leadership now.
- Unless local authority accounts are useful, relevant and understandable they will not aid accountability.

The report made recommendations in each of these areas. The government response was published on 28 October.

The PAC report and response can be found here: Timeliness of local auditor reporting on local government in England - Committees - UK Parliament

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2023-24 audit appointments – Public Sector Audit Appointments

Following a consultation exercise Public Sector Audit Appointments (PSAA) has invited all principal local government including police and fire bodies to become opted-in authorities. At the same time it published its procurement strategy and prospectus for the national scheme from April 2023. Both documents have evolved in response to the feedback provided by the market engagement exercise and consultation on the draft prospectus undertaken during June 2021.

PSAA state "Our primary aim is to secure the delivery of an audit service of the required quality for every opted-in body at a realistic market price and to support the drive towards a long term competitive and more sustainable market for local public audit services.

The objectives of the procurement are to maximise value for local public bodies by:

- securing the delivery of independent audit services of the required quality;
- awarding long term contracts to a sufficient number of firms to enable the deployment of an appropriately qualified auditing team to every participating body;
- encouraging existing suppliers to remain active participants in local audit and creating opportunities for new suppliers to enter the market;
- encouraging audit suppliers to submit prices which are realistic in the context of the current market;
- enabling auditor appointments which facilitate the efficient use of audit resources;
- supporting and contributing to the efforts of audited bodies and auditors to improve the timeliness of audit opinion delivery; and
- establishing arrangements that are able to evolve in response to changes to the local audit framework.

PSAA set out the proposed timeline, which anticipates contracts being awarded in August 2022.

The news article can be found here: https://www.psaa.co.uk/2021/09/psaa-publishes-its-prospectus-and-procurement-strategy-and-invites-eligible-bodies-to-opt-in-from-april-2023/

The procurement strategy can be found here:

https://www.psaa.co.uk/about-us/appointing-person-information/appointing-period-2023-24-2027-28/procurement-strategy/

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2020/21 audited accounts – Public Sector Audit Appointments

Public Sector Audit Appointments (PSAA) has reported that only 9% of local government audits for 2020/21 were completed by the end of September. This is a sharp contraction on the 45% filed on time for 2019-20, and is the third successive year where the number of accounts produced on schedule has reduced.

PSAA state "The challenges posed by COVID-19 have contributed to the current position. However, a range of further pressures documented in the Redmond Report are also continuing to impact performance. In particular there is a shortage of auditors with the knowledge and experience to deliver the required higher quality audits of statements of accounts, which increasingly reflect complex structures and transactions, within the timeframe expected. The growing backlog of audits is also a concern, with 70 of the 2019/20 audits still incomplete."

Grant Thornton commented "Audit quality remains a priority for our firm and we continue to work hard with local audit stakeholders to ensure the delivery of high quality audits in as timely a fashion as is practicable. Unfortunately, much of this work will be delivered past the 30 September target date, owing to ongoing constraints posed by the COVID-19 pandemic and the backlog this has caused. We remain committed to public sector audit and are now focused on delivering the majority of our local audits by December 2021."

The news article can be found here: https://www.psaa.co.uk/2021/10/news-release-2020-21-audited-accounts-psaa/

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Cyber and information security: Good practice guide – NAO

The National Audit Office (NAO) has published this guide to help Audit Committees scrutinise cyber security arrangements. To aid them, this guidance complements government advice by setting out high-level questions and issues for audit committees to consider.

The NAO state "Audit committees should gain the appropriate assurance for the critical management and control of cyber security and information risk.

Cyber security is the activity required to protect an organisation's data, devices, networks and software from unintended or unauthorised access, change or destruction via the internet or other communications systems or technologies. Effective cyber security relies on people and management of processes as well as technical controls.

Our guide supports audit committees to work through this complexity, being able to understand and question the management of cyber security and information risk.

It takes into account several changes which affect the way in which we interact with and manage our information and can drive increased risk. These include changes to the way we work and live due to the COVID-19 pandemic and the ongoing demand to digitise and move to cloud-based services.

The strategic advice, guidance and support provided by government has also been updated to keep pace with these changes, detailing the impact and risks on the management of cyber security and information risk.

The guide provides a checklist of questions and issues covering:

- The overall approach to cyber security and risk management
- Capability needed to manage cyber security
- Specific aspects, such as information risk management, engagement and training, asset management, architecture and configuration, vulnerability management, identity and access management, data security, logging and monitoring and incident management."

The report can be found here:

https://www.nao.org.uk/report/cyber-security-and-information-risk-guidance/

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HMICFRS

Progress against recommendations issued in 2018/19

HMICFRS has published police forces' progress against recommendations for the first time. The recommendations included in this first release are from the 2018/19 Integrated PEEL Assessment inspection reports.

The status of recommendations shown is a snapshot as at 19 October 2021.

This will be updated in batches throughout the year.

Progress can be found here.

Summary of consultation responses: Policing inspection programme and framework 2021/22

HMICFRS have published the summary of consultation responses to the policing inspection programme and framework 2021/22.

The responses can be found here.

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Home Office

Police and local authorities given extra £23.5 million for safer streets

Police forces and local authorities across England and Wales, are to receive a share of £23.5 million to make public spaces safer for all through projects to help women and girls feel safer on our streets as part of the government's Safer Streets Fund.

Created with the objective of tackling local acquisitive crimes like car theft and burglary, the latest round of the Safer Streets Fund has a particular emphasis on the safety of women and girls. The investment will go to police forces and local authorities across England and Wales as well as the British Transport Police to spend in the 2021 to 2022 financial year.

Crimes which take place in public places such as sexual harassment disproportionately affect women. Recipients of funding have submitted bids for innovative plans to increase the safety of public spaces, including projects which emphasise changing attitudes and behaviours in local communities.

Since its inception, the government has committed £70 million to the Safer Streets Fund to support local areas across England and Wales to introduce initiatives aimed at stopping offences happening in the first place.

Round two saw 50 projects across England and Wales awarded a total of £18.4 million to go towards measures proven to cut crime, including simple changes to the design of streets such as locked gates around alleyways, increased street lighting and the installation of CCTV.

The full article can be found here.

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Home Office

Over 11,000 police hired with more women than ever before

The Home Office have confirmed that more than half of the promised 20,000 additional police officers have now been recruited, with an increasing number of women signing up to join forces across England and Wales.

An extra 11,053 officers have been hired across England and Wales as part of the Police Uplift Programme to help bring crime down and keep neighbourhoods safer, meaning that the government is now 55% of the way to meeting its recruitment target of 20,000 additional officers by March 2023.

Forces saw more women joining the ranks to tackle criminals and protect the public from harm between July and September 2021 – with female officers accounting for 45% (1,451) of all new joiners during that time. And over the last year eight forces – Derbyshire, Lancashire, Greater Manchester, Staffordshire, Sussex, Thames Valley, Kent and Suffolk – have hired more women than men. This means more officers on the streets bringing down drugs gangs, bearing down on violent crime and tackling anti-social behaviour.

There are also more Black, Asian and minority ethnic officers employed across forces than at any other time in the country's history, now making up 7.9% (10,690) of all officers.

The full article can be found here.

Home Office

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Association of Police and Crime Commissioners

Association of Police and Crime Commissioners Response To Budget Announcements

APCC Chair, Marc Jones, and APCC Finance Lead, Roger Hirst, have issued a response to the Autumn Budget.

The full response can be found here.

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AGENDA NO: 16

INDEPENDENT AUDIT COMMITTEE

DATE OF MEETING: 14 DECEMBER 2021

FOIA OPEN

TITLE OF REPORT: EXTERNAL AUDIT APPOINTMENT PROCESS UPDATE

REPORT BY: SANDRA GOSCOMB, DIRECTOR OF FINANCE AND RESOURCES

PURPOSE OF THE REPORT:
To present an update and provide assurance on one or more of the following areas:

Governance, Risk and Control	**X**
Internal Audit	
External Audit	**X**
Financial reporting	
Other matter *(please specify here)*	
Appendices (*please specify the number)*	

RECOMMENDATIONS:
The Independent Audit Committee is asked to:

Review the Report	
Consider the Report	
Note the report	**X**
Other (please specify here)	

1. BACKGROUND INFORMATION

1.1 In September 2021 Chief Constables and Police and Crime Commissioners (PCC) were invited to opt into the national scheme for auditor appointments.

1.2 The invitation was from Public Sector Audit Appointments (PSAA) who have been confirmed in the role of the appointing person for eligible principal bodies by the Secretary of State.

1.3 The decision to opt to join the PSAA national scheme must be received by the PSAA by midnight on Friday 11th March 2022, using the form of notice of acceptance provided by the PSAA.

1.4 If the notice of acceptance is not received by this time, you may subsequently make a request to opt in to the PSAA scheme, but only after 1 April 2023. In this event the PSAA are required to consider such requests and agree to them unless there are reasonable grounds for their refusal.

1.5 The decision about appointing an auditor for the Chief Constable is reserved to the PCC, under schedule 3 of the Local Audit and Accountably Act 2014, although there is an expectation that options will be considered in conjunction with the Chief Constable.

1.6 The detailed process for the audit appointment process are contained within the Local Audit and Accountability Act 2014 and the Local Audit (Appointing Person) Regulations 2015. CIPFA have also produced a Guide to Audit Panels, to assist in the application of this process.

1.7 The length of the compulsory appointing period covers the audits of the five consecutive financial years commencing 1 April 2023.

2. APPOINTMENT CONSIDERATIONS

2.1 The regional finance directors commissioned the South West Police Procurement Service (SWPPS) to review options to market. They identified that:

- There were several frameworks available that would allow us to contract outside of the PSAA
- The accountancy firms used would have to be registered with the Institute of Chartered Accountants in England and Wales (ICAEW)
- Section 9 of the Local Audit and Accountability Act 2014 would require the formation of an Auditor Panel, which would bring additional costs.
- This was a small market and even as a region the volume of work was unlikely to be attractive to the market.
- Those ICAEW firms who were also contracted to PSAA were highly unlikely to want to contract with us directly.

2.2 The results from SWPPS recommended that Forces confirm with the PSAA their commitment to their approach and liaise with the PSAA during the tender document preparation to ensure that current issues with the existing contract are suitably mitigated.

2.3 However, given the shortcomings in the PSAA arrangements, the regional finance directors wished to first explore the matter a little further before making their final recommendation to Chief Constables and PCCs. The Director of Finance of Gloucestershire Police is contacting the small number of audit providers not part of the PSAA but registered with ICAEW, with a view to seeing whether they would be interested in further discussions.

2.4 I will keep the IAC informed of progress, but it seems likely that we will be again approaching the PSAA to undertake our external audit provision.

Sandy Goscomb

Director of Finance, Devon and Cornwall

26 November 2021

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This version of the report is a draft. Its contents and subject matter remain under review and its contents may change and be expanded as part of the finalisation of the report.

The Joint Audit Findings for Dorset Police and Crime Commissioner and Chief Constable

Year ended 31 March 2021

December 2021

Contents

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the PCC and Chief Constable or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

This Audit Findings presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260. Its contents have been discussed with management.

Alex Walling

Name : Alex Walling
For Grant Thornton UK LLP
Date : December 2021

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1. Headlines

This table summarises the key findings and other matters arising from the statutory audits of Dorset Police and Crime Commissioner ('the PCC') and Dorset Chief Constable and the preparation of the PCC's and Chief Constable's financial statements for the year ended 31 March 2021 for those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion, the financial statements:

- give a true and fair view of the financial positions of the PCC and Chief Constable's income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

We are also required to report whether other information published together with each set of audited financial statements (including the Annual Governance Statement (AGS) and Narrative Report) is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

Our audit work commenced in November 2021. Our findings to date are summarised on pages 5 to 17.

We have not identified any adjustments to date that have resulted in changes to the Comprehensive Income and Expenditure Statements of the PCC or the Chief Constable. See Appendix C.

We have raised recommendations for management as a result of our audit work. These are shown in Appendix A. Our follow-up of recommendations from the prior year's audits are detailed in Appendix B.

Our work is currently in progress. There are no matters of which we are aware to date that would require modification of our audit opinion for the PCC's financial statements (including the financial statements which consolidate the financial activities of the Chief Constable) or the Chief Constable's financial statements or material changes to the financial statements.

We will provide a verbal update to the Committee on the audit progress at the meeting on 14 December 2021.

Our anticipated audit report opinions at this stage will be unmodified. However, we are expecting to include an Emphasis of Matter paragraph highlighting the material uncertainty of the valuation of land and buildings as a result of Covid-19, as highlighted by the Group's valuer and disclosed within the Group's financial statements.

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1. Headlines

Value for Money (VFM) arrangements

Under the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to consider whether, in our opinion, both entities have put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. Auditors are now required to report in more detail on the overall arrangements, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

Auditors are required to report their commentary on the arrangements under the following specified criteria:

- Improving economy, efficiency and effectiveness;
- Financial sustainability; and
- Governance

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. An audit letter explaining the reasons for the delay was sent to the Police and Crime Commissioner and the Chief Constable and Chair of Independent Audit Committee on 30 June 2021. We expect to issue our Auditor's Annual Report by 28 February 2022. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the PCC and Chief Constable's arrangements for securing economy, efficiency and effectiveness in its use of resources. We have not identified any significant weaknesses in respect of the PCC and Chief Constable's VFM arrangements from our work to date. We have completed sufficient work to satisfy ourselves that our VFM work remaining would not have a material impact on the financial statements which we have audited.

Statutory duties

The Local Audit and Accountability Act 2014 ('the Act') also requires us to:

- report to you if we have applied any of the additional powers and duties ascribed to us under the Act; and
- to certify the closure of the audits.

We have not exercised any of our additional statutory powers or duties.

We expect to certify the completion of the audits upon the completion of our work on the PCC and Chief Constable's VFM arrangements and Whole of Government consolidation procedures, as outlined in the body of the report.

Significant Matters

We did not encounter any significant difficulties or identify any significant matters arising during our audit.

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2. Financial Statements

Overview of the scope of our audit

This Joint Audit Findings Report presents the observations arising from the audits that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audits, in accordance with International Standards on Auditing (UK) and the Code, which are directed towards forming and expressing an opinion on each set of financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the group, PCC and Chief Constable's business and is risk based, and in particular included:

- an evaluation of the PCC's and Chief Constable's internal controls environment, including its IT systems and controls; and
- substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks.

Conclusion

Our audit is in progress at the time of drafting the report and we will provide a verbal update to the Committee on 14 December 2021.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided to date by the finance team and other staff. The impact of the pandemic has meant that both your finance team and our audit team faced audit challenges again this year, such as remotely accessing financial systems, video calling, verifying the completeness and accuracy of information provided remotely and access to key data from PCC and Chief Constable's staff.

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2. Financial Statements

Our approach to materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.

Materiality levels remain the same as reported in our audit plan in April 2021.

We detail in the table below our determination of materiality.

	Amount (£)	Qualitative factors considered
Materiality for the financial statements	4,400k	Gross Expenditure was determined as the appropriate benchmark for determining materiality. 1.9% was deemed an appropriate rate to apply to the benchmark. The group materiality was determined using the Chief Constable's Gross Expenditure on Policing Services. We have determined financial statement materiality based on a proportion of the gross expenditure of the group, the PCC and the Chief Constable for the previous financial year. For our audit testing purposes we apply the lowest of these, which is £4,400k (PY £3,379k), which equates to 1.9% of the Chief Constable's prior year gross expenditure for the year.
Trivial matters	221k	5% of materiality is deemed an appropriate level for triviality.
Materiality for senior officer remuneration	27k	A lower level of materiality was determined for the Senior Officer Remuneration balance due to the sensitivity surrounding this disclosure.

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2. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Relates to	Commentary
The revenue cycle includes fraudulent transactions (rebutted) Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Group, PCC and Chief Constable	Having considered the risk factors set out in ISA240 and the nature of the revenue streams of the PCC and the Chief Constable, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of public sector bodies, including PCC, Chief Constable or Group, means that all forms of fraud are seen as unacceptable. Therefore, we do not consider this to be a significant risk for the PCC, Chief Constable or Group.
Management override of controls Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The PCC and Chief Constable face external scrutiny of their spending and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	Group, PCC and Chief Constable	We have: • evaluated the design effectiveness of management controls over journals • analysed the journals listing and determined the criteria for selecting high risk unusual journals • identified and tested unusual journals made during the year and the accounts production stage for appropriateness and corroboration • gained an understanding of the accounting estimates and critical judgements applied by management and considered their reasonableness • evaluated the rationale for any changes in accounting policies, estimates or significant unusual transactions. Our audit work is currently in progress.

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2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Relates to	Commentary
Valuation of land and buildings The PCC (and Group) revalues its land and buildings on a rolling three-yearly basis. This valuation represents a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. The PCC uses an external valuer for the majority of the valuations, however a proportion of the valuations are carried out by a second management expert, the internal valuer. We therefore identified valuation of land and buildings as a significant risk, which was one of the most significant assessed risks of material misstatement.	Group and PCC	We have: • reviewed management's processes and assumptions for the calculation of the estimate, the instructions issued to valuation experts and the scope of their work; • considered the competence, expertise and objectivity of the valuation experts; • written to the valuers to confirm the basis on which the valuation was carried out; • reviewed and challenged the information and assumptions used by the valuers to assess completeness and consistency with our understanding • tested revaluations made during the year to ensure they are input correctly into the asset register; and • evaluated the assumptions made by management for any assets not revalued during the year and how management has satisfied themselves that these are not materially different to current value. Our audit work in respect of valuation of land and buildings is currently in progress. Our audit work to date has not identified any issues in respect of valuation of land and buildings. We note that the valuers have included a material uncertainty paragraph in their valuation report as a result of Covid-19 and the unprecedented set of circumstances on which to base their valuations. The Group has disclosed this material uncertainty in the draft financial statements. We expect to be including an emphasis of matter paragraph in our audit opinion in respect of the material uncertainty in the external valuer's report, which has been disclosed in note 6.1 of the accounts.

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2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Relates to	Commentary
Valuation of the pension fund net liability The group's pension fund net liability, as reflected in its balance sheet as the net defined benefit liability, represents a significant estimate in the financial statements. The pension fund net liability is considered a significant estimate due to the size of the numbers involved and the sensitivity of the estimate to changes in key assumptions. The methods applied in the calculation of the IAS 19 estimates are routine and commonly applied by all actuarial firms in line with the requirements set out in the Code of practice for local government accounting (the applicable financial reporting framework). We have therefore concluded that there is not a significant risk of material misstatement in the IAS 19 estimate due to the methods and models used in their calculation. The source data used by the actuaries to produce the IAS 19 estimates is provided by administering authorities and employers. We do not consider this to be a significant risk as this is easily verifiable. The actuarial assumptions used are the responsibility of the entity but should be set on the advice given by the actuary. A small change in the key assumptions (discount rate, inflation rate, salary increase and life expectancy) can have a significant impact on the estimated IAS 19 liability. In particular the discount and inflation rates, where our consulting actuary has indicated that a 0.1% change in these two assumptions would have approximately 2% effect on the liability. We have therefore concluded that there is a significant risk of material misstatement in the IAS 19 estimate due to the assumptions used in their calculation. With regard to these assumptions we have therefore identified valuation of the Group's pension fund net liability as a significant risk.	Group, PCC and the Chief Constable	We have: • updated our understanding of the processes and controls put in place by management to ensure that the group's pension fund net liability is not materially misstated and evaluated the design of the associated controls; • evaluated the instructions issued by management to their management expert (an actuary) for this estimate and the scope of the actuary's work; • assessed the competence, capabilities and objectivity of the actuary who carried out the group's pension fund valuation; • assessed the accuracy and completeness of the information provided by the group to the actuary to estimate the liability; • tested the consistency of the pension fund asset and liability and disclosures in the notes to the core financial statements with the actuarial reports from the actuary; • undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report; and • requested assurances from the auditor of Dorset Pension Fund as to the controls surrounding the validity and accuracy of membership data; contributions data and benefits data sent to the actuary by the pension fund and the fund assets valuation in the pension fund financial statements. The assurance letter from the pension fund auditor had not been received at the time of writing this report. Our audit work is currently in progress. Our work to date has not identified any issues in respect of valuation of the pension fund net liability. We will provide a verbal update to the Committee at the meeting.

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2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements in line with the enhanced requirements for auditors.

Significant judgement or estimate	Relates to	Summary of management's approach	Audit Comments	Assessment
Land and Building valuations – £53m	Group and PCC	The group/PCC has engaged NPS (SW) Ltd to complete the valuation of properties as at 31 March 2021 on a three yearly cyclical basis. The Group's valuer disclosed a material uncertainty in the valuation of the Group's land and buildings at 31 March 2021 as a result of Covid-19. The Group has included disclosures on this issue in Note 6.1. The total year end valuation of land and buildings was £53m, a net decrease of £2m from 2019/20 (£55m).	We reviewed your assessment of the estimate considering: • Assessment of management's expert to be competent, capable and objective; • Completeness and accuracy of the underlying information used to determine the estimate; • The appropriateness of your alternative site assumptions which remain consistent with previous years; • Reasonableness of increase/decrease in estimates on individual assets; • Consistency of estimate against the Gerald Eve report on property market trends, and reasonableness of the increase in the estimate; and • Adequacy of disclosure of estimate in the financial statements Our work on land and buildings is still in progress. Our audit work to date has not identified any issues in respect of valuation of land or buildings.	**Work in progress**

Assessment

- [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

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2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Relates to	Summary of management's approach	Audit Comments	Assessment
Net pension liability – Police Officer Pension Scheme : £1,726m	Group, PCC and the Chief Constable	The PCC and Chief Constable's total net pension liability at 31 March 2021 is £1,911m (PY £1,463m) comprising the Dorset Pension Fund Local Government and unfunded defined benefit pension scheme obligations. £1,726m (PY £1,349m) is in respect of Dorset Police Pension Fund. The PCC and Chief Constable use Barnet Waddingham to provide actuarial valuations of the PCC's and Chief Constable's assets and liabilities derived from these schemes utilising key assumptions such as life expectancy, discount rates and salary growth. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £308m net actuarial loss during 2020/21.	In assessing the estimate, we have considered the following: • Assessment of management's expert • Assessment of actuary's approach using PwC as auditor's expert to assess actuary and assumptions made by actuary – see results for key assumptions in the table below. • Completeness and accuracy of the underlying information used to determine the estimate • Impact of any changes to valuation method • Reasonableness of increase/decrease in estimate • Adequacy of the accounting treatment in the financial statements • Adequacy of disclosure of estimate in the financial statements Our work on the net pension liability is currently in progress. Our work to date has not identified any material issues in relation to this risk.	Work in progress

Police Pension Scheme Assumptions	Actuary Value	PwC range	Assessment
Discount rate	2%	1.95% - 2.05%	●
Pension increase rate	2.85%	2.80% - 2.85%	●
Salary growth	3.85%	3.80 – 3.85%	●
Life expectancy – Males currently aged 45 / 65	22.3 21.1	21.7 – 22.3 20.5 – 21.1	●
Life expectancy – Females currently aged 45 / 65	24.8 23.3	24.2 – 24.8 22.7 – 23.3	●

Assessment

- Dark Purple: We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue: We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey: We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple: We consider management's process is appropriate and key assumptions are neither optimistic or cautious

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2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Relates to	Summary of management's approach	Audit Comments	Assessment
Net pension liability – LGPS : £186m	Group, PCC and the Chief Constable	The PCC and Chief Constable's total net pension liability at 31 March 2021 is £1,911m (PY £1,463m) comprising the Dorset Pension Fund Local Government and unfunded defined benefit pension scheme obligations. £185m (PY £114m) is in respect of Dorset Local Government Pension Fund. The PCC and Chief Constable use Barnet Waddingham to provide actuarial valuations of the PCC's and Chief Constable's assets and liabilities derived from these schemes utilising key assumptions such as life expectancy, discount rates and salary growth. Given the significant value of the net pension fund liability, small changes in assumptions can result in significant valuation movements. There has been a £96m net actuarial loss during 2020/21.	In assessing the estimate, we have considered the following: • Assessment of management's expert • Assessment of actuary's approach using PwC as auditor's expert to assess actuary and assumptions made by actuary – see results for key assumptions in the table below. • Completeness and accuracy of the underlying information used to determine the estimate • Impact of any changes to valuation method • Reasonableness of increase/decrease in estimate • Adequacy of the accounting treatment in the financial statements • Adequacy of disclosure of estimate in the financial statements Our work on the net pension liability is currently in progress. Our work to date has not identified any material issues in relation to this risk.	Work in progress

LGPS Assumptions	Actuary Value	PwC range	Assessment
Discount rate	2%	1.95% - 2.05%	●
Pension increase rate	2.80%	2.80% - 2.85%	●
Salary growth	3.80%	3.80% - 3.85%	●
Life expectancy – Males currently aged 45 / 65	24.4 23.1	21.9 – 24.4 20.5 – 23.1	●
Life expectancy – Females currently aged 45 / 65	26.0 24.6	24.8 – 26.4 23.3 – 25.0	●

Assessment

- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

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2. Financial Statements - other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Independent Audit Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware from our work to date of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have not made us aware of any significant incidences of non-compliance with relevant laws and regulations and we have not identified any incidences from our audit work to date.
Written representations	Letters of representation will be requested from both the PCC and the Chief Constable.

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2. Financial Statements - other communication requirements

Issue	Commentary
Confirmation requests from third parties	• We requested from management permission to send confirmation requests for bank and investment balances. This permission was granted and the requests were sent. All of the requests were returned with positive confirmation. • We requested from management permission to send our request for assurance to the pension fund auditor. This permission was granted and the request was sent. The assurance letter is awaited at the time of writing this report.
Accounting practices	We have evaluated the appropriateness of the PCC's and Chief Constable's accounting policies, accounting estimates and financial statement disclosures. We identified that the accounting policy for Financial instruments did not include disclosure of the fair value hierarchy. Our review found no material omissions in the financial statements.
Audit evidence and explanations/ significant difficulties	All information and explanations requested to date have been provided promptly by management.

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2. Financial Statements - other communication requirements

Our responsibility

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Our consideration of the PCC's and Chief Constable's financial sustainability is addressed by our value for money work, which is covered elsewhere in this report. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the PCC and Chief Constable meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the PCC and Chief Constable and the environment in which they operate • the PCC's and Chief Constable's financial reporting framework • the PCC's and Chief Constable's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified for either the PCC or the Chief Constable • management's use of the going concern basis of accounting in the preparation of both sets of financial statements is appropriate.

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2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Other information	We are required to give an opinion on whether the other information published together with each set of audited financial statements (including the Annual Governance Statement and Narrative Report), is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. Our work on this area is currently in progress.
Matters on which we report by exception	We are required to report on a number of matters by exception in a number of areas: • if the Annual Governance Statements do not comply with disclosure requirements set out in CIPFA/SOLACE guidance or are misleading or inconsistent with the information of which we are aware from our audits, • if we have applied any of our statutory powers or duties. Our work on this area is currently in progress.
Specified procedures for Whole of Government Accounts	We are required to carry out specified procedures (on behalf of the NAO) on the Whole of Government Accounts (WGA) consolidation pack under WGA audit instructions. Note that work is not yet completed as we are awaiting guidance from the NAO.
Certification of the closure of the audit	We intend to delay the certification of the closure of the 2020/21 audits of Dorset PCC and Chief Constable in the audit reports, as detailed in Appendix E and F, due to the ongoing VFM work and WGA procedures as outlined above.

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3. Value for Money arrangements

Revised approach to Value for Money work for 2020/21

On 1 April 2020, the National Audit Office introduced a new Code of Audit Practice which comes into effect from audit year 2020/21. The Code introduced a revised approach to the audit of Value for Money. (VFM)

There are three main changes arising from the NAO's new approach:

- A new set of key criteria, covering financial sustainability, governance and improvements in economy, efficiency and effectiveness
- More extensive reporting, with a requirement on the auditor to produce a commentary on arrangements across all of the key criteria.
- Auditors undertaking sufficient analysis on the PCC's and Chief Constable's VFM arrangements to arrive at far more sophisticated judgements on performance, as well as key recommendations on any significant weaknesses in arrangements identified during the audit.

The Code require auditors to consider whether the body has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources. When reporting on these arrangements, the Code requires auditors to structure their commentary on arrangements under the three specified reporting criteria.

Improving economy, efficiency and effectiveness

Arrangements for improving the way the body delivers its services. This includes arrangements for understanding costs and delivering efficiencies and improving outcomes for service users.

Financial Sustainability

Arrangements for ensuring the body can continue to deliver services. This includes planning resources to ensure adequate finances and maintain sustainable levels of spending over the medium term (3-5 years)

Governance

Arrangements for ensuring that the body makes appropriate decisions in the right way. This includes arrangements for budget setting and management, risk management, and ensuring the body makes decisions based on appropriate information

Potential types of recommendations

A range of different recommendations could be made following the completion of work on the body's arrangements to secure economy, efficiency and effectiveness in its use of resources, which are as follows:

Statutory recommendation

Written recommendations to the body under Section 24 (Schedule 7) of the Local Audit and Accountability Act 2014. A recommendation under schedule 7 requires the body to discuss and respond publicly to the report.

Key recommendation

The Code of Audit Practice requires that where auditors identify significant weaknesses in arrangements to secure value for money they should make recommendations setting out the actions that should be taken by the body. We have defined these recommendations as 'key recommendations'.

Improvement recommendation

These recommendations, if implemented should improve the arrangements in place at the body, but are not made as a result of identifying significant weaknesses in the body's arrangements

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3. VFM - our procedures and conclusions

We have not yet completed all of our VFM work and so are not in a position to issue our Auditor's Annual Report. We expect to issue our Auditor's Annual Report by 28 February 2022. This is in line with the National Audit Office's revised deadline, which requires the Auditor's Annual Report to be issued no more than three months after the date of the opinion on the financial statements.

As part of our work, we considered whether there were any risks of significant weakness in the PCC and Chief Constable's arrangements for securing economy, efficiency and effectiveness in their use of resources. We have not identified any significant weaknesses in respect of the PCC and Chief Constable's VFM arrangements from our work to date.

We have completed sufficient work to satisfy ourselves that our VFM work remaining would not have a material impact on the financial statements which we have audited.

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4. Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix D

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the group/PCC and Chief Constable. No non-audit services were identified which were charged from the beginning of the financial year to September 2021.

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Transparency report 2020 (grantthornton.co.uk)

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Appendices

A. Action plan – Audit of Financial Statements

We have identified the following recommendations for the group/PCC and Chief Constable as a result of issues identified during the course of our audits. We have agreed our recommendations with management and we will report on progress on these recommendations during the course of the 2021/22 audit. The matters reported here are limited to those deficiencies that we have identified during the course of our audit and that we have concluded are of sufficient importance to merit being reported to you in accordance with auditing standards.

Assessment	Issue and risk	Recommendations
	None to date	**Management response**

Controls

- High – Significant effect on financial statements
- Medium – Limited Effect on financial statements
- Low – Best practice

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B. Follow up of prior year recommendations

We identified the following issues in the audits of Dorset PCC and Chief Constable's 2019/20 financial statements, which resulted in seven recommendations being reported in our 2019/20 Audit Findings report. We are pleased to report that management have implemented all of our recommendations.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	Dorset Police need to identify savings of £6.8m over the next three years, which represents a significant challenge. Realistic savings plans must be urgently developed to bridge the budget gaps in 2021/22 to 2023/24.	This recommendation has been addressed in 2020/21.
✓	It is not possible to see if the identified savings are being achieved, or whether the year end position is achieved by other budget underspend compensating for under delivery of savings. The Group should monitor and report on whether the identified budget savings are being achieved against the areas identified. This will help to inform future financial planning on the accuracy and deliverability of savings plans.	This recommendation has been addressed in 2020/21.
✓	Our testing of overtime payments identified that authorisation emails could not be provided in all case. Overtime is an area of regular budget overspend and should be subject to formal approval before it is authorised for payment.	This recommendation has been addressed in 2020/21.
✓	Our expenditure testing identified that the stores team only retain the paperwork supporting the request for items for three months. The stores team should retain paperwork supporting stock requisitions for a suitable period to allow audit inspection if necessary.	This recommendation has been addressed in 2020/21.

Assessment

✓ Action completed

X Not yet addressed

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B. Follow up of prior year recommendations

We identified the following issues in the audits of Dorset PCC and Chief Constable's 2019/20 financial statements, which resulted in seven recommendations being reported in our 2019/20 Audit Findings report. We are pleased to report that management have implemented all of our recommendations.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	We were unable to obtain corroborating evidence to gain assurance over the weighted average duration of liabilities for the Police Officer scheme of 19 years. Management must ensure that they can provide evidence that the duration of liabilities figures within the IAS19 reports have been reviewed and challenged as necessary, and that the figures can be supported by corroborating evidence.	This recommendation has been addressed in 2020/21.
✓	The Head of Estates revalued two assets as an Internal Valuer. There were no instructions or terms of reference issued to set out the scope of the work. The valuer is a management expert for the financial statements whether this service is provided internally or externally. The scope of the work of the internal valuer should be set out in formal instructions and terms of reference as they are for the external valuer.	This recommendation has been addressed in 2020/21.
TBC	Our testing of a sample of assets revalued identified that for two assets the floor area data upon which the external valuer based their valuation did not agree with the held for the assets by the PCC's Estates Department. Management must introduce quality assurance checks to ensure that the key source data being used by the valuer is accurate.	Quality assurance checks have been introduced by management. Our work on revaluations of assets is currently in progress.

Assessment

✓ Action completed

X Not yet addressed

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C. Audit Adjustments - PCC

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2021.

Detail	Comprehensive Income and **Expenditure Statement £'000**	Statement of Financial **Position £' 000**	Impact on total net **expenditure £'000**
None at the time of drafting the report	[…]	[…].	[…].
Overall impact	**£X,XXX**	**£X,XXX**	**£X,XXX**

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C. Audit Adjustments – Chief Constable

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Impact of adjusted misstatements

All adjusted misstatements are set out in detail below along with the impact on the key statements and the reported net expenditure for the year ending 31 March 2021.

Detail	Comprehensive Income and **Expenditure Statement £'000**	Statement of Financial **Position £'000**	Impact on total net **expenditure £'000**
None at the time of drafting the report	[…]	[…].	[…].
Overall impact	**£X,XXX**	**£X,XXX**	**£X,XXX**

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C. Audit Adjustments - PCC

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2020/21 audit which have not been made within the final set of financial statements. The PCC is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Comprehensive Income and Expenditure Statement **£'**000	Statement of Financial **Position £'000**	Impact on total net **expenditure £'000**	Reason for not adjusting
None at the time of drafting the report	[…]	[…].	[…].	[…].
Overall impact	**£X,XXX**	**£X,XXX**	**£X,XXX**	

Impact of prior year unadjusted misstatements

There were no unadjusted misstatement in 2019/20.

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C. Audit Adjustments – Chief Constable

Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2020/21 audit which have not been made within the final set of financial statements. The Chief Constable is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Comprehensive Income and Expenditure Statement **£'000**	Statement of Financial **Position £'000**	Impact on total net **expenditure £'000**	Reason for not adjusting
None at the time of drafting the report	[…]	[…].	[…].	[…].
Overall impact	**£X,XXX**	**£X,XXX**	**£X,XXX**	

Impact of prior year unadjusted misstatements

There were no unadjusted misstatement in 2019/20.

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C. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure	Relates to	Detail	Adjusted?
Financial instruments accounting policy	Group and PCC	The accounting policy for Financial instruments did not include disclosure of the fair value hierarchy.	✓
General	Group, PCC and Chief Constable	A small number of other amendments have been made to the draft accounts to correct minor disclosure and presentational issues that do not warrant being individually reported to Those Charged with Governance.	✓

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D. Fees

We confirm below our final fees charged for the audit and confirm there were no fees for the provision of non audit services.

Audit fees	Proposed fee	Final fee
PCC Audit	£36,494	TBC
Chief Constable Audit	£17,910	TBC
Total audit fees (excluding VAT)	£54,404	TBC

The proposed fees reconcile to the External Audit Fee notes in the financial statements for 2020/21.

Once all work has been completed on the audit, including the VFM work, we will assess the need for any changes to the proposed fees. This will be discussed with management and then be submitted to PSAA for final approval.

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E. Audit opinion - PCC

Our draft audit opinion is included below.

We anticipate we will provide the Group/PCC with an unmodified audit report

Independent auditor's report to the Police and Crime Commissioner for Dorset

Report on the Audit of the Financial Statements

Opinion on financial statements

We have audited the financial statements of the Police and Crime Commissioner for Dorset (the 'Police and Crime Commissioner') and its subsidiary the Chief Constable (the 'group') for the year ended 31 March 2021 which comprise the Group Movement in Reserves Statement, the PCC Movement in Reserves Statement, the Group Comprehensive Income and Expenditure Statement, the PCC Comprehensive Income and Expenditure Statement, the Group and PCC Balance Sheet, the Group Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies, and include the Police Officers' Pension Fund Statement. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21.In our opinion, the financial statements:

- give a true and fair view of the financial position of the group and of the Police and Crime Commissioner as at 31 March 2021 and of the group's expenditure and income and the Police and Crime Commissioner's expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Police and Crime Commissioner and the group in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Chief Financial Officer's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Police and Crime Commissioner and group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Police and Crime Commissioner and the group to cease to continue as a going concern.

In our evaluation of the Chief Financial Officer's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21 that the Police and Crime Commissioner and group's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Police and Crime Commissioner and the group. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Police and Crime Commissioner and group and the Police and Crime Commissioner and group's disclosures over the going concern period.

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E. Audit opinion - PCC

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Police and Crime Commissioner's and the group's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Chief Financial Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

The responsibilities of the Chief Financial Officer with respect to going concern are described in the 'Responsibilities of the Police and Crime Commissioner and the Chief Financial Officer for the financial statements' section of this report.

Emphasis of Matter – effects of Covid-19 on the valuation of land and buildings

We draw attention to Note 6.1 of the financial statements, which describes the effects of the Covid-19 pandemic on the valuation of the Group's land and buildings as at 31 March 2021. As disclosed in note 6.1 to the financial statements, the potential impact of the Coronavirus pandemic on property values has led to a material valuation uncertainty on property valuation being disclosed in the Group's property valuer's report. Our opinion is not modified in respect of this matter.

Other information

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

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

We have nothing to report in this regard.

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

Under the Code of Audit Practice published by the National Audit Office in April 2020 on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'delivering good governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Police and Crime Commissioner, the other information published together with the financial statements in the Statement of Accounts, for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

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

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

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E. Audit opinion - PCC

Responsibilities of the Police and Crime Commissioner and the Chief Financial Officer for the financial statements

As explained more fully in the Statement of Responsibilities, the Police and Crime Commissioner is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. That officer is the Chief Financial Officer. The Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

The Police and Crime Commissioner is Those Charged with Governance. Those charged with governance are responsible for overseeing the financial reporting process.

Auditor's responsibilities for the audit of the financial statements

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

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

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Police and Crime Commissioner and the group and determined that the most significant ,which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, the Local Government Act 2003 and the Police Reform and Social Responsibility Act 2011. We also identified the following additional regulatory frameworks in respect of the police pension fund: Public Service Pensions Act 2013, the Police Pension Fund Regulations 2007, the Police Pensions Regulations 2015 and the Police Pensions Regulations 2006.
- We enquired of senior officers and the Police and Crime Commissioner, concerning the Police and Crime Commissioner and group's policies and procedures relating to:
  - the identification, evaluation and compliance with laws and regulations;
  - the detection and response to the risks of fraud; and
  - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.

We enquired of senior officers, internal audit and the Police and Crime Commissioner, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.

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E. Audit opinion - PCC

- We assessed the susceptibility of the Police and Crime Commissioner and group's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls and revenue and expenditure recognition. We determined that the principal risks were in relation to:
  - Journals and transactions outside the course of business; and
  - The significant accounting estimates in the financial statements, including those related to the valuation of property, plant and equipment, depreciation, the net pension fund liability and significant year-end accruals.
- Our audit procedures involved:
  - evaluation of the design effectiveness of controls that the Chief Financial Officer has in place to prevent and detect fraud;
  - journal entry testing, with a focus on large and unusual journals;
  - challenging assumptions and judgements made by management in its significant accounting estimates in respect of the valuation of property, plant and equipment, depreciation, the net pension liability and significant year-end accruals;
  - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.
- The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to related to the valuation of property, plant and equipment, the net pension liability and significant year-end accruals.

- Assessment of the appropriateness of the collective competence and capabilities of the Police and Crime Commissioner and group's engagement team included consideration of the engagement team's:
  - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
  - knowledge of the police sector
  - understanding of the legal and regulatory requirements specific to the Police and Crime Commissioner and group including:
    - the provisions of the applicable legislation
    - guidance issued by CIPFA, LASAAC and SOLACE
    - the applicable statutory provisions.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
  - the Police and Crime Commissioner and group's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
  - the Police and Crime Commissioner and group's control environment, including the policies and procedures implemented by the Police and Crime Commissioner and group to ensure compliance with the requirements of the financial reporting framework.

Report on other legal and regulatory requirements - the Police and Crime Commissioner's arrangements for securing economy, efficiency and effectiveness in its use of resources

Matter on which we are required to report by exception – the Police and Crime Commissioner's arrangements for securing economy, efficiency and effectiveness in its use of resources

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Police and Crime Commissioner has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

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E. Audit opinion - PCC

Our work on the Police and Crime Commissioner's arrangements for securing economy, efficiency and effectiveness in its use of resources is not yet complete. The outcome of our work will be reported in our commentary on the Police and Crime Commissioner's arrangements in our Auditor's Annual Report. If we identify any significant weaknesses in these arrangements, these will be reported by exception in a further auditor's report. We are satisfied that this work does not have a material effect on our opinion on the financial statements for the year ended 31 March 2021.

Responsibilities of the Police and Crime Commissioner

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

Auditor's responsibilities for the review of the Police and Crime Commissioner's arrangements for securing economy, efficiency and effectiveness in its use of resources

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

We undertake our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in April 2021. This guidance sets out the arrangements that fall within the scope of 'proper arrangements'. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

- Financial sustainability: how the Police and Crime Commissioner plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the Police and Crime Commissioner ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the Police and Crime Commissioner uses information about its costs and performance to improve the way it manages and delivers its services.

We document our understanding of the arrangements the Police and Crime Commissioner has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor's Annual Report. In undertaking our work, we consider whether there is evidence to suggest that there are significant weaknesses in arrangements.

Report on other legal and regulatory requirements - Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate for Police and Crime Commissioner for Dorset for the year ended 31 March 2021 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed:

- our work on the Police and Crime Commissioner's arrangements for securing economy, efficiency and effectiveness in its use of resources and issued our Auditor's Annual Report; and
- the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Police and Crime Commissioner for the year ended 31 March 2021.

We are satisfied that this work does not have a material effect on the financial statements for the year ended 31 March 2021.

Use of our report

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

Alex Walling, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

Bristol

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E. Audit opinion – Chief Constable

Our draft audit opinion is included below.

We anticipate we will provide the Chief Constable with an unmodified audit report

Independent auditor's report to the Chief Constable for Dorset

Report on the Audit of the Financial Statements

Opinion on financial statements

We have audited the financial statements of the Chief Constable for Dorset (the 'Chief Constable') for the year ended 31 March 2021 which comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and notes to the financial statements, including a summary of significant accounting policies, and include the Police Officers' Pension Fund Statement. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21.

In our opinion, the financial statements:

- give a true and fair view of the financial position of the Chief Constable as at 31 March 2021 and of its expenditure and income for the year then ended;
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Chief Constable in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Chief Financial Officer's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Chief Constable's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Chief Constable to cease to continue as a going concern.

In our evaluation of the Chief Financial Officer's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21 that the Chief Constable's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Chief Constable. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Chief Constable and the Chief Constable's disclosures over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Chief Constable's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Chief Financial Officer's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

The responsibilities of the Chief Financial Officer with respect to going concern are described in the 'Responsibilities of the Chief Constable and the Chief Financial Officer for the financial statements' section of this report.

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E. Audit opinion – Chief Constable

Other information

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

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

We have nothing to report in this regard.

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

Under the Code of Audit Practice published by the National Audit Office in April 2020 on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'delivering good governance in Local Government Framework 2016 Edition' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Chief Constable, the other information published together with the financial statements in the Statement of Accounts and Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

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

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

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

Responsibilities of the Chief Constable and the Chief Financial Officer for the financial statements

As explained more fully in the Statement of Responsibilities, the Chief Constable is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. That officer is the Chief Financial Officer. The Chief Financial Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, for being satisfied that they give a true and fair view, and for such internal control as the Chief Financial Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

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

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

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E. Audit opinion – Chief Constable

Auditor's responsibilities for the audit of the financial statements

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

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

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

- We obtained an understanding of the legal and regulatory frameworks that are applicable to the Chief Constable and determined that the most significant ,which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2020/21, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, the Local Government Act 2003 and the Police Reform and Social Responsibility Act 2011. We also identified the following additional regulatory frameworks in respect of the police pension fund; Public Service Pensions Act 2013, the Police Pension Fund Regulations 2007, the Police Pensions Regulations 2015 and the Police Pensions Regulations 2006.
- We enquired of senior officers and the Chief Constable, concerning the Chief Constable's policies and procedures relating to:
  - the identification, evaluation and compliance with laws and regulations;
  - the detection and response to the risks of fraud; and
  - the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.
- We enquired of senior officers, internal audit and the Chief Constable, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.
- We assessed the susceptibility of the Chief Constable's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls and revenue and expenditure recognition. We determined that the principal risks were in relation to:
  - Journals and transactions outside the course of business; and
  - the significant accounting estimates in the financial statements, including those related to the valuation of the net pension fund liability.
- Our audit procedures involved:
  - evaluation of the design effectiveness of controls that the Chief Financial Officer has in place to prevent and detect fraud;
  - journal entry testing, with a focus on large and unusual journals;
  - challenging assumptions and judgements made by management in its significant accounting estimates in respect of the net pension fund liability;
  - assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.
- These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.

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E. Audit opinion – Chief Constable

- The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to the net pension fund liability.
- Assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's:
  - understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation
  - knowledge of the police sector
  - understanding of the legal and regulatory requirements specific to the Chief Constable including:
    - the provisions of the applicable legislation
    - guidance issued by CIPFA, LASAAC and SOLACE
    - the applicable statutory provisions.
- In assessing the potential risks of material misstatement, we obtained an understanding of:
  - the Chief Constable's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.
  - the Chief Constable's control environment, including the policies and procedures implemented by the Chief Constable to ensure compliance with the requirements of the financial reporting framework.

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

Matter on which we are required to report by exception – the Chief Constable's arrangements for securing economy, efficiency and effectiveness in its use of resources

Under the Code of Audit Practice, we are required to report to you if, in our opinion, we have not been able to satisfy ourselves that the Chief Constable has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2021.

Our work on the Chief Constable's arrangements for securing economy, efficiency and effectiveness in its use of resources is not yet complete. The outcome of our work will be reported in our commentary on the Chief Constable's arrangements in our Auditor's Annual Report. If we identify any significant weaknesses in these arrangements, these will be reported by exception in a further auditor's report. We are satisfied that this work does not have a material effect on our opinion on the financial statements for the year ended 31 March 2021.

Responsibilities of the Chief Constable

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

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

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

We undertake our review in accordance with the Code of Audit Practice, having regard to the guidance issued by the Comptroller and Auditor General in April 2021. This guidance sets out the arrangements that fall within the scope of 'proper arrangements'. When reporting on these arrangements, the Code of Audit Practice requires auditors to structure their commentary on arrangements under three specified reporting criteria:

- Financial sustainability: how the Chief Constable plans and manages its resources to ensure it can continue to deliver its services;
- Governance: how the Chief Constable ensures that it makes informed decisions and properly manages its risks; and
- Improving economy, efficiency and effectiveness: how the Chief Constable uses information about its costs and performance to improve the way it manages and delivers its services.

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E. Audit opinion – Chief Constable

We document our understanding of the arrangements the Chief Constable has in place for each of these three specified reporting criteria, gathering sufficient evidence to support our risk assessment and commentary in our Auditor's Annual Report. In undertaking our work, we consider whether there is evidence to suggest that there are significant weaknesses in arrangements.

Report on other legal and regulatory requirements - Delay in certification of completion of the audit

We cannot formally conclude the audit and issue an audit certificate for the Chief Constable for Dorset for the year ended 31 March 2021 in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice until we have completed:

- our work on the Chief Constable's arrangements for securing economy, efficiency and effectiveness in its use of resources and issued our Auditor's Annual Report; and
- the work necessary to issue our Whole of Government Accounts (WGA) Component Assurance statement for the Chief Constable for the year ended 31 March 2021

We are satisfied that this work does not have a material effect on the financial statements for the year ended 31 March 2021.

Use of our report

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

Alex Walling, Key Audit Partner
for and on behalf of Grant Thornton UK LLP, Local Auditor

Bristol

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Police and Crime Commissioner for Dorset

Statement of Accounts

for the year ended 31 March 2021

Unaudited

Officers of the Police and Crime Commissioner Group

The statutory officers of the Office of the Police and Crime Commissioner and contact details are as follows:

Police and Crime Commissioner
David Sidwick

Chief Executive to the Police and Crime Commissioner
Simon Bullock

Chief Financial Officer to the Police and Crime Commissioner
Julie Strange

Address: Winfrith
Dorchester
DT2 8DZ

Website: www.dorset.pcc.police.uk

The statutory officers of the Office of the Chief Constable and contact details are as follows:

Chief Constable
Scott Chilton

Chief Financial Officer to the Chief Constable
Tim Newman
(from 6 September 2021)

Chief Financial Officer to the Chief Constable
Steven Mackenzie
(24 October 2019 to 5 September 2021)

Address: Dorset Police Headquarters
Winfrith
Dorchester
DT2 8DZ

Website: www.dorset.police.uk

Statement of Accounts 2020/21

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DORSET
POLICE & CRIME
COMMISSIONER

Accompanying Reports

NARRATIVE REPORT by JULIE STRANGE, CHIEF FINANCIAL OFFICER

1. INTRODUCTION

1.1 This narrative report aims to provide the context for the Police and Crime Commissioner and Group financial statements and to demonstrate how the Police and Crime Commissioner has allocated its resources in line with intended outcomes for the 2020/21 financial year.

1.2 The Financial Statements provide information on the Police and Crime Commissioner's (PCC) and the Group's (incorporating the Chief Constable) financial activities for the year ending 31 March 2021. They are prepared in accordance with proper accounting practices (as defined in the Code of Practice on Local Authority Accounting in the United Kingdom) and are published in accordance with the Accounts and Audit Regulations 2015.

1.3 The Chief Constable has prepared a separate statement of accounts reflecting how the resources provided by the PCC have been used to deliver operational policing services. These are published separately.

2. EXPLANATION OF THE PCC AND GROUP

2.1 The Police and Crime Commissioner and the Chief Constable are separate legal entities. The PCC is elected by the public every four years with a responsibility to secure the maintenance of an efficient and effective police force and to hold the Chief Constable to account for the exercise of operational policing duties under the Police Act 1996. The Chief Constable has a statutory responsibility for the control, direction and delivery of operational policing services in Dorset.

2.2 The Chief Constable is accountable to the PCC for the delivery of efficient and effective policing, the delivery of the PCC priorities and the management of resources and expenditure by the Force.

2.3 The PCC for Dorset during the 2020/21 year was Martyn Underhill. He stepped down as PCC at the elections on 6 May 2021, and was replaced by David Sidwick, who took office on the 13 May 2021. The priorities for the 2020/21 year were set out in the 2017- 2021 Police and Crime Plan. The Police and Crime Plan for 2021 onwards is currently being prepared by the new PCC and will be published in due course.

2.4 The Police and Crime Plan is a statement of strategic intent for policing in Dorset, set around four key themes:

- Protecting People at Risk of Harm
- Working with our Communities
- Supporting Victims, Witnesses and Reducing Reoffending
- Transforming for the Future

2.5 The PCC is scrutinised by the Police and Crime Panel. The Panel's primary focus is on important strategic actions and decisions made by the PCC. These include whether they have:

- achieved the aims set out in the Police and Crime Plan and the Annual Report
- considered the priorities of community safety partners
- consulted appropriately with the public and victims of crime

2.6 The PCC provides an Annual Report to the Police and Crime Panel in the Summer each year which provides more detailed performance information in relation to the financial year just ended.

3. RESOURCES AVAILABLE IN 2020/21

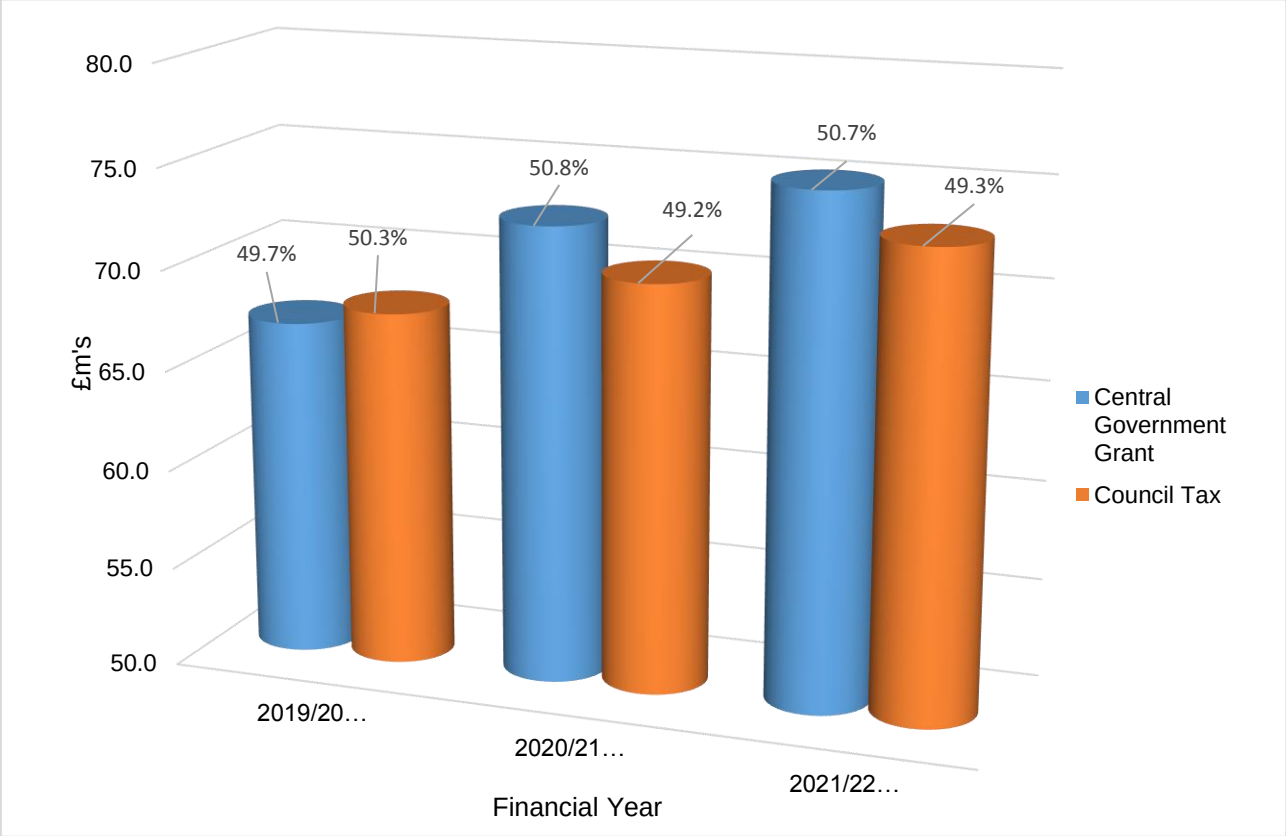
3.1 The budget for 2020/21 included additional central Government funding towards the recruitment of additional police officers. The Police Officer Uplift programme is designed to deliver an additional 20,000 officers nationally by the end of 2022/23, and the first phase was to deliver an additional 6,000 officers by the end of 2020/21. Dorset received funding for 50 of these officers, and associated infrastructure, in 2020/21.

3.2 The Commissioner, after public consultation, and ratified by the Police and Crime Panel, increased the council tax element for policing by 4.3%, which included provision for unavoidable cost increases such as inflation, but also to provide investment and innovation to improve services further in a number of key areas.

Council tax was set at £240.58 for a band D property. The overall impact of this Home Office grant position and Council Tax increase was that overall funding in 2020/21 was £8.3m more than it was in 2019/20.

3.3 The revenue budget income graph below shows main funding sources in 2020/21 as well as the funding in the previous and following year for comparative purposes. In 2019/20 central government grant was 49.7% of revenue funding, in 2020/21 it increased to 50.8% and in 2021/22 it reduced again, only slightly, to 50.7%.

Revenue Budget funding 2019/20 – 2021/22



3.4 The 2020/21 budget was set before the first Covid-19 lockdown commenced in March 2020, and with little understanding of the implications of the pandemic for policing during the year. Additional funding was made available by Central Government to address the physical requirements, and the exceptional operational demands experienced during the year.

4. SETTING THE FINANCIAL STRATEGY FOR 2020/21 AND BEYOND

4.1 The Police and Crime Commissioner takes a multi-year approach to financial planning, considering the budget year and the subsequent three years.

4.2 One of the most significant issues in setting the 2020/21 budget was understanding the financial implications of the national Police Officer Uplift programme. This programme has just entered its second year and is ultimately expected to deliver in excess of 160 additional police officers for Dorset.

4.3 The additional funding, and costs, of this programme was central to the Medium Term Financial Strategy (MTFS), alongside unavoidable cost pressures such as inflation, and the increasing cost of pension schemes and capital investment requirements. The budget therefore continued to deliver efficiencies and innovation to ensure that maximum value is derived from existing resources. The Police and Crime Commissioner's decision to increase the Council Tax by 4.3%, alongside the delivery of efficiencies, enabled a number of key areas to be addressed, including:

- Establishment of a dedicated missing people team aimed at reducing the number of missing people in Dorset, protecting vulnerable people from harm, reducing the time people are missing, and supporting the families of missing people during that period.

- Investment in the Force's intelligence capacity and capability, specifically around high risk incidents, crimes, victims and offenders, to improve the effectiveness of response to dynamic serious crime, firearms incidents and missing people.

- Investment in the development of online statements and signatures, allowing statements to be taken at the witnesses' convenience. This delivers a significant efficiency in officer time with an average saving of two hours of officer time for each statement taken. Over 850 statements are now being taken each month online.

- Investment in neighbourhood policing, in particular in a vulnerability team who are involved in complex problem solving with those people who suffer or cause the greatest harm in the communities of Dorset.

- Further investment in forensic collision investigation, with the provision of a specialist scanner for use at the sites of collisions.

- Transformation of domestic abuse services, taking a whole system approach which involves training to all frontline officers and staff, a programme for perpetrators, and working with schools of children in families when there has been an instance of domestic abuse.

- Continued delivery of innovative solutions and developments to key policing issues through a dedicated Innovation Fund. Key successes during the year included:

    - Development of the use of process automation and artificial Intelligence, creating efficiencies.
    - Creation of a Joint Response Unit with the South Western Ambulance Service Trust to deal effectively and sympathetically with people suffering mental health episodes.
    - Introduction of legal support to investigators in obtaining protection orders and other civil sanctions to help protect vulnerable victims from the most serious offenders.

- Significant investment in the force estate, to ensure all premises remain fit for the future, and provide the necessary infrastructure required for the modern operational delivery of Police services.

- Further innovation and investment in technology, including:

    - Investment in a new Command and Control system, allowing improved deployment of resources
    - Digital Speed Cameras, providing a more robust deterrent for, and enforcement of, speeding offences

- Covid resilience

    - Investment in new ways of working
    - Savings achieved and planned into the future

4.4 Due to its timing the impact of the Covid-19 pandemic was not taken into account in the 2020/21 budget or the longer-term financial strategy but did have a considerable impact on finances during the year. In addition to delivering the planned investment and innovation, as set out above, the Force also delivered initiatives such as agile and mobile working, which not only enabled working in the Covid-19 environment, but delivered opportunities which are being built on to improve delivery of services in the future.

4.5 The 2020/21 MTFS projected a continued tough financial outlook, with the years beyond 2020/21 showing continued pressure, and further savings being required:

	2020/21 £'m	2021/22 £'m	2022/23 £'m	2023/24 £'m
Projected Funding	141.6	144.9	148.3	151.9
Projected Budget Requirement	141.6	147.0	153.1	158.7
Projected Shortfall	**0.0**	**(2.1)**	**(4.8)**	**(6.8)**

4.6 The 2021/22 budget settlement, with the increased central Government funding, and the ability of Police and Crime Commissioners to increase their precept by up to £15 for a Band D property (without a referendum), has subsequently fully mitigated the above projected shortfalls. The 2021/22 MTFS presents a forecast balanced budget position until at least 2024/25, although this is subject to numerous assumptions and the financial outlook will be monitored closely and revised as necessary.

5. ACTUAL EXPENDITURE IN 2020/21

5.1 The final outturn position for the Police and Crime Commissioner Group for 2020/21 is a breakeven position. This is following year end transfer to reserves of £760,100 including £420,000 to provide for the 2021 Summer Policing operations.

5.2 It has been a challenging and unpredictable year as the pandemic continued. The overtime budget has had different pressures this year with the requirement to deliver 'business as usual' in the context of Covid-19. There were particular pressures as lockdowns were eased and subsequently re-introduced, creating spikes in demand. There were also significant demands during the summer period as international travel was reduced and more people spent the summer in this country, in holiday destinations like Dorset. This is expected to continue in 2021/22, hence the requirement for a carry forward of some budget from this year to meet this exceptional demand.

5.3 In previous years the most significant underspends occurred in police staff pay, this year however has seen a change in this with turnover reducing reflecting the changes in the employment market during the year.

5.4 Underspends however have been reported in premises related costs, supplies and services and transport related costs. Reduced occupation of buildings has seen a reduction in expenditure on utilities as well as reduced spend on photocopying, stationery and postage as staff continue to work from home. Reduced travelling on non-operational business during the pandemic as well as the free fuel offer from BP also contributed to fuel savings and reduced travel costs.

5.5 Income budgets overall exceeded the anticipated income, mainly due to grants received in relation to Covid-19. A summary of these is given below. The Income Loss grant provided partial reimbursement for the shortfall in Sales, Fees and Charges which is due predominately to the reduction in road safety education provided by the Driver Awareness Scheme (DAS), as well as reduced income from Firearms certificates and Foreign Nationals Registration.

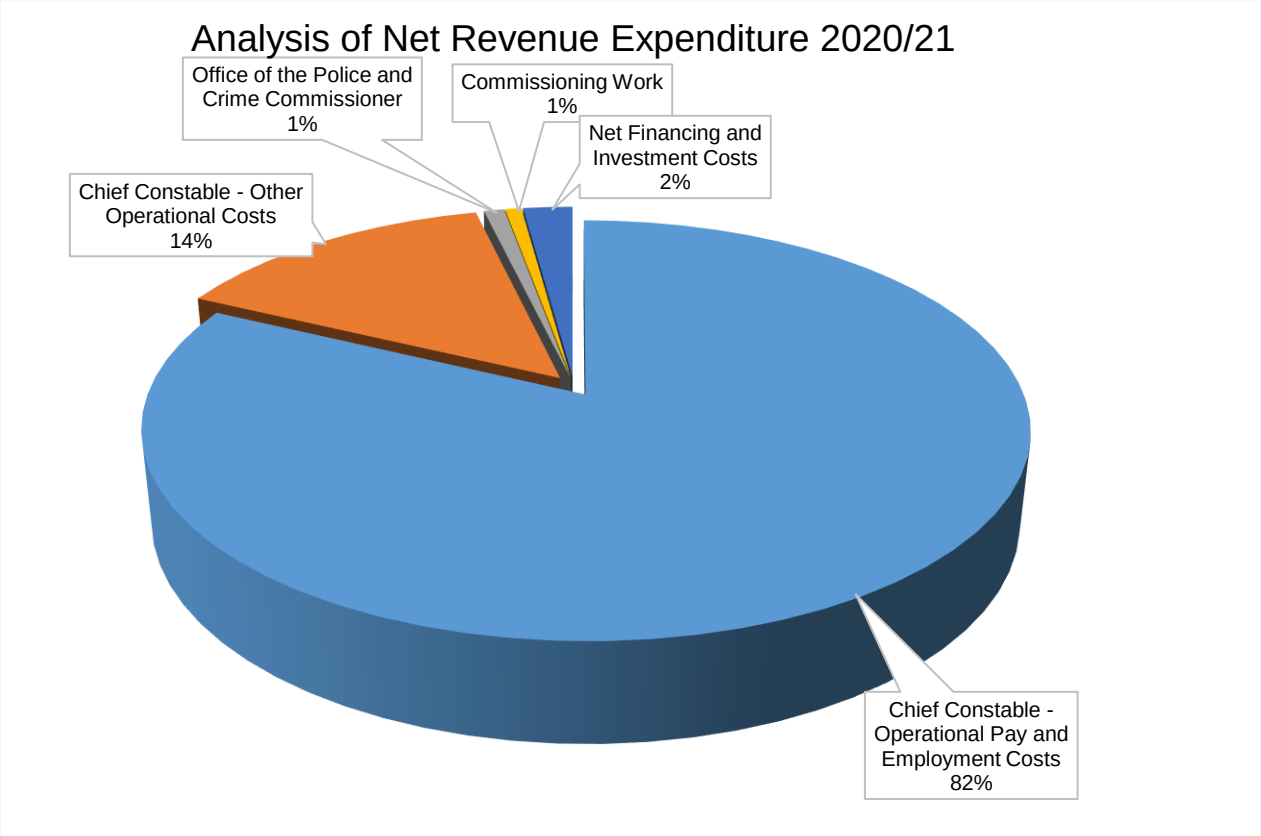
Covid Funding	**£**
Personal Protective Equipment Re-imbursement	50,951
Income Loss	994,744
Surge Grant	248,842
General Pressures	481,094
Total	**1,775,631**

The final income loss claim is due to be paid in June 2021 but is included in the figure above.

5.6 The OPCC outturn for the year was on budget, after allowing for two transfers to reserves. The first was a transfer of £96,000 to a new OPCC Legal Reserve to cover future costs of legal support to officers. These costs have been deferred to future years as a result of the pandemic. The second transfer was in relation to underspends within the commissioning and core budget areas totalling just over £141,000, which have been transferred to the Police and Crime Plan reserve to fund existing commitments and to provide additional commissioning budget for the new Commissioner.

5.7 As part of the Local Government Covid support package for 2021/22 a 75% Tax Income Guarantee compensation scheme was announced. The income will be paid in the form of a grant which is included in 2020/21 and transferred to the budget management fund reserve for use in 2021/22 in accordance with the Code of Practice. The grant to Dorset Police is £140,673.

5.8 The chart below shows a breakdown of actual net revenue expenditure for 2020/21 by category of spend.



6. NATIONAL TRANSFORMING FORENSICS PROGRAMME

6.1 Dorset Police is the financial lead for the National Transforming Forensics programme and in 2020/21 the grant and expenditure for the programme is accounted for within the Group Accounts. Revenue and Capital expenditure is fully funded by the grant received and therefore does not affect the overall variance.

6.2 Total grant funding received and spent in 2020/21 totalled £24.220m

7. RESERVES

7.1 The PCC maintains reserves for 3 main purposes:

- As a working balance to help cushion the impact of uneven cash flows and avoid unnecessary temporary borrowing – this forms part of the general fund balance;
- As a contingency to cushion the impact of unexpected events or emergencies: also part of the general fund balance;
- As a means of building up funds to meet known or predicted requirements; earmarked reserves.

7.2 The PCC's Policy for the maintenance of reserves includes the following key principles:

General Balances - The PCC will seek to maintain a general reserve at between 3% and 5% of Net Revenue Expenditure. This will be supported by an annual budget risk assessment which will also identify the need for any specific earmarked reserves.

Earmarked Reserves - The need for earmarked reserves will be assessed annually through the budget setting process, to confirm the continuing relevance and adequacy of each earmarked reserve in addition to identifying any new reserves that may be required.

7.3 Total Usable Reserves at 31 March 2021 amounted to £9.364m comprising; General Fund Balance £5.699m and Earmarked Reserves £3.665m. These balances are in line with the policy on reserves.

7.4 During 2020/21 the decision was taken to close the Major Operations reserve after £250,000 was used to support Summer Policing with the remaining £738,000 transferred to the General Fund.

8. CAPITAL PROGRAMME

8.1 The table below shows the Police and Crime Commissioner's capital expenditure, and funding, during 2020/21. This consists of an ongoing programme of rationalisation, replacement and enhancement of property and other assets, all with an expected life of more than one year, and with an individual or programme value in excess of £10,000.

8.2 Work commenced this year on the Ferndown re-investment project, and this will continue into 2021/22 with a total budget of £1.4m. This work is part of the Estates futures programme which also includes the A10 project.

8.3 Spend within Equipment and ICT included the replacement of the Command and Control system (STORM), PC replacement scheme and digital camera upgrades. This excludes the expenditure and funding of the Transforming Forensics Programme.

	£'m
Capital Programme	
Land and Buildings	1.103
Vehicles and Other Transport	1.853
Equipment and ICT	3.334
Intangible Assets	0
Total Expenditure	**6.290**
Funded by	
Grants	1.034
Capital Receipts reserve	0.226
Revenue Funding	2.432
Borrowing	2.598
Total Funding	**6.290**

9. WORKFORCE RESOURCES

9.1 Workforce costs make up 82% of the annual expenditure of the Group. The full-time equivalents (FTE) of officers and staff employed by Dorset Police at the beginning and end of the year were:

31/03/20 (FTE)		31/03/21 (FTE)
1,223	Police Officers	1,275
1,166	Police Staff (Force)	1,154
31	Police Staff (Transforming Forensics)	46
123	PCSO's	126
18	Office of the Police and Crime Commissioner	16
2,561	**Total**	**2,617**

9.2 There was budgeted growth of 33 officers during the year funded through the Police Officer Uplift Programme. However, the actual number of officers at year end was higher than this as the conditions of the Uplift grant were based on headcount of officers as opposed to FTE. This meant that the Force was required to increase its year-end FTE by an extra 19 officers to comply. The national uplift programme is expected to fund a further 50 officers in 2021/22.

10. PERFORMANCE INDICATORS

External Indicators

10.1 The principal independent financial indicators available to Police and Crime Commissioner are as follows:

- HMICFRS PEEL Report – Her Majesty's Inspectorate of Constabulary and Fire and Rescue Services (HMICFRS) review each Force to examine their Efficiency, Effectiveness and Legitimacy. The 2018/19 concluded that Dorset Police was graded 'Good' for all three areas reviewed:
    - The extent to which the force is effective at keeping people safe and reducing crime is "Good**"**.
    - The extent to which the force is efficient at keeping people safe and reducing crime is "Good**"**.
    - The extent to which the force is legitimate at keeping people safe and reducing crime is "Good**"**.
- Auditors Value for Money Opinion – The external auditors last provided a Value for Money conclusion for both the PCC and the Chief Constable for the year ending 31 March 2020. This audit concluded that the Police and Crime Commissioner and Chief Constable have each put in place proper arrangements to secure economy, efficiency and effectiveness in their use of resources.
- HMICFRS Value for Money Profile 2020 – this report does not provide an opinion but states key financial and performance information of Dorset Police in comparison to other forces. The report did not indicate any significant areas where Dorset Police is more expensive than other Forces.

Operational Performance of the Force

10.2 The 2020/21 year was particularly challenging due to the exceptional demands of the Covid-19 pandemic. The effect on operational performance was considerable, as the country experienced a number of lockdowns, with different pressures on the Force before, during and after each one. As such, the performance for the year was markedly different than the preceding year.

10.3 The following table sets out the key movement in activity in 2020/21 when compared to the previous year.

Contact		
999 Calls	-4.9%	↓
Non-Emergency Calls	-26.3%	↓
Emails and Callbacks	+25.8%	↑
Incidents		
Incidents Recorded	-10.7%	↓
Of which, Anti-Social Behaviour *	+37.4% *(+7.0%)*	↑
Crime		
All Crime Recorded	-12.8%	↓
Sexual Offences	-16.3%	↓
Of which, Serious Sexual Offences	-17.1%	↓
Violence Against the Person	-5.4%	↓
Of which, Most Serious Violence	-11.7%	↓
Domestic Abuse Crime	-0.3%	↓
Theft	-24%	↓
Other		
Arrests Made	-17.6%	↓
Positive Outcomes	-0.4%	↓
Missing Persons	-24% (High Risk -10%)	↓
Public Protection Notices Issued	+2%	↑

** Anti-social Behaviour (ASB) includes Covid-19 related ASB. The year on year comparator excluding Covid-19 ASB related was +7.0%.*

11 FUTURE FINANCIAL OUTLOOK

11.1 The Police and Crime Commissioner formally updates its MTFS annually during the budget setting process. The 2021/22 MTFS reflected a significantly improved outlook when compared with the 2020/21 forecasts, with the central case forecast showing a balanced position for all future years of the MTFS. The forecasts rely heavily on estimates and assumptions, reflected in the best and worst case scenarios to give context to the potential future position, and these assumptions will be regularly reviewed.

11.2 The 2021/22 MTFS is designed to support the delivery of the Police and Crime Plan which is in its final year. The new Police and Crime Commissioner will develop a new Plan during 2021 which will be used to drive the budget in future years.

11.3 The Financial Strategy, including the Capital Strategy, Reserves Strategy and Treasury Management Strategy are used to translate the vision of the Police and Crime Plan into the detailed budget, with the MTFS setting out what this looks like for future years.

11.4 The strategic approach taken to balancing the 2021/22 budget was to take a longer term view to ensure decisions taken are sustainable and that the budget starts the decade on firm foundations, to build greater financial resilience and delivering value for money for Dorset residents.

11.5 For 2022/23 and beyond there is a great deal of uncertainty around funding levels, as central Government funding is agreed for only one year at a time, as is the precept flexibility provided to the Police and Crime Commissioner. This impacts on the future planning process, and wider economic uncertainty, particularly that arising from the Covid-19 pandemic, exacerbate the planning challenges.

11.6 Key areas of uncertainty are:

- The next Comprehensive Spending Review, which the Government had planned to undertake during 2020, has been delayed. It is currently expected that this will be carried out in 2021 when some of the uncertainty facing the national economy may have become clearer.
- The anticipated changes to the formula by which Home Office funding is allocated to forces. The timescale for this review is not confirmed, and it is not yet clear whether this may impact on the 2022/23 funding position.
- Future cost of pension schemes. These schemes have seen increased pressure in recent years, and this pressure is expected to continue at the next triennial valuations due, in part, to changes required to comply with the court's finding of age discrimination in the way changes to public sector pension schemes were implemented in 2015.
- The impact of any future recession associated with Covid, including the potential local implications on precept, Collection Funds and taxbase.

11.7 The continuing pandemic has made the Police and Crime Commissioner adapt quickly to new ways of working using new technology. Working from home has continued for many staff during the lockdown and the Police and Crime Commissioner continues to explore and build on opportunities for the future.

12 GOVERNANCE ARRANGEMENTS

12.1 The Annual Governance Statement is published alongside this document. The Annual Governance Statement describes the internal control environment for the Police and Crime Commissioner. It also comments on the effectiveness of the governance arrangements and identifies issues that require further work.

12.2 The Police and Crime Commissioner and the Chief Constable have an effective joint process for managing risk and the details are also provided in the Annual Governance Statement.

13 THE STATEMENT OF ACCOUNTS

13.1 A brief explanation of the purpose of each of the four primary statements is provided below together with a high-level summary.

Movement in Reserves Statement for the Group and for the Police and Crime Commissioner as a single entity - shows the changes in the Police and Crime Commissioner's financial resources over the year. The statement shows the different reserves held which have been analysed into "Usable" and "Unusable" Reserves. Usable reserves can be used to fund expenditure during the year and in future years or to reduce the amount that needs to be raised in council tax. Unusable reserves are technical accounting adjustments that are required to be reported at year end.

The table below is a summary of the movement in reserves:

Summary Movement in Reserves	Balance as at 31/03/2020 £'m	Movements £'m	Balance as at 31/03/2021 £'m
General Fund	4.746	0.953	5.699
Earmarked Reserves	4.152	(0.487)	3.665
Capital Receipts	0.955	(0.199)	0.756
Capital Grants	0	0	0
Total Usable Reserves	**9.853**	**0.267**	**10.120**
Unusable Reserves	(1,428.013)	(447.774)	(1,875.787)
Total Reserves	**(1,418.160)**	**(447.507)**	**(1,865.667)**

The significant movements during the year have been within unusable reserves, specifically for pensions and revaluation. The accounting adjustments applied have been prepared in accordance with generally accepted accounting practices and are not chargeable against council tax for the year.

Comprehensive Income and Expenditure Statement for the Group and for the Police and Crime Commissioner as a single entity – this statement shows the accounting cost in the year of providing services in accordance with accounting standards. This amount is different to the amount funded by taxation due to the accounting treatment of certain costs such as depreciation and pensions.

The table below is a summary of the Comprehensive Income and Expenditure Statement:

Summary Comprehensive Income and Expenditure Statement	Gross Expenditure 2020/21 £'000	Gross Income 2020/21 £'000	Net Expenditure 2020/21 £'000
Net Cost of Services	213.996	(47.672)	166.324
Other Operating Income and Expenditure	4.670	(23.026)	(18.356)
Financing and Investment Income and Expenditure	37.698	(3.526)	34.172
Taxation and Non-Specific Grant Income	0	(146.323)	(146.323)
(Surplus)/Deficit on Provision of Services	**256.364**	**(220.547)**	**35.817**
Other Comprehensive Income and Expenditure	411.690	0	411.690
Total Comprehensive Income and Expenditure	**668.054**	**(220.547)**	**447.507**

The statement highlights that the expenditure is dominated by the net cost of providing services which is predominantly the costs of policing. The other most significant cost is shown in the Financing Investment Income and Expenditure section and relates to pensions interest cost and expected return on pension assets (£34.170m). This cost is calculated in accordance with generally accepted accounting practices and reflects the cost of the pensions at the time employees earn their retirement benefits even though the benefits will not actually be payable until employees retire.

A further accounting adjustment of £411.690m is shown under “Other Comprehensive Income and Expenditure” which reflects the net movement in the revaluation of assets and the valuation of the pension liabilities.

Balance Sheet as at 31 March 2021, shows how the resources available to the Group and the Police and Crime Commissioner are held in the form of assets and liabilities.

The table below is a summary of the balance sheet:

Summary Balance Sheet	Balance as at 31/03/2020 £'000	Balance as at 31/03/2021 £'000	Movement £'000
Long Term Assets	65.832	65.927	0.095
Current Assets	37.160	41.875	4.715
Current Liabilities	(29.993)	(38.828)	(8.835)
Long Term Liabilities	(1,491.159)	(1,934.641)	(443.482)
Net Liabilities	**(1,418.160)**	**(1,865.667)**	**(447.507)**
Unusable Reserves	(1,428.013)	(1,875.787)	(447.774)
Usable Reserves	9.853	10.120	0.267
Total Reserves	**(1,418.160)**	**(1,865.667)**	**(447.507)**

The significant movements in the balance sheet correspond to the areas highlighted above. The total reserves deficit is mainly due to the police officer and staff pension liabilities. In practice, in year pension costs for police officers are being met by the Home Office.

Cash Flow Statement, shows how the movement in resources has been reflected in cash flows.

The table below is a summary of the cash flow position:

Summary Cash Flow Statement	Cash Flows 2019/20 £'000	Cash Flows 2020/21 £'000	Movement £'000
Cash and Cash Equivalents as at 01 April 2020	**(2.052)**	**(9.355)**	**(7.303)**
Net Cash Flow from:			
Operating Activities	(2.217)	(4.524)	(2.307)
Investing Activities	0.296	7.781	7.485
Financing Activities	(5.382)	(7.029)	(1.647)
Movement	**(7.303)**	**(3.772)**	**3.531**
Cash and Cash Equivalents as at 31 March 2021	**(9.355)**	**(13.127)**	**(3.772)**

13.2 The notes to the accounts include the accounting policies and gives further information on the entries within the main statements as well as supplementary information. All notes relate to the Group Statements unless it is otherwise specified. These are further supplemented by a glossary of terms.

Julie Strange, CPFA
Chief Financial Officer
XXX

Further Information:

This publication provides a review of the financial performance of the Police and Crime Commissioner for 2020/21. It complements the information in: the single entity accounts of the Chief Constable; the Police and Crime Plan; and the Police and Crime Commissioner's Annual Report. Further information on these publications can be obtained by writing to the Chief Executive or Chief Financial Officer at the Police and Crime Commissioner Offices, Dorset Police Headquarters, Winfrith, Dorset, DT2 8DZ.

Independent Auditor's Report to the Police and Crime Commissioner for Dorset

These Financial Statements have not yet been audited.

Statement of Responsibilities

The Police and Crime Commissioner's Responsibilities

The Commissioner is required to:

- Make arrangements for the proper administration of the financial affairs of the Office of the Police and Crime Commissioner and to secure that one of his officers has the responsibility for the administration of those affairs. That officer is the Chief Financial Officer to the Police and Crime Commissioner;
- Manage the affairs of the Office of the Police and Crime Commissioner to secure economic, efficient and effective use of resources and to safeguard its assets;
- Approve the Statement of Accounts.

Approval of the Accounts

I approve the Statement of Accounts.

David Sidwick
Police and Crime Commissioner
XXX

The Chief Financial Officer's Responsibilities

The Chief Financial Officer is responsible for the preparation of the Police and Crime Commissioner'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 2020/21" (the Code).

In preparing this Statement of Accounts, the Chief Financial Officer has:

- Selected suitable accounting policies and applied them consistently;
- Made judgements and estimates that were reasonable and prudent;
- Complied with the Code of Practice;
- Kept proper accounting records which were up to date;
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

Chief Financial Officer's Certificate

I certify that this Statement of Accounts for the year ended 31 March 2021 gives a true and fair view of the financial position of the Police and Crime Commissioner for Dorset at the accounting date and of the income and expenditure for the year ended 31 March 2021.

Julie Strange CPFA
Chief Financial Officer to the Police and Crime Commissioner
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DORSET
POLICE & CRIME
COMMISSIONER

Financial Statements

Group Movement in Reserves Statement

This statement shows the movement from the start of the year to the end of the year for 2019/20 and 2020/21 on the different reserves held by the Police and Crime Commissioner Group, analysed into 'usable reserves' (i.e. those that can be used to fund expenditure or reduce local taxation) and other 'unusable reserves'. The Statement shows how the movements in year of the Group's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to council tax for the year. The net increase/(decrease) shows the statutory General Fund Balance movements in the year following those adjustments.

Current Year	**Notes**	General Fund Balance	Earmarked Reserves	Capital Receipts Reserve	Capital Grants Unapplied Account	**Total Usable Reserves**	Unusable Reserves	**Total Reserves**
		£'000	£'000	£'000	£'000	**£'000**	£'000	**£'000**
Balance at 31 March 2020		4,746	4,152	955	0	**9,853**	(1,428,013)	**(1,418,160)**
Movement in Reserves								
Total Comprehensive Income and Expenditure		(35,817)	0	0	0	**(35,817)**	(411,690)	**(447,507)**
Adjustments between accounting basis and funding basis under regulations	9	36,283	0	(199)	0	**36,084**	(36,084)	**0**
Transfers (to)/from Earmarked Reserves	10	487	(487)	0	0	**0**	0	**0**
(Increase)/Decrease		953	(487)	(199)	0	**267**	(447,774)	**(447,507)**
Balance at 31 March 2021		5,699	3,665	756	0	**10,120**	(1,875,787)	**(1,865,667)**

Restated Comparative Year*	**Notes**	General Fund Balance	Earmarked Reserves	Capital Receipts Reserve	Capital Grants Unapplied Account	**Total Usable Reserves**	Unusable Reserves	**Total Reserves**
		£'000	£'000	£'000	£'000	**£'000**	£'000	**£'000**
Balance at 31 March 2019		3,957	4,057	1,123	0	**9,137**	(1,532,971)	**(1,523,834)**
Movement in Reserves								
Total Comprehensive Income and Expenditure		(39,892)	0	0	0	**(39,892)**	145,566	**105,674**
Adjustments between accounting basis and funding basis under regulations	9	40,776	0	(168)	0	**40,608**	(40,608)	**0**
Transfers (to)/from Earmarked Reserves	10	(95)	95	0	0	**0**	0	**0**
(Increase)/Decrease		789	95	(168)	0	**716**	104,958	**105,674**
Balance at 31 March 2020		4,746	4,152	955	0	**9,853**	(1,428,013)	**(1,418,160)**

*The Movement in Reserves signage has changed to be consistent with that shown on the balance sheet.

PCC Movement in Reserves Statement

This statement shows the movement from the start of the year to the end of the year for 2019/20 and 2020/21 on the different reserves held by the Police and Crime Commissioner, analysed into other 'usable reserves' (i.e. those that can be used to fund expenditure or reduce local taxation) and 'unusable reserves'. The Statement shows how the movements in year of the Police and Crime Commissioner's reserves are broken down between gains and losses incurred in accordance with generally accepted accounting practices and the statutory adjustments required to return to the amounts chargeable to council tax for the year. The net increase/(decrease) shows the statutory General Fund Balance movements in the year following those adjustments.

Current Year	**Notes**	General Fund Balance	Earmarked Reserves	Capital Receipts Reserve	Capital Grants Unapplied Account	**Total Usable Reserves**	Unusable Reserves	**Total Reserves**
		£'000	£'000	£'000	£'000	**£'000**	£'000	**£'000**
Balance at 31 March 2020		4,746	4,152	955	0	**9,853**	(1,428,013)	**(1,418,160)**
Movement in Reserves								
Total Comprehensive Income and Expenditure		(447,305)	0	0	0	**(447,305)**	(202)	**(447,507)**
Adjustments between accounting basis and funding basis under regulations	9	447,771	0	(199)	0	**447,572**	(447,572)	**0**
Transfers (to)/from Earmarked Reserves	10	487	(487)	0	0	**0**	0	**0**
(Increase)/Decrease		953	(487)	(199)	0	**267**	(447,774)	**(447,507)**
Balance at 31 March 2021		5,699	3,665	756	0	**10,120**	(1,875,787)	**(1,865,667)**

Restated Comparative Year*	**Notes**	General Fund Balance	Earmarked Reserves	Capital Receipts Reserve	Capital Grants Unapplied Account	**Total Usable Reserves**	Unusable Reserves	**Total Reserves**
		£'000	£'000	£'000	£'000	**£'000**	£'000	**£'000**
Balance at 31 March 2019		3,957	4,057	1,123	0	**9,137**	(1,532,971)	**(1,523,834)**
Movement in Reserves								
Total Comprehensive Income and Expenditure		97,840	0	0	0	**97,840**	7,834	**105,674**
Adjustments between accounting basis and funding basis under regulations	9	(96,956)	0	(168)	0	**(97,124)**	97,124	**0**
Transfers (to)/from Earmarked Reserves	10	(95)	95	0	0	**0**	0	**0**
(Increase)/Decrease		789	95	(168)	0	**716**	104,958	**105,674**
Balance at 31 March 2020		4,746	4,152	955	0	**9,853**	(1,428,013)	**(1,418,160)**

*The Movement in Reserves signage has changed to be consistent with that shown on the balance sheet.

Group Comprehensive Income and Expenditure Statement

This statement shows the accounting cost in the years 2019/20 and 2020/21 of providing services for the Group in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Police and Crime Commissioners raise taxation (Precepts) to cover expenditure in accordance with statutory requirements; this may be different from the accounting cost. The taxation position is shown in both the Movement in Reserves Statement and the Expenditure and Funding Analysis Note.

2019/20				2020/21			
Gross Expenditure	**Gross Income**	**Net Expenditure**		**Gross Expenditure**	**Gross Income**	**Net Expenditure**	**Notes**
£'000	**£'000**	**£'000**		**£'000**	**£'000**	**£'000**	
190,741	(32,567)	158,174	Chief Constable*	209,978	(46,723)	163,255	
4,208	0	4,208	Office of the Police and Crime Commissioner	2,133	0	2,133	29
1,902	(890)	1,012	Commissioning	1,885	(949)	936	26
196,851	**(33,457)**	**163,394**	**Net Cost of Services**	**213,996**	**(47,672)**	**166,324**	
			Other Operating Income and Expenditure				
61	0	61	Net (Surplus)/Deficit from the Sale of Non-Current Assets	24	0	24	
0	0	0	(Gain)/Loss on Revaluation of Non-Current Assets	4,646	0	4,646	
0	(22,602)	(22,602)	Pensions Top Up Grant	0	(23,026)	(23,026)	25
			Financing and Investment Income and Expenditure				
9	0	9	Interest Payable	12	0	12	
0	(105)	(105)	Interest and Investment Income	0	(35)	(35)	
75	0	75	(Gain)/Loss on Financial Instruments	32	(7)	25	
41,652	(4,533)	37,119	Pensions Interest Cost ~~and Expected Return on Pension Assets~~	37,654	(3,484)	34,170	31
			Taxation and Non-Specific Grant Income				
0	(41,544)	(41,544)	Police Grant	0	(44,805)	(44,805)	25
0	(25,337)	(25,337)	Council Tax Support Grants	0	(26,488)	(26,488)	25
0	(66,842)	(66,842)	Council Tax Precept	0	(69,030)	(69,030)	26
0	(4,336)	(4,336)	Capital Grants and Contributions	0	(6,000)	(6,000)	25
238,648	**(198,756)**	**39,892**	**(Surplus)/Deficit on Provision of Services**	**256,364**	**(220,547)**	**35,817**	
		(7,668)	(Surplus)/Deficit on Revaluation of Non-Current Assets			(729)	11
		(137,898)	Remeasurement of the Net Defined Benefit Liability/(Asset)			412,419	31
		(145,566)	**Other Comprehensive Income and Expenditure**			**411,690**	
		(105,674)	**Total Comprehensive Income and Expenditure**			**447,507**	

* Included within the gross expenditure is an accounting adjustment of £2.148m representing the change to the PFI liability shown on the Group balance sheet. This adjustment does not affect the reported outturn position.

Julie Strange CPFA
Chief Financial Officer to the Police and Crime Commissioner
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PCC Comprehensive Income and Expenditure Statement

This statement shows the accounting cost in the years 2019/20 and 2020/21 of providing services for the Police and Crime Commissioner in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Police and Crime Commissioners raise taxation (Precepts) to cover expenditure in accordance with statutory requirements; this may be different from the accounting cost. The taxation position is shown in both the Movement in Reserves Statement and the Expenditure and Funding Analysis Note.

2019/20				2020/21			
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure	Notes
£'000	£'000	£'000		£'000	£'000	£'000	
190,741	(55,169)	135,572	Chief Constable - Intra-group transaction*	209,978	(69,749)	140,229	
4,208	0	4,208	Office of the Police and Crime Commissioner	2,133	0	2,133	29
1,902	(890)	1,012	Commissioning	1,885	(949)	936	26
196,851	**(56,059)**	**140,792**	**Net Cost of Services**	**213,996**	**(70,698)**	**143,298**	
			Other Operating Income and Expenditure				
61	0	61	Net (Surplus)/Deficit from the Sale of Non-Current Assets	24	0	24	
0	0	0	(Gain)/Loss on Revaluation of Non-Current Assets	4,646	0	4,646	
			Financing and Investment Income and Expenditure				
9	0	9	Interest Payable	12	0	12	
0	(105)	(105)	Interest and Investment Income	0	(35)	(35)	
75	0	75	(Gain)/Loss on Financial Instruments	32	(7)	25	
160	(96)	64	Pensions Interest Cost ~~and Expected Return on Pension Assets~~	129	(70)	59	31
41,492	(4,437)	37,055	Pensions interest cost - Intra-Group Transaction	37,525	(3,414)	34,111	31
			Taxation and Non-Specific Grant Income				
0	(41,544)	(41,544)	Police Grant	0	(44,805)	(44,805)	25
0	(25,337)	(25,337)	Council Tax Support Grants	0	(26,488)	(26,488)	25
0	(66,842)	(66,842)	Council Tax Precept	0	(69,030)	(69,030)	26
0	(4,336)	(4,336)	Capital Grants and Contributions	0	(6,000)	(6,000)	25
(137,732)	0	(137,732)	**Actuarial (Gains)/Losses on Pension Funds - Intra-Group Transaction**	411,488	0	411,488	
100,916	**(198,756)**	**(97,840)**	**(Surplus)/Deficit on Provision of Services**	**667,852**	**(220,547)**	**447,305**	
		(7,668)	(Surplus)/Deficit on Revaluation of Non-Current Assets			(729)	11
		(166)	Remeasurement of the Net Defined Benefit Liability (asset)			931	31
		(7,834)	**Other Comprehensive Income and Expenditure**			**202**	
		(105,674)	**Total Comprehensive Income and Expenditure**			**447,507**	

* Included within the gross expenditure is an accounting adjustment of £2.148m representing the change to the PFI liability shown on the Group balance sheet. This adjustment does not affect the reported outturn position.

Julie Strange CPFA
Chief Financial Officer to the Police and Crime Commissioner
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Group and PCC Balance Sheet

The Balance Sheet shows the value as at 31 March 2020 and 31 March 2021 of the assets and liabilities recognised by the Group and the Police and Crime Commissioner. The net assets of the Group/Police and Crime Commissioner (assets less liabilities) are matched by the reserves held by the Group/Police and Crime Commissioner.

As at 31 March 2020 PCC £'000	PCC Group £'000		As at 31 March 2021 PCC £'000	PCC Group £'000	Notes
		Long Term Assets			
54,950	54,950	Land & Buildings	52,733	52,733	11
0	191	Intangible Assets	0	51	12
473	473	Surplus Assets	149	149	11
0	10,218	Vehicle, Plant & Equipment	0	12,994	11
10,409	0	Long Term Debtor - Intra-Group Debtor	13,045	0	
65,832	**65,832**	**Total Long Term Assets**	**65,927**	**65,927**	
		Current Assets			
3,001	3,001	Short Term Investments	4,000	4,000	17
2,563	2,563	Assets Held for Sale	2,879	2,879	15
0	162	Inventories	0	451	
3,770	22,079	Short Term Debtors	1,367	21,418	13
18,471	0	Short Term Debtors - Intra-Group Debtor	20,502	0	
9,355	9,355	Cash and Cash Equivalents	13,127	13,127	14
37,160	**37,160**	**Total Current Assets**	**41,875**	**41,875**	
		Current Liabilities			
(5,500)	(5,500)	Short Term Borrowing	(16,000)	(16,000)	
(292)	(496)	Provisions	(432)	(589)	18
(1,089)	(23,997)	Short Term Creditors	(1,296)	(22,239)	16
(23,112)	0	Short Term Creditors - Intra-Group Creditor	(21,100)	0	
(29,993)	**(29,993)**	**Total Current Liabilities**	**(38,828)**	**(38,828)**	
		Long Term Liabilities			
(421)	(421)	Provisions	(585)	(585)	18
(27,012)	(27,012)	Borrowing*	(23,542)	(23,542)	32
(2,531)	(114,381)	Pensions Liability - Staff	(3,729)	(184,592)	31
0	(1,349,345)	Pensions Liability - Officers	0	(1,725,922)	31
(1,461,195)	0	Pension Liabilities - Intra-Group Creditor	(1,906,785)	0	
(1,491,159)	**(1,491,159)**	**Total Long Term Liabilities**	**(1,934,641)**	**(1,934,641)**	
(1,418,160)	**(1,418,160)**	**Net Liabilities**	**(1,865,667)**	**(1,865,667)**	
		Represented by			
(1,428,013)	(1,428,013)	Unusable Reserves	(1,875,787)	(1,875,787)	19
9,853	9,853	Usable Reserves	10,120	10,120	
(1,418,160)	**(1,418,160)**	**Total Reserves**	**(1,865,667)**	**(1,865,667)**	

*A review of the PFI liability identified that the liability was overstated by £2.148m as the proceeds from the sale of land transferred to the operator had not been deducted from the liability at the outset of the arrangement. The 2020/21 liability balance includes this adjustment.

Julie Strange CPFA
Chief Financial Officer to the Police and Crime Commissioner
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Group Cash Flow Statement

The Cash Flow Statement shows the changes in cash and cash equivalents of the Group and the Police and Crime Commissioner during the reporting period. As there is no distinction between the Group and the Police and Crime Commissioner, there is no separate Statement for the Police and Crime Commissioner. The statement shows how the Group generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities.

The amount of net cash flows arising from operating activities is a key indicator of the way the Group has managed its cash outflows against the monies received by way of taxation, grant income and from the recipients of services provided by the Group. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Group's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Group.

2019/20 £'000		2020/21 £'000	Notes
39,892	**Net (Surplus) or Deficit on the Provision of Services**	**35,817**	
	Adjustments to net Surplus or Deficit on the Provision of Services for non-cash movements		
(40,860)	(Increase)/Decrease in pensions liability	(34,370)	
(4,912)	Depreciation and amortisation	(3,182)	
(164)	(Increase)/Decrease in provisions	(257)	
0	Surplus/(Loss) on sales of non-current assets	(24)	
580	Carrying amount of non current assets and non current assets held for sale, sold or derecognised	0	
0	Surplus/(Loss) on revaluation of non-current assets	(4,646)	
3,247	Movement in relevant assets/liabilities	2,138	
(2,217)	**Net Cash (Inflows)/Outflows from Operating Activities**	**(4,524)**	20
296	**Investing Activities**	7,781	21
(5,382)	**Financing Activities**	(7,029)	22
(7,303)	**Net (Increase)/Decrease in Cash and Cash Equivalents**	**(3,772)**	
(2,052)	**Cash and Cash Equivalents at the beginning of the reporting period**	**(9,355)**	
(9,355)	**Cash and Cash Equivalents at the end of the reporting period**	**(13,127)**	14

Notes to the Financial Statements

Note 1 Accounting Policies

1. GENERAL PRINCIPLES

The statement of accounts summarises the Groups transactions for the 2020/21 financial year and its position at the year-end of 31 March 2021. The Group is required to prepare an annual statement of accounts by the Accounts and Audit Regulations 2015, which those Regulations require to be prepared in accordance with proper accounting practices. These practices under Sections 21 of the 2003 Act primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under Section 12 of the 2003 Act.

The accounting convention adopted in the statement of accounts is principally historical cost modified by the revaluation for certain categories of non-current assets and financial instruments. The financial statements have been prepared with due regard to the pervasive accounting concepts of accruals, going concern and primacy of legislative requirements.

2. 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 contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.
- 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 in financing and investment income and expenditure for the income that might not be collected.

3. ACCOUNTING POLICY DEVELOPMENTS AND CHANGES

Changes in accounting policies are only made when required by proper accounting practices or if the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the 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.

4. PRIOR PERIOD ADJUSTMENTS, 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 and do not give rise to a prior period adjustment.

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

Note 1 Accounting Policies Continued

5. EVENTS AFTER THE REPORTING PERIOD

Events after the reporting period 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. 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 of the audited accounts are not reflected in the statement of accounts.

6. CONTINGENT LIABILITIES

A contingent liability arises where an event has taken place that gives the Group a possible obligation whose existence can only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Group.

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 not recognised in the balance sheet but disclosed in a note to the accounts.

~~7. CONTINGENT ASSETS~~

~~A contingent asset arises where an event has taken place that gives the Group a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Group.~~

~~Contingent assets are not recognised in the balance sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.~~

7. COUNCIL TAX

The council tax income included in the comprehensive income and expenditure statement (CIES) is the Group's share of accrued income for the year. However, regulations determine the amount of council tax that must be included in the Group's general fund. Therefore, the difference between the income included in the CIES and the amount required by regulation to be credited to the general fund is taken to the collection fund adjustment account and included as a reconciling item in the movement in reserves statement.

The Group recognises its share of the council tax debtor and creditor balances and impairment allowances in its balance sheet. The Group also recognises:

- a creditor in its balance sheet for cash received from the billing authority in advance of the Police and Crime Commissioner receiving the cash from council tax debtors or;

- a debtor in its balance sheet for its attributable share of net cash collected from council tax debtors by the billing authority but not paid over to it at the balance sheet date.

8. REVENUE EXPENDITURE FUNDED FROM CAPITAL UNDER STATUE

Local Authority accounting regulations allow some items of expenditure, which do not result in the creation of a non-current asset for the PCC Group, to be funded as capital expenditure. Such expenditure is charged to the relevant service in the CIES in the year. Where the Group has determined to meet the cost of this expenditure from capital resources, a matching transfer is made in the movement in reserves statement from the capital adjustment account to the general fund balance so that there is no impact in the level of council tax.

Note 1 Accounting Policies Continued

9. FOREIGN CURRENCY TRANSLATION

Where the Group has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in foreign currency are outstanding at the year-end, they are reconverted at the spot exchange rate at 31 March. Resulting gains or losses are recognised in the financing and investment income and expenditure line in the comprehensive income and expenditure statement.

10. GOVERNMENT GRANTS AND CONTRIBUTIONS

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

- the Group will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the Group are not credited to the CIES 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 CIES.

Where capital grants are credited to the CIES, they are reversed out of the general fund balance in the movement of reserves statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the capital grants unapplied reserve. Amounts in the capital grants unapplied reserve are transferred to the capital adjustment account once they have been applied to fund capital expenditure.

11. FINANCIAL INSTRUMENTS

11.1 Financial Liabilities

Financial liabilities are recognised on the balance sheet when the Group becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the financing and investment income and expenditure line in the CIES for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For the borrowings that the Group has, this means that the amount presented in the balance sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the CIES is the amount payable for the year according to the loan agreement.

11.2 Financial Assets

Financial assets are classified based on a classification and measurement approach that reflects the business model for holding the financial assets and their cashflow characteristics. The Group holds financial assets measured at:

- amortised cost, and
- fair value through profit or loss (FVPL), and
- fair value through other comprehensive income (FVOCI)

The Group's business model is to hold investments to collect contractual cash flows. Financial assets are therefore classified as amortised cost, except for those whose contractual payments are not solely payment of principal and interest (i.e. where the cash flows do not take the form of a basic debt instrument).

Note 1 Accounting Policies Continued

11.3 Financial Assets Measured at Amortised Cost

Financial assets measured at amortised cost are recognised on the balance sheet when the Group becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the financing and investment income and expenditure line in the CIES for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the financial assets held by the Group, this means that the amount presented in the balance sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable in the year.

Any gains and losses that arise on the derecognition of a financial asset are credited or debited to the financing and investment income and expenditure line in the CIES.

11.4 Expected Credit Loss Model

The Group recognises expected credit losses on all of its financial assets held at amortised cost (or where relevant FVOCI), either on a 12-month or lifetime basis. The expected credit loss model also applies to lease receivables and contract assets, however where appropriate the simplified approach model is used to recognise expected credit losses for lease receivables and contract assets. Only lifetime losses are recognised for trade receivables (debtors) held by the Group.

Impairment losses are calculated to reflect the expectation that the future cash flows might not take place because the borrower could default on their obligations. Credit risk plays a crucial part in assessing losses. Where risk has increased significantly since an instrument was initially recognised, losses are assessed on a lifetime basis. Where risk has not increased significantly or remains low, losses are assessed on the basis of 12-month expected losses.

11.5 Financial Assets Measured at Fair Value through Other Comprehensive Income

Financial assets that are measured at FVOCI are recognised on the balance sheet when the Group becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arise in other comprehensive income.

11.6 Financial Assets Measured at Fair Value through Profit or Loss

Financial assets that are measured at FVPL are recognised on the balance sheet when the Group becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Fair value gains and losses are recognised as they arrive in the surplus or deficit on the provision of services.

11.7 Fair Value Measurements of Financial Assets

Fair value of an asset is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The fair value measurements of the financial assets are provided by the Group Treasury advisors.

The inputs to the measurement techniques are categorised in accordance with the following three levels:

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

Any gains and losses that arise on the derecognition of the asset are credited or debited to the financing and investment income and expenditure line in the CIES.

12. CASH AND CASH EQUIVALENTS

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are highly liquid investments that are held no more than three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value. In the cash flow statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Group's cash management.

Note 1 Accounting Policies Continued

13. 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 building 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.

13.1 The Group as Lessee

13.1.1 Finance Leases

Property, plant and equipment held under finance leases are 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 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 CIES.

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.

The 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 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.

13.1.2 Operating Leases

Rentals paid under operating leases are charged to the CIES 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 payment (e.g. there is a rent-free period at the commencement of the lease).

13.2 The Group as Lessor

13.2.1 Operating Leases

Where the 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 CIES. Credits are made on a straight line basis over the life of the lease, even if this does not match the pattern of payments (eg there is a premium paid at the commencement of the lease).

14. JOINT OPERATIONS

The Group participates in a number of partnership activities. These arrangements involve the Group carrying out activities relevant to their own functions jointly with others. The Group accounts for only its share of the jointly controlled assets; and for the liabilities, expenses and income that the Group incurs with respect to their interest in the partnerships.

Note 1 Accounting Policies Continued

15. OVERHEADS AND SUPPORT SERVICES

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

16. EMPLOYEE BENEFITS

16.1 Benefits Payable during Employment

Short term employee benefits are those due to be settled wholly within 12 months of the year end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Group. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year end that employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to the surplus or deficit on the provision of services, but then reversed out through the Movement in Reserves Statement to the accumulated absences account so that holiday entitlements are charged to revenue in the financial year in which the holiday absence occurs.

16.2 Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Police and Crime Commissioner or Chief Constable to terminate an employee's employment before the normal retirement date. The amount is charged on an accruals basis to the CIES when the Police and Crime Commissioner or Chief Constable is demonstrably committed to the termination of the employment of an employee. Where termination benefits involve the enhancement of pensions, statutory provisions require the general fund balance to be charged with the amount payable by the Group to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards (this only applies to compulsory redundancies).

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.

16.3 Post-Employment Benefits

Employees of the Police and Crime Commissioner are members of the Local Government Pensions Scheme (CARE).

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

- The Police Officer 1987 Scheme (PPS)
- The Police Officer 2006 Scheme (NPPS)
- The Police Officer 2015 Scheme (CARE)
- The Local Government Pensions Scheme (CARE)

All schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Group.

16.3.1 Police Officers' Pension Schemes

All Police Officers' Pension Schemes are accounted for as defined benefits schemes.

The liabilities of the Police Officers' Pension Schemes are included in the balance sheet on an actuarial basis using the projected unit method, i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates etc., and projected earnings for current employees.

An estimate of the employer's future cashflows is made using notional cashflows based on the estimated duration of all Police Schemes. These estimated cashflows are then used to derive a Single Equivalent Discount Rate (SEDR). The discount rate derived is such that the net present value of the notional cashflows, discounted at this single rate, equates to the net present value of the cashflows, discounted using the annualised Merrill Lynch AA rated corporate

bond yield curve (where the spot curve is assumed to be flat beyond the 30 year point).

16.3.2 The Local Government Pension Scheme

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

An estimate of the Employer's future cashflows is made using notional cashflows based on the estimated duration of the past service liability. These estimated cashflows are then used to derive a Single Equivalent Discount Rate (SEDR). The discount rate derived is such that the net present value of the notional cashflows, discounted at this single rate, equates to the net present value of the cashflows, discounted using the annualised Merrill Lynch AA rated corporate bond yield curve (where the spot curve is assumed to be flat beyond the 30 year point).

The assets of the Dorset County pension fund attributable to the 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 securities - current bid price
- property - market value

16.3.3 Net Pensions Liability Analysed

The change in the net pension's liability for the Pension Schemes is analysed into the following components:

Service cost comprising:

- current service cost - the increase in liabilities as a result of years of service earned this year – allocated in the CIES to the services for which the employees worked.

- past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years - debited to the surplus or deficit on the provision of services in the CIES.

- net interest on the net defined benefit liability (asset), i.e. net interest expense for the Group - the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the financing and investment income and expenditure line of the CIES. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period and taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

Remeasurements comprising:

The return on plan assets excludes the amounts included in net interest on the net defined benefit liability (asset) which is charged to the pensions reserve as other comprehensive income and expenditure. This is only applicable to the Local Government Pension Scheme.

Actuarial gains and losses are changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions. These changes are charged to the pensions reserve as other comprehensive income and expenditure.

Benefits paid (only applicable to the Police Officer Pension Schemes):

- cash paid to pensioners including injury pension payments.

Contributions paid (only applicable to the Local Government Pension Scheme):

- cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

16.3.4 Police Officers' Injury Benefits

The Group makes payment under the Police Injury Benefits Regulations. These payments are accounted for in the same way as payments under the main police officers' pension schemes. The figures are included within the unfunded pension calculation as the injury benefits may be financially significant with volatile actuarial gains and losses. These have been estimated by the independent actuary.

16.3.5 Impact on Reserves

For all of the Pension Schemes, statutory provisions require the general fund balance to be charged with the amount payable by the Group to the pension fund in the year, not the amount calculated according to the relevant accounting standards. In the movement of reserves statement, this means that there are transfers to and from the pensions reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end. The negative balance that arises on the pensions reserve thereby measures the beneficial impact to the general fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

16.4 Discretionary Benefits

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

17. PROVISIONS

Provisions are made where an event has taken place that gives the 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.

Provisions are charged as an expense to the appropriate service line in the CIES when the Group has an obligation and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation taking into account the 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 (or reduced) and credited back to the CIES.

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 the income for the relevant service if it is virtually certain that the reimbursement will be received if the Group settles the obligation.

Provision is made for termination payments due to staff resulting from restructuring when the Group has raised a valid expectation to the staff affected that it will carry out restructuring by starting to implement a particular restructuring plan or announcing its main features to those affected by it. Each element of any Force restructuring plan will be treated separately and provision made of the estimated termination payments as and when each element of the plan is announced.

18. RESERVES

The Group sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by transferring amounts out of the general fund balance. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to score against the surplus or deficit on the provision of services in the CIES. The reserve is then transferred back to the general fund balance so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, local taxation, retirements and employee benefits and do not represent usable resources for the Group – these reserves are explained in the relevant policies.

Note 1 Accounting Policies Continued

19. PROPERTY, PLANT AND EQUIPMENT

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

19.1 Recognition

Expenditure on the acquisition, creation or enhancement of property, plant and equipment is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Group for more than one year 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 as it is incurred.

19.2 Measurement

Assets are initially measured at cost, comprising:

- the purchase price
- 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 Group does not capitalise borrowing costs incurred whilst the assets are under construction.

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 and expenditure line of the CIES, 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 CIES, 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:

• operational specialised property	-	depreciated replacement cost (DRC)
• operational non-specialised property assets	-	existing use value
• non-property assets	-	depreciated historical cost
• surplus assets	-	fair value, estimated at highest and best use from a market participant's perspective

Property assets included in the balance sheet at current value are revalued sufficiently regularly to ensure that their carrying amount is not materially different from their current value at the year end but as a minimum every three years. Increases in valuations are matched by credits to the revaluation reserve to recognise unrealised gains.

(Exceptionally, gains might be credited to the surplus or deficit on the provision of services where they arise from the reversal of a loss previously charged to a service.)

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 CIES.

19.3 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 in the CIES.

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

19.4 Depreciation

Depreciation is provided for 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:

- Vehicles – are depreciated monthly over the forecast useful life of the vehicle and the depreciation in the first year will reflect the number of months that the vehicle has been registered.

- Land and Buildings – the useful life of each building is assessed by the value and depreciated individually from the first of the month of acquisition; the land value is not depreciated. Where an asset comprises two or more major components with substantially different useful lives, each component is accounted for separately.

- Enhancements/Adaptions to leasehold buildings – are depreciated monthly over the life of the lease.

- Information and Communications Technology – depreciation is charged monthly from the first of the month of acquisition starting in the year of acquisition. The asset life of individual groups of assets has been assessed and each group is depreciated individually according to asset life.

- Plant and Equipment – These assets are given specific asset lives and are depreciated monthly.

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.

19.5 Disposals

When an asset is disposed of or decommissioned, the carrying amount of the asset in the balance sheet is written off to the CIES as part of the gain or loss on disposal. Receipts from disposals are credited to the same line in the CIES 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 £10k are categorised as capital receipts. Receipts are credited to the usable capital receipts reserve. Receipts are appropriated to the reserve from the general fund balance in the movement in reserves statement.

The written off value of disposals is not charged against council tax as the cost of non-current 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.

19.6 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 when reclassified 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 CIES. Gains in fair value are recognised only up to the amount of any previous losses recognised in the surplus or deficit on the 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 assets held for sale and their recoverable amount at the date of the decision not to sell.

19.7 Surplus Assets

Non-current assets which are surplus to service needs, but which do not meet the criteria required to be classified as investment property, or assets held for sale are classified as surplus assets within property, plant and equipment. Surplus assets can be categorised as either non-current assets or current assets, depending on their nature. These assets are depreciated.

20. INTANGIBLE ASSETS

Expenditure on non-monetary assets that do not have physical substance but are controlled by the 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 Group.

20.1 Measurement

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Group can be determined by reference to an active market. No intangible asset held by the Group meets this criterion, and they are therefore carried at amortised cost.

20.2 Amortisation

The depreciable amount of an intangible asset is amortised over its useful life and charged to the CIES.

20.3 Impairment

Where there is an indication that the asset might be impaired – any losses recognised are posted to the CIES. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to other operating expenditure in the CIES.

21. VAT

VAT payable is included as an expense only to the extent that it is not recoverable from HMRC. VAT receivable is excluded from income.

22. INVENTORIES

Inventories are included in the balance sheet at the lower of cost and net realisable value. The cost of inventories is assigned using an average cost formula.

23. LONG TERM CONTRACTS

Long term contracts are accounted for on the basis of charging the surplus or deficit on the provision of services with the consideration allocated to the performance obligations satisfied based on the goods or services transferred to the service recipient during the financial year.

Note 1 Accounting Policies Continued

24. EXCEPTIONAL ITEMS

When items of expenditure are outside the normal type of expenditure incurred by the Group they will be disclosed separately on the face of the CIES if they are material and a separate disclosure would be made to aid the understanding of the Group's financial performance.

25. CHARGES TO REVENUE NON-CURRENT ASSETS

The CIES is debited with the following amounts to record the real 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.

The Group is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisation. However, it is required to make an annual contribution from revenue to contribute towards the reduction in its overall borrowing requirement (equal to an amount calculated on a prudent basis determined by the Group in accordance with statutory guidance). Depreciation, revaluation and impairment losses and amortisation are therefore replaced by the 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.

26. PRIVATE FINANCE INITIATIVES (PFI)

PFI are agreements to receive services, where the responsibility for making available the property, plant and equipment needed to provide the services passes to the PFI contractor. As the Group is deemed to control the services that are provided under its PFI schemes, and as ownership of the property, plant and equipment will pass to the Group at the end of the contracts for no additional charge, the Group carries the assets used under the contracts on its balance sheet as part of property, plant and equipment.

The original recognition of these assets at fair value was balanced by the recognition of a liability for amounts due to the scheme operator to pay for the capital investment.

Non-current assets recognised on the balance sheet are revalued and depreciated in the same way as property, plant and equipment owned by the Group.

The amounts payable to the PFI operators each year are analysed into five elements:

- fair value of the services received during the year – debited to the relevant service in the CIES.
- finance cost – the interest cost on the outstanding balance sheet liability, debited to the financing and investment income and expenditure line in the CIES.
- contingent rent – increases in the amount to be paid for the property arising during the contract, debited to the financing and investment income and expenditure line in the CIES.
- payment towards liability – applied to write down the balance sheet liability towards the PFI operator.
- lifecycle replacement costs – proportion of the amounts payable is posted to the balance sheet as a prepayment and then recognised as additions to property, plant and equipment when the relevant works are eventually carried out.

27. DONATED INVENTORIES

Where inventories are acquired through a non-exchange transaction, their cost is deemed to be their fair value as at the date of acquisition. In the event that the inventories are not distributed, they are recognised in the donated inventories account. When inventories are distributed, the carrying amount of those inventories are recognised as an expense in the period when distribution occurred.

Note 2 Accounting Standards Issued, Not Adopted

Appendix C of the CIPFA code requires Local Authorities to disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted by the Code for the relevant financial year. Standards that fall into this category are:

- Interest Rate Benchmark Reform: Amendments to IFRS 9, IAS 39 and IFRS 7.
- Interest Rate Benchmark Reform – Phase 2: Amendments to IFRS 9, IAS 39 and IFRS 7, IFRS 4 and IFRS 16.

All of these standards will be incorporated in the Code from 2021/22. However, none have material impact for the Group and none warrant disclosure in these accounts.

IFRS 16 Leases is an accounting standard that was due to be implemented on the 1 April 2020. However, it has been delayed nationally to 1 April 2022 in response to pressures on council finance teams as a result of the Covid-19 pandemic. The new IFRS introduces a single lessee accounting model that results in a more faithful representation of a lessee's assets and liabilities and, together with enhanced disclosures, will provide greater transparency of a lessee's financial leverage and capital employed. Work is in progress to assess the impact of this standard in readiness for the 2022/23 Statement of Accounts.

Note 3 Critical Judgements in Applying Accounting Policies

In applying the accounting policies set out in Note 1, the Police and Crime Commissioner has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements in the Statement of Accounts are:

- The PCC Group has had to make judgements about the allocation of expenditure between the Police and Crime Commissioner and the Chief Constable. The basis adopted was arrived at after considering the CIPFA Service Reporting Code of Practice and the Police Reform and Social Responsibility Act.

- As required, a provision has been established in the Police and Crime Commissioner's Balance Sheet to reflect the continuing requirement on an elected policing body, as required under the Police Reform and Social responsibility Act 2011, to provide funds to the Chief Constable from the Police Fund for the payment of pensions, other employee benefits and creditors. It is reasonable to expect that should the PCC Group be required to settle future liabilities, then settlement would result in an outflow of resources from the Police and Crime Commissioner.

- Estimation of the pension element of the provision (set out above) is on the basis of apportionment of the total actuarially assessed liability for future pensions benefits for the Group between the two corporate bodies on the basis of current cash flows.

- The contingent liability note describes liabilities with regard to potential claims against the Police and Crime Commissioner Group. Judgement has been applied in determining that for each of these actual or potential claims, either the outflow of resources is not probable or the obligation cannot be estimated with sufficient reliability. For this reason the appropriate accounting treatment is judged to be disclosure of a contingent liability rather than the making of a provision.

- There is a high degree of uncertainty about future levels of funding for the Police. The Police and Crime Commissioner has made a judgement on the level of general balances which is reviewed on an annual basis as part of the Medium Term Financial Strategy process.

- Judgements are made by professional advisors in valuing assets, pensions and financial instruments. Management have accepted these judgements.

- A judgement has been made to include the impact of the McCloud/Sargeant ruling. Whilst the regulations underpinning the Local Government Pension Scheme (LGPS) and police pension schemes have not yet been amended, a change to the remedy is not anticipated.

Note 4 The Police and Crime Commissioner as an Accounting Entity

The Police and Crime Commissioner is part of an accounting group along with the Chief Constable (referred to as the PCC Group). The accounting recognition of the Group's assets, liabilities and reserves reflects the powers and responsibilities of the Police and Crime Commissioner and the Chief Constable as designated by the Police Reform and Social Responsibility Act 2011 and the Revised Home Office Financial Management Code of Practice for the Police Service, England and Wales 2018. This accounting treatment is also underpinned by the relationships as defined by local regulations, local agreement and practice.

The Police and Crime Commissioner receives all government funding and income and the Chief Constable does not hold any cash or reserves. When the Police and Crime Commissioner's resources are consumed at the request of the Chief Constable all payments are made by the Police and Crime Commissioner from the Police Fund and no cash movements occur between the two bodies.

For accounting and regulatory purposes the Police and Crime Commissioner and the Chief Constable are classed as Local Authorities and are covered by the CIPFA Code of Practice for Local Authority Accounting 2020/21.

The financial consequences of the activity under the control of the Chief Constable are shown in the Chief Constable's single entity accounts which are published separately. As the Chief Constable does not hold reserves, the Chief Constable's Comprehensive Income and Expenditure Statement shows the gross cost of policing which is offset by intra-group adjustments to reflect the payments and accruals made by the Police and Crime Commissioner at the request of the Chief Constable. The result of these adjustments, is that the Chief Constable has a nil balance on his General Fund. The intra-group adjustments are mirrored in the Police and Crime Commissioner's Accounts. The intra-group transactions are summarised in the table below.

All of the assets and liabilities and reserves of the PCC Group with the following exceptions are recognised on the Police and Crime Commissioner's Balance Sheet. The exceptions are:

- Employment liabilities for officers and staff under the direction of the Chief Constable are recognised on the Chief Constable's Balance Sheet. The liability in the Chief Constable's Balance Sheet for these items is offset by a long term debtor reflecting the Police and Crime Commissioner's responsibility to provide funds from the Police Fund each year to enable the Chief Constable to administer the police pensions.

- Certain categories of operational non-current and current assets are shown on the Chief Constable's Balance Sheet. These assets are offset in the Balance Sheet by a long term and short term creditor respectively.

- Certain categories of current liabilities are shown on the Chief Constable's Balance Sheet. These liabilities are offset in the Balance Sheet by a debtor.

Note 4 The Police and Crime Commissioner as an Accounting Entity Continued

When the Balance Sheets for the two corporate bodies are consolidated into the Group Balance Sheet these intra-group transactions are eliminated.

Intra-Group Transactions	2019/20		2020/21	
Comprehensive Income and Expenditure Statements	**Chief Constable £'000**	**Police and Crime Commissioner £'000**	**Chief Constable £'000**	**Police and Crime Commissioner £'000**
Net Cost of Policing	(135,572)	135,572	(140,229)	140,229
Pensions Interest Cost and Pensions Top Up Grant	(37,055)	37,055	(34,111)	34,111
Actuarial gains/(losses) on pensions funds	137,732	(137,732)	(411,488)	411,488
Balance Sheet	**Chief Constable £'000**	**Police and Crime Commissioner £'000**	**Chief Constable £'000**	**Police and Crime Commissioner £'000**
Non-Current Assets/Liabilities				
Pensions Long Term Intra-Group Debtor	1,461,195	0	1,906,785	0
Pensions Long Term Liabilities	(1,461,195)	0	(1,906,785)	0
Pensions Long Term Intra-Group Creditor	0	(1,461,195)	0	(1,906,785)
ICT and Equipment Assets	10,409	0	13,045	0
ICT and Equipment Intra-Group Creditor	(10,409)	0	(13,045)	0
ICT and Equipment Intra-Group Debtor	0	10,409	0	13,045
Current Assets/Liabilities				
Current Liabilities	(23,112)	0	(21,100)	0
Intra-Group Debtor	23,112	0	21,100	0
Intra- Group Creditor	0	(23,112)	0	(21,100)
Current Assets	18,471	0	20,502	0
Intra-Group Creditor	(18,471)	0	(20,502)	0
Intra-Group Debtor	0	18,471	0	20,502
Unusable Reserves				
Intra-Group Transactions	0	(1,455,427)	0	(1,894,338)

Note 5 Events after the Reporting Period

The Statement of Accounts were authorised for issue on 21 July 2021. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2021, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

Note 6 Assumptions Made about the Future and Other Major Sources of Estimation and Uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Police and Crime Commissioner Group about the future or that are otherwise uncertain. Estimates are made by taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. The items in the Group Balance Sheet at 31 March 2021 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Note 6 Assumptions Made about the Future and Other Major Sources of Estimation and Uncertainty Continued

6.1 Property, Plant and Equipment

Valuation Uncertainty

Covid-19 and the measures taken to tackle the pandemic continue to affect economies. The valuers report comments on the unprecedented set of circumstances caused by Covid-19 and an absence of relevant/sufficient market evidence on which to base their judgements. Consequently, the valuations of the assets have been reported as being subject to "material valuation uncertainty" as at 31 March 2021. This uncertainty is entirely due to the circumstances and disclosure of it ensures transparency and provides an insight as to the market context under which the valuation opinion was prepared.

6.2 Pensions Liability

Uncertainties

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. Pension fund assets (relevant in the case of the Local Government Pension Scheme) are measured at fair value which requires reference to the market conditions held at the measurement date. As a result of the Covid-19 pandemic, the market has been subject to volatility during 2020/21, however markets have continued trading and information was available to measure the fund assets at the measurement date. A firm of consulting actuaries is engaged to provide expert advice about the assumptions to be applied.

Valuation Assumption

A remedy process to resolve the age discrimination of the pension changes resulting from the reform of public service pension schemes has been published by HM Treasury. The Treasury has confirmed that: legacy schemes would be closed from 31 March 2022; a remedy would be introduced for the period 2015-2022 based on a deferred choice underpin basis; and eligibility criteria for members to access the remedy. The estimated impact of McCloud/Sargeant has been factored into the IAS19 pension valuations estimates since 2018/19. These estimates have evolved as assumptions underpinning them have evolved. The resulting outcome from the HM Treasury consultation is not expected to have a significant impact on the IAS19 estimation approach.

Effect if Actual Results Differ from Assumptions

The effects on the net pension's liability of changes in individual assumptions are shown in the Defined Benefit Pension Schemes Note.

Note 7 Expenditure and Funding Analysis

The expenditure and funding analysis shows how annual expenditure is used and funded from resources (government grants and council tax) by the Police and Crime Commissioner Group in comparison with those resources consumed or earned by the Police and Crime Commissioner Group in accordance with accounting practices. It also shows how this expenditure is allocated for decision making purposes. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

2020/21

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	**Outturn**	**Adjustments**	**Net Expenditure in the CIES**	**Adjustments between the Funding and Accounting Basis**				
				Adjustments for Capital Purposes (Note 7.1)	**Net Change for Pensions Adjustments (Note 7.2)**	**Other Differences (Note 7.3)**	**Intra-Group Funding**	**Total Adjustments**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Chief Constable	139,350	23,905	163,255	(5,703)	23,014	6,594	(23,905)	0
Office for Police and Crime Commissioner	1,253	880	2,133	828	201	(149)	23,905	24,785
Commissioning	1,004	(68)	936	0	10	(78)	0	(68)
Net Cost of Services	**141,607**	**24,717**	**166,324**	**(4,875)**	**23,225**	**6,367**	**0**	**24,717**
Other Operating Income and Expenditure	0	(18,356)	(18,356)	4,670	(23,026)	0	0	(18,356)
Financing and Investment Income and Expenditure	8	34,164	34,172	0	34,171	(7)	0	34,164
Taxation and Non-Specific Grant Income	(141,615)	(4,708)	(146,323)	(6,000)	0	1,292	0	(4,708)
Difference between General Fund Surplus or Deficit and CIES Surplus or Deficit on the Provision of Services	**0**	**35,817**	**35,817**	**(6,205)**	**34,370**	**7,652**	**0**	**35,817**

Opening Revenue Reserve Balance as at 31 March 2020	**4,746**
Less/Plus Surplus or (Deficit) on the General Fund in Year	953
Transfer (to)/from Other Reserves	0
Closing Revenue Reserve Balance as at 31 March 2021	**5,699**

Note 7 Expenditure and Funding Analysis Continued

2019/20

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Outturn	Adjustments	Net Expenditure in the CIES	Adjustments between the Funding and Accounting Basis				
				Adjustments for Capital Purposes (Note 7.1)	Net Change for Pensions Adjustments (Note 7.2)	Other Differences (Note 7.3)	Intra-Group Funding	Total Adjustments
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Chief Constable	132,414	25,760	158,174	1,078	26,070	(1,388)	(25,760)	0
Office for Police and Crime Commissioner	1,234	2,974	4,208	2,702	268	4	25,760	28,734
Commissioning	1,042	(30)	1,012	0	7	(37)	0	(30)
Net Cost of Services	**134,690**	**28,704**	**163,394**	**3,780**	**26,345**	**(1,421)**	**0**	**28,704**
Other Operating Income and Expenditure	0	(22,540)	(22,540)	62	(22,602)	0	0	(22,540)
Financing and Investment Income and Expenditure	(22)	37,120	37,098	0	37,120	0	0	37,120
Taxation and Non-Specific Grant Income	(134,668)	(3,392)	(138,060)	(4,336)	0	944	0	(3,392)
Difference between General Fund Surplus or Deficit and CIES Surplus or Deficit on the Provision of Services	**0**	**39,892**	**39,892**	**(494)**	**40,863**	**(477)**	**0**	**39,892**
Opening Revenue Reserve Balance as at 31 March 2019	**3,957**							
Less/Plus Surplus or (Deficit) on the General Fund in Year	789							
Transfer (to)/from Other Reserves	0							
Closing Revenue Reserve Balance as at 31 March 2020	**4,746**							

Note 7 Expenditure and Funding Analysis Continued

7.1 Adjustment for Capital Purposes

This column deducts the depreciation, amortisation, minimum revenue provision, finance lease, revenue contributions, and impairment and revaluation gains and losses in the services line, and for:

- **Other operating expenditure** - adjusts for capital disposals with a transfer of income on disposals of assets and the amounts written off for those assets.

- **Taxation and non-specific grant income and expenditure** – capital grants are adjusted for income not chargeable under generally accepted accounting practices. Revenue grants are adjusted from those receivable in the year to those receivable without conditions or for which conditions were satisfied throughout the year. The taxation and non-specific grant income and expenditure line is credited with capital grants receivable in the year without conditions or for which conditions were satisfied in the year.

7.2 Net Change for the Pensions Adjustments

Net change for the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income:

- **For services** – this represents the removal of the employer pension contributions made by the Group as allowed by statute and the replacement with current service costs and past service costs.

- **For financing and investment income and expenditure** – the net interest on the defined benefit liability is charged to the CIES.

7.3 Other Differences

Other differences between amounts debited/credited to the CIES and the amounts payable/receivable to be recognised under statute:

- **For financing and investment income and expenditure** the other difference column recognises adjustments to the General Fund that do not fall into one of the above categories, such as gains/losses on financial instruments.

- The charge under **taxation and non-specific grant income and expenditure** represents the difference between what is chargeable under statutory regulations for council tax that was projected to be received at the start of the year and the income recognised under generally accepted accounting policies in the code. This is a timing difference as any difference will be brought forward in future surpluses or deficits on the collection fund.

7.4 Chief Constable Outturn

The Chief Constable reported outturn is the sum of the amount disclosed against the Chief Constable line and the amount shown against the financing and investment income and expenditure line. In the Statement of Accounts, the financing and investment income and expenditure line is under the control of the PCC and is excluded from the Chief Constable's CIES and Expenditure and Funding Analysis Statement but shown in the equivalent PCC statements.

Note 8 Expenditure and Income Analysed by Nature

The Group's expenditure and income is analysed as follows:

2019/20 £'000	Expenditure/Income	2020/21 £'000
	Expenditure	
140,934	Employee benefit expenses	149,751
51,006	Other service expense	61,066
4,911	Depreciation, amortisation, impairment	3,179
9	Interest payments	12
75	Loss on financial instruments	32
61	Loss on the disposal of assets and revaluation	4,670
41,652	Pensions Interest cost and Expected return on assets	37,654
238,648	**Total Expenditure**	**256,364**
	Income	
(11,656)	Fees charges and other service income	(16,054)
0	Gain on financial instruments	(7)
(4,638)	Pension interest and investment income	(3,519)
(66,842)	Income from council tax	(69,030)
(115,620)	Government grants and contributions	(131,937)
(198,756)	**Total Income**	**(220,547)**
39,892	**Deficit on the Provision of Services**	**35,817**

Note 9 Adjustments between Accounting Basis and Funding Basis under Regulations

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the Police and Crime Commissioner Group in the year in accordance with proper accounting practice to arrive at the resources that are specified by statutory provisions as being available to the Police and Crime Commissioner Group to meet future capital and revenue expenditure. The following sets out a description of the reserves that the adjustments are made against.

9.1 General Fund Balance

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

9.2 Capital Receipts Reserve

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

9.3 Capital Grants Unapplied

The Capital Grants Unapplied Account (Reserve) holds the grants and contributions received towards capital projects for which the group has met the conditions that would otherwise require repayment of the monies but which have yet to be applied to meet expenditure. The balance is restricted by grant terms as to the capital expenditure against which it can be applied and/or the financial year in which this can take place.

Note 9 Adjustments between Accounting Basis and Funding Basis under Regulations continued

Current Year	2020/21			
	Usable Reserves			Unusable Reserves
Adjustments to Revenue Resources	**General Balances** £'000	**Capital Receipts Reserve** £'000	**Capital Grants Unapplied** £'000	£'000
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:				
Pensions costs **(transferred to (or from) the Pensions Reserve**)	34,370	0	0	(34,370)
Financial instruments **(transferred to the Pooled Fund Adjustments Account**)	(6)	0	0	6
Council Tax and NDR **(transfers to or from Collection Fund**)	1,292	0	0	(1,292)
Holiday pay (**transferred to the Accumulated Absences Reserve**)	1,092	0	0	(1,092)
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure **(these items are charged to the Capital Adjustment Account (CAA)**:	11,441	(113)	(5,626)	(5,702)
Total Adjustments to Revenue Resources	48,189	(113)	(5,626)	(42,450)
Adjustments between Revenue and Capital Resources				
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	0	2	0	(2)
Transfer of Grants from Revenue to the Capital Grant Reserve	0	33	5,967	(6,000)
Statutory provision for the repayment of debt (**transfer from the CAA)**	(2,892)	0	0	2,892
Capital expenditure financed from revenue balances (**transfer to the CAA**)	(3,014)	0	0	3,014
Total Adjustments between Revenue and Capital Resources	(5,906)	35	5,967	(96)
Adjustments to Capital Resources				
Use of the Capital Receipts Reserve to finance capital expenditure	0	(121)	0	121
Application of capital grants to finance capital expenditure	(6,000)	0	(341)	6,341
Total Adjustments to Capital Resources	(6,000)	(121)	(341)	6,462
Total Adjustments excluding Earmarked Adjustments	**36,283**	**(199)**	**0**	**(36,084)**
Earmarked Adjustments from Income and Expenditure charged under the Accounting Basis to the Funding Basis				0
Total Adjustments including Earmarked Adjustments				**(36,084)**

Note 9 Adjustments between Accounting Basis and Funding Basis under Regulations Continued

Restated Comparative Year*	**2019/20**			
	Usable Reserves			**Unusable Reserves**
	General Balances	Capital Receipts Reserve	Capital Grants Unapplied	
Adjustments to Revenue Resources	£'000	£'000	£'000	£'000
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure Statement are different from revenue for the year calculated in accordance with statutory requirements:.				
Pensions costs **(transferred to (or from) the Pensions Reserve**)	40,860	0	0	(40,860)
Financial instruments **(transferred to the Pooled Fund Adjustments Account**)	50	0	0	(50)
Council Tax and NDR **(transfers to or from Collection Fund**)	945	0	0	(945)
Holiday pay (**transferred to the Accumulated Absences Reserve**)	(456)	0	0	456
Equal pay settlements (**transferred to the Unequal Pay/Back Pay AC**	0	0	0	0
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure **(these items are charged to the Capital Adjustment Account (CAA)**:	8,690	(121)	0	(8,569)
Total Adjustments to Revenue Resources	50,089	(121)	0	(49,968)
Adjustments between Revenue and Capital Resources				
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	0	516	0	(516)
Transfer of Grants from Revenue to the Capital Grant Reserve	0	0	0	0
Statutory provision for the repayment of debt (**transfer from the CAA)**	(3,182)	0	0	3,182
Capital expenditure financed from revenue balances (**transfer to the CAA**)	(1,795)	0	0	1,795
Total Adjustments between Revenue and Capital Resources	(4,977)	516	0	4,461
Adjustments to Capital Resources				
Use of the Capital Receipts Reserve to finance capital expenditure	0	(563)	0	563
Application of capital grants to finance capital expenditure	(4,336)	0	0	4,336
Total Adjustments to Capital Resources	(4,336)	(563)	0	4,899
Total Adjustments excluding Earmarked Adjustments	**40,776**	**(168)**	**0**	**(40,608)**
Earmarked Adjustments from Income and Expenditure charged under the Accounting Basis to the Funding Basis				0
Total Adjustments including Earmarked Adjustments				**(40,608)**

*The signage has changed to be consistent with that shown in the movement in reserves statement.

Note 10 Movement in Earmarked Reserves

This note sets out the amounts set aside from the General Fund in Earmarked Reserves to provide financing for future expenditure plans and the amounts posted back from Earmarked Reserves to meet General Fund expenditure in the year.

	Balance at 1 April 2019	Transfer Out 2019/20	Transfer In 2019/20	**Balance at 31 March 2020**	Transfer Out 2020/21	Transfer In 2020/21	**Balance at 31 March 2021**
	£'000	£'000	£'000	**£'000**	£'000	£'000	**£'000**
Budget Management Fund	**27**	(27)	914	**914**	(967)	1,291	**1,238**
Regional Collaboration Reserve	**231**	(157)	271	**345**	(286)	201	**260**
Workforce Change Reserve	**1,333**	(407)	0	**926**	(283)	0	**643**
Capital Financing Reserve	**665**	(1,795)	1,130	**0**	0	0	**0**
Major Operations Reserve	**738**	0	250	**988**	(988)	0	**0**
PEQF Reserve	**0**	0	157	**157**	(45)	153	**265**
Learning & Development Reserve	**0**	0	46	**46**	0	0	**46**
Uplift Reserve	**0**	0	0	**0**	0	200	**200**
Office of the PCC Legal Reserve	**0**	0	0	**0**	0	96	**96**
Police and Crime Plan	**1,063**	(757)	470	**776**	0	141	**917**
Total	**4,057**	**(3,143)**	**3,238**	**4,152**	**(2,569)**	**2,082**	**3,665**

The purpose of the Funds and Reserves held at 31 March 2021 are set out below:

Budget Management Fund This is a fund to allow the transfer of carry-forward requests to the following year.

Regional Collaboration Reserve To hold funds related to past underspends for future planned spending for regional collaborations.

Workforce Change Reserve To fund one-off and transitional costs of change programmes including the Strategic Alliance with Devon and Cornwall Police.

Major Operations Reserve To meet the costs of major policing operations.

PEQF Reserve To fund costs of the Policing Education Qualification Framework.

Learning and Development Reserve Used for the benefit of Police Officers and Staff for training and development purposes.

Uplift Reserve To hold funds for infrastructure relating to the future years uplift programme.

Office of the PCC Legal Reserve To fund legal costs as required by the OPCC.

Police and Crime Plan To fund planned Police and Crime Plan developments.

Note 11 Property, Plant and Equipment

This table sets out the 2020/21 property, plant and equipment for the PCC Group.

Movements for 2020/21	**Operational and Non-Operational Assets**		**Assets Under Construction**		**Surplus Assets**	**Total**
	Land & Buildings	**Vehicles, Plant & Equipment**	**Land & Buildings**	**Vehicles, Plant & Equipment**	**Surplus Assets**	
Cost or Valuation	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Balance at 1 April 2020	**82,090**	**33,762**	**0**	**0**	**538**	**116,390**
Additions	2,442	3,436	105	1,552	0	**7,535**
Revaluation recognised in the Revaluation Reserve	(3,383)	0	0	0	(144)	**(3,527)**
Revaluation recognised in the Surplus/Deficit on the Provision of Services	(17,031)	0	0	0	0	**(17,031)**
Derecognition-Disposals	505	(10,715)	0	0	0	**(10,210)**
Reclassification (to)/from Held for Sale	0	0	0	0	0	**0**
Other Reclassification	(140)	0	0	0	(245)	**(385)**
Balance at 31 March 2021	**64,483**	**26,483**	**105**	**1,552**	**149**	**92,772**
Accumulated Depreciation and Impairments						
Balance at 1 April 2020	**(27,140)**	**(23,544)**	**0**	**0**	**(65)**	**(50,749)**
Depreciation Charge	(855)	(2,186)	0	0	(1)	**(3,042)**
Depreciation written out to the Revaluation Reserve	4,113	0	0	0	143	**4,256**
Depreciation written out to the Surplus/Deficit on the Provision of Services	12,395	0	0	0	0	**12,395**
Derecognition-Disposals	(505)	10,689	0	0	0	**10,184**
Reclassification (to)/from Held for Sale	0	0	0	0	0	**0**
Other Reclassification	137	0	0	0	(77)	**60**
Balance at 31 March 2021	**(11,855)**	**(15,041)**	**0**	**0**	**0**	**(26,896)**
Net Book Value						
Balance at 31 March 2020	**54,950**	**10,218**	**0**	**0**	**473**	**65,641**
Balance at 31 March 2021	**52,628**	**11,442**	**105**	**1,552**	**149**	**65,876**

The asset under construction total additions of £1.552m comprises of £1.074m for vehicles and £0.478m for ICT.

Note 11 Property, Plant and Equipment Continued

This table sets out the 2019/20 property, plant and equipment for the PCC Group.

Movements for 2019/20	**Operational and Non-Operational Assets**		**Assets Under Construction**		**Surplus Assets**	**Total**
	Land & Buildings	**Vehicles, Plant & Equipment**	**Land & Buildings**	**Vehicles, Plant & Equipment**	**Surplus Assets**	
Cost or Valuation	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Balance at 1 April 2019	**75,794**	**49,943**	**0**	**0**	**120**	**125,857**
Additions	941	5,858	0	0	0	**6,799**
Revaluation recognised in the Revaluation Reserve	6,738	0	0	0	3	**6,741**
Revaluation recognised in the Surplus/Deficit on the Provision of Services	0	0	0	0	0	**0**
Derecognition-Disposals	(968)	(22,039)	0	0	0	**(23,007)**
Reclassification (to)/from Held for Sale	0	0	0	0	0	**0**
Other Reclassification	(415)	0	0	0	415	**0**
Balance at 31 March 2020	**82,090**	**33,762**	**0**	**0**	**538**	**116,390**
Accumulated Depreciation and Impairments						
Balance at 1 April 2019	**(26,333)**	**(43,648)**	**0**	**0**	**(4)**	**(69,985)**
Depreciation Charge	(2,694)	(1,860)	0	0	(6)	**(4,560)**
Depreciation written out to the Revaluation Reserve	864	0	0	0	0	**864**
Depreciation written out to the Surplus/Deficit on the Provision of Services	0	0	0	0	0	**0**
Derecognition-Disposals	968	21,964	0	0	0	**22,932**
Reclassification (to)/from Held for Sale	0	0	0	0	0	**0**
Other Reclassification	55	0	0	0	(55)	**0**
Balance at 31 March 2020	**(27,140)**	**(23,544)**	**0**	**0**	**(65)**	**(50,749)**
Net Book Value						
Balance at 31 March 2019	**49,461**	**6,295**	**0**	**0**	**116**	**55,872**
Balance at 31 March 2020	**54,950**	**10,218**	**0**	**0**	**473**	**65,641**

Note 11 Property, Plant and Equipment Continued

This table sets out the 2020/21 property, plant and equipment for the PCC.

Movements for 2020/21	**Operational and Non-Operational Assets**	**Assets under Construction**	**Surplus Assets**	**Total**
	Land & Buildings	**Land & Buildings**	**Surplus Assets**	
Cost or Valuation	**£'000**	**£'000**	**£'000**	**£'000**
Balance at 1 April 2020	**82,090**	**0**	**538**	**82,628**
Additions	2,442	105	0	**2,547**
Revaluation recognised in the Revaluation Reserve	(3,383)	0	(144)	**(3,527)**
Revaluation recognised in the Surplus/Deficit on the Provision of Services	(17,031)	0	0	**(17,031)**
Derecognition-Disposals	505	0	0	**505**
Reclassification (to)/from Held for Sale	0	0	0	**0**
Other Reclassification	(140)	0	(245)	**(385)**
Balance at 31 March 2021	**64,483**	**105**	**149**	**64,737**
Accumulated Depreciation and Impairments				
Balance at 1 April 2020	**(27,140)**	**0**	**(65)**	**(27,205)**
Depreciation Charge	(855)	0	(1)	**(856)**
Depreciation written out to the Revaluation Reserve	4,113	0	143	**4,256**
Depreciation written out to the Surplus/Deficit on the Provision of Services	12,395	0	0	**12,395**
Derecognition-Disposals	(505)	0	0	**(505)**
Reclassification (to)/from Held for Sale	0	0	0	**0**
Other Reclassification	137	0	(77)	**60**
Balance at 31 March 2021	**(11,855)**	**0**	**0**	**(11,855)**
Net Book Value				
Balance at 31 March 2020	**54,950**	**0**	**473**	**55,423**
Balance at 31 March 2021	**52,628**	**105**	**149**	**52,882**

Note 11 Property, Plant and Equipment Continued

This table sets out the 2019/20 property, plant and equipment for the PCC.

Movements for 2019/20	**Operational and Non-Operational Assets**	**Assets under Construction**	**Surplus Assets**	**Total**
	Land & Buildings	**Land & Buildings**	**Surplus Assets**	
Cost or Valuation	**£'000**	**£'000**	**£'000**	**£'000**
Balance at 1 April 2019	**75,794**	**0**	**120**	**75,914**
Additions	941	0	0	**941**
Revaluation recognised in the Revaluation Reserve	6,738	0	3	**6,741**
Revaluation recognised in the Surplus/Deficit on the Provision of Services	0	0	0	**0**
Derecognition-Disposals	(968)	0	0	**(968)**
Reclassification (to)/from Held for Sale	0	0	0	**0**
Other Reclassification	(415)	0	415	**0**
Balance at 31 March 2020	**82,090**	**0**	**538**	**82,628**
Accumulated Depreciation and Impairments				
Balance at 1 April 2019	**(26,333)**	**0**	**(4)**	**(26,337)**
Depreciation Charge	(2,694)	0	(6)	**(2,700)**
Depreciation written out to the Revaluation Reserve	864	0	0	**864**
Depreciation written out to the Surplus/Deficit on the Provision of Services	0	0	0	**0**
Derecognition-Disposals	968	0	0	**968**
Reclassification (to)/from Held for Sale	0	0	0	**0**
Other Reclassification	55	0	(55)	**0**
Balance at 31 March 2020	**(27,140)**	**0**	**(65)**	**(27,205)**
Net Book Value				
Balance at 31 March 2019	**49,461**	**0**	**116**	**49,577**
Balance at 31 March 2020	**54,950**	**0**	**473**	**55,423**

11.1 Recognition

Expenditure on an individual item or a project or programme of work is capitalised when the following de-minimis levels are met:-

- Land and buildings £25k
- All other assets £10k

11.2 Surplus Assets

One property has been classed as a Surplus Asset as at the 31 March 2021.

Note 11 Property, Plant and Equipment Continued

11.3 Depreciation

A review of asset lives has taken place during 2020/21 and the useful life for some assets have been amended. The following useful lives and approaches to depreciation have been used to calculate the depreciation charges:

11.3.1 Land and Buildings

The asset lives for individual buildings are assessed by the valuer and are within the range of 8–100 years. Buildings are depreciated monthly over the forecast useful life of the asset.

11.3.2 Vehicles

Classes of vehicle are given specific asset lives. These are within the range 3-18 years. Vehicles are depreciated monthly over the forecast useful life of the vehicle and the depreciation in the first year will reflect the number of months that the vehicle has been registered.

11.3.3 Information and Communications Technology (ICT)

Classes of ICT assets are given specific asset lives these are within the range 3-20 years. ICT assets are depreciated in equal annual instalments over the forecast useful life of the asset.

11.3.4 Plant and Equipment

Classes of plant and equipment assets are given specific asset lives these are within the range 3-25 years. These assets are depreciated in equal annual instalments over the forecast useful life of the asset.

11.4 Significant Capital Commitments

The nature of capital expenditure is such that long lead times and significant programmes of work often result in slippage in incurring expenditure. The unspent capital funding in 2020/21 will be carried forward to meet the cost of future and ongoing schemes that were provided for in that year, and the ongoing work in ensuring that the Force Estate, ICT and Fleet are as lean and efficient as possible, while remaining fully fit for purpose to support operational policing. As at 31 March 2021, significant capital commitments amounted to £2.804m.

11.5 Revaluations

The majority of the land and buildings have been revalued by qualified external valuers, NPS South West Limited; and two properties were valued by an internal qualified valuer. The valuations have been carried out in accordance with the methodologies and basis for estimation set out in the updated professional standards of the Royal Institution of Chartered Surveyors (RICS). A revaluation exercise was undertaken on 83% of the properties with inspections conducted internally and externally. The remaining 17% of properties were valued using the desktop exercise approach. All valuations were provided as at 31 March 2021 and has resulted in an overall reduction in the value of properties of £1.901m.

11.6 Componentisation

Component assets are recognised separately from the main asset that they are associated with when the value of the component is more than 25% and greater than £1m of the main asset value. No assets have met the criteria in 2020/21.

11.7 Derecognition

An annual review of assets classed as Vehicles, ICT, and Plant and Equipment has been undertaken which has resulted in the derecognition of a number of assets that have reached the end of their useful lives or which have been disposed.

Note 12 Intangible Assets

All of the intangible assets held are ICT software and are recognised separately from the tangible asset with which they are associated where the value of the intangible asset is more than 25% and greater than £100k of the main asset value.

2019/20 Non-Operational Assets £'000		2020/21 Non-Operational Assets £'000
	Balance at start of year	
2,759	Gross carrying amounts	2,142
(2,261)	Accumulated amortisation	(1,951)
498	**Net carrying amount at start of year**	**191**
42	Additions	0
(659)	Derecognition - Gross Value	0
0	Write up of the Gross Value	506
(349)	Amortisation for the period	(140)
0	Amortisation associated with the Gross Value write up	(506)
659	Derecognition - Gross Amortisation	0
191	**Net carrying amount at end of year**	**51**
	Comprising:	
2,142	Gross carrying amounts	2,648
(1,951)	Accumulated Amortisation	(2,597)
191		**51**

12.1 Amortisation

All intangible assets are given a finite life, based on assessments of the period that the software is expected to be of use to the Group. Asset lives range from 3-10 years and the carrying amount is amortised on a straight-line basis.

12.2 Derecognition

An annual review of intangible assets has been undertaken which resulted in the derecognition of a number of assets that have reached the end of their useful lives or which were disposed during the year.

Note 13 Debtors

31 March 2020			31 March 2021	
PCC	PCC Group		PCC	PCC Group
£'000	£'000		£'000	£'000
2,432	11,611	Central government bodies	1,156	13,158
1,338	5,157	Other local authorities	211	3,038
0	0	National Health Service	0	0
0	5,311	Other entities and individuals	0	5,222
3,770	**22,079**	**Total Debtors**	**1,367**	**21,418**

Note 14 Cash and Cash Equivalents

31 March 2020			31 March 2021	
PCC	PCC Group		PCC	PCC Group
£'000	£'000		£'000	£'000
78	78	Cash held by the PCC	43	43
2,081	2,081	Bank current accounts	1,560	1,560
7,196	7,196	Short-term deposits	11,524	11,524
9,355	**9,355**	**Total Cash and Cash Equivalents**	**13,127**	**13,127**

Note 15 Assets Held for Sale

2019/20		2020/21
£'000		£'000
3,005	**Balance outstanding at start of year**	**2,563**
0	Assets newly classified as held for sale	325
0	Revaluation	(9)
(442)	Assets Sold	0
2,563	**Balance outstanding at year end**	**2,879**

Note 16 Creditors

31 March 2020			31 March 2021	
PCC	PCC Group		PCC	PCC Group
£'000	£'000		£'000	£'000
(1,060)	(3,710)	Central government bodies	(1,226)	(3,061)
0	(7,328)	Other local authorities	0	(5,123)
0	(569)	National Health Service	0	(400)
(29)	(12,390)	Other entities and individuals	(70)	(13,655)
(1,089)	**(23,997)**	**Total Creditors**	**(1,296)**	**(22,239)**

Note 17 Financial Instruments

17.1 Categories of Financial Instruments

The following categories of financial instruments are carried in the Balance Sheet.

	Long Term		Current	
	31 March 2020	31 March 2021	31 March 2020	31 March 2021
	£'000	£'000	£'000	£'000
Investments (17.1.1)				
Fair value through profit or loss	0	0	3,001	4,000
Total Investments	**0**	**0**	**3,001**	**4,000**
Cash and Cash Equivalents (17.1.2)				
Amortised Cost	0	0	9,355	13,127
Total Cash and Cash Equivalents	**0**	**0**	**9,355**	**13,127**
Debtors (Trade Receivables)				
Amortised Cost	0	0	5,311	5,222
Total included in Debtors	**0**	**0**	**5,311**	**5,222**
Long-Term Liabilities (17.1.3)				
Financial liabilities at amortised cost	(966)	(846)	0	0
PFI	(25,974)	(22,653)	0	0
Total Long-Term Liabilities	**(26,940)**	**(23,499)**	**0**	**0**
Finance Lease				
Amortised Cost	(72)	(43)	(29)	(29)
Total Finance Lease	**(72)**	**(43)**	**(29)**	**(29)**
Borrowing (17.1.4)				
Amortised Cost	0	0	(5,500)	(16,000)
Total Finance Lease	**0**	**0**	**(5,500)**	**(16,000)**
Creditors (Trade Payables)				
Amortised Cost	0	0	(12,390)	(13,655)
Total included in Creditors	**0**	**0**	**(12,390)**	**(13,655)**

17.1.1 Investments

Financial assets at fair value through profit and loss consist of deposits with external fund managers. These are valued by reference to quoted market price.

17.1.2 Cash and cash equivalents

Cash and cash equivalents consist of the bank current account, on call accounts and money market funds all of which are repayable at 24 hours' notice without penalty.

Note 17 Financial Instruments Continued

17.1.3 Long-Term Liabilities

The long term liabilities relates to two schemes under the government's Private Finance Initiatives (PFI). The first was for the replacement of the Western Division HQ and certain section stations. Occupation of the facilities and payments commenced in 2001 and will continue for 30 years. The second relates to the provision of a new facility at Poole as part of a joint PFI between Dorset Police and Dorset Fire and Rescue Services. Occupation was in 2009 and payments will continue for 25 years. Government grants are received annually towards the costs of these schemes.

17.1.4 Borrowing

All current borrowing was arranged from Local Authorities to cover short term fluctuations in cash.

17.2 Income, Expense, Gains and Losses

	2019/20 Surplus or Deficit on the Provision of Services - Financing and Investment Income and Expenditure £'000	2020/21 £'000
Net (gains)/losses on:		
Financial assets measured at fair value through profit and loss	7	(1)
Financial assets measured at amortised	1	1
Financial liabilities	0	0
Total net (gains)/losses	**8**	**0**
Interest revenue		
Financial assets measured at amortised	(105)	(35)
Total Interest revenue	**(105)**	**(35)**
Interest expense		
Financial liabilities at amortised cost	9	12
Total Interest expense	**9**	**12**

17.3 Fair Value of Financial Assets and Financial Liabilities

Financial liabilities and financial assets can be assessed by calculating the present value of the cash flow that will take place over the remaining term of the instruments, using the following assumptions:

- The fair value balances for financial assets as at 31 March 2021 have been calculated using interest rates in force and with reference to quoted markets where appropriate as at 31 March 2020 and 2021.
- The long-term borrowing as at 31 March 2020 and 31 March 2021 have been calculated by reference to market interest rates.
- The fair value of trade receivables and payables is taken to be the invoiced or the billed amount.
- The fair value of the PFI's and finance lease liabilities have been calculated by reference to AA-rated corporate bond yields for use as discount rates.
- Level 1 input has been used to measure the fair value of the financial assets which uses quoted prices in active markets for identical assets as a basis of valuation.

Note 17 Financial Instruments Continued

Financial Assets	31 March 2020 Carrying Amount £'000	31 March 2020 Fair Value £'000	31 March 2021 Carrying Amount £'000	31 March 2021 Fair Value £'000
Short term investments				
Investments held at Amortised Cost	0	0	0	0
Investments held at FVPL	0	3,001	0	4,000
Cash and cash equivalents				
Investments held at Amortised Cost	2,159	2,159	1,603	1,603
Investments held at FVPL	0	7,196	0	11,524
Debtors (Trade Receivables)	5,311	5,311	5,222	5,222
	7,470	**17,667**	**6,825**	**22,349**

Financial Liabilities	31 March 2020 Carrying Amount £'000	31 March 2020 Fair Value £'000	31 March 2021 Carrying Amount £'000	31 March 2021 Fair Value £'000
Short Term Borrowing	(5,500)	(5,504)	(16,000)	(16,000)
Long Term Liabilities	(26,940)	(21,901)	(23,499)	(21,230)
Creditors (Trade Payables)	(12,390)	(12,390)	(13,655)	(13,655)
Finance Lease	(101)	(97)	(72)	(71)
	(44,931)	**(39,892)**	**(53,226)**	**(50,956)**

17.4 Nature and extent of risks arising from financial instruments

The Police and Crime Commissioner's activities expose it to a variety of financial risks, including:

- credit risk — the possibility that other parties might fail to pay amounts due to the Police and Crime Commissioner.
- liquidity risk — the possibility that the Police and Crime Commissioner might not have funds available to meet its commitments to make payments
- market risk — the possibility that financial loss may arise for the Police and Crime Commissioner as a result of changes in such measures as interest rates and stock market movements.

The Police and Crime Commissioner's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. Risk management is carried out by the Alliance Treasury Team in consultation with Arlingclose (Treasury Advisors), under policies approved by the PCC in the Treasury Management Strategy. The PCC provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk and the investment of surplus cash.

17.4.1 Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Police and Crime Commissioner's customers.

This risk is minimised through the Treasury Management Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria. The Treasury Management Strategy also imposes a maximum sum to be invested with a financial institution located within each category. The credit criteria in respect of financial assets held by the Police and Crime Commissioner are contained within the Treasury Management Strategy which is published on the Police and Crime Commissioner website.

The Police and Crime Commissioner exposure to credit risk is an average credit rating of A+.

Note 17 Financial Instruments Continued

17.4.2 Credit Risk Management Practices

The Police and Crime Commissioner's credit risk management practices are set out in the Treasury Management Strategy.

For 2020/21, a 1% loss allowance of trade receivables has been calculated as well as the 12 month expected credit loss on investments held with banks.

The changes in the loss allowance during the year are as follows:

Amounts Arising from Expected Credit Losses	12 month expected credit losses £'000
Interest revenue	1
Financial assets measured at amortised cost	31
Total loss allowance	**32**

17.4.3 Liquidity Risk

The Police and Crime Commissioner has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. If unexpected movements happen, the Police and Crime Commissioner has ready access to borrowings from the money markets, the Public Works Loan Board and Local Authorities. There is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the Police and Crime Commissioner will be bound to replenish a significant proportion of its borrowing at a time of unfavourable interest rates.

At 31 March 2021 the PCC held £12.525m (31 March 2020 £5.16m) in on-call and money market fund accounts to manage short term liquidity requirements.

17.4.4 Market Risk

17.4.4.1 Interest Rate Risk

The PCC is exposed to risk in terms of interest rate movements on investments. Movements in interest rates have a complex impact on the Police and Crime Commissioner. For instance, a rise in interest rates would have the following effects:

- borrowings at fixed rates — the fair value of the liabilities borrowings will fall
- investments at variable rates — the interest income credited to the Surplus or Deficit on the Provision of Services will rise
- investments at fixed rates — the fair value of the assets will fall.

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Surplus of Deficit on the Provision of Services or Other Comprehensive Income and Expenditure. However, changes in interest payable and receivable on variable rate borrowings and investments will be posted to the Surplus

Note 17 Financial Instruments Continued

or Deficit on the Provision of Services and affect the General Fund Balance. Movements in the fair value of fixed rate investments that have a quoted market price will be reflected in Other Comprehensive Income and Expenditure.

The Police and Crime Commissioner manages interest rate risk by setting indicators to control the exposure. During periods of falling interest rates, and where economic circumstances make it favourable, fixed rate loans will be repaid early to limit exposure to losses.

The Treasurer assesses interest rate exposure that feeds into the setting of the annual budget and which is used to update the budget during the year. This allows any adverse changes to be accommodated. The analysis will also advise whether new borrowing taken out is fixed or variable.

Short term borrowing was held at 31 March 2021 with fixed interest rates. All investments held have variable rates. If interest rates had been 1% higher with all other variables held constant, the financial effect on interest receivable on investments would be £125k. This would have an impact on the Surplus or Deficit on the Provision of Services. The impact of 1% fall in interest rates would be as above but with the movements being reversed.

17.4.4.2 Price Risk

The Police and Crime Commissioner is exposed to price risk in terms of movement in the value of pooled investments and financial assets valued at fair value through profit and loss. Controls for this exposure is set out in the Treasury Management Strategy.

Note 18 Provisions

2020/21	Insurance £'000	Other £'000	Total £'000
Current Liabilities			
Balance at 1 April 2020	**(292)**	**(204)**	**(496)**
Additional provisions made	(342)	(12)	(354)
Amounts used/no longer required	202	59	261
Balance at 31 March 2021	**(432)**	**(157)**	**(589)**
Long Term Liabilities			
Balance at 1 April 2020	**(421)**	**0**	**(421)**
Additional provisions made	(402)	0	(402)
Amounts used/no longer required	238	0	238
Balance at 31 March 2021	**(585)**	**0**	**(585)**
Total Provisions Balance	**(1,017)**	**(157)**	**(1,174)**

Note 18 Provisions Continued

2019/20	Insurance £'000	Other £'000	Total £'000
Current Liabilities			
Balance at 1 April 2019	**0**	**(287)**	**(287)**
Additional provisions made	(149)	(59)	(208)
Amounts used	192	142	334
Transfer from long term liabilities	(335)	0	(335)
Balance at 31 March 2020	**(292)**	**(204)**	**(496)**
Long Term Liabilities			
Balance at 1 April 2019	**(466)**	**0**	**(466)**
Additional provisions made	(290)	0	(290)
Amounts used	0	0	0
Transfer from long term liabilities	335	0	335
Balance at 31 March 2020	**(421)**	**0**	**(421)**
Total Provisions Balance	**(713)**	**(204)**	**(917)**

18.1 Insurance Provision

Police and Crime Commissioner is uninsured for the first £0.5m of the majority of individual public and employer's liability claims up to a total stop loss of £2.75m for claims. The insurance provision is to cover any claims from 2020/21 and previous years. The payments from the provision are expected to be made over the next five years. An assessment of liabilities as at 31 March 2021 has been undertaken and the provision has been increased to a level estimated to be sufficient to meet all the forecast obligations.

18.2 Other Provisions

18.2.1 Contractual pay claims

The current level of the provision is estimated to be sufficient to meet known claims. These payments are expected to be made in 2021/22 and amount to £145k.

18.2.2 Employment tribunal

Judgements are applied in determining the level of the employment tribunal provision. This has been estimated at £12k.

Note 19 Unusable Reserves

31 March 2020 £'000	Note		31 March 2021 £'000
27,977	19.1	Revaluation Reserve	28,706
9,631	19.3	Capital Adjustment Account	10,295
(1,463,726)	19.4	Pensions Reserve	(1,910,514)
278	19.5	Collection Fund Adjustment Account	(1,014)
(2,166)	19.6	Accumulated Absences Account	(3,258)
(7)	19.2	Pooled Investment Fund Adjustment Account	(1)
(1,428,013)		**Total Unusable Reserves**	**(1,875,787)**

19.1 Revaluation Reserve

The Revaluation Reserve contains the gains made by the Police and Crime Commissioner arising from increases in the value of its Property, Plant and Equipment. The balance is reduced when assets with accumulated gains are:

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

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

2019/20		Revaluation Reserve	2020/21	
£'000	£'000		£'000	£'000
	20,477	**Balance at 1 April**		**27,977**
	7,668	Upward/(Downward) revaluation of assets and impairment losses not posted to the Surplus/Deficit on the Provision of Services		729
(168)		Difference between fair value depreciation and historical cost depreciation	0	
0		Accumulated gains on assets sold or scrapped	0	
	(168)	Amount written off to the Capital Adjustment Account		0
	27,977	**Balance at 31 March**		**28,706**

19.2 Pooled Investment Fund Adjustment Account Reserve

The Pooled Investment Fund Adjustment Account Reserve contains the gains and losses made by the Police and Crime Commissioner arising from changes in the value of investments in pooled funds.

2019/20 £'000	Pooled Investment Fund Adjustment Account	2020/21 £'000
43	**Balance at 1 April**	(7)
0	Upward revaluation of investments	6
(50)	Downward revaluation of investments	0
(7)	**Balance at 31 March**	**(1)**

Note 19 Unusable Reserves Continued

19.3 Capital Adjustment Account

The Capital Adjustment Account absorbs the timing difference arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The account is credited with the amounts set aside by the Police and Crime Commissioner as finance for the costs of acquisition, construction and enhancement. The account also contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

2019/20 £'000	Capital Adjustment Account	2020/21 £'000
8,673	**Balance at 1 April**	**9,631**
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:	
(4,560)	• Charges for depreciation and impairment of non-current assets	(3,039)
0	• Revaluation losses on Property, Plant and Equipment	(4,646)
0	• Revaluation losses on Assets Held for Sale	0
(349)	• Amortisation of intangible assets	(140)
(3,594)	• Revenue expenditure funded from capital under statute	(5,739)
(577)	• Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(26)
(9,080)		**(13,590)**
168	Adjusting amounts written out of the Revaluation Reserve	0
(8,912)	**Net written out amount of the cost of non-current assets consumed in the year**	**(13,590)**
	Capital Financing applied in the year:	
563	Use of the Capital Receipts Reserve to finance new capital expenditure	234
4,336	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	5,967
3,057	Statutory provision for the financing of capital investment charged against the General Fund balances	2,891
0	PFI Adjustment	2,148
1,914	Capital expenditure charged against the General Fund balances	3,014
9,870		**14,254**
9,631	**Balance at 31 March**	**10,295**

Note 19 Unusable Reserves Continued

19.4 Pension 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 Police and Crime Commissioner accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Police and Crime Commissioner makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Police and Crime Commissioner has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

2019/20		Pension Reserve	2020/21	
PCC £'000	PCC Group £'000		PCC £'000	PCC Group £'000
(1,560,765)	**(1,560,765)**	**Balance at 1 April**	**(1,463,726)**	**(1,463,726)**
96,399	0	Intra-Group Adjustments	(446,409)	0
166	137,898	Re-measurements of the net defined benefit liability/(asset)	(931)	(412,419)
348	(85,524)	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	411	(81,190)
126	44,665	Employer's pensions contributions and direct payments to pensioners payable in the year	141	46,821
(1,463,726)	**(1,463,726)**	**Balance at 31 March**	**(1,910,514)**	**(1,910,514)**

19.5 Collection Fund Adjustment Account

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

2019/20 £'000	Collection Fund Adjustment Account	2020/21 £'000
1,223	**Balance at 1 April**	**278**
(945)	Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(1,292)
278	**Balance at 31 March**	**(1,014)**

Note 19 Unusable Reserves Continued

19.6 Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

2019/20 PCC £'000	2019/20 PCC Group £'000	Accumulated Absences Account	2020/21 PCC £'000	2020/21 PCC Group £'000
(25)	**(2,622)**	**Balance at 1 April**	**(29)**	**(2,166)**
25	2,622	Settlement or cancellation of accrual made at the end of the preceding year	29	2,166
(29)	(2,166)	Amounts accrued at the end of the current year	(41)	(3,258)
(4)	**456**	**Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements**	**(12)**	**(1,092)**
(29)	**(2,166)**	**Balance at 31 March**	**(41)**	**(3,258)**

The increase in the year can be explained by officers and staff carrying forward more leave than in previous years due to the Covid-19 pandemic. There has also been an increase in officers as a result of the officer uplift programme. Information on the programme can be found in the narrative report.

Note 20 Cash Flow Statement – Operating Activities

2019/20 £'000		2020/21 £'000
(2,121)	Net cash receipts/(payments) from operating activities excluding interest receipts and payments	(4,501)
(105)	Interest received	(35)
9	Interest paid	12
(2,217)	**Net cash flows from operating activities**	**(4,524)**

Note 21 Cash Flow Statement – Investing Activities

2019/20 £'000		2020/21 £'000
5,011	Purchase of property, plant and equipment, investment property and intangible assets	6,784
(4,196)	Net movement in short-term and long term investments	999
(519)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(2)
296	**Net cash flows from investing activities**	**7,781**

Note 22 Cash Flow Statement – Financing Activities

2019/20 £'000		2020/21 £'000
(5,500)	Cash receipts from short term borrowing	0
(2,124)	Other receipts from financial activities	0
0	Net movement in short term borrowing	(10,500)
101	Net movement in long term borrowing	0
17	Cash payments to reduce finance lease liabilities	30
2,124	Cash payments to reduce on balance sheet liabilities	3,441
(5,382)	**Net cash flows from financing activities**	**(7,029)**

Note 23 External Audit Costs

The Police and Crime Commissioner has incurred the following costs in relation to the audit of the Statement of Accounts:

2019/20 PCC £'000	2019/20 PCC Group £'000		2020/21 PCC £'000	2020/21 PCC Group £'000
30	58	Fees payable to external auditors with regard to external audit services carried out by the appointed auditor for the year	36	54
0	0	Additional fees in respect of assessing the impact of the McCloud ruling on age discrimination on pensions liabilities.	0	0
30	**58**		**36**	**54**

~~The 2019/20 audit fee disclosed was an estimated figure provided by Grant Thornton UK LLP. The actual fee is yet to be approved by the Public Sector Audit Appointments (PSAA); the body responsible for appointing the auditors. Grant Thornton UK LLP have also provided the estimated figure for 2020/21.~~

The 2019/20 fee was approved, in July 2021, by the Public Sector Audit Appointments (PSAA); the body responsible for appointing the auditors. Grant Thornton UK LLP have also provided the estimated figure for 2020/21.

Note 24 Officers' Remuneration

24.1 Remuneration

This note shows the officer remuneration costs for officers and staff employed by the Office of the Police and Crime Commissioner and the Chief Constable above the rank of Superintendent and the staff equivalent. The Police and Crime Commissioner (PCC) is an elected official and is excluded from this note and shown within the Office of the Police and Crime Commissioner Cost note.

2020/21	Note	Salary, Fees and Allowances	Subsistence, Expenses Allowances	Benefits in Kind	Total Remuneration excl Pension Contributions	Employers Pension Contributions	Compensation for loss of employment	Total Remuneration incl Pension Contributions
Office of the Police & Crime Commissioner		£	£	£	£	£	£	£
Salary £50,000 to £149,999 per year								
OPCC Chief Executive		99,843	0	0	99,843	15,364	0	115,207
OPCC Chief Financial Officer		58,355	0	0	58,355	7,542	0	65,897
Chief Constable								
Salary £150,000 plus per year								
Chief Constable - James Vaughan		176,516	0	0	176,516	50,602	0	227,118
Salary £50,000 to £149,999 per year								
Deputy Chief Constable from 01/04/20 to 21/10/20	1	74,208	0	2,209	76,417	26,747	0	103,164
Deputy Chief Constable from 05/10/20 to 31/03/21	1	66,323	0	5,564	71,887	20,031	0	91,918
Assistant Chief Constable from 01/04/20 to 01/11/20		76,252	0	0	76,252	21,286	0	97,538
Assistant Chief Constable from 01/06/20 to 31/03/21		87,356	7,978	4,791	100,125	27,080	0	127,205
Assistant Chief Constable		117,604	0	0	117,604	28,153	0	145,757
Assistant Chief Constable (Regional) from 01/02/21	2	19,870	2,091	1,019	22,980	6,160	0	29,140
Assistant Chief Officer from 01/04/20 to 07/04/20		14,896	0	490	15,386	333	0	15,719
Interim Chief Financial Officer (part time)		99,940	0	0	99,940	0	0	99,940
Director of Human Resources from 01/04/20 to 07/04/20	3	10,781	0	0	10,781	333	0	11,114
Chief Superintendent		95,575	0	0	95,575	26,378	0	121,953
Chief Superintendent		99,222	0	0	99,222	28,153	0	127,375
Chief Superintendent		95,597	0	0	95,597	27,333	0	122,930
Chief Superintendent – ESN Programme Director	4	94,562	0	0	94,562	28,153	0	122,715
Chief Superintendent - Secondment to College of Policing from 01/04/20 to 31/05/20	5	15,344	0	36	15,380	4,625	0	20,005

Note 24 Officers' Remuneration Continued

Restated 2019/20*	Note	Salary, Fees and Allowances	Subsistence, Expenses Allowances	Benefits in Kind	Total Remuneration excl Pension Contributions	Employers Pension Contributions	Compensation for loss of employment	Total Remuneration incl Pension Contributions
Office of the Police & Crime Commissioner		£	£	£	£	£	£	£
Salary £50,000 to £149,999 per year								
OPCC Chief Executive		94,200	0	0	94,200	13,439	0	107,639
OPCC Chief Financial Officer from 02/09/2019 to 31/03/2020		29,225	0	0	29,225	3,855	0	33,080
OPCC Chief Financial Officer from 01/04/2019 to 31/07/2019		16,780	0	0	16,780	2,213	0	18,993
Chief Constable								
Salary £150,000 plus per year								
Chief Constable - James Vaughan		170,235	0	0	170,235	49,367	0	219,602
Salary £50,000 to £149,999 per year								
Deputy Chief Constable		130,914	0	4,634	135,548	37,016	0	172,564
Chief Superintendent from 01/04/2019 to 17/10/2019 - Assistant Chief Constable from 18/10/2019 to 31/03/2020		100,755	0	0	100,755	27,466	0	128,221
Assistant Chief Constable		122,249	0	12,314	134,563	34,597	0	169,160
Assistant Chief Officer		109,375	0	6,399	115,774	16,953	50,000	182,727
Interim Chief Financial Officer from 24/9/2019 to 31/3/2020		41,174	0	0	41,174	0	0	41,174
Director of Human Resources	2	109,375	0	4,700	114,075	16,953	50,000	181,028
Chief Superintendent from 21/10/2019 to 31/03/2020		41,692	0	0	41,692	11,186	0	52,878
Chief Superintendent		93,601	0	0	93,601	27,466	0	121,067
Chief Superintendent from 01/04/2019 to 19/05/2019		13,479	0	596	14,075	3,639	0	17,714
Chief Superintendent from 01/04/2019 to 14/07/2019		24,166	0	0	24,166	6,543	0	30,709
Chief Superintendent		95,123	0	0	95,123	27,466	0	122,589
Chief Superintendent - Secondment to College of Policing		90,705	216	0	90,921	27,328	0	118,249

*There has been a change to the presentation of the 2019/20 table by grouping the salaries per Senior Officer rather than showing salaries by individual rank.

Note 24 Officers' Remuneration Continued

24.1 Notes

1. The Deputy Chief Constables for Devon and Cornwall Police and Dorset Police provide specific services across both forces. Their employment and associated costs are disclosed within the Statement of Accounts for each of their respective forces.

2. The regional Assistant Chief Constable is employed by Dorset Police.

3. The Director of Human Resources post was shared between Devon and Cornwall Police and Dorset Police. The contract of employment is with Dorset Police and for this reason the remuneration disclosure is made in the Statement of Accounts of Dorset Police. Devon and Cornwall Police refund Dorset 70% of the pay costs and 50% of the settlement and pension strain costs.

4. Dorset Police fund 11.76% of the Chief Superintendent ESN Programme Director post.

5. The costs of the Chief Superintendent are 100% funded by the College of Policing.

24.2 Group Termination Costs

The total termination costs (exit costs) shown in the table below are the payments made to individuals plus payments to recompense the pension fund for the strain calculated on an actuarial basis in 2019/20 and 2020/21. They relate to staff employed by the Group. The costs charged in the Comprehensive Income and Expenditure Statement include adjustments for the sharing of costs between Dorset Police and Devon and Cornwall Police under the Strategic Alliance Agreement. The adjustments 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	
	2019/20	2020/21	2019/20	2020/21	2019/20	2020/21	2019/20 £'000	2020/21 £'000
£0 – £20,000	0	0	0	4	0	4	0	40
£20,001 - £40,000	0	0	0	0	0	0	0	0
£40,001 - £60,000	0	0	0	0	0	0	0	0
£60,001 - £80,000	0	0	0	0	0	0	0	0
£180,001 - £200,000	0	0	1	0	1	0	198	0
£280,001- £300,000	0	0	1	0	1	0	288	0
Total included in bandings and in CIES	**0**	**0**	**2**	**4**	**2**	**4**	**486**	**40**
Adjustments to reflect costs charged in Comprehensive Income and Expenditure Statement								
Redundancy cost recharged from Devon and Cornwall Police to Dorset Police							21	3
Redundancy cost recharged to Devon and Cornwall by Dorset Police							(144)	0
Exit Costs charged to the Comprehensive Income and Expenditure Statement							**363**	**43**

Note 24 Officers' Remuneration Continued

24.3 Remuneration Bands

The figures presented below do not include the remuneration of the senior employees and relevant police officers as they have been disclosed separately but do include other police staff and police officers remuneration.

2019/20 Number of employees	Remuneration Band	2020/21 Number of employees
144	£50,000 - £54,999	143
82	£55,000 - £59,999	100
28	£60,000 - £64,999	48
9	£65,000 - £69,999	0
2	£70,000 - £74,999	6
0	£75,000 - £79,999	3
8	£80,000 - £84,999	6
0	£85,000 - £89,999	4
0	£90,000 - £94,999	2
1	£95,000 - £99,999	0
0	£100,000 - £104,999	0
1	£105,000 - £109,999	1
275	**Total**	**313**

- The Police and Crime Commissioner has chosen to disclose all police officers earning more than £50,000 on a voluntary basis (the legislative requirement is to include only police officers above the rank of superintendent).
- The above table does not include staff and officers paid below £50,000 who make up approximately 91% of the workforce.
- Pay scales for police officers are set nationally.

Note 25 Grant Income

The Police and Crime Commissioner Group credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement.

2019/20 £'000		2020/21 £'000
	Credited to Taxation and Non Specific Grant Income	
(41,544)	Police Grant	(44,805)
(25,337)	Council Tax Support Grants	(26,488)
(4,336)	Recognised Capital Grant and Contributions	(6,000)
(71,217)	**Total**	**(77,293)**
	Credited to Services	
(12,648)	Police Transformation Fund - Transforming Forensics	(18,148)
(5,238)	PFI Grant	(6,865)
(2,740)	Other Local Grants	(1,081)
(890)	Commissioning	(1,579)
(221)	Criminal Record Bureau Grant	0
0	Projects	(3,945)
(64)	Pre 90 Loan Charges Grant	0
(21,801)	**Total**	**(31,618)**
	Credited to Other Operating Income and Expenditure	
(22,602)	Pensions Top Up Grant	**(23,026)**
	Donated Inventories Account	
0	Donation of PPE Stock	**(41)**

Note 26 Related Party Transactions, Commissioning, Partnerships and Collaborations

26.1 Related Party Transactions

The Police and Crime Commissioner is required to disclose material transactions with related parties, including central government, other local authorities, members, senior officers and their close families.

26.1.1 Central Government

The United Kingdom Government has effective control over the general operations of the Police and Crime Commissioner. it is responsible for providing the statutory framework within which the Police and Crime Commissioner operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Police and Crime Commissioner has with other parties (e.g. council tax bills). Grants received from government departments are set out in the Grant Income Note. Outstanding balances are set out in the Debtors and Creditors Notes.

26.1.2 Independent Officers

The Chief Executive of the Office of the Police and Crime Commissioner has written to all members explaining the need for disclosure. Independent Officers' interests are also publicly reported on the Police and Crime Commissioner's website. No relevant transactions have been reported.

26.1.3 Officers

The Chief Executive of the Office of the Police and Crime Commissioner has written to all senior officers explaining the need for disclosure. There are no disclosures required.

Note 26 Related Party Transactions, Commissioning, Partnerships and Collaborations Continued

26.2 Commissioning and Partnerships

There are a number of partnerships in which the Police and Crime Commissioner participates. These are arrangements where the Police and Crime Commissioner carries out activities relevant to its own functions jointly with others. For a number of the partnerships a formal partnership agreement is in place. The Police and Crime Commissioner accounts only for its share of the jointly controlled assets, liabilities and expenses that it incurs in relation to partnership activities. The main commissioning and partnership working is shown in the table.

2019/20				2020/21	
Expenditure £'000	Income £'000	Notes	OPCC Commissioning and Partnerships	Expenditure £'000	Income £'000
694	0	1	Commissioner's Safety Fund	677	0
310	0	2	Local Innovation Fund	343	(18)
890	(890)	3	Victims Services	933	(933)
60	(59)	4	Other Local Grants and Funding	0	(77)
7	0		Pension Cost	10	0
0	0		Accumulated Absence	1	0
1,961	**(949)**			**1,964**	**(1,028)**

Full details of the Police and Crime Commissioner's future plans and intentions with regard to commissioning and partnerships can be found in the Commissioning Intentions Plan and the Police and Crime Plan on the OPCC website.

The funding mechanisms for partnerships are complex, and the table above shows expenditure that has passed through the Police and Crime Commissioner's accounts. There are no significant jointly controlled assets or liabilities as at 31 March 2021.

26.2.1 Commissioner's Safety Fund

This fund covers numerous community based projects and the key initiatives covered in the above expenditure include:

The Maple Project - Domestic Abuse Advisors, employed by Dorset Police. This service ensures that women, men and children whose lives are affected by domestic abuse receive a high level of support and protection and perpetrators are held accountable for their actions and behaviour - *also part funded by the Victims Services budget.*

Drug Intervention Programme - Provision of appropriate support to people within the criminal justice system with substance misuse issues.

Safe Schools and Communities Team (SSCT) - SSCT provide targeted interventions to young people and the wider community, helping to reduce and prevent crime and Anti Social Behaviour (ASB) - core contributor to the SSCT.

Combined Dorset Youth Offending Services (YOS) - Supporting the YOS to provide interventions that reduce and prevent offending/reoffending by children and young people within the criminal justice system - *core contributor to the Youth Offending Service for pan-Dorset.*

Restorative Justice Service - Providing a pan-Dorset Restorative Justice and restorative mediation capability for victims of crime and anti-social behaviour - *also part funded by the Victims Services budget*.

Victims Bureau - funding towards the running costs of a team dedicated to supporting victims of crime Enabling direct contact by Dorset Police with victims of crime, including providing updates on progress of relevant cases through the Criminal Justice System.

Note 26 Related Party Transactions, Commissioning, Partnerships and Collaboration Continued

Victim Support – Support for victims of domestic abuse – *primarily funded from the Victim Services budget*

Boscombe Community Safety Accreditation Scheme - Enabling accreditation of Bournemouth Christchurch and Poole Council employed staff in order to enhance the delivery of community safety interventions within Boscombe.

Learning Disability Advisors - Providing targeted support to victims of crime with learning difficulties, including providing advice regarding the criminal justice process.

Police Consultation Groups - Enabling Dorset Police to consult with appropriate and experienced organisations representing harder to reach communities.

Electronic Tagging scheme - Lease of electronic tags to be issued to offenders as a part of their bail conditions.

Stalking Co-ordinator – Funding for an Independent Stalking Advocate post to reduce risk and increase safety by providing an effective service to all high-risk victims of stalking.

26.2.2 Local Innovation Fund

This fund covers numerous community based projects and the key initiatives covered in the above expenditure include:

Adult Return Home Interview Pilot - A service for vulnerable adults who return home or to an appropriate place of safety following a missing episode, to understand the reasons for them going missing and put appropriate support in place.

Weymouth Community Safety Accreditation Scheme (CSAS) - Accrediting council staff to use certain police and council powers reduce anti-social behaviour, street drinking, rough sleeping and begging in Weymouth, primarily in the Melcombe Regis area of the town.

Poole CSAS - Enabling accreditation of Bournemouth Christchurch and Poole Council employed staff in order to enhance the delivery of community safety interventions within Poole Town Centre and the bus station.

Circles South-West - To provide Circles of Support to known perpetrators of sexual offences, to reduce offending behaviours and therefore prevent further sexual abuse. Circles are delivered to adults convicted of serious sexual offences who have been assessed as high or very high risk of re-offending and/or serious harm.

Regional Re-offending – Collaborative funding with SW forces for a Re-Offending Co-ordinator to explore potential opportunities for commissioning or co-commissioning of services to reduce re-offending.

AFC Bournemouth County Lines Programme – The 'Own Goal' Diversionary programme is delivered by AFC Bournemouth Football club, and targets youths involved or at risk of being exploited by County Lines Gangs. The scheme identifies youths though an educational setting and offers the programme.

BID ASB Fund – a targeted fund for BIDS and Crime Prevention Panels to apply for funding to help tackle business related anti-social behaviour in their areas. Bids were received for shop watch schemes, improved CCTV infrastructure, and physical security.

Covid 19 Grants – The Covid-19 Grant was a financial resource provided by the PCC to support charities during the global pandemic, and was to be used as emergency funding to help charities struggling financially, to provide support for the emergence of new issues, or to support during the recovery from covid-19 and social isolation.

Note 26 Related Party Transactions, Commissioning, Partnerships and Collaborations Continued

26.2.3 Victims Services, CSA and Police Transformation Funding

Independent Sexual Violence Advisors (ISVA) - Sub-contract of the Sexual Assault Referral Centre (SARC) - Provision of ISVAs to provide targeted support to victims of sexual violence, including providing advice regarding the criminal justice process.

Victims Services - Providing emotional and practical support to victims of crime in Dorset.

Dorset Rape Crisis Counselling Services - Providing immediate and ongoing support to victims and survivors of sexual violence, including longer-term specialist support.

26.2.4 Other Local Grants

Safer Dorset Fund is a Community Grant Scheme which offers the ability for Charities and CIC's to apply for small grants, up to £3,000, to carry out projects which benefit Dorset's communities and in-line with the Police and Crime Plan objectives. In 2020/21 this was replaced by the Covid 19 grant scheme within the Local Innovation Fund.

Grants totalling £289,000 were provided by Ministry of Justice to provide additional support for charities working with victims of domestic abuse and sexual violence. The fund was to be used to:

1) address short term income disruption.
2) meet essential costs of sustaining current activities, such the purchasing of assets to support the move to remote and digital working, and additional staff to cover those unable to work for reasons related to the pandemic; and
3) address increased demand.

Safer Streets Funding totalling £266,000 was provided by the Home Office to improve the areas of Boscombe and Pokesdown disproportionately affected by acquisitive crime and burglary. The funding was used for:

- improved CCTV infrastructure throughout the bid area, especially in blind spots.
- a second Bobby Van, designated to the area to provide target hardening, advice, and practical approaches to security to victims of burglary and vulnerable people.
- community capacity building, through neighbourhood watches, events, and engagement.

26.3 Collaborations

The Police and Crime Commissioner's Group have signed up to a number of joint operations. This involves joint working with specified Police Forces as part of a collaborative agreement. Part of the joint arrangement is to share control and have rights to net assets. Only significant partnerships where gross expenditure is £100k are disclosed. The table below shows the regional activity.

2019/20 Expenditure £'000	Notes	Joint Operation	2020/21 Expenditure £'000
954	1	South West Regional Special Branch	955
3,336	2	South West Regional Forensics Services	3,864
201	3	South West Police Procurement Services	217
1,111	4	South West ROCU	1,130
164	5	South West Regional Programme	175
5,766			**6,341**

Note 26 Related Party Transactions, Commissioning, Partnerships and Collaborations Continued

26.3.1 South West Regional Special Branch

South West Regional Special Branch is a partnership with Avon and Somerset Police, Devon and Cornwall Police and Wiltshire Police. Each Force has a committed number of staff who are based within their own Force area, but work on behalf of the four Forces. The force cost for the year was £955k. The total cost of £3,997k is split on a percentage basis, with Dorset Police contributing 23.9%, Avon and Somerset contributing 28.4%, Devon and Cornwall contributing 28.9% and Wiltshire Police contributing 18.8%.

26.3.2 South West Regional Forensics Services

South West Regional Forensics Services is a partnership with Avon and Somerset Police, Wiltshire Police and Devon and Cornwall Police as the lead Force. There are bases in all four Forces, with each force employing a number of staff. The Force cost for the year was £3,864k. Most of the £21,075k total cost is split on a percentage basis, with Dorset contributing 18.7%, Avon and Somerset contributing 36.6%, Devon and Cornwall contributing 30.5% and Wiltshire Police contributing 14.2%.

26.3.3 South West Police Procurement Services

South West Police Procurement Services is a partnership with Wiltshire Police, Gloucestershire Police and Devon and Cornwall Police as the host Force. Staff are based across the region, with them all employed by Devon and Cornwall Police. The Force cost for the year was £217k. The total cost of £1,113k is split on a percentage basis with Dorset Police contributing 19.5%, Wiltshire Police contributing 17.2%, Gloucestershire Police contributing 17.0% and Devon and Cornwall Police contributing £46.3%.

26.3.4 South West Regional Organised Crime Unit (ROCU)

South West ROCU is a partnership with Devon and Cornwall Police, Wiltshire Police, Gloucestershire Police and Avon and Somerset Police as the lead Force. Staff are employed by each partnering Police Force based within one of two hubs (North and South). The Force cost for the year was £1,130k. The total cost of £9,610k is split on a percentage basis with Dorset Police contributing 11.76%, Devon and Cornwall contributing 33.3%, Wiltshire contributing 11.68%, Gloucestershire contributing 10.83% and Avon and Somerset contributing 32.43%.

26.3.5 South West Regional Programme

The South West Regional Programme is a partnership with Dorset Police, Devon and Cornwall Police, Gloucestershire Police, Wiltshire Police with Avon and Somerset Police as the lead Force. The Programme consists of a range of teams that manage the implementation of collaboration business change projects. Costs are shared with the Forces that are involved in each project. The Force cost for the year was £175k. Most of the £1,374k total cost is split on a percentage basis with Dorset Police contributing 11.76%, Devon and Cornwall contributing 33.3%, Wiltshire contributing 11.68%, Gloucestershire contributing 10.83% and Avon and Somerset contributing 32.43%.

Note 26 Related Party Transactions, Commissioning, Partnerships and Collaborations Continued

26.4 Other Public Bodies

Most of the revenue to pay for the costs of policing comes from government grants co-ordinated nationally. District councils, borough councils and unitary authorities collect the balance by charging their council tax payers a police precept. The amounts collected (adjusted for surpluses or shortfalls collected for previous years) are shown below.

31 March 2020		31 March 2021
£'000	**Billing Authority**	£'000
35,069	Dorset Council	35,705
32,718	Bournemouth, Christchurch & Poole	34,617
67,787		**70,322**
(945)	Adjusted for accruals	(1,292)
66,842		**69,030**

The Police and Crime Commissioner purchases the pension administration services from Dorset Council. Transactions within the pension fund are shown in the Defined Benefit Pension Schemes Note. Outstanding balances with other public bodies are shown in the Debtors and Creditors Notes.

Note 27 Contingent Liabilities

27.1 Pension Guarantee

The PCC has along with all other PCC's provided a pension guarantee of £21k for the APCC pension fund which is currently held by Merseyside LGPS.

27.2 Compensation Claims

Claimants have lodged claims for compensation regarding the public service pension scheme reform. Test cases for these claims are due to be heard by the Employment Tribunal in December 2021. Claims for financial losses are currently stayed as consideration is given to the HM Treasury consultation response. As at 31 March 2021, it is not possible to reliably estimate the extent or likelihood of these claims being successful, and therefore no liability in respect of compensation claims is recognised in these accounts. It is anticipated that funding will be received from the Home Office to settle successful claims.

Note 28 Capital Expenditure and Financing

Within its four-year financial planning model, the Police and Crime Commissioner approves an annual capital programme to provide and maintain buildings, vehicles and other equipment for the Force. The report below shows what was spent and how the spending was financed.

2019/20			2020/21	
PCC	PCC Group		PCC	PCC Group
£'000	£'000		£'000	£'000
30,225	**30,225**	**Opening Capital Financing Requirement**	**30,802**	**30,802**
		Capital Investment:		
941	941	Land and buildings	2,547	2,547
0	1,157	Vehicles and Other Transport	0	1,772
0	4,702	Plant, Equipment and ICT	0	3,216
0	42	Intangible Assets	0	0
121	3,715	Revenue Expenditure Funded from Capital Under Statute	113	5,739
9,495	0	Intra-Group Transaction	10,614	0
10,557	10,557		13,274	13,274
		Less Sources of Finance:		
(421)	(4,336)	Government Grants	0	(5,967)
(121)	(684)	Capital Receipts	(113)	(234)
0	(530)	Minimum Revenue Provision	0	(110)
0	0	Finance Lease Repayment	0	(46)
(2,635)	(2,635)	PFI/Loan Charge Repayments and Adjustment	(4,902)	(4,902)
0	(1,795)	Reserves and Provisions	0	(3,014)
(6,803)	0	Intra-Group Transaction	(9,258)	0
(9,980)	(9,980)		(14,273)	(14,273)
30,802	**30,802**	**Closing Capital Financing Requirement**	**29,803**	**29,803**
		Represented by:		
26,940	26,940	PFI and Other Long Term Liabilities	23,499	23,499
3,744	3,744	Internal Borrowing	6,232	6,232
118	118	Finance Lease Liabilities	72	72
30,802	**30,802**		**29,803**	**29,803**
		Borrowing During the Year		
0	0	External Borrowing	0	0
(2,124)	(2,124)	PFI and Other Long Term Liabilities	(3,441)	(3,441)
2,583	2,583	Internal Borrowing	2,488	2,488
118	118	Finance Lease	(46)	(46)
577	**577**		**(999)**	**(999)**

Note 29 Office of the Police and Crime Commissioner

2019/20		2020/21
£'000	**Office of the Police and Crime Commissioner**	£'000
12	Independent members and advisors costs	12
130	Police and Crime Commissioner including reimbursements	139
835	Statutory and other OPCC staff	783
256	Other costs	319
0	Income	0
1,233	**Sub-total**	**1,253**
268	Pension costs	201
4	Accumulated Absence	11
0	Revenue Contribution to Capital	(25)
0	Transfer to/(from) reserves	(160)
2,703	Depreciation	853
4,208	**Total**	**2,133**

Disclosed below are the PCC remuneration costs which are included within the above table.

2019/20		2020/21
£'000	**Police and Crime Commissioner**	£'000
79	Salary, Fees and Allowances	81
0	Benefits in Kind	0
79	**Total excluding pension contributions**	**81**
11	Employer's Pension	12
90	**Total**	**93**

Note 30 Operating Leases

The Police and Crime Commissioner leases some properties used to provide operational services. The total future minimum lease payments under non-cancellable leases in future years are:

31 March 2020		31 March 2021
£'000		£'000
230	Not later than one year	224
740	Later than one year and not later than five years	704
1,313	Later than five years	1,485
2,283		**2,413**

The expenditure charged to the CIES during the year in relation to these leases was:

31 March 2020		31 March 2021
£'000		£'000
214	Minimum lease payment	172
214		**172**

Note 31 Defined Benefit Pension Schemes

As part of the terms and conditions of employment of its officers and staff, the Police and Crime Commissioner Group makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the Group has a commitment to make the payments (for those benefits) and to disclose them at the time that employees earn their future entitlement. The Police and Crime Commissioner Group operates four pension schemes, three for police officers and one for police staff. All are defined benefits schemes, providing members with benefits based on their pensionable pay and length of service. The disclosures on pensions use specialist terminology. Definitions are provided in the glossary. The police officer pension's disclosures below apply to the Group Accounts only, this is because all of the police officers are under the control of the Chief Constable and for this reason there are no charges to the Police and Crime Commissioner single entity accounts other than the intra-group transfers.

The Chief Constable along with other Chief Constables and the Home Office currently has a number of claims in respect of unlawful discrimination arising from transitional provisions in the Police Pension Regulations 2015. The claims against the Police pension scheme (the Aarons case) had previously been stayed behind the McCloud/Sargeant judgement, but a case management was held in Oct 2019, with the resulting Order including an interim declaration that the claimants are entitled to be treated as if they had been given full transitional protection and had remained in their existing scheme after 1 April 2015. Whilst the interim declaration applied only to claimants, the Government made clear through a Written Ministerial Statement on 25 March 2020 that non-claimants would be treated in the same way.

On 16 July 2020, HM Treasury issued a consultation regarding transitional arrangements for public sector pensions to eliminate discrimination as identified through the McCloud/Sargeant cases. This consultation introduced a requirement for members to have been members of the scheme on or before 31 March 2012 and on or after 1 April to be eligible for remedy.

On 4 February 2021, HM Treasury issued their response to the consultation which confirmed the remedy arrangements set out in the consultation, and states that members would be given a choice as to whether to retain benefits from their legacy pension scheme, or their new scheme, during the remedy period (2015-2022). This choice will be deferred for members until retirement. As the findings of the original Employment Tribunal did not identify that the introduction of the new public sector pension schemes were discriminatory (rather it was the transitional provisions), the legacy schemes will be removed from April 2022 to be replaced by the new pension schemes originally introduced in 2015.

The impact of an increase in annual pension payments arising from McCloud/Sargeant is determined through the Police Pension Fund Regulations 2007. These require the Police and Crime Commissioner Group to maintain a pension fund into which officer and employer contributions are paid and out of which pension payments to retired officers are made. If the police pension fund does not have sufficient funds to meet the cost of pensions in year the amount required to meet the deficit is then paid by the Secretary of State to the Group in the form of a central government top-up grant.

Giving full transitional protection to members would lead to an increase in the Police Pension Scheme liabilities. In 2018/19, scheme actuaries estimated the potential increase in scheme liabilities to be £33.174m. This increase was reflected in the IAS 19 disclosure as a past service cost. In 2019/20, scheme actuaries reviewed these assumptions at a force level. The proposed remedy reduced the liability in 2019/20 by £5.642m.

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

With regard to the LGPS a similar adjustment was made in the 2018/19 accounts to reflect an increase in the present value of the defined benefit obligation. This increase was shown as a past service cost and amounted to £3.341m. In 2019/20 and 2020/21, the scheme actuaries reviewed the assumptions at a force level. The change in assumptions is reported in Other Comprehensive Income and Expenditure in the CIES.

Note 31 Defined Benefit Pension Schemes Continued

31.1 Police Officer Schemes

31.1.1 Participation in Pension Schemes

From 1 April 2015 both the 1987 and 2006 Police Officers' pension schemes were replaced by a new scheme with a future accrual based on the career average (CARE) model for new entrants. Both final salary police schemes closed from April 2015, however, there is protection for those who were members of the scheme prior to April 2012 who will be entitled to the benefits which would have accrued in their legacy scheme up to April 2022, at the point of their retirement. The new scheme is open to all newly recruited officers. The police officer pension schemes are unfunded defined benefit final salary schemes administered by the Chief Constable for Dorset, meaning that there are no investment assets built up to meet the pensions liabilities, and cash has to be generated to meet actual pension payments as they eventually fall due. Pensions are financed from the Group's and employee's (police officers) contributions. Any deficit is met by the Home Office in the form of a top up grant. The Group's and the employee contributions are paid into a separate Police Officers' Pension Fund Account.

Police Pension Fund Regulations require Police and Crime Commissioners to transfer a sum not exceeding the amount that the Police Pensions Fund is in deficit at 31 March from the Police and Crime Commissioner's General Fund into the Police 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 pension fund is in surplus for the year, the surplus is required to be transferred from the pension fund to the Police and Crime Commissioner, who then must repay the amount to central government. The Group makes payments under the Police Injury Benefits Regulations. These payments are accounted for in the same way as payments under the main police officer pension scheme. The independent actuary has estimated the costs and they are included within Police Officers scheme disclosure.

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

2019/20 £'000		2020/21 £'000
(1,439,638)	**Opening balance at 1 April**	**(1,349,345)**
(35,063)	Current service cost	(29,596)
(34,089)	Interest cost	(31,244)
(6,215)	Contributions from scheme participants	(6,571)
	Remeasurement gains and (losses):	
(9,550)	• Actuarial gains/(losses) arising from changes in demographic assumptions	22,504
124,619	• Actuarial gains/(losses) arising from changes in financial assumptions	(330,131)
0	• Experience gains/(losses) on defined benefit obligation	(47,930)
43,517	Benefits paid	45,001
5,642	Past service costs, including curtailments	0
1,432	Injury pension payments	1,390
(1,349,345)	**Closing balance at 31 March**	**(1,725,922)**

31.1.3 Transactions relating to Retirement Benefits

The Group recognises the cost of retirement benefits for police officers in the reported cost of services when they are earned by police officers, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against council tax is based on the cash payable in the year, so the real cost of post-employment /retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made for the police officer schemes in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year.

Note 31 Defined Benefit Pension Schemes Continued

2019/20 £'000	Comprehensive Income and Expenditure Account	2020/21 £'000
	Cost of Services	
35,063	Current service cost	29,596
(5,642)	Past service cost	0
	Financing and Investment Income and Expenditure	
34,089	Net interest expense	31,244
63,510	**Total Post-Employment Benefits charged to the Surplus or Deficit on the Provision of Services**	**60,840**
	Other Post-Employment Benefits charged to the Comprehensive Income and Expenditure Statement	
	Remeasurement of the net defined benefit liability comprising:	
9,550	• Actuarial (gains) and losses arising on changes in demographic assumptions	(22,504)
(124,619)	• Actuarial (gains) and losses arising on changes in financial assumptions	330,131
0	Experience (gain)/loss on defined benefit obligation	47,930
(51,559)	**Total Post-Employment Benefits charged to the Comprehensive Income and Expenditure Statements**	**416,397**
	Movement In Reserves Statement	
(63,510)	Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post-employment benefits in accordance with the code	(60,840)
	Actual amounts charged against the General Fund Balance for pensions in the year:	
16,132	Employers' contributions payable to scheme	16,794
22,602	Home Office Top Up Grant	23,026

The 2019/20 past service cost reflects the impact of the proposed remedy, which is a reduction to the liability of £5.642m.

31.1.4 Impact on the Police and Crime Commissioner's Cashflow

The liabilities show the underlying commitments that arise from the fact that the Police and Crime Commissioner has to pay retirement benefits over a long-term period. The total liability of £1,726m has a substantial impact on the net worth of the Group as recorded in the balance sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Police and Crime Commissioner remains healthy, as:

- scheme deficits are met by the Home Office
- finance is only required to be raised to cover police pensions when the pensions are actually paid, not when they are earned

The total contributions expected to be made to the Police Pension Fund Account in the year to 31 March 2022 is £15.767m. This estimation excludes the capitalised cost of any early retirements or augmentations which may occur after 31 March 2021. These projections are based on the assumptions as at 31 March 2021.

Note 31 Defined Benefit Pension Schemes Continued

31.1.5 Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates and salary levels.

The Police Officer Pension Scheme liabilities have been estimated by Barnett Waddingham LLP, an independent firm of actuaries, estimates being based on the latest full valuation of the scheme as at 31 March 2020.

Employer contributions are set every four years as a result of the combined actuarial valuation of the Scheme required by the Home Office on behalf of the Home Secretary. The last combined actuarial valuation was completed at 31 March 2016 which set the contributions for the period from 1 April 2019 to 31 March 2023. The next combined actuarial valuation will be carried out as at 31 March 2020.

The significant assumptions used by the actuary have been:

2019/20	Mortality Assumptions:	2020/21
	Longevity at 65 for current pensioners:	
21.6	Men	21.1
23.7	Women	23.3
	Longevity at 65 for future pensioners:	
23.3	Men	22.3
25.5	Women	24.8
	Financial Assumptions:	
1.90%	Rate of Inflation	2.85%
3.40%	Rate of increase in salaries	3.85%
1.90%	Rate of increase in pensions	2.85%
2.35%	Rate for discounting scheme liabilities	2.00%

It is assumed that members do not transfer any of their lump sum for pension and that active members will retire when they are first able to do so without reduction.

The estimated weighted average duration of the Police Officer schemes is 18 years, and it is this duration that has been used to derive the assumptions. The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analysis below has been determined based on reasonable possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. Changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

Impact on the Defined Benefit Obligation in the Scheme	Increase in Assumption £'000	Decrease in Assumption £'000
Mortality age rating assumption (increase or decrease in 1 year)	82,855	(78,994)
Rate of increase in salaries (increase or decrease by 0.1%)	3,141	(3,123)
Rate of increase in pensions (increase or decrease by 0.1%)	28,560	(28,003)
Rate for discounting scheme liabilities (increase or decrease by 0.1%)	(31,352)	31,998

Note 31 Defined Benefit Pension Schemes Continued

31.2 Police Staff Scheme

31.2.1 Participation in Pension Schemes

Police Staff are part of the Local Government Pension Scheme administered by Dorset Council. This is a funded defined benefit career average scheme meaning that the Police and Crime Commissioner Group and employees pay contributions into a fund, calculated at a level intended to balance the pension's liabilities over time with investment assets. In addition to the above scheme there are arrangements for the award of discretionary post-employment benefits upon early retirement – this is an unfunded defined benefit arrangement under which liabilities are recognised when awards are made. As these benefits are unfunded, cash has to be generated to meet actual pension payments as they fall due.

31.2.2 Transactions Relating to Retirement Benefits

The Group recognises the cost of retirement benefits for police staff in the reported cost of services when they are earned by police staff, rather than when the benefits are eventually paid as pensions. However, the charge that is required to make against council tax is based on the cash payable in the year, so the real cost of post-employment /retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made for the police staff scheme in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year.

2019/20		Comprehensive Income and Expenditure Account	2020/21	
PCC	PCC Group		PCC	PCC Group
£'000	£'000		£'000	£'000
		Cost of Services		
		Service cost comprising:		
281	13,328	• Current service cost	338	16,709
0	0	• Past service cost	12	588
115	5,518	• (Gain)/loss from settlements	0	0
3	137	• Administration Expenses	3	127
		Financing and Investment Income and Expenditure		
64	3,031	Net interest expense	58	2,927
463	**22,014**	**Total Post-Employment Benefits charged to the Surplus or Deficit on the Provision of Services**	**411**	**20,351**
		Other Post-Employment Benefits Charged to Comprehensive Income and Expenditure Statement		
		Remeasurement of the net defined benefit liability comprising:		
484	22,928	• Return on plan assets (excluding the amount included in the net interest expense)	(729)	(36,065)
(140)	(6,647)	• Actuarial (gains) and losses arising on changes in demographic assumptions	(61)	(3,039)
(762)	(36,124)	• Actuarial (gains) and losses arising on changes in financial assumptions	2,003	99,183
315	0	Apportionment Adjustment	(219)	0
(2)	(92)	Other Actuarial Gains/Losses	0	0
(61)	(2,895)	Experience (gain)/loss on defined benefit obligation	(65)	(3,218)
297	**(816)**	**Total Post Employment Benefit charged to the Comprehensive Income and Expenditure Statement**	**1,340**	**77,212**

Note 31 Defined Benefit Pension Schemes Continued

2019/20 PCC £'000	2019/20 PCC Group £'000	Movement in Reserves Statement	2020/21 PCC £'000	2020/21 PCC Group £'000
(463)	(22,014)	Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post-employment benefits in accordance with the code	(411)	(20,351)
Funded Liabilities PCC £'000	**Funded Liabilities PCC Group £'000**	**Actual amount charged against the General Fund Balance for pensions in the year:**	**Funded Liabilities PCC £'000**	**Funded Liabilities PCC Group £'000**
125	5,913	Employers' contributions payable to scheme	141	6,983
Unfunded Liabilities PCC £'000	**Unfunded Liabilities PCC Group £'000**	**Actual amount charged against the General Fund Balance for pensions in the year:**	**Unfunded Liabilities PCC £'000**	**Unfunded Liabilities PCC Group £'000**
0	17	Retirement benefits payable to pensioners	0	18

31.2.3 Pension Assets and Liabilities recognised in the Balance Sheet

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

31 March 2020 PCC £'000	31 March 2020 PCC Group £'000		31 March 2021 PCC £'000	31 March 2021 PCC Group £'000
(6,239)	(282,308)	Present value of the defined benefit obligation	(7,979)	(394,977)
3,708	167,927	Fair value of plan assets	4,250	210,385
(2,531)	**(114,381)**	**Net liability arising from defined benefit obligation**	**(3,729)**	**(184,592)**

Incorporated within the asset and liability figures is an allowance for the settlement of the ongoing Dorset Police and Devon and Cornwall Police bulk transfers of staff pensions that have arisen as a consequence of the Alliance arrangements.

Note 31 Defined Benefit Pension Schemes Continued

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

31 March 2020			31 March 2021	
PCC	PCC Group		PCC	PCC Group
£'000	£'000		£'000	£'000
3,302	**175,779**	**Opening fair value of scheme assets**	**3,708**	**167,927**
96	4,532	Interest income	70	3,483
		Remeasurement gain/(loss):		
(484)	(22,928)	• The return on plan assets, excluding the amount included in the net interest expense	729	36,065
572	0	Apportionment Adjustment	(316)	0
(3)	(137)	Administration expenses	(3)	(127)
125	5,930	Contributions from employer	141	7,001
47	2,233	Contributions from employees into the scheme	54	2,668
(113)	(5,371)	Benefits paid	(133)	(6,632)
165	7,797	Settlement prices received/(paid)	0	0
1	92	Other actuarial gains and (losses)	0	0
3,708	**167,927**	**Closing fair value of scheme assets**	**4,250**	**210,385**

31.2.5 Reconciliation of present Value of the Scheme of Liabilities (Defined Benefit Obligation)

31 March 2020			31 March 2021	
PCC	PCC Group		PCC	PCC Group
£'000	£'000		£'000	£'000
(5,658)	**(296,906)**	**Opening balance at 1 April**	**(6,239)**	**(282,308)**
(281)	(13,328)	Current service cost	(338)	(16,709)
(160)	(7,563)	Interest cost	(129)	(6,410)
(47)	(2,233)	Contributions from scheme participants	(53)	(2,668)
		Remeasurement gain/(loss):		
140	6,647	• Actuarial gains/(losses) arising from changes in demographic assumptions	61	3,038
762	36,124	• Actuarial gains/(losses) arising from changes in financial assumptions	(2,003)	(99,183)
61	2,895	• Experience gain/(loss) on defined benefit obligation	65	3,218
(281)	(13,315)	Liabilities assumed/(extinguished) on settlements	0	0
(887)	0	Apportionment Adjustment	535	0
0	0	Past service cost including gains/(losses) on curtailments	(12)	(588)
112	5,371	Benefits paid	134	6,633
(6,239)	**(282,308)**	**Closing balance at 31 March**	**(7,979)**	**(394,977)**

Amendments to the IAS19 standard now requires that, when determining any past service cost or gain or loss on settlement, the net defined benefit liability is remeasured using current assumptions and the fair value of plan assets at the time of the event. These events are referred to as “special events”. During the year there were two former employees that were entitled to unreduced early retirement benefits that have been classed as special events. The cost of these additional benefits on IAS19 compliant assumptions has been calculated at £588k and is shown in the table above.

The Police and Crime Commissioner's Group contribution to the Local Government Pension Scheme for the accounting period to 31 March 2022 is estimated to be £7.176m of which £0.145m is for the Police and Crime Commissioner. This estimation excludes the capitalised cost of any early retirements or augmentations which may occur after 31 March 2021. These projections are based on the assumptions as at 31 March 2021.

Note 31 Defined Benefit Pension Schemes Continued

31.2.6 Local Government Pension Scheme assets comprised

31 March 2020			31 March 2021	
PCC	PCC Group	Fair Value of Scheme assets	PCC	PCC Group
£'000	£'000		£'000	£'000
		Cash and cash equivalents		
1,930	83,656	UK Equities	2,286	113,181
201	9,515	Diversified Growth Fund	213	10,543
403	19,109	Gilts	477	23,608
290	13,739	Other Bonds	315	15,616
407	19,306	Property	390	19,285
245	11,603	Infrastructure	261	12,913
74	3,500	Cash	91	4,493
0	0	Secured Income Funds	21	1,060
158	7,499	Multi Asset Credit	196	9,686
3,708	**167,927**	**Total**	**4,250**	**210,385**

31.2.7 Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc.

The liabilities have been estimated by Barnett Waddingham LLP, an independent firm of actuaries, estimates being based on the latest full triennial valuation of the scheme as at 31 March 2019.

The significant assumptions used by the actuary have been:

2019/20		2020/21
	Long-term expected rate of return on assets in the scheme:	
2.35%	Equity investments	2.00%
2.35%	Bonds	2.00%
2.35%	Other	2.00%
	Mortality assumptions:	
	Longevity at 65 for current pensioners:	
23.3	Men	23.1
24.7	Women	24.6
	Longevity at 65 for future pensioners:	
24.7	Men	24.4
26.2	Women	26.0
	Financial Assumptions:	
1.85%	Rate of inflation	2.80%
2.85%	Rate of increase in salaries	3.80%
1.85%	Rate of increase in pensions	2.80%
2.35%	Rate for discounting scheme liabilities	2.00%

The past service liability duration has been estimated at 24 years. This duration has been calculated based on the membership data provided for the most recent full valuation of the liabilities at 31 March 2019. The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analysis below has been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

Note 31 Defined Benefit Pension Schemes Continued

31.2.8 Impact on the Defined Benefit Obligation in the Scheme

	Increase in Assumption £'000	Decrease in Assumption £'000
PCC		
Mortality age rating assumption (increase or decrease in 1 year)	336	(322)
Rate of increase in salaries (increase or decrease by 0.1%)	23	(23)
Rate of increase in pensions (increase or decrease by 0.1%)	165	(161)
Rate for discounting scheme liabilities (increase or decrease by 0.1%)	(186)	190
PCC Group		
Mortality age rating assumption (increase or decrease in 1 year)	16,641	(15,941)
Rate of increase in salaries (increase or decrease by 0.1%)	1,160	(1,149)
Rate of increase in pensions (increase or decrease by 0.1%)	8,176	(7,979)
Rate for discounting scheme liabilities (increase or decrease by 0.1%)	(9,191)	9,419

31.2.9 Other Assumptions

It is assumed that:

- Members will exchange pension to get 50% of the maximum available cash on retirement. For every £1 of pension that members commute, they will receive a cash payment of £12 as set out in the Regulations;
- Members will retire at one retirement age for all tranches of benefit, which will be the pension weighted average tranche retirement age; and
- The proportion of the membership that had taken up the 50:50 contribution option at the previous valuation date will remain the same.

31.2.10 Impact on the Police and Crime Commissioner's Cash Flows

The objectives of the scheme, as administered by Dorset Council, are to keep employer's contributions at as constant a rate as possible. A strategy has been agreed with the scheme's actuary to achieve a funding level of 100% over the next 24 years. Contributions are set every three years as a result of the actuarial valuation of the Fund required by the Regulations. The next actuarial valuation will be carried out as at 31 March 2022 and will set contributions for the period from 1 April 2023 to 31 March 2026.

Dorset Council publishes details of the Fund's performance. They can be contacted at Dorset Council, County Hall, Dorchester, Dorset DT1 1XJ. More detail can be found on their website https://dorsetpensionfund.org/

Note 32 Private Finance Initiatives

The majority of the borrowing balance shown in the Balance Sheet relates to two Private Finance Initiatives.

Payments made to support the schemes are as follows:

2019/20 Payment for Services £'000	2019/20 Reimb. of Capital Exp £'000	2019/20 Interest £'000	2019/20 Total £'000		2020/21 Payment for Services £'000	2020/21 Reimb. of Capital Exp £'000	2020/21 Interest £'000	2020/21 Total £'000
4,048	2,634	1,484	8,166	Payable within 1 year	3,809	2,721	1,496	8,026
16,782	10,809	9,285	36,876	Payable within 2 to 5 years	17,397	11,109	4,734	33,240
21,786	12,930	4,060	38,776	Payable within 6 to 10 years	22,279	12,305	3,520	38,104
16,034	9,874	1,338	27,246	Payable within 11 to 15 years	11,624	7,478	847	19,949
58,650	**36,247**	**16,167**	**111,064**	**Total**	**55,109**	**33,613**	**10,597**	**99,319**

Value of Assets under PFI Contract

The value of assets held under PFI contracts and their movements during the year is set out in Note 11. The movement in the value of liabilities resulting from the contract is as follows:

	2019/20 £'000	2020/21 £'000
Balance outstanding at start of year	**(27,978)**	**(25,974)**
Payments during the year	2,515	2,634
Capital Expenditure incurred in the year	(511)	(1,461)
Adjustment to the liability	0	2,148
Balance outstanding at year-end	**(25,974)**	**(22,653)**

A review of the PFI liability identified that the liability was overstated by £2.148m as the proceeds from the sale of land transferred to the operator had not been deducted from the liability at the outset of the arrangement. The 2020/21 liability balance includes this adjustment.

Payments

An agreed payment (or unitary charge) is made each year which comprises both fixed and variable elements. Payments remaining to be made under the service concession contract at 31 March 2021 are as follows:

Although the payments made to the contractor are described as unitary payments, they have been calculated to compensate the contractor for the fair value of the services they provide, the capital expenditure incurred and interest payable whilst the capital expenditure remains to be reimbursed. The liability outstanding to be paid to the contractor for capital expenditure incurred is as follows:

2019/20 £'000		2020/21 £'000
13,694	**Assets Opening Balance**	**15,128**
511	Additions/Development/Lifecycle	1,488
1,157	Revaluations	(1,937)
(234)	Depreciation	(242)
15,128	**Closing Balance**	**14,437**

Pension Fund Accounting Statements

Police Officers' Pension Fund Statement

The Chief Constable is responsible for administering the Police Pension Fund in accordance with the Police Reform and Social Responsibility Act 2011. During the year all payments and receipts are made to and from the Police and Crime Commissioner Group Police Fund. The statement shows income and expenditure for the Police Pension Scheme, this expenditure is not consolidated into the Police and Crime Commissioner Group Accounts.

31 March 2020 £'000		31 March 2021 £'000
	Contributions Receivable	
(14,210)	Employers (normal)	(15,052)
(6,215)	Employees (normal)	(6,571)
(489)	Ill Health capital charge	(352)
	Transfers In	
(331)	Individual transfers from other schemes	(300)
	Benefits payable	
37,063	Pensions	37,580
6,784	Commutations & lump sum retirement benefits	7,721
	Payment to and on account of leavers	
0	Individual transfers to other schemes	0
22,602	**Net amount paid during the year**	**23,026**
(22,602)	**Transfer from Police Fund***	**(23,026)**
0	**Net amount payable / receivable for the year**	**0**
	***Additional contribution funded from the Police Fund is met by a top up grant from the Home Office**	
17,788	Received in year	18,623
4,814	Debtor	4,403
22,602		**23,026**

The Police Officer Pension Fund is unfunded and has no investment assets. Short term assets or liabilities are not material and have not been disclosed for this reason. The Police Officer Pension Fund which is administered by the Chief Constable has been set up for the specific purpose of administering the collection of contributions, the payment of pensions and the refund to central government for the balance outstanding for each year. The fund does not hold any investment assets nor does it reflect the liabilities of both Schemes to pay present and future pensioners.

The main benefits payable are police officer pensions, lump sums that represent the commutation of pensions and other lump sum payments. The Chief Constable paid a contribution equal to 31% of police officer pay for 2020/21. As this contribution was insufficient to meet the net costs of benefits after employees' contributions, the account was balanced to nil at the year-end by the Home Office top up grant.

The above accounting statement complies with the accounting policies where applicable.

Further information can be found in the Defined Benefits Pension Schemes Note.

This Financial Statement does not take account of liabilities to pay pensions and other benefits after the 31 March 2021.

Glossary

Glossary

Accounting Period	The period of time covered by the accounts, usually a full year, which for the Office of the Police and Crime Commissioner runs from 1 April to 31 March.
Accrual	Amounts included in the final accounts to cover income and expenditure relating to the accounting period but neither paid nor received by 31 March. (For example, goods delivered in March but not invoiced by suppliers until April.)
Actuarial Gains and Losses	Changes in the net pension's liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions.
Actuarial Valuation	An independent report on the financial status of a Pension Fund, which shows the estimated cost today of providing benefits in the future.
Agency Services	Services provided by one body (the agent) on behalf of, and generally with payment from, the responsible body.
Amortised Cost	This method applies to both financial assets and liabilities. It is a method of determining the Balance Sheet carrying amount and periodic charges or credits to the Income and Expenditure Account of a financial instrument from the expected cash flows. This approach sees through the contractual terms (for example discounts and premiums) to measure the real cost that a Police and Crime Commissioner bears each year from entering into a financial liability. The Office of the Police and Crime Commissioner does not currently have any complex financial instruments where the contractual terms vary significantly from the real cost. For this reason the amortised cost of financial instruments is close to contractual cost.
Appropriation	Charges to the revenue account that build up funds and reserves in the balance sheet.
Asset	Physical assets such as equipment and financial assets such as cash and amounts owed by debtors.
Bid Price	A valuation of financial assets based on the highest price a buyer is willing to offer.
Budget	The Police and Crime Commissioner's plan for providing resources to meet its service obligations. The Office of the Police and Crime Commissioner sets an annual budget within a four year financial strategy.
Capital Expenditure	The cost of buying or building significant assets (e.g. land and buildings) which have a long-term value to the Office of the Police and Crime Commissioner. *(Also referred to as capital spending or capital payments).*
Capital Grants	Grants received by the Office of the Police and Crime Commissioner that can only be used to pay for capital projects.
Capital Receipts	Income from the sale of capital assets (land, buildings, etc.). In the public sector, there are generally strict rules on what the receipts can be spent on.
Carrying Amount	This is the amount of a financial asset or liability that should be recorded in the Balance Sheet for a given date based upon the correct measurement approach for the financial asset or liability.
Cash Flow Statement	This statement summarises the inflows and outflows of cash.
CIPFA	The Chartered Institute of Public Finance and Accountancy, the professional body that sets accounting standards for the public sector.
Collection Fund	District and unitary councils pay all receipts from local taxpayers into a "collection fund". They then pay county, police, fire, district, unitary and parish council precepts from the fund.
Contingency	A reserve set aside to meet unexpected costs. For example, the Force always has major operations every year, but can never tell how many will happen or how much each will cost.
Contingent Liability	A possible cost of past events where the amount to be paid is not certain, or when the payment may not actually be made. (For example, where a court case is still undecided.)

Glossary Continued

Council Tax	A tax based on the value of property, which is administered by District and Unitary authorities.
Creditors	Amounts owed by the Police and Crime Commissioner for work done, goods received or services received, but for which payment has not been made by the end of the accounting period.
Current Assets and Liabilities	Current assets are items that can be readily converted into cash. Current liabilities are items that are due immediately or in the short-term.
Current Service Cost	The increase in the benefits earned by employees in the current period based on their pay and length of service. This is charged to the net cost of services.
Curtailments	Curtailments arise as a result of the early payment of accrued pensions on retirement on the grounds of efficiency or redundancy or where the Employer has allowed employees to retire on unreduced benefits before they would otherwise have been able to do so.
DCLG	Department for Communities and Local Government. This was renamed MHCLG (Ministry of Housing. Communities and Local Government) in January 2018 as part of a cabinet reshuffle.
Debtors	Amounts due to the Police and Crime Commissioner but unpaid by the end of the accounting period.
Deferred Charges	Costs built up when preparing for a capital project that does not eventually create or buy a fixed asset. Deferred charges are written out of the accounts in the year they are incurred.
Defined Benefit Scheme	A pension scheme which defines the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme.
Depreciation	The accounting principle that spreads the cost of a fixed asset over its useful working life.
Discretionary Benefits	Retirement benefits which the employer has no legal, contractual or constructive obligation to award and which are awarded under the Police and Crime Commissioner's discretionary powers.
Earmarked Reserves	These reserves represent monies set aside to be used for a specific purpose.
Exit Costs	These are costs of packages for which the Police and Crime Commissioner is demonstrably committed to. The cost of the package includes the termination benefits, all relevant redundancy costs including compulsory and voluntary redundancy costs, pension contributions in respect of added years, ex gratia payments and other departure costs.
Expected Return on Assets	The average rate of return expected over the remaining life of the pension scheme from the actual investments held by the scheme. Fees charged by investment managers are taken out. The net income is credited to net operating expenditure.
Experience Gains and Losses (IAS 19 Pensions disclosure)	This shows the impact of actual experience differing from the accounting assumptions, such as pension increases differing from those assumed and unexpected membership movements.

Fair Value	This is defined as the amount for which an asset could be exchanged or a liability settled, assuming that the transaction was negotiated between parties knowledgeable about the market in which they are dealing and willing to buy/sell at an appropriate price, with no other motive in their negotiations other than to secure a fair price. In most cases, this amount will be the transaction price, e.g. the amount of a loan made.

Glossary Continued

Fixed Assets	Something of practical use that can be measured in cash terms, e.g. land and buildings, or computer and radio equipment.
FVOCI	Classification of Financial asset. FVOCI stands for, Fair Value through other Comprehensive Income.
FVPL	Classification of Financial asset. FVPL stands for, Fair Value through profit or loss.
International Financial Reporting Standards (IFRS)	Accounting standards issued by the International Accounting Standards Board and from which the CIPFA code of Practice on Local Authority Accounting is derived.
Home Office Grant	A central government grant paid by the Home Office to Police and Crime Commissioner's in support of their day to day expenditure.
Impairment	A loss in the value of a fixed asset, caused by physical damage (such as a major fire) or a significant reduction in market value.
Intangible Asset	An identifiable asset that has no physical substance can be measured reliably and is used for a period of more than one year.
Interest Cost	The expected increase during the period in the present value of the scheme liabilities because members of the scheme are one year closer to retirement. This is charged to net operating expenditure.
LAAP	Local Authority Accounting Panel sets accounting rules for the public sector.
Loans and Receivables	These occur when money, goods or services are provided to a debtor and payment or repayment will be by fixed determinable payments. Such arrangements are not normally tradable.
Medium Term Financial Strategy	Often referred to as MTFS, it is the financial plan and management of funding, spending and savings over a four year period.
Mid-Price	A valuation of financial assets based on the mid-point between bid and offered prices.
Minimum Revenue Provision	The minimum amount of the Police and Crime Commissioner's outstanding financing commitments that must be charged to the General Fund each year.
Non Distributed Costs (NDC)	For the Police and Crime Commissioner these are principally past service costs relating to pensions benefits earned in prior periods.
Non-Operational Assets	Fixed assets that are not used to deliver direct services. For example, police houses, or assets that are still being built or are no longer used and about to be sold.
Past Service Cost	The increase in the benefits earned by employees from their service in previous years arising because of improved retirement benefits. These costs are paid directly by the employer and are charged to the net cost of services.

Pension Commutation	Commutation is where part of the entitlement to a pension for life is exchanged for a lump sum payable on retirement. This requires a calculation of the current value of the entitlement given up. The calculation is done using actuarial advice. The advice is set out in tables containing 'factors'. The level of the factors depends on age and life expectancy.
Pension Scheme (Defined Benefit)	A pension scheme that pays benefits to members based on the rules of the scheme and not on the value of the pension fund. Benefits are usually based on pay and length of service.
Pension Scheme (Funded)	Each year both employers and members pay standard contributions that are invested in a separate pension fund. Benefits to contributors and their dependants are paid out of investments held in the fund.
Pension Scheme (unfunded)	Members pay a standard contribution each year. The employer then pays the cash difference between members' annual contributions and the annual cost of benefits to contributors and their dependants.

Glossary Continued

Precept	A levy collected by District and Unitary Councils from council taxpayers on behalf of the Police and Crime Commissioner.
Present value (or Net Present Value)	The amount of money that must be put aside today to pay for a cost in the future, allowing for inflation and interest rates.
Principal	The amount of a loan that was actually borrowed, before interest is added.
Provisions	Amounts set aside to meet costs that are likely to be incurred, but where the actual amount and timing are uncertain.
Related Parties	Individuals or other bodies who have significant control and influence over the financial and operating policies of an entity.
Reserves	Amounts set aside to meet the cost of specific future expenditure. The Police and Crime Commissioner plans its reserves as part of a four year strategy.
Revaluation Reserve	The Reserve records the accumulated gains on the fixed assets held by the Police and Crime Commissioner arising from increases in value. It is debited with the part of the depreciation charge for the asset relating to the revaluation. Any balance on this account is written back to the Capital Adjustment Account upon disposal of the asset.
Revenue Support Grant (RSG)	A general central government grant paid to the Police and Crime Commissioner, as well as the Home Office Grant, to support its day to day expenditure.
Running Costs	Costs from the use of premises, transport and equipment, and other general expenditure needed to provide a service.
Specific Grants	Grants (usually from the Home Office) that can only be spent on named services and projects.
Statement of Standard Accounting Practice	Guidance issued by the Financial Reporting Council (FRC) on how to use and apply accounting standards.
Termination Benefits	These are payable as a result of either an employer's decision to terminate an employee's employment before the normal retirement date; or an employee's decision to accept voluntary redundancy in exchange for those benefits excluding any voluntary early retirements.
Third Party Payments	Payments made to outside contractors and other bodies who provide specialist or support services to the Police and Crime Commissioner.

Chief Constable for Dorset

Statement of Accounts

For the year ended 31 March 2021

Unaudited

Officers of the Chief Constable

The statutory officers of the Office of the Chief Constable and contact details are as follows:

Chief Constable
Scott Chilton

Chief Financial Officer to the Chief Constable
Tim Newman
(from 6 September 2021)

Chief Financial Officer to the Chief Constable
Steven Mackenzie
(24 October 2019 to 5 September 2021)

Address: Dorset Police Headquarters
Winfrith
Dorchester
DT2 8DZ

Website: www.dorset.police.uk

Statement of Accounts 2020/21

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Dorset Police

Accompanying Reports

NARRATIVE REPORT by STEVEN MACKENZIE, CHIEF FINANCIAL OFFICER

1. INTRODUCTION

1.1 Welcome to the Chief Constable's Statement of Accounts for 2020/21. This narrative report aims to provide the context for the Chief Constable's financial statements and to demonstrate how the resources have been allocated in line with intended outcomes for the 2020/21 financial year.

1.2 The Financial Statements provide information on the Chief Constable's financial activities for the year ending 31 March 2021. They are prepared in accordance with proper accounting practices (as defined in the Code of Practice on Local Authority Accounting in the United Kingdom) and are published in accordance with the Accounts and Audit Regulations 2015.

1.3 The primary function of the Chief Constable is to provide an efficient and effective police service in Dorset, ensuring that the county remains one of the safest in the country in which to live, work and play. The Chief Constable has a number of operational priorities which are based on today's risks, and on what the local communities and the Police and Crime Commissioner have raised as areas of concern. Each year these priorities are reviewed and throughout the year the Chief Constable works with the Police and Crime Commissioner to ensure the Force is focused on them. The current priorities are:

- Protecting People at Risk of Harm
- Working with our Communities
- Supporting Victims, Witnesses and Reducing Reoffending
- Transforming for the Future

1.4 The Police and Crime Commissioner for Dorset during the 2020/21 year was Martyn Underhill. He stepped down as Police and Crime Commissioner at the elections on 6 May 2021, and was replaced by David Sidwick, who took office on the 13 May 2021. The priorities for the 2020/21 year were set out in the 2017- 2021 Police and Crime Plan. The Police and Crime Plan for 2021 onwards is currently being prepared by the new Police and Crime Commissioner and will be published in due course.

1.5 The coronavirus pandemic continued to be a priority for the Chief Constable and the Police and Crime Commissioner in 2020/21. The pandemic resulted in business continuity plans being implemented. Despite the fears of widespread sickness, Dorset Police were able to respond effectively to the pandemic, maintaining most services as normal and taking on the additional emergency powers put in place by the Government.

1.6 The Police and Crime Commissioner and the Chief Constable form an accounting group for reporting purposes. These accounts are the Chief Constable's single entity accounts. The single entity accounts for the Police and Crime Commissioner and the accounts for the Group are presented together in a separate booklet.

2. RESOURCES AVAILABLE

2.1 The Police and Crime Commissioner for Dorset allocates the majority of the available annual funding to the Chief Constable. In 2020/21, the allocation to the Chief Constable was £139.4m out of the total Police and Crime Commissioner funding of £141.6m.

2.2 The Chief Constable works with the Commissioner in agreeing a Medium Term Financial Strategy (MTFS), identifying the budget requirement for the following year and for the subsequent three years.

2.3 One of the most significant issues in setting the 2020/21 budget was understanding the implications of the national Police officer uplift programme. This programme has just entered its second year and is ultimately expected to deliver in excess of 160 additional police officers for Dorset.

2.4 The additional funding, and costs, of this programme were central to the MTFS, alongside unavoidable cost pressures such as inflation, the increasing costs of pension schemes and capital investment requirements. The budget therefore continued to deliver efficiencies and innovation to ensure maximum value is derived from existing resources. The Police and Crime Commissioner's decision to increase the precept by the maximum £15 (4.3%) enabled a number of key areas to be addressed, including:

- Establishment of a dedicated missing people team aimed at reducing the number of missing people in Dorset, protecting vulnerable people from harm, reducing the time people are missing, and supporting the families of missing people during that period.
- Investment in the Force's intelligence capacity and capability, specifically around high risk incidents, crimes, victims and offenders, to improve the effectiveness of response to dynamic serious crime, firearms incidents and missing people.
- Investment in the development of online statements and signatures, allowing statements to be taken at the witnesses' convenience. This delivers a significant efficiency in officer time with an average saving of two hours of officer time for each statement taken. Over 850 statements are now being taken each month online.
- Investment in neighbourhood policing, in particular in a vulnerability team who are involved in complex problem solving with those people who suffer or cause the greatest harm in the communities of Dorset.
- Further investment in forensic collision investigation, with the provision of a specialist scanner for use at the sites of collisions.
- Transformation of domestic abuse services, taking a whole system approach which involves training to all frontline officers and staff, a programme for perpetrators, and working with schools of children in families when there has been an instance of domestic abuse.
- Continued delivery of innovative solutions and developments to key policing issues through a dedicated Innovation Fund. Key successes during the year included:
    - Development of the use of process automation and artificial Intelligence, creating efficiencies.
    - Creation of a Joint Response Unit with the South Western Ambulance Service Trust to deal effectively and sympathetically with people suffering mental health episodes.
    - Introduction of legal support to investigators in obtaining protection orders and other civil sanctions to help protect vulnerable victims from the most serious offenders.
- Significant investment in the force estate, to ensure all premises remain fit for the future, and provide the necessary infrastructure required for the modern operational delivery of Police services.
- Further innovation and investment in technology, including:
    - Investment in a new Command & Control system, allowing improved deployment of resources
    - Digital Speed Cameras, providing a more robust deterrent for, and enforcement of, speeding offences
- Covid resilience
    - Investment in new ways of working
    - Savings achieved and planned into the future

2.5 Due to its timing, the impact of the Covid-19 pandemic was not taken into account in the 2020/21 budget or the longer term financial strategy but did have a considerable impact on finances during the year. In addition to delivering the planned investment and innovation, as set out above, the Force also delivered initiatives such as agile and mobile working, which not only enabled working in the Covid-19 environment but delivered opportunities which are being built on to improve delivery of services in the future.

3. ACTUAL EXPENDITURE IN 2020/21

3.1 The Chief Constable spent £139.4m against the budget allocation of £139.4m, a breakeven position. This final spend is reflected in the Expenditure and Funding Analysis in the accounts.

3.2 It has been a challenging and unpredictable year as the pandemic continued. The overtime budget has had different pressures this year with the requirement to deliver 'business as usual' in the context of Covid-19. There were particular pressures as lockdowns were eased and subsequently re-introduced, creating spikes in demand. There were also significant demands during the summer period as international travel was reduced and more people spent the summer in this country, in holiday destinations like Dorset. This is expected to continue in 2021/22, hence the requirement for a carry forward of some budget from this year to meet this exceptional demand.

3.3 In previous years the most significant underspends occurred in police staff pay, this year however has seen a change in this with turnover reducing reflecting the changes in the employment market during the year.

3.4 Underspends however have been reported in premises related costs, supplies and services and transport related costs. Reduced occupation of buildings has seen a reduction in expenditure on utilities as well as reduced spend on photocopying, stationery and postage as staff continue to work from home. Reduced travelling on non-operational business during the pandemic as well as the free fuel offer from BP, also contributed to fuel savings and reduced travel costs.

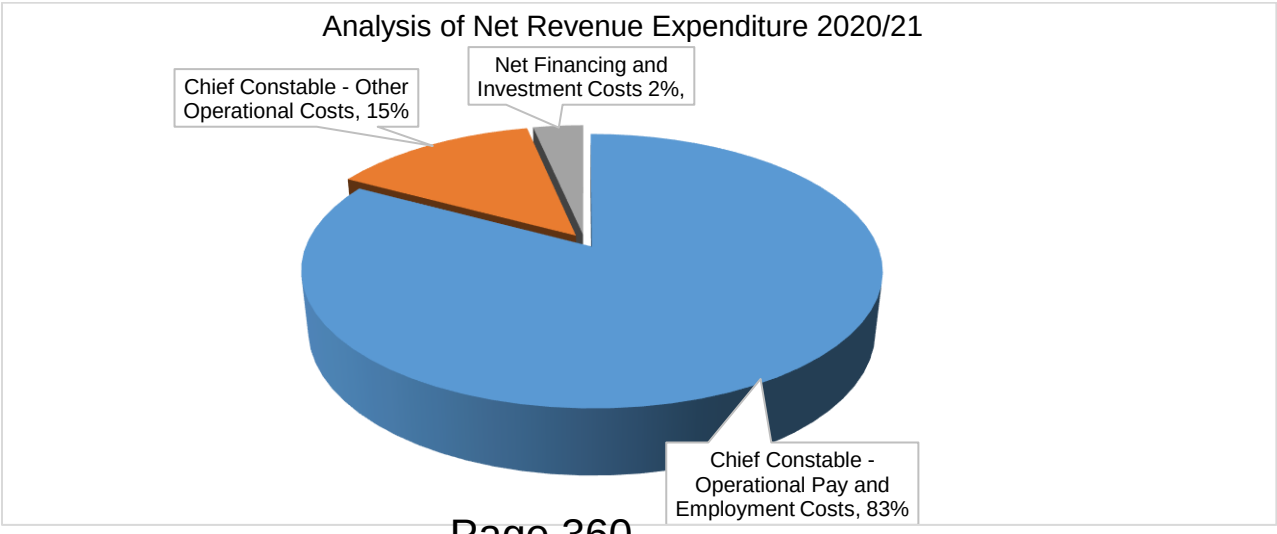
3.5 Income budgets overall exceeded the anticipated income, mainly due to grants received in relation to Covid-19. A summary of these is given below. The Income Loss grant provided partial reimbursement for the shortfall in Sales, Fees and Charges which is due predominately to the reduction in road safety education provided by the Driver Awareness Scheme (DAS), as well as reduced income from Firearms certificates and Foreign Nationals Registration.

Covid Funding	**£**
Personal Protective Equipment Re-imbursement	50,951
Income Loss	994,744
Surge Grant	248,842
General Pressures	481,094
Total	**1,775,631**

The final income loss claim is due to be paid in June 2021 but is included in the figure above.

3.6 As part of the Local Government Covid support package for 2021/22 a 75% Tax Income Guarantee compensation scheme was announced. The income will be paid in the form of a grant which is included in 2020/21 and transferred to the budget management fund reserve for use in 2021/22 in accordance with the Code of Practice. The grant to Dorset Police is £140,673.

3.7 The chart below shows a breakdown of actual net revenue expenditure for 2020/21 by category of spend.



4. CAPITAL PROGRAMME

4.1 The table below shows the Chief Constable's capital expenditure, and funding, during 2020/21. The majority of the assets used by the Chief Constable, most significantly its buildings, are owned by the Police and Crime Commissioner. However certain items of equipment, ICT and vehicles are considered to be under the ownership and control of the Chief Constable. Capital expenditure in this respect consists of an ongoing programme of rationalisation, replacement and enhancement of assets, all with an expected life of more than one year, and with an individual or programme value in excess of £10,000.

	£'m
Equipment	0.611
ICT	2.605
Vehicles	1.772
	4.988
Funded by	
Advance from Police and Crime Commissioner	(4.988)
	(4.988)

4.2 ICT and equipment across the Force area is replaced when necessary to ensure officers and staff have the most appropriate access to technology and equipment to support them in their roles. Notable expenditure this year includes replacement of the Command and Control system, a Gazetteer, an E-recruitment system in conjunction with Devon and Cornwall Police Force and the upgrade of digital speed cameras.

5. WORKFORCE RESOURCES

5.1 Workforce costs make up 83% of the annual expenditure of Dorset Police. The full-time equivalents (FTE) of officers and staff employed by Dorset Police at the beginning and end of the year were:

31/03/20 (FTE)		**31/03/21 (FTE)**
1,223	Police Officers	1,275
1,166	Police Staff (Force)	1,154
31	Police Staff (Transforming Forensics)	46
123	PCSO's	126
2,543	**Total**	**2,601**

5.2 There was budgeted growth of 33 officers during the year funded through the Police Officer Uplift Programme. However, the actual number of officers at year end was higher than this as the conditions of the Uplift grant were based on headcount of officers as opposed to FTE. This meant that the Force was required to increase its year-end FTE by an extra 19 officers to comply. The national uplift programme is expected to fund a further 50 officers in 2021/22.

6. PERFORMANCE INDICATORS

External Indicators

6.1 The principal independent financial indicators available to the Chief Constable and Police and Crime Commissioner are as follows:

- HMICFRS PEEL Report – Her Majesty's Inspectorate of Constabulary and Fire and Rescue Services (HMICFRS) review each Force to examine their Efficiency, Effectiveness and Legitimacy. The 2018/19 report concluded that Dorset Police was 'Good' for all three areas reviewed:

  - The extent to which the force is effective at keeping people safe and reducing crime is "Good".
  - The extent to which the force is efficient at keeping people safe and reducing crime is "Good".
  - The extent to which the force is legitimate at keeping people safe and reducing crime is "Good".

- Auditors' Value for Money Opinion – The external auditors last provided a Value for Money conclusion for both the Police and Crime Commissioner and the Chief Constable for the year ending 31 March 2020. This audit concluded that the Police and Crime Commissioner and Chief Constable have, in all significant respects, put in place proper arrangements to secure economy, efficiency and effectiveness in their use of resources.

- HMICFRS Value for Money Profile 2020 – this report does not provide an opinion but states key financial and performance information of Dorset Police in comparison to other forces. The report did not indicate any significant areas where Dorset Police is more expensive than other Forces.

Operational Performance of the Force

6.2 The 2020/21 year was particularly challenging due to the exceptional demands of the Covid-19 pandemic. The effect on operational performance was considerable, as the country experienced a number of lockdowns, with different pressures on the Force before, during and after each one. As such, the performance for the year was markedly different than the preceding year.

6.3 The following table sets out the key movement in 2020/21 when compared to the previous year.

Contact		
999 Calls	-4.9%	↓
Non-Emergency Calls	-26.3%	↓
Emails and Callbacks	+25.8%	↑
Incidents		
Incidents Recorded	-10.7%	↓
Of which, Anti-Social Behaviour *	+37.4% *(+7.0%)*	↑
Crime		
All Crime Recorded	-12.8%	↓
Sexual Offences	-16.3%	↓
Of which, Serious Sexual Offences	-17.1%	↓
Violence Against the Person	-5.4%	↓
Of which, Most Serious Violence	-11.7%	↓
Domestic Abuse Crime	-0.3%	↓
Theft	-24%	↓
Other		
Arrests Made	-17.6%	↓
Positive Outcomes	-0.4%	↓
Missing Persons	-24% (High Risk -10%)	↓
Public Protection Notices Issued	+2%	↑

** Anti-social Behaviour (ASB) includes Covid-19 related ASB. The year on year comparator excluding Covid-19 related ASB was +7.0%.*

7. FUTURE FINANCIAL OUTLOOK

7.1 Dorset Police formally updates its MTFS annually during the budget setting process. The 2020/21 MTFS reflected a significantly improved outlook when compared with the 2020/21 forecasts, with the central case forecast showing a balanced position for all future years of the MTFS. The forecasts rely heavily on estimates and assumptions, reflected in the best and worst case scenarios to give context to the potential future position, and these assumptions will be regularly reviewed.

7.2 The 2020/21 MTFS is designed to support the delivery of the Police and Crime Plan which runs until 2021. The new Police and Crime Commissioner will develop a new plan during 2021 which will be used to drive the budget in future years.

7.3 The Financial Strategy, including the Capital Strategy, Reserves Strategy and Treasury Management Strategy are used to translate the vision of the Police and Crime Plan into the detailed budget, with the MTFS setting out what this looks like for future years.

7.4 The strategic approach taken to balancing the 2021/22 budget was to take a longer term view to ensure decisions taken are sustainable and that the budget starts the decade on firm foundations, to build greater financial resilience and delivering value for money for Dorset residents.

7.5 For 2022/23 and beyond there is a great deal of uncertainty around funding levels which will impact on our planning process. This uncertainty is exacerbated by the economic impact of the current coronavirus pandemic, and the effect that this may have on future funding and costs. In addition to this fundamental issue, key areas of uncertainty are:-

- The next Comprehensive Spending Review, which the Government had planned to undertake during 2020, has been delayed. It is currently expected that this will be carried out in 2021 when some of the uncertainty facing the national economy may have become clearer.
- The anticipated changes to the formula by which Home Office funding is allocated to forces. The timescale for this review is not confirmed, and it is not yet clear whether this may impact on the 2022/23 funding position.
- Future cost of pension schemes. These schemes have seen increased pressure in recent years, and this pressure is expected to continue at the next triennial valuations due, in part, to changes required to comply with the court's finding of age discrimination in the way changes to public sector pension schemes were implemented in 2015.
- The impact of any future recession associated with Covid, including the potential local implications on precept, Collection Funds and taxbase.

7.6 The continuing pandemic has made the force adapt quickly to new ways of working using new technology. Working from home has continued for many staff during the lockdown and the force continues to explore and build on opportunities for the future.

8. GOVERNANCE ARRANGEMENTS

8.1 The Annual Governance Statement is published alongside this document. The Annual Governance Statement describes the internal control environment for the Chief Constable. It also comments on the effectiveness of the governance arrangements and identifies issues that require further work.

8.2 The Police and Crime Commissioner and the Chief Constable have an effective joint process for managing risk and the details are also provided in the Annual Governance Statement.

9. THE STATEMENT OF ACCOUNTS

9.1 A brief explanation of the purpose of each of the four primary statements is provided below:

- **Movement in Reserves Statement** - shows the changes in the Chief Constable's financial resources over the year.
- **Comprehensive Income and Expenditure Statement** - shows the gains and losses that contributed to the changes in resources.
- **Balance Sheet as at 31 March 2021** - shows how the resources available to the Chief Constable are held in the form of assets and liabilities.
- **Cash Flow Statement** - shows how the movement in resources has been reflected in cash flows.

9.2 The notes to the accounts include the accounting policies and give further information on the entries within the main statements as well as supplementary information. These are further supplemented by a glossary of terms.

Steven Mackenzie MBA FCPFA
Chief Financial Officer to the Chief Constable
21 July 2021

Further Information:

This publication provides a review of the financial performance of the Chief Constable for 2020/21. It may be read in conjunction with the single entity accounts of the Police and Crime Commissioner, and the Group Accounts within the same document, and the Police and Crime Plan. Further information on these publications can be obtained by writing to the Chief Financial Officer to the Chief Constable, Dorset Police Headquarters, Winfrith, Dorset, DT2 8DZ

Independent Auditor's Report to the Chief Constable for Dorset

These Financial Statements have not yet been audited.

Statement of Responsibilities

The Chief Constable's Responsibilities

The Chief Constable is required to:

- Make arrangements for the proper administration of the financial affairs of Dorset Police and to secure that one of his officers has the responsibility for the administration of those affairs. That officer is the Chief Financial Officer to the Chief Constable;
- Manage the affairs of Dorset Police to secure economic, efficient and effective use of resources and to safeguard its assets;
- Approve the Statement of Accounts.

Approval of the Accounts

I approve the Statement of Accounts.

Scott Chilton
Chief Constable
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The Chief Financial Officer's Responsibilities

The Chief Financial Officer 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 2020/21" (the Code).

In preparing this Statement of Accounts, the Chief Financial Officer has:

- Selected suitable accounting policies and applied them consistently;
- Made judgements and estimates that were reasonable and prudent;
- Complied with the Code of Practice;
- Kept proper accounting records which were up to date;
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

Chief Financial Officer's Certificate

I certify that this Statement of Accounts for the year ended 31 March 2021 gives a true and fair view of the financial position of the Chief Constable for Dorset at the accounting date and of the income and expenditure for the year ended 31 March 2021.

Tim Newman LLB ACA
Chief Financial Officer to the Chief Constable
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Dorset Police

Financial Statements

Movement in Reserves Statement

This statement only shows the pension related transactions from the start of the year to the end of the year for 2019/20 and 2020/21 as all reserves are managed by the Police and Crime Commissioner. The financial consequences of the operational activities undertaken by the Chief Constable is shown in the Comprehensive Income and Expenditure Statement.

Current Year	**Notes**	General Fund Balance	Earmarked Reserves	Capital Receipts Reserve	Capital Grants Unapplied Account	**Total Usable Reserves**	Unusable Reserves	**Total Reserves**
		£'000	£'000	£'000	£'000	**£'000**	£'000	**£'000**
Balance at 31 March 2020		0	0	0	0	**0**	0	**0**
Movement in Reserves								
(Surplus) or Deficit on the Provision of Services		411,488	0	0	0	**411,488**	0	**411,488**
Remeasurement of the net defined benefit liability (asset)		(411,488)	0	0	0	**(411,488)**	0	**(411,488)**
Total Comprehensive Income and Expenditure		0	0	0	0	**0**	0	**0**
Balance at 31 March 2021		0	0	0	0	**0**	0	**0**

Restated Comparative Year*	**Notes**	General Fund Balance	Earmarked Reserves	Capital Receipts Reserve	Capital Grants Unapplied Account	**Total Usable Reserves**	Unusable Reserves	**Total Reserves**
		£'000	£'000	£'000	£'000	**£'000**	£'000	**£'000**
Balance at 31 March 2019		0	0	0	0	**0**	0	**0**
Movement in Reserves								
(Surplus) or Deficit on the Provision of Services		(137,732)	0	0	0	**(137,732)**	0	**(137,732)**
Remeasurement of the net defined benefit liability (asset)		137,732	0	0	0	**137,732**	0	**137,732**
Total Comprehensive Income and Expenditure		0	0	0	0	**0**	0	**0**
Balance at 31 March 2020		0	0	0	0	**0**	0	**0**

*The Movement in Reserves signage has changed to be consistent with that shown on the Group balance sheet.

Comprehensive Income and Expenditure Statement

This statement reflects the Police and Crime Commissioner's financial resources consumed by the Chief Constable for 2019/20 and 2020/21. In practice all the respective costs are paid for by the Police and Crime Commissioner. This Statement includes intra-group transactions resulting in a nil balance for Total Comprehensive Income and Expenditure.

2019/20 Gross Expenditure	2019/20 Gross Income	2019/20 Net Expenditure		2020/21 Gross Expenditure	2020/21 Gross Income	2020/21 Net Expenditure	Notes
£'000	£'000	£'000		£'000	£'000	£'000	
190,741	(32,567)	158,174	Chief Constable*	209,978	(46,723)	163,255	8
190,741	**(32,567)**	**158,174**	**Cost of Services**	**209,978**	**(46,723)**	**163,255**	
0	(22,602)	(22,602)	Pensions Top Up Grant	0	(23,026)	(23,026)	
(190,741)	55,169	(135,572)	Intra-Group Transaction	(209,978)	69,749	(140,229)	
0	0	0	**Cost of Services Net of Pensions Top Up Grant**	0	0	0	
			Financing and Investment Income and Expenditure				
41,492	(4,437)	37,055	Pensions Interest Cost	37,525	(3,414)	34,111	20
(41,492)	4,437	(37,055)	Pensions Interest Cost - Intra-Group Transaction	(37,525)	3,414	(34,111)	
137,732	0	137,732	Actuarial (Gains)/Losses on Pension Funds - Intra-Group Transaction	(411,488)	0	(411,488)	20
137,732	**0**	**137,732**	**(Surplus)/Deficit on Provision of Services**	**(411,488)**	**0**	**(411,488)**	
		(137,732)	Remeasurement of the net defined benefit liability (asset)			411,488	
		0	**Other Comprehensive Income and Expenditure**			**0**	
		0	**Total Comprehensive Income and Expenditure**			**0**	

***** Included within the gross expenditure is an accounting adjustment of £2.148m representing the change to the PFI liability shown on the Group balance sheet. This adjustment does not affect the reported outturn position.

Tim Newman LLB ACA
Chief Financial Officer to the Chief Constable
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Balance Sheet

The Chief Constable owns some operational non-current assets and these are included on the Balance Sheet. The Chief Constable does not hold reserves but he does have current and long term liabilities which relate to employee benefits. The intra-group transaction entries on the Balance Sheet represents the Police and Crime Commissioner's responsibility to provide funds to the Chief Constable over the long term.

31 March 2020 £'000		31 March 2021 £'000	Notes
	Long Term Assets		
10,218	Vehicles, ICT and Equipment	12,994	9
191	Intangible Assets	51	19
1,461,195	Pensions Liabilities - Intra-Group Debtor	1,906,785	20
1,471,604	**Total Long Term Assets**	**1,919,830**	
	Current Assets		
18,309	Debtors	20,051	10
162	Inventories	451	
23,112	Short Term Debtors - Intra-Group Debtor	21,100	
41,583	**Total Current Assets**	**41,602**	
	Current Liabilities		
(20,771)	Creditors	(17,726)	11
(2,137)	Short Term Accumulated Absences	(3,217)	13
(204)	Short Term Provisions	(157)	12
(18,471)	Short Term Creditor - Intra-Group Creditor	(20,502)	
(41,583)	**Total Current Liabilities**	**(41,602)**	
	Long Term Liabilities		
(1,461,195)	Pension Liabilities	(1,906,785)	20
(10,409)	Vehicles, ICT and Equipment - Intra-Group Creditor	(13,045)	9,19
(1,471,604)	**Total Long Term Liabilities**	**(1,919,830)**	
0	**Net Assets**	**0**	

Tim Newman LLB ACA
Chief Financial Officer to the Chief Constable
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Cash Flow Statement

The surplus or deficit on the provision of services represents the transfer of funds from the Police and Crime Commissioner to cover the actuarial gains/losses arising from the pension's valuation shown against the increase/decrease in pension's liability line.

2019/20 £'000		2020/21 £'000
137,732	**Net (Surplus) or Deficit on the Provision of Services**	(411,488)
	Adjustments to net Surplus or Deficit on the Provision of Services for non-cash movements	
(137,732)	(Increase)/Decrease in pensions liability	411,488
0	**Net Cash (Inflows)/Outflows from Operating Activities**	0
0	**Cash and Cash Equivalents at the end of the reporting period**	0

Dorset Police

Notes to the Financial Statements

Note 1 Accounting Policies

1. GENERAL PRINCIPLES

The statement of accounts summarises the Chief Constable's transactions for the 2020/21 financial year and its position at the year-end of 31 March 2021. The Chief Constable is required to prepare an annual statement of accounts by the Accounts and Audit Regulations 2015, which those Regulations require to be prepared in accordance with proper accounting practices. These practices under Sections 21 of the 2003 Act primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2020/21, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under Section 12 of the 2003 Act.

The accounting convention adopted in the statement of accounts is principally historical cost modified by the revaluation for certain categories of non-current assets and financial instruments. The financial statements have been prepared with due regard to the pervasive accounting concepts of accruals, going concern and primacy of legislative requirements.

2. 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 contracts with service recipients, whether for services or the provision of goods, is recognised when (or as) the goods or services are transferred to the service recipient in accordance with the performance obligations in the contract.
- 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.
- 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 in financing and investment income and expenditure for the income that might not be collected.

3. ACCOUNTING POLICY DEVELOPMENTS AND CHANGES

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

4. PRIOR PERIOD ADJUSTMENTS, 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 and do not give rise to a prior period adjustment.

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

5. EVENTS AFTER THE REPORTING PERIOD

Events after the reporting period 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. 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 of the audited accounts are not reflected in the statement of accounts.

6. CONTINGENT LIABILITIES

A contingent liability arises where an event has taken place that gives the Chief Constable a possible obligation whose existence can only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Chief Constable.

Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required, or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the balance sheet but disclosed in a note to the accounts.

7. JOINT OPERATIONS

The Chief Constable participates in a number of partnership activities. These arrangements involve the Chief Constable carrying out activities relevant to their own functions jointly with others. The Chief Constable accounts for only its share of the jointly controlled assets; and for the liabilities, expenses and income that the Chief Constable incurs with respect to their interest in the partnerships.

8. OVERHEADS AND SUPPORT SERVICES

The cost of overheads and support services are charged to each area that falls under the Chief Constable for accountability and financial performance.

9. EMPLOYEE BENEFITS

9.1 Benefits Payable during Employment

Short term employee benefits are those due to be settled wholly within 12 months of the year end. They include such benefits as wages and salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Chief Constable. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year end that employees can carry forward into the next financial year. The accrual is made at the wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to the surplus or deficit on the provision of services, but then reversed out through the Movement in Reserves statement to the accumulated absences account so that holiday entitlements are charged to revenue in the financial year in which the absence occurs.

9.2 Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Chief Constable to terminate an employee's employment before the normal retirement date. The amount is charged on an accruals basis to the comprehensive income and expenditure statement (CIES) when the Chief Constable is demonstrably committed to the termination of the employment of an employee. Where termination benefits involve the enhancement of pensions, statutory provisions require the general fund balance to be charged with the amount payable by the Chief Constable to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards (this only applies to compulsory redundancies).

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.

Note 1 Accounting Policies Continued

9.3 Post-Employment Benefits

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

- The Police Officer 1987 Scheme (PPS)
- The Police Officer 2006 Scheme (NPPS)
- The Police Officer 2015 Scheme (CARE)
- The Local Government Pensions Scheme (CARE)

All schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees worked for the Chief Constable.

9.3.1 Police Officers' Pension Schemes

All Police Officers' Pension Schemes are accounted for as defined benefits schemes.

The liabilities of the Police Officers' Pension Schemes are included in the balance sheet on an actuarial basis using the projected unit method, i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates etc., and projected earnings for current employees.

An estimate of the employer's future cashflows is made using notional cashflows based on the estimated duration of all Police Schemes. These estimated cashflows are then used to derive a Single Equivalent Discount Rate (SEDR). The discount rate derived is such that the net present value of the notional cashflows, discounted at this single rate, equates to the net present value of the cashflows, discounted using the annualised Merrill Lynch AA rated corporate bond yield curve (where the spot curve is assumed to be flat beyond the 30 year point).

9.3.2 The Local Government Pension Scheme

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

An estimate of the Employer's future cashflows is made using notional cashflows based on the estimated duration of the past service liability. These estimated cashflows are then used to derive a Single Equivalent Discount Rate (SEDR). The discount rate derived is such that the net present value of the notional cashflows, discounted at this single rate, equates to the net present value of the cashflows, discounted using the annualised Merrill Lynch AA rated corporate bond yield curve (where the spot curve is assumed to be flat beyond the 30 year point).

The assets of the Dorset Council pension fund attributable to the Chief Constable are included in the balance sheet at their fair value:

- quoted securities - current bid price
- unquoted securities - professional estimate
- unitised securities - current bid price
- property securities - current bid price

  property - market value

9.3.3 Net Pensions Liability Analysed

The change in the net pension's liability for the Pension Schemes are analysed into the following components:

Service cost comprising:

- current service cost - the increase in liabilities as a result of years of service earned this year – allocated in the CIES to the services for which the employees worked.

- past service cost – the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years - debited to the surplus or deficit on the provision of services in the CIES.

- net interest on the net defined benefit liability (asset), i.e. net interest expense for the Chief Constable - the change during the period in the net defined benefit liability (asset) that arises from the passage of time charged to the financing and investment income and expenditure line of the CIES. This is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability (asset) at the beginning of the period and taking into account any changes in the net defined benefit liability (asset) during the period as a result of contribution and benefit payments.

Remeasurements comprising:

The return on plan assets excludes the amounts included in net interest on the net defined benefit liability (asset) which is charged to the pensions reserve as other comprehensive income and expenditure. This is only applicable to the Local Government Pension Scheme.

Actuarial gains and losses are changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions. These changes are charged to the pensions reserve as other comprehensive income and expenditure.

Benefits paid (only applicable to the Police Officer Pension Schemes):

- cash paid as to pensioners including injury pension payments.

Contributions paid (only applicable to the Local Government Pension Scheme):

- cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

9.3.4 Police Officers' Injury Benefits

The Chief Constable makes payment under the Police Injury Benefits Regulations. These payments are accounted for in the same way as payments under the main police officers' pension schemes. The figures are included within the unfunded pension calculation as the injury benefits may be financially significant with volatile actuarial gains and losses. These have been estimated by the independent actuary.

9.3.5 Impact on Reserves

For all of the Pension Schemes, statutory provisions require the general fund balance to be charged with the amount payable by the Chief Constable to the pension fund in the year, not the amount calculated according to the relevant accounting standards. In the movement of reserves statement, this means that there are transfers to and from the pensions reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end. The negative balance that arises on the pensions reserve thereby measures the beneficial impact to the general fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

9.4 Discretionary Benefits

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

10. PROVISIONS

Provisions are made where an event has taken place that gives the Chief Constable a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation.

Provisions are charged as an expense to the appropriate service line in the CIES when the Chief Constable has an obligation and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation taking into account the 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 (or reduced) and credited back to the CIES.

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 the income for the relevant service if it is virtually certain that the reimbursement will be received if the Chief Constable settles the obligation.

Provision is made for termination payments due to staff resulting from restructuring when the Chief Constable has raised a valid expectation to the staff affected that it will carry out restructuring by starting to implement a particular restructuring plan or announcing its main features to those affected by it. Each element of any Force restructuring plan will be treated separately and provision made of the estimated termination payments as and when each element of the plan is announced.

11. PROPERTY, PLANT AND EQUIPMENT

Assets that have physical substance and are held for use in the supply of services or for administrative purposes and that are expected to be used during more than one financial year are classified as property, plant and equipment. Property is accounted for in the Police and Crime Commissioner accounts whilst ICT, Plant and Equipment are included within the Chief Constable accounts. These operational assets are offset on the balance sheet by a long term liability representing the requirement that the Chief Constable pays for these assets over their operational life. The long term liability will be written down in line with the depreciation policy as set out in the note.

The expenditure within the CIES of the Chief Constable includes a charge for use of property, plant and equipment and intangible assets based on the fair value of the assets used by the Chief Constable to deliver a policing service. The accounting policies of the Group in relation to depreciation are set out within the financial statements of the Police and Crime Commissioner.

11.1 Recognition

Expenditure on the acquisition, creation or enhancement 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 Chief Constable for more than one year 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 as it is incurred.

11.2 Measurement

Assets are initially measured at cost, comprising:

- the purchase price
- 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.

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

- ICT - depreciated historical cost
- Equipment - depreciated historical cost
- Plant - depreciated historical cost
- Vehicles - depreciated historical cost

11.3 Depreciation

Depreciation is provided for all ICT, equipment and plant 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 and assets that are not yet available for use (i.e. asset under construction).

Depreciation is calculated on the following bases:

- Information and Communications Technology (ICT) – depreciation is charged monthly from the first of the month of acquisition starting in the year of acquisition. The asset life of individual groups of assets has been assessed and each group is depreciated individually according to asset life.

- Plant and equipment – These assets are given specific asset lives and are depreciated monthly.

- Vehicles – are depreciated monthly over the forecast useful life of the vehicle and the depreciation in the first year will reflect the number of months that the vehicle has been registered.

11.4 Disposals

When an asset is disposed of or decommissioned, the carrying amount of the asset in the balance sheet is written off to the CIES as part of the gain or loss on disposal. Receipts from disposals are credited to the same line in the CIES 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).

Amounts received for a disposal in excess of £10k are categorised as capital receipts. Receipts are credited to the usable capital receipts reserve. Receipts are appropriated to the reserve from the general fund balance in the movement in reserves statement as shown in the Police and Crime Commissioner statement of accounts.

The written off value of disposals is not charged against council tax as the cost of non-current assets is fully provided for under separate arrangements for capital financing as shown in the Police and Crime Commissioner Group accounts together with the amounts that are appropriated to the capital adjustment account from the general fund balance in the movement in reserves statement.

12. INTANGIBLE ASSETS

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Chief Constable 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 Chief Constable.

12.1 Measurement

Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held by the Chief Constable can be determined by reference to an active market. No intangible asset held by the Chief Constable meets this criterion, and they are therefore carried at amortised cost.

12.2 Amortisation

The depreciable amount of an intangible asset is amortised over its useful life and charged to the CIES.

12.3 Impairment

Where there is an indication that the asset might be impaired – any losses recognised are posted to the CIES. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to other operating expenditure in the CIES.

13. VAT

VAT payable is included as an expense only to the extent that it is not recoverable from HMRC. VAT receivable is excluded from income.

14. EXCEPTIONAL ITEMS

When items of expenditure are outside the normal type of expenditure incurred by the Chief Constable they will be disclosed separately on the face of the CIES if they are material and separate disclosure would be made to aid the understanding of the Chief Constable's financial performance.

Note 1 Accounting Policies Continued

15. CHARGES TO REVENUE NON-CURRENT ASSETS

The CIES is debited with the following amounts to record the real cost of holding non-current assets during the year:

- depreciation attributable to the assets used by the relevant service
- amortisation of intangible assets attributable to the service.

The Police and Crime Commissioner is not required to raise council tax to fund the depreciation and amortisation that is charged against the Chief Constable's CIES. However, there is a requirement to make an annual contribution from revenue to contribute towards the reduction in the overall borrowing requirement (calculated on a prudent basis determined by the Group in accordance with statutory guidance). Depreciation and amortisation is therefore replaced by the 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 as shown in the Police and Crime Commissioner Group accounts.

16. COST AND INTRA-GROUP RECOGNITION

In practice, all income is received by the Police and Crime Commissioner and all expenditure is paid by the Police and Crime Commissioner from the Police Fund. No actual cash transactions or events take place between the two entities. From an accounting perspective, costs are recognised within the Chief Constable's accounts to reflect the financial resources consumed at the request of the Chief Constable. The income recognised in the Chief Constable's accounts is the income collected by the Police and Crime Commissioner on behalf of the Chief Constable.

Note 2 Accounting Standards Issued, Not Adopted

Appendix C of the CIPFA code requires Local Authorities to disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted by the Code for the relevant financial year.

The standards introduced in the 2021/22 Code do not apply to the Chief Constable accounts.

Note 3 Critical Judgements in Applying Accounting Policies

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

- The Police and Crime Commissioner Group has had to make judgements about the allocation of expenditure between the Police and Crime Commissioner and the Chief Constable. The basis adopted was arrived at after considering the CIPFA Service Reporting Code of Practice and the Police Reform and Social Responsibility Act.

- A long term debtor has been established in the Chief Constable's Balance Sheet to reflect the continuing requirement on an elected policing body, as required under the Police Reform and Social responsibility Act 2011, to provide funds to the Chief Constable from the Police and Crime Commissioner for the payment of pensions and other employee benefits. Should the Police and Crime Commissioner be required to settle future pension liabilities, there is no long-term expectation that the Home Office will provide this funding. Similarly, the Chief Constable could not be expected to fund the liability as the Chief Constable (the current grant arrangements not withstanding) has no assets, cash reserves, income receipts or other sources of funding. It is reasonable to expect that should the Police and Crime Commissioner Group be required to settle future pension liabilities (however unlikely this may be), then settlement would result in an outflow of resources from the Police and Crime Commissioner.

- Estimation of the pension element of the provision (set out above) is on the basis of apportionment of the total actuarially assessed liability for future pensions benefits for the Group between the two corporate bodies on the basis of current cashflows.

Note 3 Critical Judgements in Applying Accounting Policies Continued

- The contingent liability note describes liabilities with regard to potential claims against the Chief Constable. Judgement has been applied in determining that for each of these actual or potential claims, either the outflow of resources is not probable or the obligation cannot be estimated with sufficient reliability. For this reason the appropriate accounting treatment is judged to be disclosure of a contingent liability rather than the making of a provision.

- Judgements are made by professional advisors in valuing pensions. Management have accepted these judgements.

- A judgement has been made to include the impact of the McCloud/Sargeant ruling. Whilst the regulations underpinning the Local Government Pension Scheme (LGPS) and police pension schemes have not yet been amended, a change to the remedy is not anticipated.

Note 4 The Chief Constable as an Accounting Entity

The Chief Constable is part of an accounting group along with the Police and Crime Commissioner (referred to as the PCC Group). The accounting recognition of the Group's assets, liabilities and reserves reflects the powers and responsibilities of the Police and Crime Commissioner and the Chief Constable as designated by the Police Reform and Social Responsibility Act 2011 and the Revised Home Office Financial Management Code of Practice for the Police Service, England and Wales 2018. This accounting treatment is also underpinned by the relationships as defined by local regulations, local agreement and practice.

The Police and Crime Commissioner receives all government funding and income and the Chief Constable does not hold any cash or reserves. When the Police and Crime Commissioner's resources are consumed at the request of the Chief Constable all payments are made by the Police and Crime Commissioner from the Police Fund and no cash movements occur between the two bodies.

For accounting and regulatory purposes the Police and Crime Commissioner and the Chief Constable are classed as local authorities and are covered by the CIPFA Code of Practice for Local Authority Accounting 2020/21.

The financial consequences of the activity under the control of the Chief Constable are shown in these accounts. As the Chief Constable does not hold reserves, the CIES shows the gross cost of policing which is offset by intra-group adjustments to reflect the payments and accruals made by the Police and Crime Commissioner at the request of the Chief Constable. The result of these adjustments, is that the Chief Constable has a nil balance on his General Fund. The intra-group adjustments are mirrored in the Police and Crime Commissioner's Accounts.

All of the assets and liabilities and reserves of the PCC Group with the following exceptions are recognised on the Police and Crime Commissioner's Balance Sheet. The exceptions are:

- Employment liabilities for officers and staff under the direction of the Chief Constable are recognised on the Chief Constable's Balance Sheet. The liability in the Chief Constable's Balance Sheet for these items is offset by a long term debtor reflecting the Police and Crime Commissioner's responsibility to provide funds from the Police Fund each year to enable the Chief Constable to administer police pensions.

- Certain categories of operational non-current and current assets are shown on the Chief Constable's Balance Sheet. These assets are offset in the Balance Sheet by a long term and short term creditor respectively.

- Certain categories of current liabilities are shown on the Chief Constable Balance Sheet. These liabilities are offset in the Balance Sheet by a debtor.

Note 4 The Chief Constable as an Accounting Entity Continued

Intra-Group Transactions	2019/20		2020/21	
Comprehensive Income and Expenditure Statements	**Chief Constable £'000**	**Police and Crime Commissioner £'000**	**Chief Constable £'000**	**Police and Crime Commissioner £'000**
Net Cost of Policing	(135,572)	135,572	(140,229)	140,229
Pensions Interest Cost and Pensions Top Up Grant	(37,055)	37,055	(34,111)	34,111
Actuarial gains/(losses) on pensions funds	137,732	(137,732)	(411,488)	411,488
Balance Sheet	**Chief Constable £'000**	**Police and Crime Commissioner £'000**	**Chief Constable £'000**	**Police and Crime Commissioner £'000**
Non-Current Assets/Liabilities				
Pensions Long Term Intra-Group Debtor	1,461,195	0	1,906,785	0
Pensions Long Term Liabilities	(1,461,195)	0	(1,906,785)	0
Pensions Long Term Intra-Group Creditor	0	(1,461,195)	0	(1,906,785)
ICT and Equipment Assets	10,409	0	13,045	0
ICT and Equipment Intra-Group Creditor	(10,409)	0	(13,045)	0
ICT and Equipment Intra-Group Debtor	0	10,409	0	13,045
Current Assets/Liabilities				
Current Liabilities	(23,112)	0	(21,100)	0
Intra-Group Debtor	23,112	0	21,100	0
Intra- Group Creditor	0	(23,112)	0	(21,100)
Current Assets	18,471	0	20,502	0
Intra-Group Creditor	(18,471)	0	(20,502)	0
Intra-Group Debtor	0	18,471	0	20,502
Unusable Reserves				
Intra-Group Transactions	0	(1,455,427)	0	(1,894,338)

When the Balance Sheets for the two corporate bodies are consolidated into the Group Balance Sheet these intra-group transactions are eliminated.

Note 5 Events after the Reporting Period

The Statement of Accounts were authorised for issue on 21 July 2021. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2021, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

Note 6 Assumptions Made about the Future and Other Major Sources of Estimation and Uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Police and Crime Commissioner Group about the future or that are otherwise uncertain. Estimates are made by taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. The items in the Chief Constable's Balance Sheet at 31 March 2021 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Note 6 Assumptions Made about the Future and Other Major Sources of Estimation and Uncertainty Continued

6.1 Pensions Liability

Uncertainties

Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. Pension fund assets (relevant in the case of the Local Government Pension Scheme) are measured at fair value which requires reference to the market conditions held at the measurement date. As a result of the Covid-19 pandemic, the market has been subject to volatility during 2020/21, however markets have continued trading and information was available to measure the fund assets at the measurement date. A firm of consulting actuaries is engaged to provide expert advice about the assumptions to be applied.

Valuation Assumption

A remedy process to resolve the age discrimination of the pension changes resulting from the reform of public service pension schemes has been published by HM Treasury. The Treasury has confirmed that: legacy schemes would be closed from 31 March 2022; a remedy would be introduced for the period 2015-2022 based on a deferred choice underpin basis; and eligibility criteria for members to access the remedy. The estimated impact of McCloud/Sargeant has been factored into the IAS19 pension valuations estimates since 2018/19. These estimates have evolved as assumptions underpinning them have evolved. The resulting outcome from the HM Treasury consultation is not expected to have a significant impact on the IAS19 estimation approach.

Effect if Actual Results Differ from Assumptions

The effects on the net pension's liability of changes in individual assumptions are shown in the Defined Benefit Pension Schemes Note.

Note 7 Expenditure and Funding Analysis

The expenditure and funding analysis shows how annual expenditure is used by the Chief Constable. All costs are paid for by the Police and Crime Commissioner which is funded from government grants, council tax and other income. The Police and Crime Commissioner meets the Chief Constable's expenditure in full by an intra-group transaction. There is no net expenditure chargeable to the General Fund.

2020/21

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	**Outturn**	**Adjustments**	**Net Expenditure in the CIES**	**Adjustments between the Funding and Accounting Basis**				
				Adjustments for Capital Purposes (Note 7.1)	**Net Change for Pensions Adjustments (Note 7.2)**	**Other Differences (Note 7.3)**	**Intra-Group Funding**	**Total Adjustments**
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**
Chief Constable	139,350	23,905	163,255	(5,703)	23,014	6,594	(23,905)	0
Net Cost of Services	**139,350**	**23,905**	**163,255**	**(5,703)**	**23,014**	**6,594**	**(23,905)**	**0**
Other Income and Expenditure from the Funding analysis	0	(23,026)	(23,026)	0	(23,026)	0	23,026	0
Intra-Group Transaction	(139,350)	(879)	(140,229)	0	0	0	0	0
Difference between General Fund Surplus or Deficit and CIES Surplus or Deficit on the Provision of Services	**0**	**0**	**0**	**(5,703)**	**(12)**	**6,594**	**(879)**	**0**
Opening Revenue Reserve Balance as at 31 March 2020	**0**							
Less/Plus Surplus or (Deficit) on the General Fund in Year	0							
Transfer (to)/from Other Reserves	0							
Closing Revenue Reserve Balance as at 31 March 2021	**0**							

Note 7 Expenditure and Funding Analysis Continued

2019/20

Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts	Outturn	Adjustments	Net Expenditure in the CIES	Adjustments between the Funding and Accounting Basis				
				Adjustments for Capital Purposes (Note 7.1)	Net Change for Pensions Adjustments (Note 7.2)	Other Differences (Note 7.3)	Intra-Group Funding	Total Adjustments
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Chief Constable	132,414	25,760	158,174	1,078	26,070	(1,388)	(25,760)	0
Net Cost of Services	**132,414**	**25,760**	**158,174**	**1,078**	**26,070**	**(1,388)**	**(25,760)**	**0**
Other Income and Expenditure from the Funding analysis	0	(22,602)	(22,602)	0	(22,602)	0	22,602	0
Intra-Group Transaction	(132,414)	(3,158)	(135,572)	0	0	0	0	0
Difference between General Fund Surplus or Deficit and CIES Surplus or Deficit on the Provision of Services	**0**	**0**	**0**	**1,078**	**3,468**	**(1,388)**	**(3,158)**	**0**

Opening Revenue Reserve Balance as at 31 March 2019	**0**
Less/Plus Surplus or (Deficit) on the General Fund in Year	0
Transfer (to)/from Other Reserves	0
Closing Revenue Reserve Balance as at 31 March 2020	**0**

Note 7 Expenditure and Funding Analysis Continued

7.1 Adjustment for Capital Purposes

This column deducts the depreciation, amortisation, minimum revenue provision, finance lease and revenue contributions gains and losses in the services line from the cost of the Chief Constable's services

7.2 Net Change for Pensions' Adjustments

Net change for the removal of pension contributions and the addition of IAS 19 Employee Benefits pension related expenditure and income:

- **For services** – this represents the removal of the employer pension contributions made by the Group as allowed by statute and the replacement with current service costs and past service costs.

- **For financing and investment income and expenditure** – the net interest on the defined benefit liability is charged to the CIES.

7.3 Other Differences

Other differences between amounts debited/credited to the CIES and the amounts payable/receivable to be recognised under statute such as accumulated absences.

7.4 Chief Constable Outturn

The Chief Constable reported outturn is the sum of the amount disclosed against the Chief Constable line and the amount shown against the financing and investment income and expenditure line. In the Statement of Accounts, the financing and investment income and expenditure line is under the control of the PCC and is excluded from the Chief Constable's CIES and Expenditure and Funding Analysis Statement but shown in the equivalent PCC statements.

Note 8 Expenditure and Income Analysed by Nature

2019/20 £'000	Expenditure/Income	2020/21 £'000
	Expenditure	
139,684	Employee benefit expenses	148,413
48,848	Other service expense	59,239
2,209	Depreciation, amortisation, impairment	2,326
190,741	**Total Expenditure**	**209,978**
	Income	
(32,567)	Fees charges and other service income	(46,723)
(22,602)	Pension Top Up Grant	(23,026)
(55,169)	**Total Income**	**(69,749)**
135,572	**Cost on the Provision of Service including Pension Top Up Grant**	**140,229**

Note 9 Vehicles, ICT and Equipment

This table sets out the assets held by the Chief Constable:

2019/20		Movements	2020/21	
Vehicles, ICT and Equipment	Vehicles, ICT and Equipment Under Construction		Vehicles, ICT and Equipment Under Construction	Vehicles, ICT and Equipment
£'000	£'000	**Cost**	£'000	£'000
49,943	**0**	**Balance at 1 April**	**0**	**33,762**
5,858	0	Additions	1,552	3,436
(22,039)	0	Disposals	0	(10,715)
0	0	Reclassification	0	0
33,762	**0**	**Balance at 31 March**	**1,552**	**26,483**
		Accumulated Depreciation		
(43,647)	**0**	**Balance at 1 April**	**0**	**(23,544)**
(1,861)	0	Depreciation Charge	0	(2,186)
21,964	0	Derecognition-Disposals	0	10,689
0	0	Reclassification	0	0
(23,544)	**0**	**Balance at 31 March**	**0**	**(15,041)**
		Net Book Value		
6,295	**0**	**Balance at 31 March 2019**		
10,218	**0**	**Balance at 31 March 2020**	**0**	**10,218**
		Balance at 31 March 2021	**1,552**	**11,442**

The asset under construction total additions of £1.552m comprises of £1.074m for vehicles and £0.478m for ICT.

Note 9 Vehicles, ICT and Equipment Continued

9.1 Recognition

Expenditure on an individual item or a project or programme of work is capitalised when the following de-minimis level is met:-

- ICT £10k
- Plant and Equipment £10k
- Vehicles £10k

9.2 Depreciation

A review of asset lives has taken place in 2020/21 and the useful life for some assets have been amended. The following useful lives and approaches to depreciation have been used to calculate depreciation charges:

9.2.1 Information and Communications Technology (ICT)

Classes of ICT assets are given specific asset lives these are within the range 3-20 years. ICT assets are depreciated in equal annual instalments over the forecast useful life of the asset.

9.2.2 Plant and Equipment

Classes of plant and equipment assets are given specific asset lives these are within the range 3-25 years. These assets are depreciated in equal annual instalments over the forecast useful life of the asset.

9.2.3 Vehicles

Classes of vehicle are given specific asset lives within the range of 3-18 years. Vehicles are depreciated monthly over the forecast useful life of the vehicle and the depreciation in the first year will reflect the number of months that the vehicle has been registered.

9.3 Asset Transfers

No assets have been transferred from the PCC to the CC in 2020/21.

9.4 Componentisation

Component assets are recognised separately from the main asset that they are associated with when the value of the component is more than 25% and greater than £1m of the main asset value. No assets have met the criteria in 2020/21

9.5 De-recognition

An annual review of assets classed as Vehicles, ICT, and Plant and Equipment has been undertaken which has resulted in the derecognition of a number of assets that have reached the end of their useful lives or which have been disposed.

Note 10 Debtors

31 March 2020 £'000		31 March 2021 £'000
9,179	Central government bodies	12,002
3,819	Other local authorities	2,827
0	National Health Service	0
5,311	Other entities and individuals	5,222
18,309	**Total Debtors**	**20,051**

Note 11 Creditors

31 March 2020 £'000		31 March 2021 £'000
(2,650)	Central government bodies	(1,835)
(7,328)	Other local authorities	(5,123)
(569)	National Health Service	(400)
(10,224)	Other entities and individuals	(10,368)
(20,771)	**Total Creditors**	**(17,726)**

Note 12 Provisions

2020/21	Other £'000
Current Liabilities	
Balance at 1 April 2020	**(204)**
Additional provisions made	(12)
Amounts used/no longer required	59
Balance at 31 March 2021	**(157)**

2019/20	Other £'000
Current Liabilities	
Balance at 1 April 2019	**(287)**
Additional provisions made	(59)
Amounts used	142
Balance at 31 March 2020	**(204)**

12.1 Remuneration Provision

12.1.1 Contractual pay claims

The current level of the provision is estimated to be sufficient to meet known claims. These payments are expected to be made in 2021/22 and amount to £145k.

12.1.2 Employment tribunal

Judgements are applied in determining the level of the employment tribunal provision. This has been estimated at £12k.

Note 13 Accumulated Absences

The Chief Constable provides benefits to employees in the form of annual leave. In addition, staff who work hours in excess of their contract hours may be awarded time off in lieu. These are accumulating absences that may be carried forward for use in future periods. The obligation to make future payments is recognised in the Comprehensive Income and Expenditure Statement and is a liability on the Chief Constable's Balance Sheet as follows:

2019/20 £'000		2020/21 £'000
(2,597)	**Balance at 1 April**	**(2,137)**
2,597	Settlement or cancellation of accrual made at the end of the preceding year	2,137
(2,137)	Amounts accrued at the end of the current year	(3,217)
460	**Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements**	**(1,080)**
(2,137)	**Balance at 31 March**	**(3,217)**

The increase in the year can be explained by officers and staff carrying forward more leave than in previous years due to the Covid-19 pandemic. There has also been an increase in officers as a result of the officer uplift programme. Information on the programme can be found in in the narrative report.

Note 14 External Audit Costs

The Chief Constable has incurred the following costs in relation to the audit of the Statement of Accounts:

2019/20 £'000		2020/21 £'000
28	Fees payable to external auditors with regard to external audit services carried out by the appointed auditor for the year	18
0	Fees payable to external auditors for other services	0
28		**18**

~~The 2019/20 audit fee disclosed was an estimated figure provided by Grant Thornton UK LLP. The actual fee is yet to be approved by the Public Sector Audit Appointments (PSAA); the body responsible for appointing the auditors. Grant Thornton UK LLP have also provided the estimated figure for 2020/21.~~

The 2019/20 fee was approved, in July 2021, by the Public Sector Audit Appointments (PSAA); the body responsible for appointing the auditors. Grant Thornton UK LLP have also provided the estimated figure for 2020/21.

Note 15 Officers' Remuneration

15.1 Remuneration

This note shows the officer remuneration costs for officers and staff employed by the Chief Constable above the rank of Superintendent and the staff equivalent:

2020/21	Note	Salary, Fees and Allowances	Subsistence and Expenses Allowances	Benefits in Kind	Total Remuneration excl Pension Contributions	Employers Pension Contributions	Compensation for loss of employment	Total Remuneration incl Pension Contributions
Chief Constable		£	£	£	£	£	£	£
Salary £150,000 plus per year								
Chief Constable - James Vaughan		176,516	0	0	176,516	50,602	0	227,118
Salary £50,000 to £149,999 per year								
Deputy Chief Constable from 01/04/20 to 21/10/20	1	74,208	0	2,209	76,417	26,747	0	103,164
Deputy Chief Constable from 05/10/20 to 31/03/21	1	66,323	0	5,564	71,887	20,031	0	91,918
Assistant Chief Constable from 01/04/20 to 01/11/20		76,252	0	0	76,252	21,286	0	97,538
Assistant Chief Constable from 01/06/20 to 31/03/21		87,356	7,978	4,791	100,125	27,080	0	127,205
Assistant Chief Constable		117,604	0	0	117,604	28,153	0	145,757
Assistant Chief Constable (Regional) from 01/02/21	2	19,870	2,091	1,019	22,980	6,160	0	29,140
Assistant Chief Officer from 01/04/20 to 07/04/20		14,896	0	490	15,386	333	0	15,719
Interim Chief Financial Officer (part time)		99,940	0	0	99,940	0	0	99,940
Director of Human Resources from 01/04/20 to 07/04/20	3	10,781	0	0	10,781	333	0	11,114
Chief Superintendent		95,575	0	0	95,575	26,378	0	121,953
Chief Superintendent		99,222	0	0	99,222	28,153	0	127,375
Chief Superintendent		95,597	0	0	95,597	27,333	0	122,930
Chief Superintendent – ESN Programme Director	4	94,562	0	0	94,562	28,153	0	122,715
Chief Superintendent - Secondment to College of Policing from 01/04/20 to 31/05/20	5	15,344	0	36	15,380	4,625	0	20,005

Note 15 Officers' Remuneration Continued

Restated 2019/20*	Note	Salary, Fees and Allowances	Subsistence and Expenses Allowances	Benefits in Kind	Total Remuneration excl Pension Contributions	Employers Pension Contributions	Compensation for loss of employment	Total Remuneration incl Pension Contributions
Chief Constable		£	£	£	£	£	£	£
Salary £150,000 plus per year								
Chief Constable - James Vaughan		170,235	0	0	170,235	49,367	0	219,602
Salary £50,000 to £149,999 per year								
Deputy Chief Constable		130,914	0	4,634	135,548	37,016	0	172,564
Chief Superintendent from 01/04/2019 to 17/10/2019 - Assistant Chief Constable from 18/10/2019 to 31/03/2020		100,755	0	0	100,755	27,466	0	128,221
Assistant Chief Constable		122,249	0	12,314	134,563	34,597	0	169,160
Assistant Chief Officer		109,375	0	6,399	115,774	16,953	50,000	182,727
Interim Chief Financial Officer from 24/9/2019 to 31/3/2020		41,174	0	0	41,174	0	0	41,174
Director of Human Resources	2	109,375	0	4,700	114,075	16,953	50,000	181,028
Chief Superintendent from 21/10/2019 to 31/03/2020		41,692	0	0	41,692	11,186	0	52,878
Chief Superintendent		93,601	0	0	93,601	27,466	0	121,067
Chief Superintendent from 01/04/2019 to 19/05/2019		13,479	0	596	14,075	3,639	0	17,714
Chief Superintendent from 01/04/2019 to 14/07/2019		24,166	0	0	24,166	6,543	0	30,709
Chief Superintendent		95,123	0	0	95,123	27,466	0	122,589
Chief Superintendent - Secondment to College of Policing		90,705	216	0	90,921	27,328	0	118,249

*There has been a change to the presentation of the 2019/20 table by grouping the salaries per Senior Officer rather than showing salaries by individual rank.

Note 15 Officers' Remuneration Continued

15.1 Notes

1. The Deputy Chief Constables for Devon and Cornwall Police and Dorset Police provide specific services across both forces. Their employment and associated costs are disclosed within the Statement of Accounts for each of their respective forces.

2. The regional Assistant Chief Constable is employed by Dorset Police.

3. The Director of Human Resources post was shared between Devon and Cornwall Police and Dorset Police. The contract of employment is with Dorset Police and for this reason the remuneration disclosure is made in the Statement of Accounts of Dorset Police. Devon and Cornwall Police refund Dorset 70% of the pay costs and 50% of the settlement and pension strain costs

4. Dorset Police fund 11.76% of the Chief Superintendent ESN Programme Director post.

5. The costs of the Chief Superintendent are 100% funded by the College of Policing.

15.2 Termination Costs

The total termination costs (exit costs) shown in the table below are the payments made to individuals plus payments to recompense the pension fund for the strain calculated on an actuarial basis in 2019/20 and 2020/21. They relate to staff employed by the Chief Constable. The costs charged in the Comprehensive Income and Expenditure Statement includes adjustments for the sharing of costs between Dorset Police and Devon and Cornwall Police under the Strategic Alliance Agreement. The adjustments 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**	
	2019/20	**2020/21**	**2019/20**	**2020/21**	**2019/20**	**2020/21**	**2019/20 £'000**	**2020/21 £'000**
£0 – £20,000	0	0	0	4	0	4	0	40
£20,001 - £40,000	0	0	0	0	0	0	0	0
£40,001 - £60,000	0	0	0	0	0	0	0	0
£60,001 - £80,000	0	0	0	0	0	0	0	0
£180,001 - £200,000	0	0	1	0	1	0	198	0
£280,001- £300,000	0	0	1	0	1	0	288	0
Total included in bandings and in CIES	**0**	**0**	**2**	**4**	**2**	**4**	**486**	**40**
Adjustments to reflect costs charged in Comprehensive Income and Expenditure Statement								
Redundancy cost recharged from Devon and Cornwall Police to Dorset Police							21	3
Redundancy cost recharged to Devon and Cornwall by Dorset Police							(144)	0
Exit Costs charged to the Comprehensive Income and Expenditure Statement							**363**	**43**

Note 15 Officers' Remuneration Continued

15.3 Remuneration Bands

The figures presented below do not include the remuneration of the senior employees and relevant police officers as they have been disclosed separately but do include other police staff and police officers remuneration.

2019/20 Number of employees	Remuneration Band	2020/21 Number of employees
144	£50,000 - £54,999	143
81	£55,000 - £59,999	100
28	£60,000 - £64,999	48
8	£65,000 - £69,999	0
2	£70,000 - £74,999	5
0	£75,000 - £79,999	3
8	£80,000 - £84,999	6
0	£85,000 - £89,999	4
0	£90,000 - £94,999	2
1	£95,000 - £99,999	0
0	£100,000 - £104,999	0
1	£105,000 - £109,999	1
273	**Total**	**312**

- The Police and Crime Commissioner has chosen to disclose all police officers earning more than £50,000 on a voluntary basis (the legislative requirement is to include only police officers above the rank of superintendent).
- The above table does not include staff and officers paid below £50,000 who make up approximately 91% of the workforce.
- Pay scales for police officers are set nationally.

Note 16 Related Party Transactions and Collaborations

16.1 Related Party Transactions

The Chief Constable is required to disclose material transactions with related parties, including central government, other local authorities, members, senior officers and their close families. At present all transactions are managed through the Police and Crime Commissioner's Fund Account and are reported in the Group accounts. For this reason the Chief Constable does not have any transactions with external bodies.

16.1.1 Officers

The Chief Executive of the Office of the Police and Crime Commissioner has written to all senior officers explaining the need for disclosure. There are no disclosures required.

16.2 Collaborations

16.2.1 Collaborations

The Police and Crime Commissioner's Group have signed up to a number of joint operations. This involves joint working with specified Police Forces as part of a collaborative agreement. Part of the joint arrangement is to share control and have rights to net assets. Only significant partnerships where gross expenditure is £100k are disclosed. The table below shows the regional activity.

2019/20 Expenditure £'000	Notes	Joint Operation	2020/21 Expenditure £'000
954	1	South West Regional Special Branch	955
3,336	2	South West Regional Forensics Services	3,864
201	3	South West Police Procurement Services	217
1,111	4	South West ROCU	1,130
164	5	South West Regional Programme	175
5,766			**6,341**

16.2.1 South West Regional Special Branch

South West Regional Special Branch is a partnership with Avon and Somerset Police, Devon and Cornwall Police and Wiltshire Police. Each Force has a committed number of staff who are based within their own Force area, but work on behalf of the four Forces. The force cost for the year was £955k. The total cost of £3,997k is split on a percentage basis, with Dorset Police contributing 23.9%, Avon and Somerset contributing 28.4%, Devon and Cornwall contributing 28.9% and Wiltshire Police contributing 18.8%.

16.2.2 South West Regional Forensics Services

South West Regional Forensics Services is a partnership with Avon and Somerset Police, Wiltshire Police and Devon and Cornwall Police as the lead Force. There are bases in all four Forces, with each force employing a number of staff. The Force cost for the year was £3,864k. Most of the £21,075k total cost is split on a percentage basis, with Dorset contributing 18.7%, Avon and Somerset contributing 36.6%, Devon and Cornwall contributing 30.5% and Wiltshire Police contributing 14.2%.

16.2.3 South West Police Procurement Services

South West Police Procurement Services is a partnership with Wiltshire Police, Gloucestershire Police and Devon and Cornwall Police as the host Force. Staff are based across the region, with them all employed by Devon and Cornwall Police. The Force cost for the year was £217k. The total cost of £1,113k is split on a percentage basis with Dorset Police contributing 19.5%, Wiltshire Police contributing 17.2%, Gloucestershire Police contributing 17.0% and Devon and Cornwall Police contributing £46.3%.

Note 16 Related Party Transactions and Collaborations Continued

16.2.4 South West Regional Organised Crime Unit (ROCU)

South West ROCU is a partnership with Devon and Cornwall Police, Wiltshire Police, Gloucestershire Police and Avon and Somerset Police as the lead Force. Staff are employed by each partnering Police Force based within one of two hubs (North and South). The Force cost for the year was £1,130k. The total cost of £9,610k is split on a percentage basis with Dorset Police contributing 11.76%, Devon and Cornwall contributing 33.3%, Wiltshire contributing 11.68%, Gloucestershire contributing 10.83% and Avon and Somerset contributing 32.43%.

16.2.5 South West Regional Programme

The South West Regional Programme is a partnership with Dorset Police, Devon and Cornwall Police, Gloucestershire Police, Wiltshire Police with Avon and Somerset Police as the lead Force. The Programme consists of a range of teams that manage the implementation of collaboration business change projects. Costs are shared with the Forces that are involved in each project. The Force cost for the year was £175k. Most of the £1,374k total cost is split on a percentage basis with Dorset Police contributing 11.76%, Devon and Cornwall contributing 33.3%, Wiltshire contributing 11.68%, Gloucestershire contributing 10.83% and Avon and Somerset contributing 32.43%.

Note 17 Contingent Liabilities

17.1 Compensation Claims

Claimants have lodged claims for compensation regarding the public service pension scheme reform. Test cases for these claims are due to be heard by the Employment Tribunal in December 2021. Claims for financial losses are currently stayed as consideration is given to the HM Treasury consultation response. As at 31 March 2021, it is not possible to reliably estimate the extent or likelihood of these claims being successful, and therefore no liability in respect of compensation claims is recognised in these accounts. It is anticipated that funding will be received from the Home Office to settle successful claims.

Note 18 Capital Expenditure and Financing

Within the Group's four-year financial planning model, the Police and Crime Commissioner approves an annual capital programme to provide buildings, vehicles and other equipment for the Force. Part of the capital programme relates to non-current assets under the ownership and control of the Chief Constable. The table below shows what was spent on assets owned by the Chief Constable with the finance being provided by the Police and Crime Commissioner.

2019/20 £'000		2020/21 £'000
0	**Opening Capital Financing Requirement**	**0**
	Capital Investment:	
1,157	Vehicles	1,772
4,702	Plant, Equipment and ICT	3,216
42	Intangibles	0
3,594	Revenue Expenditure Funded from Capital Under Statute	5,626
9,495		10,614
	Less Sources of Finance:	
(9,495)	Police and Crime Commissioner	(10,614)
(9,495)		(10,614)
0	Increase/(Decrease) in Capital Financing Requirement	0
0	**Closing Capital Financing Requirement**	**0**

Note 19 Intangible Assets

All of the intangible assets held are ICT software and are recognised separately from the tangible asset with which they are associated. Where the value of the intangible asset is more than 25% and greater than £100k of the main asset value.

19.1 Amortisation

All intangible assets are given a finite life, based on assessments of the period that the software is expected to be of use to the Group. Asset lives range from 3-10 years and the carrying amount is amortised on a straight-line basis.

19.2 Derecognition

An annual review of intangible assets has been undertaken which resulted in the derecognition of a number of assets that have reached the end of their useful lives or which were disposed during the year.

2019/20 Non-Operational Assets £'000		2020/21 Non-Operational Assets £'000
	Balance at start of year	
2,759	Gross carrying amounts	2,142
(2,261)	Accumulated amortisation	(1,951)
498	**Net carrying amount at start of year**	**191**
42	Additions	0
(659)	Derecognition - Gross Value	0
0	Write up of the Gross Value	506
(349)	Amortisation for the period	(140)
0	Amortisation associated with the Gross Value write up	(506)
659	Derecognition - Gross Amortisation	0
191	**Net carrying amount at end of year**	**51**
	Comprising:	
2,142	Gross carrying amounts	2,648
(1,951)	Accumulated Amortisation	(2,597)
191		**51**

Note 20 Defined Benefit Pension Schemes

As part of the terms and conditions of employment of its officers and staff, the Chief Constable makes contributions towards the cost of post-employment benefits. Although these benefits will not actually be payable until employees retire, the Chief Constable has a commitment to make the payments (for those benefits) and to disclose them at the time that employees earn their future entitlement. The Chief Constable operates four pension schemes, three for police officers and one for police staff. All are defined benefits schemes, providing members with benefits based on their pensionable pay and length of service. The disclosures on pensions use specialist terminology. Definitions are provided in the glossary.

The Chief Constable along with other Chief Constables and the Home Office currently has a number of claims in respect of unlawful discrimination arising from transitional provisions in the Police Pension Regulations 2015. The claims against the Police pension scheme (the Aarons case) had previously been stayed behind the McCloud/Sargeant judgement, but a case management was held in Oct 2019, with the resulting Order including an interim declaration that the claimants are entitled to be treated as if they had been given full transitional protection and had remained in their existing scheme after 1 April 2015. Whilst the interim declaration applied only to claimants, the Government made clear through a Written Ministerial Statement on 25 March 2020 that non-claimants would be treated in the same way.

On 16 July 2020, HM Treasury issued a consultation regarding transitional arrangements for public sector pensions to eliminate discrimination as identified through the McCloud/Sargeant cases. This consultation introduced a requirement for members to have been members of the scheme on or before 31 March 2012 and on or after 1 April to be eligible for remedy.

On 4 February 2021, HM Treasury issued their response to the consultation which confirmed the remedy arrangements set out in the consultation, and states that members would be given a choice as to whether to retain benefits from their legacy pension scheme, or their new scheme, during the remedy period (2015-2022). This choice will be deferred for members until retirement. As the findings of the original Employment Tribunal did not identify that the introduction of the new public sector pension schemes were discriminatory (rather it was the transitional provisions), the legacy schemes will be removed from April 2022 to be replaced by the new pension schemes originally introduced in 2015.

The impact of an increase in annual pension payments arising from McCloud/Sargeant is determined through the Police Pension Fund Regulations 2007. These require the Police and Crime Commissioner Group to maintain a pension fund into which officer and employer contributions are paid and out of which pension payments to retired officers are made. If the police pension fund does not have sufficient funds to meet the cost of pensions in year the amount required to meet the deficit is then paid by the Secretary of State to the Group in the form of a central government top-up grant.

Giving full transitional protection to members would lead to an increase in the Police Pension Scheme liabilities. In 2018/19, scheme actuaries estimated the potential increase in scheme liabilities to be £33.174m. This increase was reflected in the IAS 19 disclosure as a past service cost. In 2019/20, scheme actuaries reviewed these assumptions at a force level. The proposed remedy reduced the liability in 2019/20 by £5.642m.

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

With regard to the LGPS a similar adjustment was made in the 2018/19 accounts to reflect an increase in the present value of the defined benefit obligation. This increase was shown as a past service cost and amounted to £3.341m. In 2019/20 and 2020/21, the scheme actuaries reviewed the assumptions at a force level. The change in assumptions is reported in Other Comprehensive Income and Expenditure in the CIES.

Note 20 Defined Benefit Pension Schemes Continued

20.1 Police Officer Schemes

20.1.1 Participation in Pension Schemes

From 1 April 2015 both the 1987 and 2006 Police Officers' pension schemes were replaced by a new scheme with a future accrual based on the career average (CARE) model for new entrants. Both final salary police schemes closed from April 2015, however, there is protection for those who were members of the scheme prior to April 2012 who will be entitled to the benefits which would have accrued in their legacy scheme up to April 2022, at the point of their retirement. The new scheme is open to all newly recruited officers. The police officer pension schemes are unfunded defined benefit final salary schemes administered by the Chief Constable for Dorset, meaning that there are no investment assets built up to meet the pensions liabilities, and cash has to be generated to meet actual pension payments as they eventually fall due. Pensions are financed from the Chief Constable and employee's (police officers) contributions. Any deficit is met by the Home Office in the form of a top up grant. The Chief Constable's and the employee contributions are paid into a separate Police Officers' Pension Fund Account.

Police Pension Fund Regulations require Police and Crime Commissioners to transfer a sum not exceeding the amount that the Police Pensions Fund is in deficit at 31 March from the Police and Crime Commissioner's General Fund into the Police 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 pension fund is in surplus for the year, the surplus is required to be transferred from the pension fund to the Police and Crime Commissioner, who then must repay the amount to central government. The Chief Constable makes payments under the Police Injury Benefits Regulations. These payments are accounted for in the same way as payments under the main police officer pension scheme. The independent actuary has estimated the costs and they are included within Police Officers scheme disclosure.

20.1.2 Reconciliation of present Value of the Scheme of Liabilities (Defined Benefit Obligation)

2019/20 £'000		2020/21 £'000
(1,439,638)	**Opening balance at 1 April**	**(1,349,345)**
(35,063)	Current service cost	(29,596)
(34,089)	Interest cost	(31,244)
(6,215)	Contributions from scheme participants	(6,571)
	Remeasurement gains and (losses):	
(9,550)	• Actuarial gains/(losses) arising from changes in demographic assumptions	22,504
124,619	• Actuarial gains/(losses) arising from changes in financial assumptions	(330,131)
0	• Experience gains/(losses) on defined benefit obligation	(47,930)
43,517	Benefits paid	45,001
5,642	Past service costs, including curtailments	0
1,432	Injury pension payments	1,390
(1,349,345)	**Closing balance at 31 March**	**(1,725,922)**

20.1.3 Transactions relating to Retirement Benefits

The Chief Constable recognises the cost of retirement benefits for police officers in the reported cost of services when they are earned by police officers rather than when the benefits are eventually paid as pensions. These costs are reflected in the intra-group transactions between the Chief Constable and the Police and Crime Commissioner Group. The impact of these transfers is that the pension liabilities on the Chief Constable's Balance Sheet are matched by intra-group debtors which reflect the Police and Crime Commissioner's long-term responsibility to provide funds to enable the Chief Constable to administer police pensions.

Note 20 Defined Benefit Pension Schemes Continued

2019/20 £'000	Comprehensive Income and Expenditure Account	2020/21 £'000
	Cost of Services	
35,063	Current service cost	29,596
(5,642)	Past service cost	0
	Financing and Investment Income and Expenditure	
34,089	Net interest expense	31,244
63,510	**Total Post-Employment Benefits charged to the Surplus or Deficit on the Provision of Services**	**60,840**
	Other Post-Employment Benefits charged to the Comprehensive Income and Expenditure Statement	
	Remeasurement of the net defined benefit liability comprising:	
9,550	• Actuarial (gains) and losses arising on changes in demographic assumptions	(22,504)
(124,619)	• Actuarial (gains) and losses arising on changes in financial assumptions	330,131
0	Experience (gain)/loss on defined benefit obligation	47,930
(51,559)	**Total Post-Employment Benefits charged to the Comprehensive Income and Expenditure Statements**	**416,397**
	Movement In Reserves Statement	
(63,510)	Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post-employment benefits in accordance with the code	(60,840)
	Actual amounts charged against the General Fund Balance for pensions in the year:	
16,132	Employers' contributions payable to scheme	16,794
22,602	Home Office Top Up Grant	23,026

The 2019/20 past service cost reflects the impact of the proposed remedy, which is a reduction to the liability of £5.642m.

20.1.4 Impact on the Chief Constable's Cashflow

The liabilities show the underlying commitments that arise from the fact that the Chief Constable has to pay retirement benefits over a long-term period. The total liability of £1,726m has a substantial impact on the net worth of the as recorded in the balance sheet. However, statutory arrangements for funding the deficit mean that the financial position remains healthy, as:

- scheme deficits are met by the Home Office
- finance is only required to be raised to cover police pensions when the pensions are actually paid, not when they are earned

The total contributions expected to be made to the Police Pension Fund Account in the year to 31 March 2022 is £15.767m.

Note 20 Defined Benefit Pension Schemes Continued

20.1.5 Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates and salary levels.

The Police Officer Pension Scheme liabilities have been estimated for by Barnett Waddingham LLP, an independent firm of actuaries, estimates being based on the latest full valuation of the scheme as at 31 March 2020.

Employer contributions are set every four years as a result of the combined actuarial valuation of the Scheme required by the Home Office on behalf of the Home Secretary. The last combined actuarial valuation was completed at 31 March 2016 which set the contributions for the period from 1 April 2019 to 31 March 2023. The next combined actuarial valuation will be carried out as at 31 March 2020.

The significant assumptions used by the actuary have been:

2019/20	Mortality Assumptions:	2020/21
	Longevity at 65 for current pensioners:	
21.6	Men	21.1
23.7	Women	23.3
	Longevity at 65 for future pensioners:	
23.3	Men	22.3
25.5	Women	24.8
	Financial Assumptions:	
1.90%	Rate of Inflation	2.85%
3.40%	Rate of increase in salaries	3.85%
1.90%	Rate of increase in pensions	2.85%
2.35%	Rate for discounting scheme liabilities	2.00%

It is assumed that members do not transfer any of their lump sum for pension and that active members will retire when they are first able to do so without reduction.

The estimated weighted average duration of the Police Officer schemes is 18 years, and it is this duration that has been used to derive the assumptions. The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analysis below has been determined based on reasonable possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. Changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

Impact on the Defined Benefit Obligation in the Scheme	Increase in Assumption £'000	Decrease in Assumption £'000
Mortality age rating assumption (increase or decrease in 1 year)	82,855	(78,994)
Rate of increase in salaries (increase or decrease by 0.1%)	3,141	(3,123)
Rate of increase in pensions (increase or decrease by 0.1%)	28,560	(28,003)
Rate for discounting scheme liabilities (increase or decrease by 0.1%)	(31,352)	31,998

Note 20 Defined Benefit Pension Schemes Continued

20.2 Police Staff Scheme

20.2.1 Participation in Pension Schemes

Police Staff are part of the Local Government Pension Scheme administered by Dorset Council. This is a funded defined benefit career average scheme, meaning that the Chief Constable and employees pay contributions into a fund, calculated at a level intended to balance the pension's liabilities over time with investment assets. In addition to the above scheme there are arrangements for the award of discretionary post-employment benefits upon early retirement – this is an unfunded defined benefit arrangement under which liabilities are recognised when awards are made. As these benefits are unfunded cash has to be generated to meet actual pension payments as they fall due.

20.2.2 Transactions Relating to Retirement Benefits

The Chief Constable recognises the cost of retirement benefits for police staff in the reported cost of services when they are earned by police staff rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against council tax is based on the cash payable in the year, so the real cost of post-employment /retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made for the police staff scheme in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year.

2019/20 £'000	Comprehensive Income and Expenditure Account	2020/21 £'000
	Cost of Services	
	Service cost comprising:	
13,047	• Current service cost	16,371
0	• Past service cost	576
5,403	• (Gain)/loss from settlements	0
134	• Administration Expenses	124
	Financing and Investment Income and Expenditure	
2,967	Net interest expense	2,869
21,551	**Total Post Employment Benefits charged to the Surplus or Deficit on the Provision of Services**	**19,940**
	Other Post Employment Benefits Charged to Comprehensive Income and Expenditure Statement	
	Remeasurement of the net defined benefit liability comprising:	
22,444	• Return on plan assets (excluding the amount included in the net interest expense)	(35,336)
(6,507)	• Actuarial (gains) and losses arising on changes in demographic assumptions	(2,978)
(35,362)	• Actuarial (gains) and losses arising on changes in financial assumptions	97,180
(315)	Apportionment Adjustment	219
(90)	Other Actuarial Gains/Losses	0
(2,834)	Experience (gain)/loss on defined benefit obligation	(3,153)
(1,113)	**Total Post Employment Benefit charged to the Comprehensive Income and Expenditure Statement**	**75,872**

Note 20 Defined Benefit Pension Schemes Continued

2019/20 £'000	Movement in Reserves Statement	2020/21 £'000
(21,551)	Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post-employment benefits in accordance with the code	(19,940)
	Funded Liabilities	
£'000	**Actual amount charged against the General Fund Balance for pensions in the year:**	**£'000**
5,788	Employers' contributions payable to scheme	6,842
	Unfunded Liabilities	
£'000	**Actual amount charged against the General Fund Balance for pensions in the year:**	**£'000**
17	Retirement benefits payable to pensioners	18

20.2.3 Pension Assets and Liabilities recognised in the Balance Sheet

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

31 March 2020 £'000		31 March 2021 £'000
(276,069)	Present value of the defined benefit obligation	(386,998)
164,219	Fair value of plan assets	206,135
(111,850)	**Net liability arising from defined benefit obligation**	**(180,863)**

Incorporated within the asset and liability figures is an allowance for the settlement of the ongoing Dorset Police and Devon and Cornwall Police bulk transfers of staff pensions that have arisen as a consequence of the Alliance arrangements.

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

31 March 2020 £'000		31 March 2021 £'000
172,478	**Opening fair value of scheme assets**	**164,219**
4,436	Interest income	3,413
	Remeasurement gain/(loss):	
(22,444)	• The return on plan assets, excluding the amount included in the net interest expense	35,336
(572)	Apportionment Adjustment	316
(134)	Administration expenses	(124)
5,805	Contributions from employer	6,860
2,186	Contributions from employees into the scheme	2,614
(5,258)	Benefits paid	(6,499)
7,632	Settlement prices received/(paid)	0
90	Other actuarial gains and (losses)	0
164,219	**Closing fair value of scheme assets**	**206,135**

Note 20 Defined Benefit Pension Schemes Continued

20.2.5 Reconciliation of present Value of the Scheme of Liabilities (Defined Benefit Obligation)

31 March 2020 £'000		31 March 2021 £'000
(291,248)	**Opening balance at 1 April**	**(276,069)**
(13,047)	Current service cost	(16,371)
(7,403)	Interest cost	(6,281)
(2,186)	Contributions from scheme participants	(2,616)
	Remeasurement gain/(loss):	
6,508	• Actuarial gains/(losses) arising from changes in demographic assumptions	2,978
35,362	• Actuarial gains/(losses) arising from changes in financial assumptions	(97,180)
2,834	• Experience gain/(loss) on defined benefit obligation	3,153
(13,034)	Liabilities assumed/(extinguished) on settlements	0
887	Apportionment Adjustment	(535)
0	Past service cost including gains/(losses) on curtailments	(576)
5,258	Benefits paid	6,499
(276,069)	**Closing balance at 31 March**	**(386,998)**

Amendments to the IAS19 standard now requires that, when determining any past service cost or gain or loss on settlement, the net defined benefit liability is remeasured using current assumptions and the fair value of plan assets at the time of the event. These events are referred to as “special events”. During the year there were two former employees that were entitled to unreduced early retirement benefits that have been classed as special events. The cost of these additional benefits on IAS19 compliant assumptions has been calculated at £588k and is shown in the table above.

The Chief Constable’s contribution to the Local Government Pension Scheme for the accounting period to 31 March 2022 is estimated to be £7.031m. This estimation excludes the capitalised cost of any early retirements or augmentations which may occur after 31 March 2021. These projections are based on the assumptions as at 31 March 2021.

20.2.6 Local Government Pension Scheme assets comprised

31 March 2020 £'000		31 March 2021 £'000
	Fair Value of Scheme assets	
	Cash and cash equivalents	
81,726	UK Equities	110,895
9,314	Diversified Growth Fund	10,330
18,706	Gilts	23,131
13,449	Other Bonds	15,301
18,899	Property	18,895
11,358	Infrastructure	12,652
3,426	Cash	4,402
0	Secured Income Funds	1,039
7,341	Multi Asset Credit	9,490
164,219	**Total**	**206,135**

Note 20 Defined Benefit Pension Schemes Continued

20.2.7 Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc.

The liabilities have been estimated by Barnett Waddingham LLP, an independent firm of actuaries, estimates being based on the latest full triennial valuation of the scheme as at 31 March 2019.

The significant assumptions used by the actuary have been:

2019/20		2020/21
	Long-term expected rate of return on assets in the scheme:	
2.35%	Equity investments	2.00%
2.35%	Bonds	2.00%
2.35%	Other	2.00%
	Mortality assumptions:	
	Longevity at 65 for current pensioners:	
23.3	Men	23.1
24.7	Women	24.6
	Longevity at 65 for future pensioners:	
24.7	Men	24.4
26.2	Women	26.0
	Financial Assumptions:	
1.85%	Rate of inflation	2.80%
2.85%	Rate of increase in salaries	3.80%
1.85%	Rate of increase in pensions	2.80%
2.35%	Rate for discounting scheme liabilities	2.00%

The past service liability duration has been estimated at 24 years. This duration has been calculated based on the membership data provided for the most recent full valuation of the liabilities at 31 March 2019. The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analysis below has been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

20.2.8 Impact on the Defined Benefit Obligation in the Scheme

	Increase in Assumption £'000	Decrease in Assumption £'000
Mortality age rating assumption (increase or decrease in 1 year)	16,305	(15,619)
Rate of increase in salaries (increase or decrease by 0.1%)	1,137	(1,126)
Rate of increase in pensions (increase or decrease by 0.1%)	8,011	(7,818)
Rate for discounting scheme liabilities (increase or decrease by 0.1%)	(9,005)	9,229

Note 20 Defined Benefit Pension Schemes Continued

20.2.9 Other Assumptions

It is assumed that:

- Members will exchange pension to get 50% of the maximum available cash on retirement. For every £1 of pension that members commute, they will receive a cash payment of £12 as set out in the Regulations;
- Members will retire at one retirement age for all tranches of benefit, which will be the pension weighted average tranche retirement age; and
- The proportion of the membership that had taken up the 50:50 contribution option at the previous valuation date will remain the same.

20.2.10 Impact on the Police and Crime Commissioner's Cash Flows

The objectives of the scheme, as administered by Dorset Council, are to keep employer's contributions at as constant a rate as possible. A strategy has been agreed with the scheme's actuary to achieve a funding level of 100% over the next 24 years. Contributions are set every three years as a result of the actuarial valuation of the Fund required by the Regulations. The next actuarial valuation will be carried out as at 31 March 2022 and will set contributions for the period from 1 April 2023 to 31 March 2026.

Dorset Council publishes details of the Fund's performance. They can be contacted at Dorset Council, County Hall, Dorchester, Dorset DT1 1XJ. More detail can be found on their website https://dorsetpensionfund.org/

Dorset Police

Pension Fund Accounting Statements

Police Officers' Pension Fund Statement

The Chief Constable is responsible for administering the Police Pension Fund in accordance with the Police Reform and Social Responsibility Act 2011. During the year all payments and receipts are made to and from the Police and Crime Commissioner Group Police Fund. The statement shows income and expenditure for the Police Pension Scheme, this expenditure is not consolidated into the Police and Crime Commissioner Group Accounts.

31 March 2020 £'000	FUND ACCOUNT	31 March 2021 £'000
	Contributions Receivable	
(14,210)	Employers (normal)	(15,052)
(6,215)	Employees (normal)	(6,571)
(489)	Ill Health capital charge	(352)
	Transfers In	
(331)	Individual transfers from other schemes	(300)
	Benefits payable	
37,063	Pensions	37,580
6,784	Commutations & lump sum retirement benefits	7,721
	Payment to and on account of leavers	
0	Individual transfers to other schemes	0
22,602	**Net amount paid during the year**	**23,026**
(22,602)	**Transfer from Police Fund***	**(23,026)**
0	**Net amount payable / receivable for the year**	**0**

*Additional contribution funded from the Police Fund is met by a top up grant from the Home Office as follows:

17,788	Received in year	18,623
4,814	Debtor	4,403
22,602		**23,026**

The Police Officer Pension Fund is unfunded and has no investment assets. Short term assets or liabilities are not material and have not been disclosed for this reason.

The Police Officer Pension Fund which is administered by the Chief Constable has been set up for the specific purpose of administering the collection of contributions, the payment of pensions and the refund to central government for the balance outstanding for each year. The fund does not hold any investment assets nor does it reflect the liabilities of both Schemes to pay present and future pensioners.

The main benefits payable are police officer pensions, lump sums that represent the commutation of pensions and other lump sum payments. The Chief Constable paid a contribution equal to 31.0% of police officer pay for 2020/21. As this contribution was insufficient to meet the net costs of benefits after employees' contributions, the account was balanced to nil at the year-end by the Home Office top up grant.

The above accounting statement complies with the accounting policies where applicable.

Further information can be found in the Defined Benefits Pension Schemes Note.

This Financial Statement does not take account of liabilities to pay pensions and other benefits after the 31 March 2021.

Dorset Police

Glossary

Glossary

Accounting Period	The period of time covered by the accounts, usually a full year, which for the Office of the Police and Crime Commissioner runs from 1 April to 31 March.
Accrual	Amounts included in the final accounts to cover income and expenditure relating to the accounting period but neither paid nor received by 31 March. (For example, goods delivered in March but not invoiced by suppliers until April.)
Actuarial Gains and Losses	Changes in the net pension's liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions.
Actuarial Valuation	An independent report on the financial status of a Pension Fund, which shows the estimated cost today of providing benefits in the future.
Agency Services	Services provided by one body (the agent) on behalf of, and generally with payment from, the responsible body.
Amortised Cost	This method applies to both financial assets and liabilities. It is a method of determining the Balance Sheet carrying amount and periodic charges or credits to the Income and Expenditure Account of a financial instrument from the expected cash flows. This approach sees through the contractual terms (for example discounts and premiums) to measure the real cost that a Police and Crime Commissioner bears each year from entering into a financial liability. The Office of the Police and Crime Commissioner does not currently have any complex financial instruments where the contractual terms vary significantly from the real cost. For this reason the amortised cost of financial instruments is close to contractual cost.
Appropriation	Charges to the revenue account that build up funds and reserves in the balance sheet.
Asset	Physical assets such as equipment and financial assets such as cash and amounts owed by debtors.
Bid Price	A valuation of financial assets based on the highest price a buyer is willing to offer.
Budget	The Police and Crime Commissioner's plan for providing resources to meet its service obligations. The Office of the Police and Crime Commissioner sets an annual budget within a four year financial strategy.
Capital Expenditure	The cost of buying or building significant assets (e.g. land and buildings) which have a long-term value to the Office of the Police and Crime Commissioner. *(Also referred to as capital spending or capital payments).*
Capital Grants	Grants received by the Office of the Police and Crime Commissioner that can only be used to pay for capital projects.
Capital Receipts	Income from the sale of capital assets (land, buildings, etc.). In the public sector, there are generally strict rules on what the receipts can be spent on.
Carrying Amount	This is the amount of a financial asset or liability that should be recorded in the Balance Sheet for a given date based upon the correct measurement approach for the financial asset or liability.
Cash Flow Statement	This statement summarises the inflows and outflows of cash.
CIPFA	The Chartered Institute of Public Finance and Accountancy, the professional body that sets accounting standards for the public sector.
Collection Fund	District and unitary councils pay all receipts from local taxpayers into a "collection fund". They then pay county, police, fire, district, unitary and parish council precepts from the fund.
Contingency	A reserve set aside to meet unexpected costs. For example, the Force always has major operations every year, but can never tell how many will happen or how much each will cost.
Contingent Liability	A possible cost of past events where the amount to be paid is not certain, or when the payment may not actually be made. (For example, where a court case is still undecided.)

Glossary Continued

Council Tax	A tax based on the value of property, which is administered by District and Unitary authorities.
Creditors	Amounts owed by the Police and Crime Commissioner for work done, goods received or services received, but for which payment has not been made by the end of the accounting period.
Current Assets and Liabilities	Current assets are items that can be readily converted into cash. Current liabilities are items that are due immediately or in the short-term.
Current Service Cost	The increase in the benefits earned by employees in the current period based on their pay and length of service. This is charged to the net cost of services.
Curtailments	Curtailments arise as a result of the early payment of accrued pensions on retirement on the grounds of efficiency or redundancy or where the Employer has allowed employees to retire on unreduced benefits before they would otherwise have been able to do so.
Debtors	Amounts due to the Police and Crime Commissioner but unpaid by the end of the accounting period.
Deferred Charges	Costs built up when preparing for a capital project that does not eventually create or buy a fixed asset. Deferred charges are written out of the accounts in the year they are incurred.
Defined Benefit Scheme	A pension scheme which defines the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme.
Depreciation	The accounting principle that spreads the cost of a fixed asset over its useful working life.
Discretionary Benefits	Retirement benefits which the employer has no legal, contractual or constructive obligation to award and which are awarded under the Police and Crime Commissioner's discretionary powers.
Earmarked Reserves	These reserves represent monies set aside to be used for a specific purpose.
Exit Costs	These are costs of packages for which the Police and Crime Commissioner is demonstrably committed to. The cost of the package includes the termination benefits, all relevant redundancy costs including compulsory and voluntary redundancy costs, pension contributions in respect of added years, ex gratia payments and other departure costs.
Expected Return on Assets	The average rate of return expected over the remaining life of the pension scheme from the actual investments held by the scheme. Fees charged by investment managers are taken out. The net income is credited to net operating expenditure.
Experience Gains and Losses (IAS 19 Pensions disclosure)	This shows the impact of actual experience differing from the accounting assumptions, such as pension increases differing from those assumed and unexpected membership movements.
Fair Value	This is defined as the amount for which an asset could be exchanged or a liability settled, assuming that the transaction was negotiated between parties knowledgeable about the market in which they are dealing and willing to buy/sell at an appropriate price, with no other motive in their negotiations other than to secure a fair price. In most cases, this amount will be the transaction price, e.g. the amount of a loan made.
Fixed Assets	Something of practical use that can be measured in cash terms, e.g. land and buildings, or computer and radio equipment.
International Financial Reporting Standards (IFRS)	Accounting standards issued by the International Accounting Standards Board and from which the CIPFA code of Practice on Local Authority Accounting is derived.
Home Office Grant	A central government grant paid by the Home Office to Police and Crime Commissioner's in support of their day to day expenditure.

Glossary Continued

Impairment	A loss in the value of a fixed asset, caused by physical damage (such as a major fire) or a significant reduction in market value.
Intangible Asset	An identifiable asset that has no physical substance can be measured reliably and is used for a period of more than one year.
Interest Cost	The expected increase during the period in the present value of the scheme liabilities because members of the scheme are one year closer to retirement. This is charged to net operating expenditure.
LAAP	Local Authority Accounting Panel sets accounting rules for the public sector.
Loans and Receivables	These occur when money, goods or services are provided to a debtor and payment or repayment will be by fixed determinable payments. Such arrangements are not normally tradable.
Medium Term Financial Strategy	Often referred to as MTFS, it is the financial plan and management of funding, spending and savings over a four year period.
Mid-Price	A valuation of financial assets based on the mid-point between bid and offered prices.
Minimum Revenue Provision	The minimum amount of the Police and Crime Commissioner's outstanding financing commitments that must be charged to the General Fund each year.
Non Distributed Costs (NDC)	For the Police and Crime Commissioner these are principally past service costs relating to pensions benefits earned in prior periods.
Non-Operational Assets	Fixed assets that are not used to deliver direct services. For example, police houses, or assets that are still being built or are no longer used and about to be sold.
Past Service Cost	The increase in the benefits earned by employees from their service in previous years arising because of improved retirement benefits. These costs are paid directly by the employer and are charged to the net cost of services.
Pension Commutation	Commutation is where part of the entitlement to a pension for life is exchanged for a lump sum payable on retirement. This requires a calculation of the current value of the entitlement given up. The calculation is done using actuarial advice. The advice is set out in tables containing 'factors'. The level of the factors depends on age and life expectancy.
Pension Scheme (Defined Benefit)	A pension scheme that pays benefits to members based on the rules of the scheme and not on the value of the pension fund. Benefits are usually based on pay and length of service.
Pension Scheme (Funded)	Each year both employers and members pay standard contributions that are invested in a separate pension fund. Benefits to contributors and their dependants are paid out of investments held in the fund.
Pension Scheme (unfunded)	Members pay a standard contribution each year. The employer then pays the cash difference between members' annual contributions and the annual cost of benefits to contributors and their dependants.
Precept	A levy collected by District and Unitary Councils from council taxpayers on behalf of the Police and Crime Commissioner.
Present value (or Net Present Value)	The amount of money that must be put aside today to pay for a cost in the future, allowing for inflation and interest rates.
Principal	The amount of a loan that was actually borrowed, before interest is added.
Provisions	Amounts set aside to meet costs that are likely to be incurred, but where the actual amount and timing are uncertain.
Related Parties	Individuals or other bodies who have significant control and influence over the financial and operating policies of an entity.
Reserves	Amounts set aside to meet the cost of specific future expenditure. The Police and Crime Commissioner plans its reserves as part of a four year strategy.

Glossary Continued

Revaluation Reserve	The Reserve records the accumulated gains on the fixed assets held by the Police and Crime Commissioner arising from increases in value. It is debited with the part of the depreciation charge for the asset relating to the revaluation. Any balance on this account is written back to the Capital Adjustment Account upon disposal of the asset.
Revenue Support Grant (RSG)	A general central government grant paid to the Police and Crime Commissioner, as well as the Home Office Grant, to support its day to day expenditure.
Running Costs	Costs from the use of premises, transport and equipment, and other general expenditure needed to provide a service.
Specific Grants	Grants (usually from the Home Office) that can only be spent on named services and projects.
Statement of Standard Accounting Practice	Guidance issued by the Financial Reporting Council (FRC) on how to use and apply accounting standards.
Termination Benefits	These are payable as a result of either an employer's decision to terminate an employee's employment before the normal retirement date; or an employee's decision to accept voluntary redundancy in exchange for those benefits excluding any voluntary early retirements.
Third Party Payments	Payments made to outside contractors and other bodies who provide specialist or support services to the Police and Crime Commissioner.

AGENDA NO: 18

INDEPENDENT AUDIT COMMITTEE

DATE OF MEETING: 14 DECEMBER 2021

FOIA: OPEN

TITLE OF REPORT: BUDGET PLANNING PROCESS 2022/23

REPORT BY: NEAL BUTTERWORTH, ALLIANCE HEAD OF FINANCE

PURPOSE OF THE REPORT:
The purpose of this report is to provide members with an outline of the Dorset Police and Devon & Cornwall Police budget planning process for the financial year 2022/23.

Governance, Risk and Control	**X**
Internal Audit	
External Audit	
Financial reporting	**X**
Other matter *(please specify here)*	
Appendices (*please specify the number)*	**1**

RECOMMENDATIONS:
The Independent Audit Committee is asked to:

Review the Report	
Consider the Report	
Note the report	**X**
Other (please specify here)	

1. INTRODUCTION

1.1. The PCC and Chief Constable share a responsibility to provide effective financial and budget planning for the short, medium and longer term.

1.2. The Government's revised Financial Management Code of Practice sets out the need for a Medium Term Financial Strategy (MTFS), and the relationship between the MTFS and the Police and Crime Plan, as follows:

The financial regulations should include the requirement for the PCC, in consultation with the Chief Constable, to identify and agree a medium term financial strategy which includes funding and spending plans for both revenue and capital. The strategy should have regard to affordability and take into account multiple years, the inter-dependencies of revenue budgets and capital investments, the role of reserves and the consideration of risks. It must also have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities, including the requirement to produce an Annual Capital Strategy. The medium term financial strategy should be aligned with the Police and Crime Plan

1.3. Both Forces need to produce an Annual Capital Strategy, which brings together Estates, ICT and Fleet strategies. This strategy drives the capital programme, which in turn has revenue financing implications. The annual Treasury Management Strategy, and the risk assessment of it, determines the assessment of robustness of reserves.

1.4. This report sets out the high level timetable for consideration of the annual budget for 2022/23 and the following three year MTFS for Dorset Police (PCC and Chief Constable) and Devon & Cornwall Police (PCC and Chief Constable).

1.5. The report also presents a summary of the assumptions expected to be applied in budget setting.

1.6. Budget updates are presented regularly to the relevant Boards of each Force, and where appropriate a consistent approach will be adopted.

2. BACKGROUND – 2021/22 BUDGET AND MTFS

2.1. The current year budgets were set in February 2021 and included a rise in the precept for a Band D property of 6.23% for Dorset and 6.73% for Devon & Cornwall. This enabled resources to be directed into key priority areas, including service development in both forces.

2.2. Each Force received additional funding to allow an increase of police officers under the national Police Officer Uplift Programme. This additional funding, which was partly a specific grant and partly a core grant increase, provided an additional 49 officers for Dorset Police, and 139 officers for Devon and Cornwall Police on top of the 50 and 141 respectively appointed under this programme by 31/03/21.

2.3. Key features of the 2021/22 budget for each force are shown below:

	Dorset	Devon & Cornwall
Budget for 2021/22	£148.4m	£349.7m
Police Officers (FTE)	1,318	3,422
Staff, inc PCSOs (FTE)	1,223	2,439

Funding (from) / to Reserves	(£0.3m)	£1.5m

2.4. Each force continued to require savings and efficiencies in 2021/22 for reinvestment into priority areas. These savings were from a combination of workforce restructures, and targeted non staff savings.

2.5. The 2021/22 Medium Term Financial Strategy identified a breakeven future budget position for both forces, as set out below:

	Dorset				Devon & Cornwall			
	2021/22 £m's	2022/23 £m's	2023/24 £m's	2024/25 £m's	2021/22 £m's	2022/23 £m's	2023/24 £m's	2024/25 £m's
Projected Expenditure	148.4	152.1	157.0	162.4	349.7	355.5	364.2	374.6
Projected Funding	148.4	152.1	157.0	162.4	349.7	355.5	364.2	374.6
Projected Surplus / (Deficit)	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0

2.6. The projections were based on future annual precept increases of £10 in Dorset (3.9% - 3.6%), and 2.99% in Devon & Cornwall, and assumed 1% future increases in grant funding per annum for both forces for 2023/24 and beyond (0% in 22/23).

3. CONSIDERATION OF THE BUDGET FOR 2022/23 TO 2025/26

Budget Requirement

3.1. Work on calculating the revenue budget requirement commenced in September for both forces, with a draft budget requirement available by the end of October. This draft budget requirement has been fully reconciled to the prior year budget, and will be compared with funding information when available.

3.2. Future capital expenditure and funding requirements have been under consideration since July, and the latest financing position has been reflected in the draft revenue budgets. Decisions regarding capital financing arrangements will necessarily continue to be a separate consideration in accordance with the Prudential Code. Funding of the capital programmes will be continually considered alongside the revenue MTFS as the process progresses, which in turn may impact on the capital programmes.

3.3. A schedule of key assumptions that are currently being used in calculating the 2022/23 budget is set out at Appendix A. It is clear that small variations in many of these assumptions can have a significant impact on the budget and MTFS. As such, the budget process will include consideration of key financial risks, and will include sensitivity analysis as necessary.

3.4. Pressure on pay budgets is expected over the course of the MTFS, with increased levels of pay award anticipated, alongside the 1.25% increase in National insurance from April 2022 (which becomes the Health and Social Care Levy from April 2023), and pension pressures at the next actuarial reviews. The effect of the next actuarial review of the Police Pension Scheme will be seen from April 2024, and will include the impact of the remedy implemented following the McCloud / Sargeant judgement.

3.5. It is also expected that, in the short term at least, inflation on non staff budgets will be a significant factor on future budgets. This includes pressures on estates (gas,

electricity, building supplies), Fleet (vehicle fuel), and contracts (CPI 4.2% at October 2021)

3.6. It is expected that the Police Officer Uplift Programme will continue, with a maximum of an additional 67 officers to be funded in Dorset and 188 officers in Devon and Cornwall, although both figures potentially subject to a top slice for national activities.

3.7. No further specific funding or expenditure resulting from Covid-19 has been assumed in 2022/23 or beyond. The effects of new ways of working, including savings from travel, has been factored in.

3.8. The work to align the budget planning process to the Force Management Statements continues to develop in both forces, building on work during last year's budget setting process.

Funding

3.9. The Government announced the 2021 Spending Review (SR21) on 27th October 2021. SR21 provided high level forecasts of funding at Government Department level, but contained sufficient information to enable reasonable forecasts of future force's funding, although until force specific detail is available this can only be considered a guide. The actual settlement, which will detail exact funding information for each force, is expected to be available in early – mid December.

3.10. Unusually, SR21 has provided total grant funding increase figures available to forces for the next three years, and clarified that the precept flexibility available to PCCs in each of the next three years would be £10. The detailed settlement is therefore expected to provide clear three year funding figures for each force, a significant change from the usual one year funding settlement.

3.11. SR21 also confirmed that funding would be made available for the Emergency Services Network (ESN) - although it remains unclear the extent to which this will cover costs, and that funding for the Police Officer Uplift programme will continue to deliver the full 20,000 officers nationally by 2023.

3.12. Key information expected to be clarified within the December settlement will be availability of future Police Uplift Programme funding, number of officer funded under this programme and what funding has been made available for the increase in National Insurance / Health and Social Care Levy.

Timescales

3.13. The following timescales are anticipated for the preparation of the budget, although some are estimated due to reliance on external factors. For example, the funding settlement is expected in December, but the date has not yet been confirmed:

Work to date

Align basis of costing / assumptions used in capital programme forecast expenditure

Position statements on progress against specific development opportunities / savings, and latest update with financial position to the end of current year and future years.

Scrutiny of SR21 to provide updated funding estimate

Budget requirements drawn up including removal of non-recurring costs and inclusion of unavoidable costs
Appraisal of reserves position
Revisit of assumptions – including pay awards, and Council Tax collection rates
New development and saving proposals identified

<u>December</u>
High level financial requirement from major review areas above.
Position prior to grant settlement available.
Settlement expected, for comparison with requirement

<u>January 2022</u>
First draft panel reports
Final sign off of reports to Panel
Devon & Cornwall Police and Crime Panel to consider PCC's precept decision (28th January)

<u>February 2022</u>
Dorset Police and Crime Panel to consider PCC's precept decision (3rd February)
Reserve Police and Crime Panel dates (if required)

3.14. The process enables the existing baseline to be revisited, with new bids and assumption changes added by early December. On receipt of the Grant Settlement a prioritisation statement will be produced so that final decisions on the budget can be made in early January.

01 December 2021

APPENDIX A

SCHEDULE OF KEY BUDGET ASSUMPTIONS

This schedule identifies the key assumptions used in the ongoing calculation of the 2022/23 budget and MTFS. At this stage of the process, all assumptions are subject to change.

Assumptions common to Dorset Police and Devon & Cornwall Police

- Police Grant funding, including Police Officer Uplift programme funding and funding for National Insurance / Health and Social Care Levy increase will be based on:

	2022/23 £m's	2023/24 £m's	2024/25 £m's
National Force Funding Increase on 2021/22 (cumulative)	550.0	650.0	800.0
Devon & Cornwall Police (2.33%)	12.8	15.1	18.6
Dorset Police (0.85%)	4.7	5.5	6.8

- The 2024/25 Police Grant increase will be 1%.

- Police Pension Grant will continue to be received annually at the level received in 2021/22 throughout the period of the MTFS.

- Counter Terrorism specific grant will remain at the same level as received in 2021/22 in future years. In the event that further information is available before February 2022, assumptions will be amended accordingly.

- No account has been taken of the anticipated topslice of Special Branch from core Police Grant, with an equivalent reduction in expenditure. The impact of this reduction, expected from April 2022, is anticipated to be net nil.

- Pay awards will be 2.5% per annum from September 2022.

- Turnover on police officers takes into account officers leaving at their maximum service date, plus an estimate for ill health retirements, transfers out and resignation. An assessment of the potential impact of the pensions remedy for the McCloud / Sargeant judgement has been factored into the estimated number of leavers.

- Police Officer pension contributions have been assumed to remain at 31% until the next actuarial valuation, which is expected to be implemented in 2024/25

- Inflation has been applied only to budgets that are subject to inflationary pressures at a notional rate of 2.0%, except where individual rates are known, or can be separately estimated due to particular inflationary pressures. Actual CPI for October 2021, published on 17 November 2021, was 4.2%

- Future investment income assumes an interest rate achieved of 0.0.5% in 2022/23, rising to 0.1% in 2023/24 and beyond. The current actual bank base rate is 0.1%

- The capital programme will be financed by capital grant, capital receipts and revenue financing through direct contributions, and use of reserves

Assumptions that are different for each Force

- The precept flexibility for the next three years has been announced in SR21 with the referendum limit set at £10. Individual Police and Crime Commissioners will determine the appropriate strategy in this context.

- Council tax estimates for taxbase and Collection Fund surplus / deficits are shown below. The impact of Covid-19 on 2021/22 resulted in reductions in taxbase and collection Fund deficits, which have been applied over three years.

	Dorset				**Devon & Cornwall**			
	20/21	*21/22*	**22/23**	**23/24**	*20/21*	*21/22*	**22/23**	**23/24**
Annual increase / (decrease) in taxbase	*0.5%*	*(1.3%)*	**1.3%**	**1.5%**	*1.5%*	*(1.0%)*	**1.0%**	**1.5%**
Annual surplus / (deficit) on Council Tax collection funds (net)	*£0.2m*	*(£0.4m)*	**(£0.5m)**	**(£0.4m)**	*£1.4m*	*(0.1m)*	**(0.1m)**	**(0.1m)**

- The employer's current contribution to the police staff pension scheme, plus agreed contributions to deficit will be as set out below. The 2023/24 figures for both forces are subject to the next actuarial valuation, expected to be announced in late 2022.

	Dorset				**Devon & Cornwall**			
	21/22	**22/23**	**23/24**	**24/25**	*21/22*	**22/23**	**23/24**	**24/25**
LGPS Base Contribution	*17.20%*	17.20%	17.20%	17.20%	*16.30%*	16.30%	16.30%	16.30%
Plus Repayment of LGPS Deficit (cash lump sum)	*£0*	£0	£0	£0	*£0.54m*	£0.56m	£0.58m	£0.60m
Estimated Total Cash Contribution	*£6.0m*	**£6.3m**	**£6.9m**	**£7.0m**	*£12.5m*	**£12.5m**	**£12.9m**	**£13.1m**
% of Staff Pay Budgets	*18.1%*	17.9%	17.8%	17.5%	*17.0%*	16.6%	16.7%	16.5%

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AGENDA NO: 20

INDEPENDENT AUDIT COMMITTEE

DATE OF MEETING: 14 DECEMBER 2021

FOIA OPEN

TITLE OF REPORT: NATIONAL FRAUD INITIATIVE 2020-21

REPORT BY: KAREN JAMES

PURPOSE OF THE REPORT:
To present an update and provide assurance on one or more of the following areas:

Governance, Risk and Control	**X**
Internal Audit	
External Audit	
Financial reporting	
Other matter *(please specify here)*	
Appendices (*please specify the number)*	**1**

RECOMMENDATIONS:
The Independent Audit Committee is asked to:

Review the Report	
Consider the Report	
Note the report	**X**
Other (please specify here)	

1. BACKGROUND INFORMATION

1.1 The National Fraud Initiative (NFI) is a data matching exercise conducted by the Cabinet Office under its data matching powers set out in the Local Accountability and Audit Act 2014.

1.2 The NFI is an effective tool for detecting and preventing fraud, error, and overpayment across the UK.

1.3 The NFI aims to: -

- Safeguard public money against losses from fraud or misappropriation
- Make an effective contribution to the wider fight against fraud and potentially other crime

1.4 The Cabinet Office pledges to "uphold and protect citizens' rights in relation to their personal data at all times".

1.5 The NFI is run over a two-year period so the NFI 2020/21 work programme and scale of fees covers the two financial years 2020/21 and 2021/22.

1.6 Mandatory participants are billed in one instalment of £1,200 that covers the Force and OPCC. Dorset and Devon & Cornwall are billed as two separate legal entities.

2. NFI 2020/21 EXERCISE

2.1 Police bodies are required to submit mandatory datasets on payroll, pensions, and trade creditors' details together with their payment history. The data covers a three-year period.

2.2 The specified data was extracted from the finance system on the 30 September 2020 as required and upload to NFI between the 9th October 2020 and the 1st December 2020.

2.3 Both Forces submitted the required data from the shared Agresso finance system managed by Devon & Cornwall. As creditor information is stored jointly within the shared system the creditor matches are shown under D&C results rather than Dorset.

2.4 Both organisations pension administrators submitted data within the deadline, as per the Force instructions.

2.5 A summary of the results from both Forces across all datasets is attached at Appendix A. This includes matches highlighted in previous years, which will not be reinvestigated.

2.6 Matches are categorised into very high, high, and medium. All very high and high-risk matches have already been investigated. The only findings so far relate to an overclaim of VAT, totalling £154.78.

2.7 We remain on target to complete all investigations before the 31st March 2022 deadline. The remaining matches not yet investigated all relate to a NFI risk rating of 25%.

2.8 No instances of fraud have been identified.

2.9 Any potential process errors have been identified to prevent re-occurrence. Most of these have already been identified through existing validation process checks established in the Finance department.

2.10 The Cabinet Office calculate the total outcomes from the national exercise on the 31st March 2022. All matches must be closed by this deadline.

2.11 Data for the 2022-2023 NFI will be required for upload in early October 2022, with matches available for investigation from early 2023.

16th November 2021

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NATIONAL FRAUD INITIATIVE 2020/2021 **10-Nov-2021**

AUTHORITY SUMMARY: Chief Constable for Devon and Cornwall Police

No.	Report Name	Total Recommended	Total All	Status	Processed	In Progress	Frauds	Errors	Savings
52 High	Pensions and Pension Gratuity to Benefits Agency Deceased Persons, high quality, within bodies		30	Opened	25	5	0	0	£0.00
53 High	Deferred Pensions to Benefits Agency Deceased Persons, high quality, within bodies		1	Closed	1	0	0	0	£0.00
54 High	Pensions to Payroll, high quality, within bodies		66	Closed	65	0	0	0	£0.00
55 High	Pensions to Payroll, high quality, between bodies		23	Closed	23	0	0	0	£0.00
65 High	Payroll to Payroll, high quality, within bodies		1	Closed	1	0	0	0	£0.00
66 High	Payroll to Payroll, high quality, between bodies		14	Opened	8	6	0	0	£0.00
67.1 High	Payroll to Payroll, same phone number, within bodies		2	Closed	2	0	0	0	£0.00
67.2 High	Payroll to Payroll, same email address, within bodies		1	Closed	1	0	0	0	£0.00
68.1 High	Payroll to Payroll, same phone number, between bodies		7	Opened	6	1	0	0	£0.00
78 Info	Payroll to Pensions, high quality, between bodies		8	Closed	8	0	0	0	£0.00
701 High	Duplicate creditors by creditor name		34	Opened	26	8	0	0	£0.00
702 High	Duplicate creditors by address detail		78	Opened	71	7	0	0	£0.00
703 High	Duplicate creditors by bank account number		10	Opened	5	5	0	0	£0.00

IMPORTANT : This summary includes matches that occurred in previous years.

NATIONAL FRAUD INITIATIVE 2020/2021 **10-Nov-2021**

AUTHORITY SUMMARY: Chief Constable for Devon and Cornwall Police

No.	Report Name	Total Recommended	Total All	Status	Processed	In Progress	Frauds	Errors	Savings
707 High	Duplicate records by invoice reference, invoice amount and creditor reference		100	Opened	16	0	0	0	£0.00
708 High	Duplicate records by invoice amount and creditor reference		1247	Opened	225	1	0	0	£0.00
709 High	VAT overpaid		17	Closed	17	0	0	3	£154.78
710 High	Duplicate records by creditor name, supplier invoice number and invoice amount but different creditor reference		5	Closed	5	0	0	0	£0.00
711 High	Duplicate records by supplier invoice number and invoice amount but different creditor reference and name		51	Opened	1	0	0	0	£0.00
712 High	Duplicate records by postcode, invoice date and invoice amount but different creditor reference and supplier invoice number		1	Closed	1	0	0	0	£0.00
713 High	Duplicate records by postcode, invoice amount but different creditor reference and supplier invoice number and invoice date		12	Closed	12	0	0	0	£0.00
750 High	Procurement - Payroll to Companies House (Director), high quality, within bodies		9	Closed	9	0	0	0	£0.00
752 Low	Procurement - Payroll to Companies House (Director), address quality, within bodies		8	Closed	8	0	0	0	£0.00

IMPORTANT : This summary includes matches that occurred in previous years.

AUTHORITY SUMMARY: Chief Constable for Devon and Cornwall Police

No.	Report Name	Total Recommended	Total All	Status	Processed	In Progress	Frauds	Errors	Savings
9999 Info	Individuals who appear on more than one of the standard reports		2	Not Opened	0	0	0	0	£0.00
TOTAL			**1727**		**536**	**33**	**0**	**3**	**154.78**

IMPORTANT : This summary includes matches that occurred in previous years.

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NATIONAL FRAUD INITIATIVE 2020/2021 **10-Nov-2021**

AUTHORITY SUMMARY: Chief Constable for Dorset Police

No.	Report Name	Total Recommended	Total All	Status	Processed	In Progress	Frauds	Errors	Savings
52 High	Pensions and Pension Gratuity to Benefits Agency Deceased Persons, high quality, within bodies		16	Opened	5	8	0	0	£0.00
54 High	Pensions to Payroll, high quality, within bodies		45	Closed	45	0	0	0	£0.00
55 High	Pensions to Payroll, high quality, between bodies		9	Closed	9	0	0	0	£0.00
58 High	Pensions to Injury Benefits, high quality, within bodies		6	Opened	0	1	0	0	£0.00
66 High	Payroll to Payroll, high quality, between bodies		5	Opened	3	2	0	0	£0.00
68 Medium	Payroll to Payroll, medium quality, between bodies		1	Closed	1	0	0	0	£0.00
68.1 High	Payroll to Payroll, same phone number, between bodies		7	Opened	6	1	0	0	£0.00
78 Info	Payroll to Pensions, high quality, between bodies		7	Closed	7	0	0	0	£0.00
9999 Info	Individuals who appear on more than one of the standard reports		4	Not Opened	0	0	0	0	£0.00
TOTAL			**100**		**76**	**12**	**0**	**0**	**0.00**

IMPORTANT : This summary includes matches that occurred in previous years.

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