



**Police and Crime Commissioner for Devon
and Cornwall**

Statement of Accounts

for the year ended

31 March 2013

Police and Crime Commissioner for Devon and Cornwall

Statement of Accounts 2012-13 and Related Reports and
Statements

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FOREWORD TO THE ACCOUNTS by DUNCAN WALTON, TREASURER

1 Introduction

- 1.1 There were significant reforms to the governance of policing in Devon and Cornwall in 2012-13. On 22 November 2012 the Police Authority was abolished and was replaced by an elected Police and Crime Commissioner for Devon and Cornwall. At the same time the Chief Constable became a separate legal entity.
- 1.2 The primary function of the Police and Crime Commissioner is to secure the maintenance of an efficient and effective police service in Devon and Cornwall and to hold the Chief Constable to account for the exercise of operational policing duties under the Police Act 1996.
- 1.3 The Police and Crime Commissioner and the Chief Constable form an accounting group for reporting purposes. This set of Accounts includes the Statements for the Police and Crime Commissioner and for the Group. The Chief Constable's single entity accounts are published separately.
- 1.4 This foreword provides an overview of the new accounting arrangements. In addition it provides a brief explanation and commentary on the financial performance of the Police and Crime Commissioner and the Group, highlights any significant features, examines the impact of current economic trends on future performance and outlines other significant matters facing the Police and Crime Commissioner in 2013-14 and beyond.

2 The Statements of Accounts

- 2.1 The accounts are prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom.
- 2.2 The accounts reflect the current legislative framework as well as the local arrangements operating in practice. Key elements of this framework include:
 - The Police Reform and Social Responsibility Act 2011 (the Act)
 - Policing Protocol
 - The Home Office Financial Management Code of Practice for the Police Service of England and Wales 2012
 - Scheme of Delegation between the Police and Crime Commissioner and the Chief Constable
 - Police and Crime Commissioner's Financial Regulations
- 2.3 It is the Government's intention that the reforms under the Act will be phased over the period 22 November 2012 to 31 March 2014. The first stage started on 22 November 2012 and ends either; on 1 April 2014 or when the Police and Crime Commissioner and the Chief Constable agree to move to stage two if this is earlier. The accounting arrangements between the Police and Crime Commissioner and the Chief Constable during the first stage of the transition are detailed more fully in Note 1 to the accounts on page 35. Briefly summarising the position, the Police and Crime Commissioner is responsible for the finances of the whole Group, he employs the staff and controls the assets, liabilities and reserves which were transferred from the Police Authority on 22 November 2012. The Police and Crime Commissioner receives all income and funding and makes all the payments for the Group from the Police and Crime Commissioner's Police Fund. In turn the Chief Constable fulfils his functions under the Act within an annual budget, set by the Police and Crime Commissioner in consultation with the Chief Constable. A scheme of delegation is in operation between the two bodies determining their respective responsibilities during this first stage, as well as local arrangements in respect of the use of the Police and Crime Commissioner's assets and staff.
- 2.4 The Police and Crime Commissioner's accounts for the year include the following:
 - Movement in Reserves, showing the changes in the Police and Crime Commissioner's financial resources over the year
 - Group Comprehensive Income and Expenditure Account – showing the gains and

- losses that contributed to the changes in resources
- Comprehensive Income and Expenditure Account – shows the resources consumed by the two single entities within the PCC Group
- Balance Sheet as at 31 March 2013, showing how the resources available to the Police and Crime Commissioner are held in the form of assets and liabilities
- Cash Flow Statement, showing how the movement in resources has been reflected in cash flows

2.5 To assist the reader, the notes to the accounts include the Police and Crime Commissioner's accounting policies and give further information on the entries within the main statements as well as supplementary information. This is further supplemented by a glossary of terms.

2.6 The following documents are published alongside the accounts:

- Audit Opinion
- Statement of Responsibilities
- Annual Governance Statement and supporting Annual Assurance Statement

3 Presentation of Pension Information in the Police and Crime Commissioner's and the Group Accounts

- 3.1 Accounting practice (IAS 19) requires the Police and Crime Commissioner (and the Group) to account for the full cost of future retirement benefits as they are earned by employees. The full cost of paying all future benefits to existing pensioners and current employees as of 31 March 2013 is shown on the Balance Sheet as a liability and the annual change in the level of this liability is reflected in the Comprehensive Income and Expenditure Statement. Specialist actuaries estimate the value of the liabilities for both the police officer and police staff schemes and to do this they use a number of assumptions (for example the level of future inflation) to estimate the future costs of paying the benefits.
- 3.2 Actuarial assumptions can change significantly from year to year and as a result the impact on the Comprehensive Income and Expenditure Account is volatile. The Comprehensive Income and Expenditure Statement on page 31 shows that once all changes in pension liabilities are taken into account, the Police and Crime Commissioner recorded a loss of £125,796k in 2012-13. Further details with regard to accounting for pension costs are provided in paragraph 9.2 below and in note 34.
- 3.3 The Police and Crime Commissioner is, however, required by legislation to exclude changes in pension liabilities when accounting for its performance against council tax and the Movement in Reserves Statement on page 29 shows that there was no change in the General Fund Balance in 2012-13. This demonstrates that once the impact of year on year changes in actuarial assumptions and other accounting adjustments that should not be charged against local tax are excluded, the Police and Crime Commissioner met its budget target in 2012-13.
- 3.4 Although the Police and Crime Commissioner does not need to address the volatile year on year changes in the pension liabilities arising from changes in actuarial assumptions when considering its financial performance, it does need to be mindful of the overall trends in the cost of pensions. It is government policy to halt the recent rise in the cost of public sector pensions and to this end changes to the Police Officers Pension Scheme and the Local Government Pension Scheme have been proposed. The changes are currently being considered by the appropriate negotiating bodies, if they are fully implemented they will reduce both the annual cost of pensions and the long term liabilities. The impact on the Police and Crime Commissioner budget is not however fully clear at this stage.

4 Setting the Budget for 2012 -13

- 4.1 The ongoing public expenditure reductions announced in the Comprehensive Spending Review 2010, reduced the funding available to the Police and Crime Commissioner in 2012-13 compared with the previous year. Although central government provided a special grant to allow local authorities to freeze their council tax at the same level as the previous year, the former Police Authority decided to increase the council tax by 2% in order that the reduction in police officer

numbers forecast for 2012-13 to 2015-16 could be partly offset. Council tax was therefore set at £159.73 for a band D property, the second lowest in the South West region and below the national average.

- 4.2 Taking central and local funding together the overall reduction in funding was £8,921k, this meant that after accounting for the impact of inflation and other unavoidable spending increases it was necessary to make budget reductions of £16,192k.
- 4.3 A significant portion of the budget savings comes from a reduction in staff numbers and the staff numbers at start and the end of the year are as follows:

	As at 1 April 2012	As at 31 March 2013
Police Officers	3,204	3,065
Police Staff	1,696	1,682
Police Community Support Officers	359	424

5.0 Actual Expenditure 2012-13

- 5.1 Operational expenditure is £12,292k less than the original budget plan; expenditure and income is summarised in the table below.

	2012-13 Budgeted Expenditure and Income £'000	2012-13 Actual Expenditure and Income £'000	Variation
<u>Revenue Expenditure</u>			
Chief Constable's Operational Expenditure	275,636	263,747	(11,889)
Former Police Authority/Office of the Police and Crime Commissioner	1,752	1,673	(79)
Treasury Management	2,238	1,914	(324)
Net contribution to/(from) Earmarked Reserves	939	13,231	12,292
Total Spending after contributions (to)/from Earmarked Reserves	280,565	280,565	0
<u>Revenue Funding</u>			
Government Grant	180,795	180,795	0
Council Tax *	99,770	99,770	0
Total Funding	280,565	280,565	0

*Council Tax is the cash received for the year and excludes reduction in the council tax adjustment account of £288,000.

- 5.2 The main reasons for the under-spend against budget are:
- Recruitment of additional police officers started later than forecast
 - Police staff vacancies were higher than forecast
 - Investment in the Force Programme has been delayed
 - Significant savings on overheads in particular ICT and premises costs have been achieved
 - Additional income has been received, most significantly income for policing the Olympics

A line by line analysis of the variations between actual and budgeted expenditure is contained in the Police and Crime Commissioner's Outturn Report which is published on the Police and Crime Commissioner's website.

5.3 The net contributions to reserves are as follows:

<u>Net Contributions</u>	<u>£'000</u>	<u>Reason</u>
Revenue Smoothing Fund	5,255	To fund maintenance of police officer numbers during the period of budget cuts
Budget Management Fund	(350)	Impact of movement in approved year end carry-forward
Remuneration Reserve	2,876	To fund future employment related costs
Capital Financing Reserve	3,227	To fund future capital expenditure
Programme & Projects Reserve	632	To fund Force Programme
Workforce Modernisation Reserve	1,656	To fund modernisation of employment terms and conditions and related costs
Estates Development Reserve	(65)	Net draw down on fund to facilitate rationalisation of the property estate
Total	13,231	

6 Movement in Reserves Statement

- 6.1 The Movement in Reserves Statement on page 29 shows the movement in the year on the 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and 'unusable reserves' (i.e. those that cannot be applied to fund expenditure or reduce local taxation). Further information on the movement in usable reserves is provided in note 9 page 53.

The key figures are:

<u>Usable Reserves</u>	<u>Movement</u>	
	<u>£'000</u>	
General Fund	0	No change in 2012-13
Earmarked Reserves		
Net Revenue budget contributions	13,231	
Use of earmarked reserves to fund capital expenditure	(1,504)	
	<hr/>	
	11,727	Net Movement is Usable Reserves
Capital Receipts Reserve	(509)	Use of capital receipts reserve to fund capital expenditure
Capital Grant Unapplied	773	Amounts of capital grants received in 2012-13 exceed application of reserve to fund capital expenditure
	<hr/>	
Total Useable Reserves	11,991	
	<hr/>	
Total Unusable Reserves	(137,321)	This decrease is mainly due to an increase in pension liabilities as a result of change in actuarial assumptions, full details of the movement in unusable reserves are provided in note 22.
	<hr/>	

7 Comprehensive Income and Expenditure Statement

- 7.1 This statement (on page 31) shows the surplus or deficit for the year calculated in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. The surplus or deficit for the year that will impact on council tax setting is the movement in the general fund. As shown in paragraph 6.1 there has been no movement in the general fund balance in 2012-13. The following table reconciles the movement on the general fund to the surplus on the Comprehensive Income and Expenditure Statement.

	2012-13 £000
Deficit On the General Fund	0
Current and past service charge for pensions are less than the actual employer contributions and Home Office Top Up Grant	(20,880)
Pensions interest cost	91,950
Other adjustments – mainly to account for capital investment as it is consumed	4,685
Sub total	75,755
Transfer to/from earmarked reserves	(13,231)
Deficit on the Provision of Services	62,524
Other Comprehensive Income and Expenditure	
Deficit on revaluation of non-current assets	229
Increase in pensions liabilities due to actuarial losses	63,043
Total Deficit	125,796

- 7.2 The above reconciliation shows that the Deficit on the Provision of Service arises mainly because the actuarially assessed cost of funding the pensions earned by employees is more than the amount that the Police and Crime Commissioner is required to charge against taxation. In particular pensions interest cost which recognises the increase during the period of the present value of future pension payments which occurs because the pension payments are one year closer to payment. The Other Comprehensive Income and Expenditure line of the statement records the increase in pension liabilities due to actuarial losses - these arise when the assumption used by the actuary vary in such a way as to increase the long term liabilities arising from the pension obligations.

8 Capital Expenditure and Financing

- 8.1 As well as day to day expenditure on running costs, Police and Crime Commissioner's money is spent on assets such as buildings, vehicles, communications equipment and information technology. During 2012-13, capital spending was £9,863k. The table below shows how the money was spent and how it was financed.

	31 March 2013	
Capital Spending	£'000	%
Building Schemes	5,117	52
Equipment and ICT Hardware and Software	2,380	24
Intangible Assets (IT Software)	213	2
Vehicles	2,153	22
	<u>9,863</u>	<u>100</u>

	31 March 2013	
Capital Financing	£'000	%
Home Office Capital Grant	2,142	22
Capital Receipts	1,939	20
Direct Revenue Funding	1,504	15
Minimum Revenue Provision	1,318	13
Borrowing and Lease Finance	2,960	30
	<u>9,863</u>	<u>100</u>

9 The Balance Sheet

Usable Reserves

9.1 The Police and Crime Commissioner has total revenue balances and reserves of £56,907k. Within this total, Earmarked Reserves are £43,807k (see note 9 page 53) and General Balances are £6,198k. These reserves and balances provide for the following:

- The ability to plan over the medium term against a back drop of falling central government funding – in particular the ability to maintain police officer numbers over the period of the Police and Crime Plan
- Some flexibility to deal with budgetary and economic uncertainty

The earmarked reserves are forecast to decline by approximately £13,000k over the next four years.

Pensions Liabilities

9.2 There has been a £134,113k increase in pension liabilities in 2012-13. A large portion of this is the increase in pensions interest cost described in paragraph 7.2. Paragraphs 3.1 to 3.4 put the actuarially assessed pension liabilities into the context of the overall accounts and explain that the liabilities shown in the balance sheet should not impact upon the ability of the Police and Crime Commissioner to provide services in the short to medium-term. For police staff pensions, the value of the pension fund liabilities and assets is assessed triennially and the employer's contribution is increased in line with the actuary's recommendations. For the police officers pension fund, the employer's contribution rate is presently set at 24.2%. Under current legislation, any costs that exceed the employer's contribution are met by the Home Office via a special grant.

Borrowing

9.3 The Police and Crime Commissioner's total capital financing requirement as at 31 March 2013 was £42,234k. Of this £32,778k was met by external borrowing, £590k by lease finance and £8,866k by internal borrowing. Internal borrowing represents the Police and Crime Commissioner's use of its cash balances to temporarily fund capital expenditure. This use of internal balances is subject to careful monitoring and management to ensure adequate long term liquidity.

Acquisition and Disposals

9.4 The new Devonport Police Station, Plymouth was completed during 2012-13. Torbay Rationalisation Programme including Newton Abbot, Brixham, Totnes and Torquay will be completed very early in 2013-14.

As part of the Estate rationalisation programme, six operational police buildings were disposed of during the year. The capacity was replaced with new freehold or leasehold accommodation as appropriate. In addition the last remaining police house within the estates portfolio was sold during 2012-13. A number of properties have been approved for disposal and these have been classified as Held for Sale (see note 18).

Provisions and Contingencies

9.5 Provisions are set out in note 20 on page 64. They include:

- Provisions to meet future liabilities in terms of remuneration including redundancy costs and claims made by former employees
- A provision for uninsured claims against the Police and Crime Commissioner
- Other provisions to meet other liabilities for example legal claims and Carbon Reduction Commitment liabilities

10 Cash Flow

- 10.1 There was a £7,463k reduction in cash and cash equivalents during the year and investments (long and short term combined) increased by £22,207k. This was due to:
- A switch between overnight cash holding and longer investments due to improved market stability
 - An increase in overall cash deposits due to an increase in total useable reserves (see paragraph 6.1)
 - Other changes in balances, for example, debtors, creditors and stock

11 Performance

- 11.1 Information on operational performance against targets is provided in the foreword to the Chief Constable's Statement of Accounts.

12 Sustainability

- 12.1 The Police and Crime Commissioner is committed to improving the sustainability of the OPCC and the Police Service in Devon and Cornwall. Investments in technology and buildings as outlined in the Police and Crime Plan are aimed not only at improving the efficiency of policing in Devon and Cornwall but also in reducing its environmental impact. The Chief Constable has an ongoing sustainability programme that has achieved national recognition. More detail is provided in the foreword to the Chief Constable's Statement of Accounts.

13 Looking Ahead – The impact of the current climate on the Police and Crime Commissioner and the services it provides

- 13.1 As funding for 2013-14 has been secured the major risks for the current financial year relate to service delivery within the current funding envelope; they are:
- The cost of implementing the development plan of the Office of the Police and Crime Commissioner exceeds the budget available
 - the cost of the Chief Constable's Force development programme exceeds the budget available and important service improvement cannot be achieved
 - the Chief Constable is not able to meet the Police and Crime Plan targets within the resources available
 - central government controls mean that the 2% increase in council tax included in the medium term financial strategy for 2014-15 and future years is not achievable
- 13.2 During 2013-14 the Police and Crime Commissioner and the Chief Constable will be preparing to implement the second and final stage of the transition to the two new policing bodies. At stage two staff and assets may transfer to the Chief Constable. The deadline for this transfer is 1 April 2014 but it may occur before this date. There are a number of risks associated with the stage two transfer, these include:
- the Home Secretary does not approve the transition arrangements;
 - human resources issues;
 - financial risks in relation to budget management and financial reporting;
 - legal and reputational risks in relation to governance of the transfer.
- 13.3 Over the medium term, the Police and Crime Commissioner faces a considerable level of funding uncertainty. The current Medium Term Financial Strategy 2013-14 to 2016-17 is based on the funding announcements contained in the Chancellor's Autumn Statement. This statement and the Home Office grant announcement for 2013-14, whilst confirming the downward trend, did not contain any detailed information with regard to funding levels in 2014-15 and beyond. The Budget 2013 indicated that further reductions over and above those already announced in the autumn statement should be expected. In addition the Police and Crime Commissioner has a number of costs uncertainties. The major medium term financial risks are:

- central government funding varies from the forecast contained within the Medium Term Financial Strategy – the Budget 2013 indicated that further cuts should be expected
- inflation exceeds the estimate built into the budget
- the cost of workforce modernisation including job evaluation exceeds the funds available in the budget and earmarked reserves
- other variations in pay costs and/or liabilities

13.4 These risks could impact on the Police and Crime Commissioner's objective of maintaining police officer numbers above 3,000. The following action has been taken to mitigate these risks:

- contributing £5,255k to the Revenue Smoothing Fund from the 2012-13 budget to manage the impact of changes in central government funding and hence help sustain police officer numbers over the period of the Police and Crime Plan
- Contributing £2,876k to a Remuneration Reserve to meet any unexpected pay liabilities

14 Annual Governance Statement

14.1 Production of the Annual Governance Statement (AGS) to accompany the Statement of Accounts is a statutory requirement. The Annual Governance Statement is included at pages 13 to 28 of this document. The AGS describes the internal control environment for the Police and Crime Commissioner comments on its effectiveness and identifies issues that require further work. The Chief Constable also produces an AGS which is contained within his single entity accounts, and reliance is placed on the annual assurance review undertaken by the Chief Constable (and described within his AGS) when drawing up the Police and Crime Commissioner's AGS.

15 Conclusion

15.1 Along with many other public sector bodies the Police and Crime Commissioner is in a period of financial contraction. A four year plan is in place for the period 2011-12 to 2014-15 to reduce spending in line with the funding reductions set out in the Comprehensive Spending Review 2010. In the first two years of this plan the former Police Authority and the Police and Crime Commissioner have achieved additional savings over and above those required in the budget plan, this is due in part to achieving reductions earlier than planned. As a result it has been possible to build up the Revenue Smoothing Fund and this in turn has allowed the phased reduction in police officer numbers to be halted in the period 2013-14 to 2015-16. Based on the current plan Police Officer numbers should remain above 3000 until at least 2016-17.

15.2 The Police and Crime Commissioner has set out his objectives for his term of office in the Police and Crime Plan (see below for further information on the plan). This plan is supported by the Medium Term Financial Strategy approved in February 2013. Delivery of the plan will depend on efficient and effective use of the financial and other resources available to the Commissioner and he will work closely with the Chief Constable to ensure that this takes place. There are a number of threats to the delivery of the Police and Crime Plan, the most significant of which is further reductions in central government funding; the Police and Crime Commissioner has however taken action to mitigate these threats by establishing reserves that will help him manage the impact of future funding cuts.

Duncan Walton, Treasurer
June 2013

Further Information

This publication provides a review of the financial performance of the Police and Crime Commissioner for 2012-13. It may be read in conjunction with the Police and Crime Plan and the Police and Crime Commissioner's Annual Report that show a wide range of measures of performance. Further information on these publications can be obtained by writing to the Chief Executive or Treasurer at the Police and Crime Commissioner Offices, Woodwater Park, Pynes Hill, Exeter, Devon. EX2 5WH or from the Police and Crime Commissioner's website. <http://www.devonandcornwall-pcc.gov.uk/Key-Documents/Key-documents.aspx>

Audit Opinion
Pages 9-11

STATEMENT OF RESPONSIBILITIES FOR THE FINANCIAL ACCOUNTS

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 Treasurer;
- Manage the affairs of the Office of the Police and Crime Commissioner to secure economic, efficient and effective use of resources and safeguard its assets;
- Approve the Statement of Accounts.

Approval of the Accounts

I approve these Statements of Account

Signed

A Hogg

Police and Crime Commissioner for Devon and Cornwall

Date: XX September 2013

The Treasurer's Responsibilities

The Treasurer is responsible for the preparation of the Police and Crime Commissioner's Annual 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 2012-13" (the Code)

In preparing this Statement of Accounts, the Treasurer has:

- Selected suitable accounting policies and applied them consistently
- Made judgements and estimates that were reasonable and prudent
- Complied with the Code of Practice

The Treasurer has also:

- Kept proper accounting records which were up to date
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

Treasurer's Certificate

I certify that this Statement of Accounts for the year ended 31 March 2013 gives a true and fair view of the financial position of the Police and Crime Commissioner for Devon and Cornwall at the accounting date and of the income and expenditure for the year ended 31 March 2013.

Signed

D Walton

Treasurer

Date: 28 June 2013

Annual Governance Statement 2012-13
for
The Devon and Cornwall Police Authority to 21 November 2012
and
The Office of the Police and Crime Commissioner to 31 March 2013

Introduction

In November 2012, the Police Authority was abolished and replaced by the Police and Crime Commissioner for Devon and Cornwall. This annual governance statement reflects both the governance framework in place up until 21 November 2012 when the Police Authority was abolished, and the new governance framework adopted by the Office of the Police and Crime Commissioner (OPCC) for the year ended 31 March 2013.

The Annual Governance Statement (AGS) is based upon the CIPFA/SOLACE document “Delivering Good Governance in Local Government, Interim Guidance Note for Police Authorities and Forces in England and Wales”. The Annual Governance Statement is supported by the Chief Constable’s Annual Governance Statement, which relates to the force as a separate corporation sole.

The annual Statement of Accounts for 2012-13 covers both the former Police Authority and the Office of the Police and Crime Commissioner. This Annual Governance Statement is divided into two parts to reflect the different models of governance in operation during the financial year.

- Part 1 relates to the period from 1 April 2012 to midnight on 21 November 2012 when the Police Authority ceased to exist.
- Part 2 relates to the period from 22 November 2012 to 31 March 2013 when responsibility for governance transferred to the Office of the Police and Crime Commissioner (OPCC).

Part 1 The Devon and Cornwall Police Authority

1. Scope Of Responsibilities

- 1.1 Until November 2012, the Devon and Cornwall Police Authority (‘the Authority’) was responsible for ensuring its business was conducted in accordance with the law, based upon proper standards, and that public money was used economically, efficiently and effectively, and properly accounted for. The Authority also had a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions were exercised.
- 1.2 The Authority was also responsible for ensuring the governance of its affairs and facilitating the exercise of its functions, which included ensuring that a sound system of internal control was maintained through the year and that arrangements were in place for the management of risk. In exercising this responsibility the Authority placed reliance on the Chief Constable of the Devon and Cornwall Constabulary to support the governance and risk management processes.

- 1.3 The Authority approved and adopted a Code of Corporate Governance, consistent with the principles of the CIPFA/SOLACE Framework: *Delivering Good Governance in Local Government*. This Annual Governance Statement explains how the Authority complied with the Code of Corporate Governance and also met the requirements of the Accounts and Audit Regulations 2011.

2. The Purpose Of The Governance Framework

- 2.1 The governance framework comprises the systems and processes, and culture and values, by which the Authority was directed and controlled and the activities through which it was accountable to and engaged with the community. It enabled the Authority to monitor the achievement of its strategic objectives and to consider whether those objectives led to the delivery of appropriate, cost-effective services, including achieving value for money.
- 2.2 The system of internal control was a significant part of that framework and was designed to manage risk to a reasonable and foreseeable level. It could not eliminate all risk of failure to achieve policies, aims and objectives; it could, therefore, only provide reasonable and not absolute assurance of effectiveness. The system of internal control was based on an ongoing process designed to identify and prioritise the risks to the achievement of the Authority's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them effectively, efficiently and economically.

The governance framework has been in place at the Authority for the period ended 21 November 2012 and for the OPCC up to the date of approval for the annual report and statement of accounts.

3. The Governance Framework

- 3.1 This section describes the key elements of the systems and processes that comprise the governance arrangements that are in place.
- 3.2 The Police Authority's vision was to "To be recognised, locally and nationally, as a top performing Police Authority." The Authority's mission was "to ensure the residents of and visitors to Devon, Cornwall and the Isles of Scilly recognise that they are receiving an excellent service from the Police that is affordable, effective and fair." The vision and mission were delivered through focusing on four priorities set out in the Authority's Strategic Plan and supported by a delivery plan which was reflected in the committee workplans.
- 3.3 The governance framework comprised of a Police Authority committee with 19 members of which 10 were councillor representatives from local authorities in the policing area and the remainder independently appointed members. The Police Authority was supported by a series of functional committees and working groups with oversight by a Corporate Governance Committee.
- 3.4 The role of the Corporate Governance Committee was "To ensure that the Authority operated in an effective, efficient and ethical manner whilst complying with legal requirements and its constitution, taking into account recommendations from audits and inspections"

- 3.5 The Corporate Governance Committee continuously reviewed and challenged the governance arrangements of the Authority through:
- consideration of the Authority's Risk Register;
 - monitoring the effectiveness of existing governance controls;
 - targeted risk-based audit activity;
 - reports from Committee Chairs;
 - consideration of external audit reports;
 - reports on the effectiveness of the Constabulary provided by Her Majesty's Inspector of Constabulary;
 - professional opinions and assurance from the Authority's management and professional advisors.
- 3.6 The Authority aimed to promote service quality by ensuring delivery in accordance with the Authority's objectives and best use of resources. This was done by various means including:
- the public survey (questionnaires);
 - victim satisfaction surveys (undertaken by the Force);
 - Police Authority Panels;
 - providing speakers from the Authority at community group events;
 - attending the Strategic Independent Advisory Group and individual Independent Advisory Groups;
 - attendance at various public events throughout Devon and Cornwall e.g. Respect festivals, Pride events and agricultural shows.
- 3.7 The roles and responsibilities of the Authority and Force, the senior officers within each and the Members of the Authority, are set out in clear delegation arrangements contained within the Police Authority's Constitution. The Scheme of Delegations was updated and approved by the Authority in September 2011.
- 3.8 The arrangements for challenging and scrutinising Force activity was inherent in the work of the full Police Authority and its committees, working groups and task and finish groups. Members were free to challenge service delivery by asking questions of a senior representative of the Chief Constable at committees and the Chief Constable could be questioned by Members at Police Authority or one-to-one meetings.
- 3.9 Codes of Conduct defining the standards of behaviour for Members and Officers were adopted. The Members' Code of Conduct (incorporated into the Police Authority's Constitution) was adopted by the Police Authority on 27 June 2008. The Officers' Code of Conduct was approved by the Chairs' Committee on 3 July 2008.
- 3.10 Procedural Rules, Financial Standing Orders, the Scheme of Delegation, contract/procurement regulations, and supporting procedure manuals, were reviewed and updated as required. Authority meetings and most of the formal committee meetings which were held in open session were webcast live.
- 3.11 In June 2011 the Authority approved and implemented a protocol enabling members of the public to ask questions at full meetings of the Authority.

- 3.12 The work to develop and improve the Authority's risk management arrangements was ongoing in 2012-13 following approval of a new strategy approved by the Corporate Governance Committee in March 2011. Each Committee continued to be responsible for its own risk register and associated workplan and this was complemented by the work of the Risk Network and the Risk Register Review Group.
- 3.13 The Corporate Governance Committee, as part of its responsibilities, undertook the core functions of an audit committee, as identified in CIPFA's Audit Committee – Practical Guidance for Local Authorities checklist. These responsibilities were built into the Committee's terms of reference and Authority's Code of Corporate Governance.
- 3.14 The Corporate Governance Committee was briefed on the new International Financial Reporting Standards that became the requirement for public sector organisations reporting in 2010-11
- 3.15 The Police Authority had in place a Monitoring Officer (Chief Executive) and a Section 151 Officer (Treasurer) who ensured compliance with relevant laws and regulations, internal policies and procedures, and that expenditure was lawful.
- 3.16 A joint Constabulary and Authority anti-fraud and anti-corruption strategy was in place and has been supported by fraud risk training, provided to members of the Corporate Governance Committee. A memorandum of understanding between the Head of Internal Audit and the Head of Professional Standards has been in place since September 2007.
- 3.17 There were procedures for receiving and investigating complaints from the public against senior Constabulary officers and staff, and Members or officers of the Police Authority. The Professional Standards and Complaints Monitoring Committee was responsible for the scrutiny of complaints handling.

4. Review Of Effectiveness

- 4.1 The Authority had responsibility for conducting, at least annually, a review of the effectiveness of the governance framework, including:
- the system of internal audit
 - the system of internal control.
- 4.2 These reviews have been informed by the work of internal audit, the Audit Commission prior to its abolition, the external auditors (Grant Thornton) and officers within the Authority who have the responsibility for the development and maintenance of the governance environment. In addition comments made by the external auditors and other review agencies and inspectorates were also referenced. Much of the review work was ongoing throughout the year and incorporated into the work of committees and Police Authority staff.
- 4.3 The reviews included:
- The assessment of evidence and the compilation of the Force Annual Assurance Statement signed by the Chief Constable.

- The Authority's committees reviewing and challenging Force performance. At each full Police Authority meeting the Deputy Chief Constable presented a report on Force performance.
- As part of the committee structure review (implemented in December 2010) performance was identified as one of the Authority's cross-cutting themes, each committee had a lead person for the performance theme and they came together as a network to support each other, identify good practice and help each committee identify any performance related issues.
- The Corporate Governance Committee received reports from internal audit, the Audit Commission prior to its abolition, and the external auditors, and had a co-ordinating role for the reports and actions emanating from other inspection bodies.
- The Corporate Governance Committee had oversight of the Force Risk Register and the Authority's Risk Register. Risks identified were allocated to specific committees for them to monitor and scrutinise.
- The Corporate Governance Committee invited Committee Chairs to attend Corporate Governance and report upon the work of their committee including their priorities, risk register management and assurance gathering activities.
- The Standards Committee reviewed, at each meeting, the best practice toolkit to ensure compliance and a pro-active approach to ethical standards issues.
- Workplans from previous Annual Governance Statements were reviewed.
- An annual review of the effectiveness of internal audit was undertaken.
- Regular meetings were held between Members and geographical Chief Superintendents in line with the protocol agreed with the Chief Constable.
- The Corporate Governance Committee had an oversight and co-ordinating role regarding the Authority's Risk Register(s).

4.4 We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Corporate Governance Committee and a plan to address weaknesses and ensure continuous improvement of the systems in place (see 5 below).

5. Significant Governance Issues

5.1 The Authority's Strategic Plan 2010 – 2013 (approved by the Authority on 25.06.10) included a complementary delivery plan which gives details of the intended outcomes for each objective and the activities to be undertaken. On 15 May 2012 a progress report on the delivery plan was presented to the Strategic Planning and Co-ordination Committee. This showed that whilst there had been significant changes to the Authority's operating environment since the plan was devised the majority of the actions set out in the plan have been achieved, these include:

- The review of the Authority's committee structure and the Constitution.
- Adoption of a new risk management framework and implementation of a new risk management process.
- Introduction of a new complaints handling process.
- Greater scrutiny of how the Force handles complaints.
- Adoption of a partnership strategy.

- Review of the Authority's community engagement activities and implementation of agreed changes.
 - Formation of a four-force shared in-house regional procurement service as part of the South West Police Authorities Joint Committee work programme.
 - Setting up the Protecting Vulnerable People Working Group.
 - Meeting the challenges of planning for and achieving the financial savings required by the Government's Comprehensive Spending Review.
 - Revision of the Single Equality Scheme Action Plan.
 - Adoption of a Community Engagement Plan which included targeted activities for hard to reach and diverse communities.
- 5.2 Each Committee, including the Strategic Planning and Co-ordination Committee, developed a risk register based upon their terms of reference and the Authority's strategic plan. Work was also undertaken to compile an organisational risk register, taking into account the individual committee risk registers and the Force Corporate Risk Register.
- 5.3 In order to ensure continuity and maximise effective working the Authority agreed (at its 2012 annual meeting) that, for its remaining life, the Authority Chair, Vice Chair and all the existing Committee Chairs would be re-appointed; this was not possible for the Professional Standards and Complaints Monitoring Committee as the Chair was no longer a member of the Authority and so at the Committee meeting following the annual Authority meeting a new chair was duly appointed.
- 5.4 In order to release resources to enable transition tasks to be progressed, members agreed to reduce the number of committee meetings and focus on the key risks identified on the committee risk registers. In order that key strategic decisions could still be made in a timely fashion within a refined structure, the Strategic Planning and Co-ordination Committee met more regularly, at least monthly, to pick up any urgent issues that could not wait for the next relevant committee. A variety of cross-cutting networks continued to meet as and when required. These covered the areas of equality, diversity and human rights, protecting vulnerable people, value for money and budget monitoring and performance.
- 5.5 Work to develop the risk management strategy and framework continued during 2012-13, the year of transition. Therefore, risk management arrangements needed to be adapted 'in year' to reflect the fundamental changes to governance from 1 April up to 22 November 2012.
- 5.6 The risk registers for each of the Police Authority committees continued to be refined and the Authority's Corporate Risk Register was used to track progress against the uncertainties associated with the delivery of the Police Authority's strategic plan. The development of the risk management framework was overseen by the Corporate Governance Committee. During this period, Authority Members dedicated themselves to delivering continuous scrutiny of "business as usual". From September 2012, following the appointment of Members of the new Joint Audit Committee (JAC), the Chair of the Corporate Governance Committee was co-opted to the JAC to help ensure continuity and a smooth handover of responsibility for the oversight of risk management arrangements.
- 5.7 Closer working with the Constabulary led to information sharing on risk registers and reciprocal attendance at risk review meetings. The Force significantly amended its risk management processes following the publication of the force corporate risk register in March 2012 and worked with Police Authority officers to align their respective risk management

processes to a common dedicated planning and risk management platform. The reasons for these changes were:

- i. To integrate risk management with the performance and revised planning processes.
- ii. To move risk management from a recording and scoring approach to an action and mitigation approach, and being able to identify where risk mitigation actions sat outside the risk owners portfolio, department or specialism.
- iii. To enable the Authority and Force to agree a “risk appetite” for individual risks.
- iv. To move to a culture of continuous risk management, whereby reporting of the current risk status became dynamic, rather than a historical quarterly update.
- v. Adoption of best practice and alignment with the Police Authority in preparation for transition to a PCC.
- vi. To facilitate moving to a holistic Corporate Performance Management Framework.

- 5.8 The Authority continued to undertake community engagement activities, attending a variety of summer events and conducting a survey asking about the crime types that concern people. Members and Officers also undertook a number of talks to community groups and the consultation questionnaire was available, where appropriate, at some talks. This information was to be useful in developing policies for the Office of the Police and Crime Commissioner. It is particularly worth noting that following representations from the chair of a group at a community event “domestic abuse” was added to the survey form as a crime type.
- 5.9 The circulation of the electronic stakeholder newsletter increased (761 addressees) as did the number of people who were “friends” on the Authority’s Facebook page (651).
- 5.10 The Authority’s relationship with Independent Advisory Groups (IAG) continued to be developed, led by the Equality, Diversity and Human Rights Network. Members regularly attended the various IAG meetings and the Authority was represented at the Strategic IAG.
- 5.11 The region’s shared governance arrangement for collaboration activity, the SWPAJC, continued to meet quarterly during the year. Its final meeting took place in October 2012.
- 5.12 HMIC conducted a series of visits to the Police Authority and Force during 2012 as part of wider inspections and audits of all forces in England and Wales. In summary, these included PCC transition, Review of Police Crime and Incident Records, Integrity Inspection, Anti-social behaviour (ASB), Policing in Austerity – One Year On, Increasing efficiency in the Police Service – (collaboration). Members were briefed on the findings from these studies with the Corporate Governance Committee being responsible for ensuring that an appropriate and timely response was taken by the Authority and Force.
- 5.13 In responding to the HMIC report “Without Fear or Favour” the Professional Standards and Complaints Monitoring Committee also increased its scrutiny of the Force declarations and recording of gifts and hospitality. HMIC revisited all forces and authorities, in August 2012, and prepared a further report for presentation to the Home Secretary in October 2012, which in turn was used to brief the incoming Police and Crime Commissioner.

- 5.14 In the spring of 2012, HMIC visited all forces and authorities to assess whether they had achieved their spending plans for Year 1 of the Comprehensive Spending Review (2011-2012) and on how they planned to meet the remaining challenges for Year 2 (2012-2013). A national report was published and the Strategic Policing and Co-ordination Committee (SPCC) reviewed the report in July 2012 and put questions to the Chief Constable based upon the HMIC's findings.
- 5.15 The Police Authority continued to monitor the position closely through the SPCC and Human Resources Committees. HMIC returned to the Authority and Force in early September 2012 to review the latest progress.
- 5.16 Each committee wished to ensure that any outstanding issues were documented and a legacy report of outstanding issues and report findings was produced. These risks were formally considered by the Joint Audit Committee and used to populate the new joint risk register of the Office of the Police and Crime Commissioner. One of the key risks identified was the ability of the new governance proposals to address the needs of the PCC. The adequacy of these arrangements is reported in Part 2 of this statement.
- 5.17 The Authority recognised the critical importance of leadership by the Force Chief Officer Group (COG) especially during the period of significant change and challenge faced by the Force during the last twelve months prior to the transition to the new governance arrangements. As a result of the Home Secretary's ruling that new Chief Constables should be appointed by the incoming Police and Crime Commissioner the Chief Constable and Deputy Chief Constable were temporary appointments for much of the year. A recruitment process for an assistant chief constable did not result in an appointment being made and a chief superintendent temporarily filled this vacancy.

6. Transition

- 6.1 The transition of the Police Authority to become an Office of the Police and Crime Commissioner (OPCC) was managed as a specific project - the Senior Responsible Officer (SRO) being the Chief Executive and the Project Manager being the Authority's Treasurer.
- 6.2 A Transition Board which included Members and representatives from the Force, including the Chief Constable, monitored the progress of the project plan and provided advice and guidance to the project manager and SRO.
- 6.3 As well as having the tools of the project plan and project risk register, the Transition Board also received the findings of gateway reviews undertaken by an external assessor.
- 6.4 The Project Board developed its own risk register to track progress against each of the thirteen deliverables in the project plan.
- 6.5 As part of this transition process, the Authority carried out an audit of all outstanding risks to be brought to the attention of the Police and Crime Commissioner. These were included in the Police Authority's Legacy Report which was approved at the final meeting of the Authority on 28 September 2012.
- 6.6 The transition project was formally closed in November 2012 with the activities still outstanding at that date transferred via the legacy reports to the Joint Audit Committee.

- 6.7 As part of the Authority's transition process at community engagement activities the display stand included information about the Police and Crime Commissioner (PCC) and "save the date" merchandise (reminding people that 15 November 2012 would be the election date for the PCC) was offered as a thank you for completing the concerns about crime type survey form. A factsheet, including Easy Read versions, was composed about the PCC elections. A version of the Factsheet was also available in British Sign Language.
- 6.8 The Financial Management Code of Practice for the Police Service of England and Wales (January 2012) encourages the concept of a Joint Audit Committee (JAC) for the Force and the OPCC. A shadow JAC was set up in September 2012 comprising 3 independent members who were recruited following an open process of advertising using local media. Respondents completed an application form and those who were shortlisted were then asked to complete a relevant scrutiny task and attend an interview before the appointments were made. Devon and Cornwall were one of the first to set up such a committee. This attracted interest and requests for information from a number of Authorities.
- 6.9 Governance arrangements were put in place for the transition project and the Shadow Joint Audit Committee to ensure continuity of governance and risk management between the Police Authority and the Office of the Police and Crime Commissioner. All Members were involved in the compilation of legacy reports for each of the Authority committees and these were overseen by the Corporate Governance Committee. These legacy actions were passed formally to the shadow Joint Audit Committee as part of the governance transition. The actual risks identified were included in the development of the OPCC's joint risk register.

Part 2 The Office of The Police and Crime Commissioner for Devon and Cornwall

From midnight on 21 November 2012 the Authority ceased to exist, being replaced by an elected Police and Crime Commissioner (PCC) to whom all the existing assets, liabilities (including property and employees) were transferred. This Annual Governance Statement explains how the PCC has complied with the principles of the revised CIPFA/SOLACE Framework, and has, or is intending to, meet the requirements set out in it.

7. Scope of Responsibility

- 7.1 The PCC has made clear his vision for policing in the Police and Crime Plan, "*that Devon, Cornwall and the Isles of Scilly is the safest area of the country, served by the best police force*", and that this will be achieved "*by making our communities safer through a collective approach to tackling crime and anti-social behaviour.*"
- 7.2 The PCC for Devon and Cornwall and the Isles of Scilly is responsible for ensuring that business is conducted in accordance with the law and proper standards, that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The PCC has a duty under the Police Reform and Social Responsibility Act 2011 to 'secure the maintenance of the police force for that area, and ensure that the police force is efficient and effective.' There is no significant change to the high level statement of the duty imposed on the body at police area level for overseeing the delivery of policing however, the means by which it is to be done have changed substantially. The main changes are in:

- The creation of holding to account functions regarding the Chief Constable.
- The creation of the PCC as a separate corporation sole.
- The duty to issue police and crime plans.
- The scrutiny introduced by Police and Crime Panels.

7.3 The PCC is responsible for ensuring proper arrangements for the governance of its affairs and facilitating the exercise of the above functions. This includes ensuring a sound system of internal control is maintained through the year and that arrangements are in place for the management of risk. In exercising this responsibility the OPCC places reliance on the Chief Constable of the Devon and Cornwall Constabulary to support the governance and risk management processes. This is demonstrated through the separate annual governance statement of the Chief Constable.

7.4 The Joint Audit Committee (JAC) have approved and adopted the principles of the CIPFA/SOLACE Framework: *Delivering Good Governance in Local Government (guidance note for police)*. This Annual Governance Statement explains how the PCC has complied with the Code of Corporate Governance and also met the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (England) Regulations 2011 in relation to the publication of a statement on internal control.

8. The Purpose of the Governance Framework

8.1 The governance framework comprises the systems and processes, and culture and values by which the PCC is directed and controlled and the activities through which it is accountable to and engaged with the community. It enables the PCC to monitor the achievement of its strategic objectives and to consider whether those objectives lead to the delivery of appropriate, cost-effective services, including the achievement of value for money.

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

8.3 A governance framework has been in place at the OPCC for the period up to the date of approval of the annual report and Statement of Accounts.

9. The Governance Framework

9.1 The governance arrangements for the OPCC have been developed in line with the 2011 Act, statutory Policing Protocol, Home Office Financial Management Code of Practice (FMCP) and existing guidance on financial and governance matters which continue to apply. The full framework is documented formally in the OPCC Governance Framework. A scheme of delegation, financial regulations and contract regulations have been developed in accordance with the FMCP to enable effective accountability. There is a decision making framework which ensures that all OPCC decisions are published and available for public scrutiny.

- 9.2 The governance framework ensures that the OPCC acts in accordance with the law and relevant regulations. The role of monitoring officer is the responsibility of the Chief Executive and a Chief Financial Officer known as the Treasurer fulfils the role of Section 151 officer. Professionally qualified staff occupy key roles within the OPCC with external advice sought as and when needed.
- 9.3 The OPCC aims to promote service quality by ensuring delivery in accordance with the PCC's objectives and best use of resources. This is done by various means including the public survey (questionnaires), victim satisfaction surveys (undertaken by the Force), providing speakers from the OPCC at community group events, attending the Strategic Independent Advisory Group and individual Independent Advisory Groups as well as attendance at various public events throughout Devon and Cornwall e.g. Respect festivals, Pride events and agricultural shows. In accordance with the Home Office Financial Management Code of Practice for the police service a Joint Audit Committee has operated since the commencement of the OPCC, and provides:
- independent assurance to the Police and Crime Commissioner and the Chief Constable regarding the adequacy of the risk management framework and the associated control environment,
 - independent scrutiny of the Force's and Office of the Police and Crime Commissioner's financial and non-financial performance (to the extent that it affects their exposure to risk and weakens the control environment); and
 - oversees the financial reporting process (adapted from CIPFA Audit Committees Practical Guidance for Local Authorities, paragraph 9).
- 9.4 An Appointments and Remuneration Committee is in the process of being set up with independent members which provides advice to the PCC and the Chief Constable on employment and appointment matters relating to the force Chief Officer Group, OPCC statutory officers and any advisors.
- 9.5 The arrangements for an independent Standards Committee are well advanced.
- 9.6 In addition to the committee structure OPCC officers gain assurances through attendance at a number of meetings including:
- the Joint Audit Committee which considers issues relating to governance , including internal control, risk management processes and financial reporting,
 - the Joint Management Board with the Force, which is chaired by the PCC,
 - the Commissioners Management Board
 - the Force Management Board
 - the Force Chief Officers Group
 - Project Steering Groups (eg. job evaluation)
 - the Appointments and Remuneration Committee,
 - the Performance and Accountability Board which ensures scrutiny of key police performance areas,
 - the Standards Committee (under development) which ensures compliance with OPCC Codes of Conduct for the PCC, advisors, members and staff; and

- The Police and Crime Panel which is responsible for the scrutiny of decisions made, or other action taken, by the PCC in connection with the discharge of the commissioner's functions.

9.7 The roles and responsibilities of each of the OPCC's committees are clearly defined in their individual terms of reference.

9.8 A joint Constabulary and OPCC anti-fraud and anti-corruption strategy is in place as part of the governance framework.

9.9 There are procedures for protective disclosure (whistleblowing) and receiving and investigating complaints from the public against senior Constabulary officers and staff, and Members or officers of the OPCC.

10. Review of Effectiveness

10.1 The OPCC is responsible for conducting, at least annually, a review of the effectiveness of the governance framework, including:

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

10.2 These reviews have been informed by the work of internal audit, the external auditors and also officers within the OPCC who have the responsibility for the development and maintenance of the governance environment. In addition comments made by the external auditors and other review agencies and inspectorates have informed this review. Much of the review work is ongoing throughout the year and is incorporated into the work of the Joint Audit Committee and OPCC staff.

The review processes carried out from the 22 November include:

- the assessment of evidence and the compilation of the Force Annual Governance Statement signed by the Chief Constable,
- the OPCC's Committees reviewing and challenging Force performance. Committee agendas, reports and minutes are available on the OPCC website. At each Performance and Accountability Board meeting the Deputy Chief Constable presents a report on force performance.
- the Joint Audit Committee receiving reports from internal audit, the Audit Commission and having a co-ordinating role for the reports and actions emanating from other inspection bodies,
- the Joint Audit Committee having oversight of the OPCC's and Force Risk Registers, and,
- an annual review of the effectiveness of internal audit.

10.3 The OPCC governance framework has been in place for five months and, therefore, will need time to develop before any formal assessment can take place. The JAC is, however, keen to ensure that the high standards set for governance in the CIPFA Delivering Good Governance Code are achieved. In the spirit of promoting continuous improvement the committee have undertaken an exercise to validate all the evidence related to the above code's core principles and developed a detailed risk rated action plan for improvements.

Key areas remaining to be delivered are;

- Service quality measurement
- Definition of roles and responsibilities in the OPCC
- Development of codes of conduct
- Fulfilment of all new statutory duties
- Development of the scrutiny and performance function and
- Developing the capacity of the OPCC

10.4 Work will continue to develop these areas and some of these are covered more fully under significant governance issues in the next section.

11. Significant Governance Issues

11.1 The Police Reform and Social Responsibility Act requires the PCC to undertake a second stage transfer by 1 April 2014. Currently the PCC owns all assets and liabilities and the second stage transfer involves the PCC and the Chief Constable in deciding which assets and staff could transfer to the Chief Constable. Following on from these decisions new governance arrangements may need to follow.

Set against these fundamental future changes the following items are of particular importance:

- The financial uncertainty caused by the possibility of further spending cuts in 2014-15.
- The continued need to deliver the savings in 2013-14 in respect of the 2010 CSR.
- The loss of the council tax freeze grant in 2015-16 that the former Authority accepted in 2010-11.
- A review of the grant allocation formula also expected to come into effect from 2015-16.
- Continuing pressure on council tax increases with excessive spending limits set below the rate of inflation.
- Continuing pay restraint on police officers and staff.
- The need to commission services without the security of long term funding.
- The main delivery of the job evaluation project.
- Significant implementation phase of the force Unifi system and change management programme.

11.2 All these strategic changes require the development of the governance process and the following main areas of development are planned for 2013-14:

- i) Following the transfer to the governance regime of the Police and Crime Commissioner, a new risk management framework was developed as a component of the overall governance framework, itself being one of the transition project deliverables. The draft risk management framework was approved by the Joint Audit Committee (JAC) on 30 January 2013. The JAC was asked to review and agree the new framework, provide an overview of the new process, and maintain ongoing oversight of the management of the

joint risk register. The residual Authority risks were incorporated into an OPCC corporate risk register which has been reviewed and revised by the Commissioners Team Meeting (CTM) and the Joint Management Board (JMB).

- ii) The Joint Management Board, at their meeting of 14 February 2013, specified their intention to manage corporate risks through a joint process. This is to be realised through the development of a joint risk register that describes the salient risks to the achievement of the objectives identified in the PCC's plan. The risks (uncertainties) in this register will have causes and mitigating actions variously owned by and assigned to the OPCC and the Force.
- iii) A joint meeting between risk practitioners and stakeholders from the OPCC and Force was held on the 6th February 2013 to consider any new high level risks (uncertainties) that could be identified against the objectives in the PCC's plan.
- iv) This process resulted in a consolidated set of risks. Where possible, these were aligned to specific objectives, or to the mission statement articulated in the Police & Crime Plan. The development of a skeleton joint risk register that identifies the principal high level risks (uncertainties) against the objectives set out in the PCC's plan was completed by 31 March 2013.
- v) The development of an integrated assurance framework was approved by the Corporate Governance Committee of the Police Authority on 19 September 2012 and although at the very early stages of development at the point of transition in November, was work-in-progress. The transition project presented an opportunity to re-engineer the assurance framework such that it is fit for purpose for the new governance arrangements for which the Police & Crime Commissioner and the Chief Constable will be jointly responsible. On 2 October 2012 the Joint Audit Committee (NB at this date working in shadow) stated their support to continue this initiative.
- vi) Work is underway to develop a mechanism by which all sources of assurance are identified for any significant risk or activity and an overall assurance assessment arrived at. The aim of this mechanism will be to identify areas of concern to the PCC and Chief Constable where there is insufficient assurance, adequate assurance or potentially over-assurance that controls designed to mitigate key risks are effective, efficient and economical.
- vii) It is proposed that assurance activity will be aligned directly to risk registers. Risks covered by the framework will be those identified as direct or indirect threats to the achievement of stated objectives set out primarily in the Police & Crime Plan, as well as the Chief Constable's business and policing plans that support its delivery.
- viii) As part of the PCC's responsibility for holding the Chief Constable to account a new performance management framework has been designed, this links the Police and Crime Plan, the risk register and performance targets to enable regular performance and accountability meetings to take place. This work is

expected to be fully operational by July to co-incide with work on the joint risk register.

- ix) With the introduction of audit and remuneration committees there is a requirement to ensure that members operate to an agreed code of conduct and this is currently being developed through the creation of a separate Standards Committee which will meet as and when required.
- x) During December 2012 and January 2013 the Commissioner successfully achieved the appointment of a new Chief Constable, the construction of a Police and Crime Plan and the agreement to an increase in the council tax precept. In response to the change in functions and the delivery of the Police and Crime Plan a structural review of the office is currently being carried out to ensure that the right skills and capacities are employed in delivering the functions and also that any risks of non delivery are covered.

- 11.3 The OPCC places considerable emphasis on the work of internal audit during the year. The internal audit section produces an annual report of the activities during the year. The work for the year was divided into business as usual and transition. Under these headings 20 reviews and work activities were carried out. The reviews related to areas such as redundancy calculations and payroll. Of these studies where an audit opinion was issued the majority received a good standard opinion. In one area which relates to the processing of financial data and transactions, improvements were identified and follow up activity on these findings is planned for 2013-14.
- 11.4 Having achieved a sound start to the introduction of new governance arrangements we propose over the coming year to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in the effectiveness review of Good Governance. These will be monitored during implementation and form part of the next annual review.

Signed:

XXXXXXXXXX

Police and Crime Commissioner for Devon and Cornwall

XXXXXXXXXX

Treasurer Duncan Walton

XXXXXXXXXX

Susan Howl, Chief Executive

XXXXXXXXXX

Dated

MOVEMENT IN RESERVES STATEMENT FOR THE YEAR ENDED 31 MARCH 2013 FOR THE POLICE AND CRIME COMMISSIONER AND THE PCC GROUP

This Statement shows the movement in the year on the different reserves held by the Police and Crime Commissioner (PCC) and the PCC Group, analysed into usable reserves (ie those that can be applied to fund expenditure or reduce taxation) and other reserves. The Surplus or Deficit on the provision of services line shows the true economic cost of providing the Police and Crime Commissioner's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the amounts required to be charged to the general Fund Balance for Council Tax setting. The Net increase/decrease before transfers to earmarked reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Police and Crime Commissioner.

	General Fund Balance £'000	Earmarked Fund Reserves £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Total Usable Reserves £'000	Unusable Reserves £'000	Total PCC Reserves £'000
As at 31 March 2012	6,198	32,080	2,695	3,943	44,916	(1,957,141)	(1,912,225)
Movement in reserves during 2012-13							
Surplus or (deficit) on provision of services (page 31)	(62,524)	0	0	0	(62,524)	0	(62,524)
Other Expenditure and Income (page 31)	0	0	0	0	0	(63,272)	(63,272)
Total Comprehensive Expenditure and Income	(62,524)	0	0	0	(62,524)	(63,272)	(125,796)
Adjustments between accounting basis & funding basis under regulations (note 8)	74,251	0	(509)	773	74,515	(74,515)	0
Net Increase/(Decrease) before Transfers to Earmarked Reserves	11,727	0	(509)	773	11,991	(137,787)	(125,796)
Transfers (to)/from Earmarked Reserves (note 9)	(11,727)	11,727	0	0	0	0	0
Increase/(Decrease) In Year	0	11,727	(509)	773	11,991	(137,787)	(125,796)
As at 31 March 2013 carried forward	6,198	43,807	2,186	4,716	56,907	(2,094,928)	(2,038,021)

MOVEMENT IN RESERVES STATEMENT FOR THE YEAR ENDED 31 MARCH 2012 FOR THE POLICE AND CRIME COMMISSIONER AND THE PCC GROUP

This Statement shows the movement in the year on the different reserves held by the Police and Crime Commissioner (PCC), analysed into usable reserves (ie those that can be applied to fund expenditure or reduce taxation) and other reserves. The Surplus or Deficit on the provision of services line shows the true economic cost of providing the Police and Crime Commissioner's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the amounts required to be charged to the general Fund Balance for Council Tax setting. The Net increase/decrease before transfers to earmarked reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Police and Crime Commissioner.

	General Fund Balance £'000	Earmarked General Reserves £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Total Usable Reserves £'000	Unusable Reserves £'000	Total PCC Reserves £'000
As at 31 March 2011	6,198	22,318	1,399	4,790	34,705	(1,586,508)	(1,551,803)
Movement in reserves during 2011-12							
Surplus or (deficit) on provision of services (page 31)	(46,736)	0	0	0	(46,736)	0	(46,736)
Other Expenditure and Income (page 31)	0	0	0	0	0	(313,686)	(313,686)
Total Comprehensive Expenditure and Income	(46,736)	0	0	0	(46,736)	(313,686)	(360,422)
Adjustments between accounting basis & funding basis under regulations (note 8)	56,498	0	1,296	(847)	56,947	(56,947)	0
Net Increase/(Decrease) before Transfers to Earmarked Reserves	9,762	0	1,296	(847)	10,211	(370,633)	(360,422)
Transfers (to)/from Earmarked Reserves (note 9)	(9,762)	9,762	0	0	0	0	0
Increase/(Decrease) In Year	0	9,762	1,296	(847)	10,211	(370,633)	(360,422)
As at 31 March 2012 carried forward	6,198	32,080	2,695	3,943	44,916	(1,957,141)	(1,912,225)

GROUP COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT FOR POLICE AND CRIME COMMISSIONER

This statement shows the accounting cost in the year to 31 March 2013 of providing services for the Group, in accordance with generally accepted accounting practices, in addition to the amount of funding by way of grant income. Local authorities raise taxation to cover expenditure in accordance with regulations: this may be different from the accounting cost. the taxation position is shown in the Movement in Reserves Statement

For Year Ended 31 March 2012			For Year Ended 31 March 2013			Notes
Gross Expenditure	Gross Income	Net Expenditure	Gross Expenditure	Gross Income	Net Expenditure	
£'000	£'000	£'000	£'000	£'000	£'000	
Continuing operations						
100,396	(13,252)	87,144	Local Policing	112,120	(11,367)	100,753
22,836	(399)	22,437	Dealing with the Public	21,208	(166)	21,042
26,097	(1,579)	24,518	Criminal Justice Arrangements	27,260	(1,552)	25,708
10,530	(1,195)	9,335	Road Policing	11,054	(276)	10,778
17,693	(688)	17,005	Specialist Operations	18,785	(658)	18,127
11,843	(230)	11,613	Intelligence	13,024	(193)	12,831
88,137	(1,352)	86,785	Specialist Investigation	79,972	(1,110)	78,862
8,809	(149)	8,660	Investigative Support	8,261	(85)	8,176
3,441	(2,535)	906	National Policing	5,668	(4,573)	1,095
Non Distributed Costs						
0	0	0	Pensions Past Service Gain	40	0	40 34
35	0	35	Loss on curtailment/settlements	54	0	54 34
6,419	0	6,419	Other Non Distributed Costs	2,425	0	2,425
1,525	(6)	1,519	Corporate and Democratic Core*	1,762	(46)	1,716
297,761	(21,385)	276,376	Net Cost of Police Services	301,633	(20,026)	281,607 24
1,705	(32,344)	(30,639)	Other Operating Income and Expenditure	1,649	(30,085)	(28,436) 10
92,101	(570)	91,531	Financing and Investment Income and Expenditure	93,280	(734)	92,546 11
0	(290,532)	(290,532)	Taxation and Non-Specific Grant Income	(283,193)	0	(283,193) 12
391,567	(344,831)	46,736	(Surplus)/Deficit on Provision of Services	113,369	(50,845)	62,524 24
		105	(Surplus)/Deficit on revaluation of non current assets			229 13
		313,581	Actuarial (gains) or losses on pension assets and liabilities			63,043 34
		313,686	Other Comprehensive Income and Expenditure			63,272
		360,422	Total Comprehensive Income and Expenditure			125,796

* Corporate and Democratic Core covers the functions of the Former Police Authority and the PCC

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT FOR THE POLICE AND CRIME COMMISSIONER

This statement shows the accounting cost in the year to 31 March 2013 of providing services in accordance with generally accepted accounting practices for the Office of the Police and Crime Commissioner, in addition to the amount of funding by way of grant income.

For Year Ended 31 March 2012				For Year Ended 31 March 2013				Notes
Gross Expenditure	Gross Income	Net Expenditure	Net Expenditure for the Chief Constable	Gross Expenditure	Gross Income	Net Expenditure	Net Expenditure for the Chief Constable	
£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
Continuing operations								
0	-13252	(13,252)	100,396	Local Policing	0	(11,367)	(11,367)	112,120
0	-399	(399)	22,836	Dealing with the Public	0	(166)	(166)	21,208
0	-1579	(1,579)	26,097	Criminal Justice Arrangements	0	(1,552)	(1,552)	27,260
0	-1195	(1,195)	10,530	Road Policing	0	(276)	(276)	11,054
0	-687	(687)	17,693	Specialist Operations	0	(658)	(658)	18,785
0	-230	(230)	11,843	Intelligence	0	(193)	(193)	13,024
0	-1352	(1,352)	88,137	Specialist Investigation	0	(1,110)	(1,110)	79,972
0	-149	(149)	8,809	Investigative Support	0	(85)	(85)	8,261
0	-2536	(2,536)	3,441	National Policing	0	(4,573)	(4,573)	5,668
Non Distributed Costs								
0	0	0	0	Pensions Past Service Gain	0	0	0	40
0	0	0	35	Loss on curtailment/settlements	0	0	0	54
0	0	0	6,419	Other Non Distributed Costs	0	0	0	2,425
1,525	-6	1,519	0	Corporate and Democratic Core*	1,762	(46)	1,716	0
Cost of Police Services before intra group funding								
1,525	(21,385)	(19,860)	296,236		1,762	(20,026)	(18,264)	299,871
296,236	0	296,236	(296,236)	Intra-group funding	299,871	0	299,871	(299,871)
297,761	(21,385)	276,376	0	Cost of Police Services	301,633	(20,026)	281,607	0
1,705	(32,344)	(30,639)	0	Other Operating Income and Expenditure	1,649	(30,085)	(28,436)	0
92,101	(570)	91,531	0	Financing and Investment Income and Expenditure	93,280	(734)	92,546	0
0	(290,532)	(290,532)	0	Taxation and Non-Specific Grant Income	(283,193)	0	(283,193)	0
391,567	(344,831)	46,736	0	(Surplus)/Deficit on Provision of Services	113,369	(50,845)	62,524	0
		105	0	(Surplus)/Deficit on revaluation of non current assets			229	0
		313,581	0	Actuarial (gains) or losses on pension assets and liabilities			63,043	0
		313,686	0	Other Comprehensive Income and Expenditure			63,272	0
		360,422	0	Total Comprehensive Income and Expenditure			125,796	0

* Corporate and Democratic Core covers the functions of the former Police Authority and the PCC

BALANCE SHEET FOR THE POLICE AND CRIME COMMISSIONER AND THE PCC GROUP

The Balance Sheet shows the value as at 31 March 2013 of the assets and liabilities recognised by the Group and the Police and Crime Commissioner. As there is no distinction between the Group and the Police and Crime Commissioners movements there is no separate statement for the Police and Crime Commissioner. The net assets of the Group (assets and liabilities) are matched by the reserves held by the Group/Police and Crime Commissioner.

As at 31 March 2012 £'000		As at 31 March 2013 £'000	Notes
	Long Term Assets		
148,823	Property, Plant & Equipment	151,529	13
715	Intangible Assets	784	14
692	Long Term Investments	0	15
<u>150,230</u>	Total Long Term Assets	<u>152,313</u>	
	Current Assets		
30,490	Short Term Investments	53,389	15
4,282	Assets Held for Sale	1,513	18
926	Inventories	852	
18,880	Short Term Debtors	13,571	16
<u>9,774</u>	Cash and Cash Equivalents	<u>2,311</u>	17
64,352	Total Current Assets	71,636	
	Current Liabilities		
(528)	Short Term Borrowing	(528)	15
(26,305)	Short Term Creditors	(27,230)	19
<u>(2,411)</u>	Provisions	<u>(1,830)</u>	20
(29,244)	Total Current Liabilities	(29,588)	
	Long Term Liabilities		
(500)	Provisions	(781)	20
(32,778)	Long Term Borrowing	(32,778)	15
0	Long Term Creditors (Lease Finance)	(425)	32
(115,041)	Pensions Liability - Staff	(118,604)	34
<u>(1,949,244)</u>	Pensions Liability - Officers	<u>(2,079,794)</u>	34
(2,097,563)	Total Long Term Liabilities	(2,232,382)	
<u>(1,912,225)</u>	Net Liabilities	<u>(2,038,021)</u>	
	Represented by		
(1,957,141)	Unusable Reserves	(2,094,928)	22
44,916	Usable Reserves	56,907	
<u>(1,912,225)</u>	Total Reserves	<u>(2,038,021)</u>	

Duncan Walton Treasurer for the Police and Crime Commissioner Devon and Cornwall

XXXXXXXXXXXXX 2013

CASHFLOW STATEMENT FOR THE POLICE AND CRIME COMMISSIONER AND THE POLICE AND CRIME COMMISSIONER GROUP

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 for Devon and Cornwall, 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 grant income and from the recipients of services provided by the Group. Investing activities shows how the Group has made best use of its resources which are intended to contribute to the Group's future service delivery. Cash flows arising from financing activities consist of short and long term borrowing in addition to repayment of finance lease liabilities and other payments for financing activities and are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Group.

For Year Ended 31 March 2012 £'000		For Year Ended 31 March 2013 £'000	Note
46,736	Net (surplus) or deficit on the provision of services	62,524	
	Adjustments to net surplus or deficit on the provision of services for non-cash movements		
(52,561)	(Increase)/Decrease in Pensions Liability	(71,070)	
(5,700)	Depreciation and amortisation	(6,550)	
(245)	(Increase)/Decrease in Provisions	300	
(768)	Surplus/(Loss) on sales of non-current assets	(12)	
(937)	Surplus/(Loss) on revaluation of non-current assets	(1,637)	
6,379	Movement in relevant assets/liabilities	(4,578)	
(7,096)	Net Cash (In flows)/Outflows from Operating Activities	(21,023)	23a
3,296	Investing Activities	28,452	23b
0	Financing Activities	34	23c
(3,800)	Net (increase)/decrease in cash and cash equivalents	7,463	
(5,974)	Cash and cash equivalents at the beginning of the reporting period	(9,774)	
(9,774)	Cash and cash equivalents at the end of the reporting period	(2,311)	17

NOTES TO THE FINANCIAL STATEMENTS FOR THE POLICE AND CRIME COMMISSIONER (PCC) AND THE PCC GROUP

NOTE 1: THE CREATION OF THE POLICE AND CRIME COMMISSIONER FOR DEVON AND CORNWALL AS AN ACCOUNTING ENTITY

Introduction

Following the Police Reform and Social Responsibility Act 2011 (The Act), the Devon and Cornwall Police Authority was replaced on 22 November 2012 with two „corporation sole’ bodies, the Police and Crime Commissioner and the Chief Constable. It is the Government’s intention that the reforms under the Act will be phased over the period 22 November 2012 to 31 March 2014. The first stage started on 22 November 2012 and ends either; by 1 April 2014 or when the Police and Crime Commissioner and the Chief Constable agree to move to stage two if this is earlier. These financial statements for 2012-13 will be the first to show the financial position of the Chief Constable following the cessation of the Police Authority on 22 November 2012. For accounting and regulatory purposes the Police and Crime Commissioner is classed as a local authority and is covered by the CIPFA Code of Practice for Local Authority Accounting 2012-13.

Basis of transition

The transition has been accounted for in line with the CIPFA Code of Practice for Local Authority Accounting 2012-13. The 2012-13 Code requires that a transfer of functions in full from the responsibility of one authority to another is accounted for using the principles that apply to group reorganisations. The Code also sets out that merger accounting should be applied where the entity in which the interest has been acquired was 100% in public sector ownership both before and after acquisition by the local authority. In accordance with this guidance the financial results have been brought into the statements of the two new bodies, the Police and Crime Commissioner for Devon and Cornwall and the Chief Constable for Devon and Cornwall, from the beginning of the year that the transfer occurred; that is from 1 April 2012.

Accounting Principles

The Police and Crime Commissioner is part of an accounting group along with the Chief Constable for Devon and Cornwall (referred to below as the PCC Group). The accounting recognition of the Group’s assets, liabilities and reserves during the first stage of transition, reflects the powers and responsibilities of the Police and Crime Commissioner as designated by the Police Reform and Social Responsibility Act 2011 and the Home Office Financial Management Code of Practice for the Police Service, England and Wales 2012. This accounting treatment is also underpinned by the relationships as defined by; local regulations, local agreements and working practices.

On 22 November 2012 the assets, liabilities and reserves of the Police Authority were transferred directly to the Police and Crime Commissioner and during this first stage of transition they remain under the control of the Police and Crime Commissioner. In addition at this stage all the income for policing is due to the Police and Crime Commissioner.

For the above reasons during the first stage of the transitions all the assets, liabilities and reserves of the Group are recognised in the Police and Crime Commissioner’s Balance Sheet. There are no balances within the Balance Sheet for the Chief Constable as at 31 March 2013. Similarly there are no transactions recognised on the Chief Constable’s Movement in Reserves Statement or the Chief Constable’s Cashflow Statement.

The financial consequences of the activity under the control of the Chief Constable are recognised in an Operating Cost Statement. This is published in the Chief Constable Single Entity Accounts.

The Comprehensive Income and Expenditure Statements for the Police and Crime Commissioner and the PCC group are identical at the summary level (from the Surplus/Deficit on Provision of Services and below). This is because for the Police and Crime Commissioner the Cost of Policing Services includes not only the costs of administering the Office of the Police and Crime Commissioner but also the

payments and accrual for the Police and Crime Commissioner resources consumed at the request of the Chief Constable.

The assets and liabilities acquired by the Police and Crime Commissioner are those set out in the Balance Sheet on page 33 as at March 2012.

Further information on the accounting judgements made with regard to this approach are contained in note 4.

NOTE 2: STATEMENT OF ACCOUNTING POLICIES

General Principles

These Financial Statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2011-12; the Accounts and Audit Regulations 2011; and the Service Reporting Code 2012-13 supported by International Financial Reporting Standards (IFRS).

The basis of the accounts is historical cost modified by revaluation for certain categories non-current assets. There is a glossary of accounting terms on pages 96 to 102.

The Financial Statements included here represent the accounts for the Police and Crime Commissioner and also those for the PCC Group. The Financial Statements cover the 12 months to the 31 March 2013. The term "Group" is used to indicate individual transactions and policies of the Police and Crime Commissioner and Chief Constable for the year ended 31 March 2013. The identification of the Police and Crime Commissioner as the holding organisation and the requirement to produce group accounts stems from the powers and responsibilities of the Police and Crime Commissioner under the Police Reform Social Responsibility Act 2011.

It should be noted that the Chief Constable has no transactions or balances for the year ended 31 March 2013, however, the policies below are Group policies and any notes to the Chief Constable accounts have been prepared in accordance with these policies.

The principal accounting policies adopted are set out below.

a. Accruals of Income and Expenditure

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

- Fees and charges due from customers are accounted for at the date the Police and Crime Commissioner provides the relevant goods or services.
- 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 stocks on the balance sheet.
- Expenses in relation to services received (including services supplied by employees) are recorded as expenditure as the services are received rather than when the payments are made.
- Interest payable and receivable is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flow fixed or determined by the contract.
- Where income 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 the debtors are written down and a charge made to revenue for the income that might not be collected.
- The council tax income included in the Comprehensive Income and Expenditure Statement for the year is the accrued income for the year. The difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account.

b. 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 short term investments that are readily convertible to known amounts of cash without penalty and 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.

c. 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 Income and Expenditure Statement if they are material and separate disclosure would aid the understanding of the Group's financial performance.

d. Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error.

Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper practices or the change provides more 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 by adjusting opening balance and comparative amounts for the prior period as if the new policy had always been applied.

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

e. Charges to Revenue Non - Current Assets

The Comprehensive Income and Expenditure Statement is debited with the following amounts to record the real cost of holding fixed 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 they can be written off
- amortisation of intangible fixed assets attributable to the service.

The Group is not required to raise council tax to cover depreciation, impairment losses or amortisations. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement (calculated on a prudent basis determined by the Group in accordance with statutory guidance). This is known as the Minimum Revenue Provision for the repayment of debt. Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the General Fund Balance, by way of an adjusting transaction within the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

f. Employee Costs and Benefits

(i) Benefits Payable During Employment

The full cost of employees (including salaries, paid annual leave, paid sick leave, bonuses and non monetary benefits) is charged to the accounting period in which the employees worked, including an adjustment for overtime claims due at the financial year-end.

An accrual is made for the cost of leave earned by employees but not taken before the year end which employees can carry forward into the next financial year. The accrual is made at the wage and salary

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

(ii) Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Police and Crime Commissioner to terminate an employee's employment before the normal retirement date and are charged on an accruals basis to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement when the Police and Crime Commissioner 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.

(iii) Post Employment Benefits

Employees of the Group are members of three separate pension schemes:

- The Old Police Pension Scheme
- The New Police Pension Scheme
- The Local Government Pensions Scheme, administered by Devon County Council

All schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees work for the Group.

Police Officers' Pension Schemes

Both the Old and the New 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 projections of projected earnings for current employees.
- liabilities are discounted to their value at current prices, using a discount rate of 4.5% (The discount rate is the annualised yield at the 22 year point on the Merrill Lynch AA rated corporate bond curve which has been chosen to meet the requirements of IAS19 and with consideration of the duration of the Employer's liabilities).
- the change in the net pensions liability is analysed into five components:
 - current service cost – the increase in liabilities as a result of service earned this year – allocated to the cost of Police Services in the Comprehensive Income and Expenditure Statement to the revenue accounts of services which the employees worked
 - past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – charged to the Net Cost of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
 - interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – charged to Net Operating Expenditure in the Comprehensive Income and Expenditure Statement

- actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pension Reserve
- benefits to pensioners – cash paid to pensioners including injury pension payments

In relation to retirement benefits, 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 appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any amounts payable but unpaid at the year end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Police Officer 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 officer pension schemes. The figures are included within the unfunded pension calculation as per IPSAS 25 Employee Benefits, as the injury benefits may be financially significant with volatile actuarial gains and losses. These have been estimated by the independent actuary.

The Local Government Pension Scheme

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

- the liabilities of the Devon County Council Pension Scheme attributable to the Group are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates etc, and projections of projected earnings for current employees
- liabilities are discounted to their value at current prices, using a discount rate of 5.5% (based on the indicative rate of return on high quality (AA) corporate bonds)
- the assets of the Devon County Council 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
- the change in the net pensions liability is analysed into seven components:
 - current service cost – the increase in liabilities as a result of service earned this year – allocated to the cost of Police Services in the Comprehensive Income and Expenditure Statement to the revenue accounts of services which the employees worked
 - past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – charged to the Net Cost of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
 - interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – charged to Net Operating Expenditure in the Comprehensive Income and Expenditure Statement
 - expected return on assets – the annual investment return on the fund assets attributable to the Group, based on an average of the expected long-term return – credited to Net Operating Expenditure in the Comprehensive Income and Expenditure Statement

- actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve
- contributions paid to the Devon County Council Pension Fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense
- gains or losses on settlements and curtailments – the result of actions to relieve the Group of liabilities or events that reduce the expected future service or accrual of benefits of employees – charged to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of non-distributed costs

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

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.

g. Events after the Balance Sheet Date

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

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

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

h. Financial Instruments

(i) Financial Liabilities (Borrowing)

Financial liabilities are recognised on the Balance Sheet when the Group becomes a party to the contractual provisions of a financial instrument and initially measured at fair value and carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument.

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 the interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

(ii) Financial Assets

Financial assets may be classified into three types:

- Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market
- Available for sale assets – assets that have a quoted market price and/or do not have determinable payments
- Fair value through profit and loss – assets that are held for trading and derivatives with positive value

Loans and Receivables

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

For the loans that the Group has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable and the interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Where the Group has made loans to staff at less than market rates for policy purposes, the accounts are not adjusted for the difference between actual and market interest and would not be unless the total adjustment would be more than £25k in any one year.

Where financial assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset would be written down and a charge made to the Comprehensive Income and Expenditure Statement. Any gains or losses that arise once the contract is complete or is terminated are credited/debited to the Comprehensive Income and Expenditure Statement.

Available for Sale

Available for Sale Assets are recognised on the Balance Sheet when the Police and Crime Commissioner becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (eg dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Police and Crime Commissioner.

Assets are maintained in the Balance Sheet at fair value. The Police and Crime Commissioner only invests in instruments with quoted market price and the value is based on the market price.

Changes in fair value are balanced by an entry in the Available for Sale Reserve and the gain/loss is recognised in the Surplus or Deficit on Revaluation of Available for Sale Financial Assets.

Financial Instruments at Fair Value through the Profit and Loss

The Group employs an external money market fund manager. The portfolio of the money market fund manager consists of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit taking

The instruments will be recognised at fair value and carried in the balance sheet at fair value. Movements in fair value recorded in the balance sheet will be balanced by posting gains and losses to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement as they arise. Instruments will be valued at mid market price as supplied by

reputable sources.

i. Government Grants and Contributions

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
- the grants or contributions will be received

Amounts recognised as due to the Group are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contributions have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using 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 contributions are credited to the Comprehensive Income and Expenditure Statement.

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

j. Inventories and Long Term Contracts

All inventories appear in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned using an average cost formula.

Long term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

k. Jointly Controlled Operations

The Group participates in a number of partnership activities. These arrangements involve the Group carrying out activities relevant to its own functions jointly with others. The Group accounts only for its share of the jointly controlled assets and the liabilities and expenses that it incurs on its own behalf or jointly with others in respect to its interest in the partnerships and income that it receives in relation to the partnership activities. Only significant partnerships where gross expenditure is over £100k are disclosed in the note on related party transactions.

l. 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.

PCC Group as Lessee

(i) Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of

the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs of the 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 Comprehensive Income and Expenditure Statement.

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life.

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.

(ii) Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment.

Group as Lessor

(i) Operating Leases

Where the Group grants an operating lease over a property or items of plant or equipment, the asset is retained in the Balance Sheet. Rentals received under operating leases are credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment.

m. Overheads and Support services

The cost of overheads and support services are charged to the operational headings set out in the Comprehensive Income and Expenditure statement according to the principles set out in the CIPFA Service Reporting Code and Police Objective Analysis. Costs are allocated to all headings on the basis of benefits received with the exception of the Non-Distributed Costs heading which is not charged with overheads or support costs.

n. Intangible Assets

(i) Recognition

Expenditure on non monetary assets that do not have physical substance but are controlled by the Group as a result of past events is capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Group. Intangible assets are recognised separately from the tangible asset with which they are associated with where the value of the intangible asset is more than 25% and greater than £100k of the main asset value.

Software that is integral to the operating of hardware is capitalised as part of the relevant item of property, plant and equipment.

(ii) Measurement

Intangible assets are measured initially at cost. Following initial recognition, intangible assets are carried at fair value by reference to an active market, where no active market exists, at amortised cost.

(iii) Amortisation

The depreciable amount of an intangible asset is amortised over its useful life and charged to the Comprehensive Income and Expenditure Statement.

(iv) Impairment

An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to Other Operating Expenditure in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and the Capital Receipts Reserve.

o. Plant, Property and Equipment

Assets that have a physical substance and are held for use in providing police services and are expected to be used during more than one financial year are classified as Property Plant and Equipment.

(i) Recognition

All expenditure on the acquisition, creation and enhancement of property, plant and equipment is capitalised on an accruals basis. Expenditure on the acquisition of a tangible asset, or expenditure which adds to and not merely maintains the value of an existing asset is capitalised provided that it is probable that the future economic benefits or service potential will flow to the Group for more than one year and the cost 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.

(ii) Measurement

Assets are initially measured at cost, comprising:

- Purchase price
- Any costs attributable to bringing the asset into working condition.

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 within the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

Heritage Assets are only recognised if they have a value of more than £10k.

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

- Assets under construction – historical cost
- Land and Buildings – fair value determined as the amount that would be paid for the asset in its existing use. Where insufficient market-based evidence of fair value is available Depreciated Replacement Cost has been used by the PCC valuer as an estimate of fair value. Land and buildings are re-valued by a qualified external valuer every five years and this was last done as at 1 April 2009.
- For vehicles, plant and equipment that have short lives or low value or both, depreciated historical cost is used as a proxy for fair value.

Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains.

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

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 Comprehensive Income and Expenditure Statement.

Component assets are recognised separately from the main asset with which they are associated with when the value of the component is more than 20% and greater than £2.5m of the main asset value.

(iii) Impairment

Assets are reviewed at the end of the financial period to ensure that there has been no significant decrease in value because of factors such as obsolescence, environmental changes or declining market values. Where impairments are identified as part of this review these are accounted for as follows:

- 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 Comprehensive Income and Expenditure Statement

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

(iv) Depreciation

Depreciation spreads the cost of assets over their useful working life (usually in equal annual instalments). An exception is made for assets without a determinable finite useful life (i.e. land) and assets that are not yet available for use (i.e. asset under construction).

The depreciation policy for assets is as follows:

Land and buildings – the useful life of each building is assessed by the valuer and buildings are 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.

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.

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.

Force Helicopter – is depreciated over ten years.

Revaluation gains are also depreciated with an amount equal to the difference between the 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.

(v) Disposals and Non-Current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount or fair

value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

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

When an asset is disposed of or decommissioned, the value of the asset in the balance sheet is written off to the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals are credited to the same line in the Comprehensive Income and Expenditure Statement 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 in the Revaluation Reserve are transferred to the Capital Adjustment Account. Amounts in excess of £10k are categorised as capital receipts. Receipts are credited to the Useable 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 fixed 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.

p. Provisions, Contingent Liabilities and Assets

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 obligation.

Provisions are charged to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year the Group becomes aware of the obligation and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation taking account the relevant risk 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 the provision is no longer required or the estimated amount can be reduced the provision is reduced and credited back to the relevant service.

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

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 the situation 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.

Contingent Assets

A contingent asset arises where an event has taken place that gives the Group a possible asset whose existence can 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.

q. Reserves and Funds

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

Certain reserves are kept to manage the accounting process for non-current assets, financial instruments, retirements and employee benefits and do not represent useable resources to the Group – the reserves are explained in the relevant policies.

r. VAT

VAT is included as an expense only when it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

s. Carbon reduction commitment

The Group is required to participate in the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. This scheme is currently in the introductory phase which will last until 31 March 2014. The Group is required to purchase and surrender allowances, currently retrospectively on the basis of emissions i.e. carbon dioxide produced as energy is used. As carbon dioxide is emitted a liability and an expense are recognised. The liability will be discharged by surrendering allowances.

The liability is measured at best estimate of the expenditure required to meet the obligation normally at the current market price of the number of allowances required to meet the liability at the reporting date. The cost to the Group is recognised and reported in the costs of the Group's services.

NOTE 3: IMPACT OF THE ADOPTION OF NEW STANDARDS ON THE 2013-14 FINANCIAL STATEMENTS

The Police and Crime Commissioner is required to disclose information relating to the impact of an accounting change that will be required by a new accounting standard that has been issued but not yet adopted. There is only one new accounting standard that will impact on policies of the Police and Crime Commissioner; the International Accounting Standard for Employee Benefits (IAS19) has been updated and applies to accounting periods beginning on or after 1 January 2013. The Police and Crime Commissioner will not adopt this standard until 1 April 2013 and it will apply to the 2013-14 accounts.

The impact of the change in policy is to increase the cost for police staff pension benefits recognised in the Net Cost of Police Services and the Surplus/Deficit on the Provision of Service. This is offset by re-measurements and other comprehensive income so that the total cost is the same as under the current accounting policy. There is no impact on the Balance Sheet.

	Reported in the Comprehensive Income and Expenditure Statement	Adjusted for change in Accounting Policy
	For year ended 31 March 2013	
	£'000	£'000
Net Cost of Police Services	281,607	281,693
Surplus/Deficit on Provision of Services	62,058	63,592
Total Comprehensive Income and Expenditure	125,330	125,330

NOTE 4: 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 made in the Statement of Accounts are:

- Whether income, expenditures, assets and liabilities should be recognised within the Chief Constables Accounts; set out below are the reasons why it has been decided that no income has been recognised in the Chief Constable's accounts and also why all the assets, liabilities and reserves are all recognised in the Police and Crime Commissioner Accounts and consequently no assets, liabilities and reserves are all recognised in the Chief Constables Accounts:
 - The Chief Constable while fulfilling his functions under the 2011 Act does not hold assets and does not hold reserves in line with the Home Office Financial Management Code of Practice for the Police Service of England and Wales 2012. In addition he does not receive direct government funding, or revenue from the Police and Crime Commissioner or from other sources.
 - Payments are made by the Police and Crime Commissioner from the Police and Crime Commissioner's Fund Account and no cash-movements occur between the two bodies.
 - The Police and Crime Commissioner has the responsibility for managing the financial relationships with third parties.

- In practice the Chief Constable consumes financial resources against an annual budget for the discharge of his operational policing responsibilities. The annual budget is set by the Police and Crime Commissioner.
 - Similarly access is granted to staff and assets and a scheme of delegation operates between the two bodies determining the local arrangements and respective responsibilities.
- Note 35 describes a contingent liability with regard to potential equal pay claims. Because of the level of uncertainty attached to the value of the Police and Crime Commissioner's possible future obligations with regard to these claims, no provision has been made for future claims and the value of the contingent liability has not been quantified.
 - It is clear from the Comprehensive Spending Review 2010 and the Chancellors Budget 2013 that funding for policing will reduce over the next four years. In response to this reduction in funding the Police and Crime Commissioner is rationalising the estate and disposing of surplus property. It is judged that this process means that the capacity of the estate will remain in line with operational requirements and assets will not become impaired to any material degree as a result of a need to close facilities and reduce levels of service provision.
 - As set out in accounting policies the Police and Crime Commissioner's investments managed by the Police and Crime Commissioner's external investment manager will be accounted for as Financial Instruments at Fair Value through the Profit and Loss. These assets are not held purely for the purposes of trading but are part of a portfolio of identified financial instruments for which there is evidence of a recent actual pattern of short-term profit taking. For this reason this is judged to be the most appropriate valuation approach for these assets.
 - The National Police Aviation Service (NPAS) will amalgamate the current individual force provisions of air support into one single entity under a lead-force model and the Devon and Cornwall Police helicopter is due to transfer to the new national service in July 2013. Because the helicopter was fully operational as at 31 March 2013 and because the transfer to NPAS will ensure that the helicopter is operated for public benefit in Devon and Cornwall, it is judged that there is no impairment to the value of the Helicopter as at 31 March 2013.

NOTE 5: ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY

The Statement of Accounts contains estimated figures that are based on assumptions made by the Police and Crime Commissioner 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 Police and Crime Commissioners Balance Sheet at 31 March 2013 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Police and Crime Commissioner will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets. The estimated value of property, plant and equipment as at 31 March 2013 is £151,528k.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by £0,050k for every year that useful lives had to be reduced.

Provisions	The Police and Crime Commissioner has made a provision of £1,407k to cover the cost of self insured public and employers' liability claims. The cost of these claims has been estimated by the Force Legal Team.	A 10 percent increase in the cost of the outstanding claims would increase the charge to the Comprehensive Income and Expenditure Account by £0,141k.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Police and Crime Commissioner with expert advice about the assumptions to be applied. The total value of pension liabilities as at 31 March 2013 is £2,198,398k.	The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.1% increase in the discount rate assumption would result in a decrease in the total pension liabilities of £53,920k. However, the assumptions interact in complex ways. During 2012-13, the Police and Crime Commissioner's actuaries advised that the net pensions liability had decreased by £12,417k as a result of estimates being corrected due to actuarial experience and increased by £75,460k attributable to updating of the assumptions.
Pensions Assets	Amounts charged to the Comprehensive Income and Expenditure Statement and the valuation of the pension reserve in the Balance Sheet in respect of police staff pension benefits are heavily influenced by the estimated future inflation and earnings on investments. The assumptions made in making these estimates are set out in note 34. The estimated value of pension assets for the local Government Pension Scheme based upon information available at the Balance Sheet date, was £199,346k. The actual valuations at the Balance Sheet date, which may not be available until some time later, may give a different value of pension assets.	This difference is not considered to be material.

NOTE 6: PRIOR PERIOD ADJUSTMENTS

The service expenditure analysis shown above the Net Cost of Police Services line in the Comprehensive Income and Expenditure Statement is based on the CIPFA Police Objective Analysis. For the year ended 31 March 2013 CIPFA made a change to the categorisation of Local Investigation that moved these costs from Local Policing to Specialist Investigation. There was a material change in net expenditure for the year ended 31 March 2012, as set out below:

	As Previously Stated 2011-12 £000	As Restated 2011-12 £000	Correction £000
Local Policing	144,987	87,144	(57,843)
Specialist Investigation	29,246	86,785	57,539

NOTE 7: EVENTS AFTER THE BALANCE SHEET DATE

These accounts were certified as presenting a true and fair view by the Treasurer for the Police and Crime Commissioner for Devon and Cornwall on XX XXXX 2013. There were no significant post balance sheet events up to this date.

NOTE 8: 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 Group in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Group to meet future capital and revenue expenditure.

FOR YEAR ENDED 31 MARCH 2013

	Usable Reserves			Unusable Reserves
	General Balances £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	£'000
<u>Adjustments involving the Capital Adjustment Accounts:</u>				
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:				
Charges for depreciation and impairment of non current assets	6,406			(6,406)
Revaluation losses on Assets Held for Sale	1,637			(1,637)
Amortisation of Intangible Assets	144			(144)
Capital grant applied to finance capital expenditure			(2,143)	2,143
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	1,442			(1,442)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:				
Statutory provision for the financing of capital investment	(1,420)			1,420
Capital expenditure charged against the General Fund	(1,504)			1,504
<u>Adjustments involving the Capital Grants Unapplied:</u>				
Capital Grants and Contributions unapplied credited to Comprehensive Income and Expenditure Account	(2,916)		2,916	0
<u>Adjustments involving the Pensions Reserve:</u>				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure (see note 34)				
Police Officers (Unfunded) Schemes	124,056			(124,056)
Police Staff	15,668			(15,668)
Employer's pensions contributions and direct payments to pensioners payable in the year				
Police Officers (Unfunded) Schemes	(30,910)			30,910
Police Staff	(7,659)			7,659
Pensions Top Up Grant	(30,085)			30,085
<u>Adjustments primarily involving the Capital Receipts Reserve:</u>				
Transfer of cash sale proceeds credited as part of the gain or loss on disposal to the Comprehensive Income and Expenditure Account	(1,430)	1,430		0
Use of capital receipts to finance new expenditure		(1,939)		1,939
<u>Adjustments involving the Collection Fund Adjustment Account:</u>				
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statements is different from council tax income calculated for the year in accordance with statutory requirements				
	289			(289)
<u>Adjustment involving the Short Term Compensated Absences Adjustment Account:</u>				
Amount by which staff and officers 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				
	533			(533)
Total Adjustments	74,251	(509)	773	(74,515)

(provided for comparative purposes)
FOR YEAR ENDED 31 MARCH 2012

	Usable Reserves			Unusable Reserves
	General Balances	Capital Receipts Reserve	Capital Grants Unapplied	
	£'000	£'000	£'000	£'000
<u>Adjustments involving the Capital Adjustment Accounts:</u>				
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:				
Charges for depreciation and impairment of non current assets	5,569			(5,569)
Revaluation losses on property plant and equipment	937			(937)
Amortisation of Intangible Assets	131			(131)
Capital grant applied to finance capital expenditure			(3,500)	3,500
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	2,418			(2,418)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:				
Statutory provision for the financing of capital investment	(1,072)			1,072
Capital expenditure charged against the General Fund	(158)			158
<u>Adjustments involving the Capital Grants Unapplied:</u>				
Capital Grants and Contributions unapplied credited to Comprehensive Income and Expenditure Account	(2,653)		2,653	0
<u>Adjustments involving the Pensions Reserve:</u>				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure (see note 34)				
Police Officers (Unfunded) Schemes	112,369			(112,369)
Police Staff	13,038			(13,038)
Employer's pensions contributions and direct payments to Police Officers (Unfunded) Schemes	(31,614)			31,614
Police Staff	(8,888)			8,888
Pensions Top Up Grant	(32,344)			32,344
<u>Adjustments primarily involving the Capital Receipts Reserve:</u>				
Transfer of cash sale proceeds credited as part of the gain or loss on disposal to the Comprehensive Income and Expenditure Account	(1,650)	1,650		0
Use of capital receipts to finance new expenditure		(354)		354
<u>Adjustments involving the Collection Fund Adjustment Account:</u>				
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statements is different from council tax income calculated for the year in accordance with statutory requirements	(341)			341
<u>Adjustment involving the Short Term Compensated Absences Adjustment Account:</u>				
Amount by which staff and officers 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				
	756			(756)
Total Adjustments	56,498	1,296	(847)	(56,947)

NOTE 9: TRANSFERS TO/FROM EARMARKED RESERVES

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

	Balance as at 1 April 2011	Transfers Out 2011-12	Transfers In 2011-12	Balance as at 31 March 2012	Transfers Out 2012-13	Transfers In 2012-13	Balance as at 31 March 2013
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Helicopter Replacement Fund	250	0	250	500	(750)	250	0
Police Officer Ill Health Reserve	500	0	0	500	0	0	500
Budget Management Fund	1,770	0	246	2,016	(350)	0	1,666
Major Operations Reserve	1,889	0	486	2,375	0	0	2,375
Programmes & Projects Reserve	5,363	0	283	5,646	(798)	1,431	6,279
Workforce Modernisation Reserve	3,399	0	2,710	6,109	(575)	2,230	7,764
Capital Financing Reserve	4,410	0	576	4,986	(1,504)	3,727	7,209
Estates Development Reserve	645	0	0	645	(272)	207	580
Revenue Smoothing Fund	3,994	0	5,126	9,120	(450)	5,705	14,375
Remuneration Reserve	0	0	0	0	0	2,876	2,876
Transition Fund	98	0	85	183	(233)	233	183
Total	22,318	0	9,762	32,080	(4,932)	16,659	43,807

This note only shows transfers to/from earmarked revenue reserves. Transfers to usable capital reserves and the General Fund are shown in the Movement in Reserves Statements on pages 29 and 30

The purpose of the Funds and Reserves are set out below:

Police Officer Ill Health Reserve	To meet the variable one off cost of police officer ill health retirement.
Budget Management Fund	To hold year end under-spends for carry-forward to the following year.
Major Operations Reserve	To meet costs of major policing operations.
Programme & Projects Reserve	To fund investment in the Force Programme including major ICT developments.
Workforce Modernisation Reserve	To meet one off costs of workforce modernisation including one off impact of job evaluation.
Capital Financing Reserve	To fund capital investment
Estates Development Reserve	To fund revenue cost of rationalising and developing the estate including planning applications, consultancy costs and project management.
Revenue Smoothing Fund	To smooth the impact of ongoing funding reductions as a result of the national reduction in public service spending.
Transition Fund	To fund one off and short term cost of transition from Police Authority to Police and Crime Commissioner.
Remuneration Reserve	To fund one off and unpredictable employment costs.

NOTE 10: OTHER OPERATING INCOME AND EXPENDITURE

For Year Ended 31 March 2012			For Year Ended 31 March 2013	
Expenditure £'000	Income £'000		Expenditure £'000	Income £'000
768	0	Net (Surplus) /Deficit from sale of non-current assets	12	0
937	0	Loss on revaluation of non-current assets	1,637	0
0	(32,344)	Pensions Top Up Grant		(30,085)
<u>1,705</u>	<u>(32,344)</u>	Total	<u>1,649</u>	<u>(30,085)</u>

NOTE 11: FINANCING AND INVESTMENT INCOME AND EXPENDITURE

For Year Ended 31 March 2012			For Year Ended 31 March 2013	
Expenditure £'000	Income £'000		Expenditure £'000	Income £'000
1,329	0	Interest payable	1,330	0
0	(570)	Interest and investment income	0	(734)
		Pensions Interest Costs and expected return on Pension Assets		
2,002	0	- Police Staff Scheme (Funded)	3,671	0
88,770	0	- Police Officer Scheme (Unfunded)	88,279	0
<u>92,101</u>	<u>(570)</u>	Total	<u>93,280</u>	<u>(734)</u>

NOTE 12: TAXATION AND NON SPECIFIC GRANT INCOME

For Year Ended 31 March 2012			For Year Ended 31 March 2013	
Income £'000			Income £'000	
(191,220)		Non ring-fenced government grants	(180,795)	
(2,653)		Recognised capital grants and contributions	(2,916)	
<u>(193,873)</u>		Sub Total	<u>(183,711)</u>	
(96,659)		Council Tax	(99,482)	
<u>(290,532)</u>		Total	<u>(283,193)</u>	

NOTE 13 : PROPERTY, PLANT AND EQUIPMENT

(a) Movements on Balances in 2012-13

Cost or Valuation	Operational and Non-Operational Assets		Assets under Construction		Total
	Land & Buildings £'000	Vehicles, Plant & Equipment £'000	Land & Buildings £'000	Vehicles, Plant & Equipment £'000	£'000
At 1 April 2012	139,519	27,854	3,529	1,677	172,579
Additions	389	3,310	4,727	1,225	9,651
Revaluation increases/(decreases) recognised in the Revaluation Reserve	0	0	0	0	0
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	0	0	0	0	0
Derecognition-Disposals	0	(2,040)	0	0	(2,040)
Derecognition-Other	0	0	0	0	0
Assets re-classified (to)/from Held for Sale	(582)	0	0	0	(582)
Other reclassification	4,180	992	(4,180)	(992)	0
At 31 March 2013	143,506	30,116	4,076	1,910	179,608
Accumulated Depreciation and Impairments					
At 1 April 2012	(7,549)	(16,207)	0	0	(23,756)
Depreciation Charge	(2,955)	(3,451)			(6,406)
Depreciation written out to the Revaluation Reserve	0	0	0	0	0
Depreciation written out to the Surplus/Deficit on the Provision of Services	0	0	0	0	0
Derecognition-Disposals	0	2,022	0	0	2,022
Derecognition-Other	0	0	0	0	0
Assets re-classified (to)/from Held for Sale	61	0	0	0	61
At 31 March 2013	(10,443)	(17,636)	0	0	(28,079)
Net Book Value					
At 31 March 2013	133,063	12,480	4,076	1,910	151,529
At 31 March 2012	131,970	11,647	3,529	1,677	148,823

(b) Movements on Balances in 2011-12 (included for comparative purposes)

	Operational and Non-Operational Assets		Assets under Construction		Total
	Land & Buildings	Vehicles, Plant & Equipment	Land & Buildings	Vehicles, Plant & Equipment	
Cost or Valuation	£'000	£'000	£'000	£'000	£'000
At 1 April 2011	138,782	27,431	5,447	632	172,292
Additions	0	1,122	5,446	1,677	8,245
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(105)	0	0	0	(105)
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(1,035)	0	0	0	(1,035)
Derecognition-Disposals	(961)	(1,209)	0	0	(2,170)
Derecognition-Other	0	(122)	0	0	(122)
Assets re-classified (to)/from Held for Sale	(4,526)	0	0	0	(4,526)
Other reclassification	7,364	632	(7,364)	(632)	0
At 31 March 2012	139,519	27,854	3,529	1,677	172,579
Accumulated Depreciation and Impairments					
At 1 April 2011	(5,252)	(14,646)	0	0	(19,898)
Depreciation Charge	(2,688)	(2,881)	0	0	(5,569)
Depreciation written out to the Revaluation Reserve	32	0	0	0	32
Depreciation written out to the Surplus/Deficit on the Provision of Services	62	0	0	0	62
Derecognition-Disposals	53	1,197	0	0	1,250
Derecognition-Other	0	123	0	0	123
Assets re-classified (to)/from Held for Sale	244	0	0	0	244
At 31 March 2012	(7,549)	(16,207)	0	0	(23,756)
Net Book Value					
At 31 March 2012	131,970	11,647	3,529	1,677	148,823
At 31 March 2011	133,530	12,785	5,447	632	152,394

(c) Surplus Assets

A significant portion of the HQ site has been marketed for sale. A sale contract which is conditional on the purchaser achieving planning permission to develop the site was signed in 2012-13 and a non returnable deposit was received. This asset is still in use and has not therefore been classified as surplus. All properties that are not in use meet the criteria to be classified as Held for Sale. For this reason no properties are classified as surplus as at 31 March 2013.

(d) Depreciation

The following useful lives and approaches to depreciation have been used to calculate depreciation charges:

Land and Buildings – the asset lives for individual buildings are assessed by the valuer, asset lives are within the range 15 – 80 years.

Vehicles - Classes of vehicle are given specific asset lives these are within the range 3-8 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.

Information and Communication Technology (ICT) - Classes of ICT assets are given specific asset lives these are within the range 2-10 years. ICT assets are depreciated monthly.

Helicopter – the estimated useful life of the helicopter is 10 years. The helicopter is depreciated annually.

All depreciation is calculated on a straight-line basis.

(e) Significant Capital Commitments

As at 31 March 2013 the Police and Crime Commissioner had significant capital commitments of £1,789k in relation to property construction and enhancement projects. Similar commitments at 31 March 2012 were £963k.

(f) Revaluations

Land and buildings are re-valued by a qualified external valuer every five years and this was last done as at 1 April 2009. Valuations were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors.

(g) Asset Transfers

Note 4 gives information about the proposed transfer of the Force helicopter to the National Police Aviation Service.

NOTE 14: INTANGIBLE ASSETS

Movements on Balances in 2012-13

The Police and Crime Commissioner accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. The intangible assets include purchased software.

All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the Police and Crime Commissioner. The useful lives assigned to the intangible assets range from 8 to 10 years and the carrying amount amortised on a straight line basis, resulting in an annual charge to the appropriate headings in the Comprehensive Income and Expenditure Account according to the usage of the assets.

	31 March 2012 £'000	31 March 2013 £'000
Gross carrying amounts	176	878
Accumulated amortisation	(32)	(163)
Net carrying amount at start of year	144	715
Additions	702	213
Disposals	0	0
Amortisation Charge	(131)	(144)
Net carrying amount at end of year	715	784
Comprising:		
Gross carrying amounts	878	1,091
Accumulated amortisation	(163)	(307)
Total	715	784

NOTE 15: FINANCIAL INSTRUMENTS

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

	Long Term		Current	
	As at 31 March 2012	As at 31 March 2013	As at 31 March 2012	As at 31 March 2013
	£'000	£'000	£'000	£'000
Investments				
Loans and receivables	0	0	17,086	24,115 (b)
Available for sale Financial Assets	0	0	0	5,006
Financial assets at fair value through profit and loss	692	0	13,404	24,268 (c)
Total Investments	<u>692</u>	<u>0</u>	<u>30,490</u>	<u>53,389</u>
Cash and Cash Equivalents				
Loans and receivables	0	0	9,774	2,311 (d)
Total Cash and Cash Equivalents	<u>0</u>	<u>0</u>	<u>9,774</u>	<u>2,311</u>
Debtors				
Sundry Debtors – other entities & individuals	0	0	5,575	6,311
Total Debtors	<u>0</u>	<u>0</u>	<u>5,575</u>	<u>6,311</u>
Borrowings				
Financial Liabilities at amortised cost	32,778	32,778	528	528 (a)
Total Borrowings	<u>32,778</u>	<u>32,778</u>	<u>528</u>	<u>528</u>
Creditors				
Creditors – trade payables	0	0	20,835	21,912
Total Creditors	<u>0</u>	<u>0</u>	<u>20,835</u>	<u>21,912</u>

- (a) All long-term borrowing was from the Public Works Loan Board, an executive agency of HM Treasury. Annual repayments are for interest only and the principal is repayable at the date of loan maturity.
- (b) Loans and receivables consist of fixed interest deposits.
- (c) 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.
- (d) Cash and cash equivalents consist of the bank current account and call accounts repayable at 24 hours notice without penalty.

Financial Instruments - Income, Expense, Gains and Losses

For Year Ended 31 March 2013

	Financial Liabilities measured at amortised cost	Financial Assets Loans and Receivables	Assets at Fair Value through Profit and Loss	Total
	£'000	£'000	£'000	£'000
Interest Expense	1,330	0	0	1,330
Fee Expense	0	0	0	0
Total expense in Surplus or Deficit on the Provision of Services	1,330	0	0	1,330
Interest Income	0	(555)	(179)	(734)
Total Income in Surplus or Deficit on the Provision of Services	0	(555)	(179)	(734)
Net (gain)/loss for year	1,330	(555)	(179)	596

For Year Ended 31 March 2012
Provided for comparative purposes

	Financial Liabilities measured at amortised cost	Financial Assets Loans and Receivables	Assets at Fair Value through Profit and Loss	Total
	£'000	£'000	£'000	£'000
Interest Expense	1,329	0	0	1,329
Fee Expense	0	0	0	0
Total expense in Surplus or Deficit on the Provision of Services	1,329	0	0	1,329
Interest Income	0	(384)	(186)	(570)
Total Income in Surplus or Deficit on the Provision of Services	0	(384)	(186)	(570)
Net (gain)/loss for the year	1,329	(384)	(186)	759

Financial Instruments - Fair Value of Assets and Liabilities Carried at Amortised Cost

Financial liabilities and financial assets represented by loans and receivables are carried in the Balance Sheet at amortised cost. Their fair value 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 2013 have been calculated using interest rates in force as at 31 March 2012 and 2013
- The long-term borrowing as at 31 March 2012 and 31 March 2013 have been calculated by reference to the premature repayment set of rates in force as at the respective dates
- The fair value of trade or other receivables is taken to be the invoiced or billed amount

Financial Assets

	As at 31 March 2012	As at 31 March 2012	As at 31 March 2013	As at 31 March 2013
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	£'000	£'000	£'000	£'000
Loans and Receivables – short term investments	17,086	17,243	24,115	24,181
Available for sale financial assets	0	0	5,006	5,006
Cash and cash equivalents	9,774	9,774	2,311	2,311
Sundry Debtors* - other entities & individuals	5,575	5,575	6,311	6,311
	32,435	32,592	37,743	37,809

*See note 16

Financial Liabilities

	As at 31 March 2012	As at 31 March 2012	As at 31 March 2013	As at 31 March 2013
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	£'000	£'000	£'000	£'000
Total Borrowing	32,778	38,884	32,778	40,177
Creditors*	20,835	20,835	21,912	21,912
	53,613	59,719	54,690	62,089

*See note 19

NOTE 16: SHORT TERM DEBTORS

Sundry debtors arise from invoices raised by the Police and Crime Commissioner before 31 March 2013 but not actually paid until the new financial year.

As at 31 March 2012		As at 31 March 2013
£'000		£'000
11,828	Central government bodies	6,346
1,477	Other local authorities	911
0	NHS bodies	3
5,575	Other entities and individuals	6,311
<u>18,880</u>	Total Debtors	<u>13,571</u>

NOTE 17: CASH AND CASH EQUIVALENTS

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

As at 31 March 2012		As at 31 March 2013
£'000		£'000
	Current Assets	
22	Cash held by the Authority	21
198	Bank Current Accounts (deposit)	75
9,554	Short-term deposits	2,215
<u>9,774</u>	Total Cash and Cash Equivalents	<u>2,311</u>
	Current Liabilities	
0	Bank Current Accounts (overdraft)	0
<u>0</u>	Total Cash and Cash Equivalents	<u>0</u>
<u>9,774</u>	Net Cash and Cash Equivalents	<u>2,311</u>

NOTE 18: NON CURRENT ASSETS HELD FOR SALE

As at 31 March 2012 £'000		As at 31 March 2013 £'000
1,500	Balance outstanding at start of year Helicopter/Property Assets	4,282
4,282	Assets newly classified as held for sale Property Assets	521
	Revaluation decreases on assets classified as held for sale Property Assets	
0	- Charged to Surplus/Deficit on Provision of services	(1,637)
0	- Charged to other Comprehensive Income and Expenditure	(229)
(1,500)	Assets Sold Helicopter/Property Assets	(1,424)
<u>4,282</u>	Balance outstanding at year end	<u>1,513</u>

One property classed as held for sale in 2011-12 remains as held for sale in 2012-13. The Police and Crime Commissioner has approved the disposal of two property assets in 2012-13. All properties are vacant and sales are expected to be concluded within the next twelve months.

NOTE 19: CREDITORS

These are amounts owed by the Police and Crime Commissioner as at 31 March 2013 but not actually paid until after that date. Like debtors, the figure in the balance sheet depends very much on the timing of regular monthly payments to suppliers and for PAYE etc. The total is made up as follows:

As at 31 March 2012 £'000		As at 31 March 2013 £'000
4,529	Central government bodies	5,318
941	Other local authorities	0
20,835	Other entities and individuals	21,912
<u>26,305</u>	Total Creditors	<u>27,230</u>

NOTE 20: PROVISIONS

For Year Ended 31 March 2013	Insurance £'000	Remuneration £'000	Other £'000	Total £'000
Current Liabilities				
Balance as at 31 March 2012	626	1,111	674	2,411
Additional provisions made in 2012-13	(124)	379	239	494
Transfer from long term liabilities	626	0	0	626
Amounts used in 2012-13	(501)	(1,011)	(189)	(1,701)
Balance at 31 March 2013	627	479	724	1,830
Long Term Liabilities				
Balance as at 31 March 2012	500	0	0	500
Additional provisions made in 2012-13	907	0	0	907
Transfer to current liabilities	(626)	0	0	(626)
Balance at 31 March 2013	781	0	0	781
Total Provisions as at 31 March 2013	1,408	479	724	2,611
For Year Ended 31 March 2012 (provided for comparative purposes)	Insurance £'000	Remuneration £'000	Other £'000	Total £'000
Current Liabilities				
Balance as at 31 March 2011	640	1,481	0	2,121
Additional provisions made in 2011-12	51	1,025	674	1,750
Transfer from long term liabilities	626	0	0	626
Amounts used in 2011-12	(691)	(1,395)	0	(2,086)
Balance at 31 March 2012	626	1,111	674	2,411
Long Term Liabilities				
Balance as at 31 March 2011	545	0	0	545
Additional provisions made in 2011-12	581	0	0	581
Transfer to current liabilities	(626)	0	0	(626)
Balance at 31 March 2012	500	0	0	500
Total Provisions as at 31 March 2012	1,126	1,111	674	2,911

Insurance Provision

The Police and Crime Commissioner is uninsured for the first £0.1m of each public and employers liability claim up to a total stop loss of £0.8m for claims. The insurance provision is to cover any claims from 2012-13 and previous years. The majority of payments from the provision are expected to be made over the next five years. An assessment of liabilities as at 31 March 2013 has been undertaken and the provision has been increased to a level estimated to be sufficient to meet all the forecast obligations.

Remuneration Provision

1. Meeting the cost of known 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 2013-14.
2. Meeting the employment termination benefits arising from restructuring the Force to meet budget reductions. Critical judgements applied in determining the level of the redundancy provision are provided in note 4. The payments are expected to be made in 2013-14.

Other Provisions

1. To cover the legal costs relating to claims by retired former officers resulting from the A19 policy. These payments are expected to be made in 2013-14
2. To meet the dilapidation costs of buildings following the disposal of leases or outstanding rent review back payments. These payments are expected to be made in 2013-14

3. To meet the cost of retesting forensic submissions. These payments are expected to be made in 2013-14
4. To meet the contractual cost of payments relating to external procurement support. These payments are expected to be made in 2013-14

NOTE 21: USABLE RESERVES

Movements in the Police and Crime Commissioners usable reserves are detailed in the Movement of Reserves Statement and note 9.

NOTE 22: UNUSABLE RESERVES

As at 31 March 2012 £'000		As at 31 March 2013 £'000
21,088	Revaluation Reserve	20,184
93,357	Capital Adjustment Account	91,409
(2,064,285)	Pensions Reserve	(2,198,398)
1,872	Collection Fund Adjustment Account	1,583
(9,173)	Short Term Accumulated Absences Account	(9,706)
<u>(1,957,141)</u>	Total Unusable Reserves	<u>(2,094,928)</u>

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.

Year Ended 31 March 2012		Year Ended 31 March 2013
£'000		£'000
22,798	Balance at 1 April	21,088
(105)	Downward revaluation of assets - not posted to the Surplus or Deficit on the Provision of Services	(229)
(105)	Difference between fair value depreciation and historical cost depreciation	(454)
(1,500)	Accumulated gains on assets sold or scrapped	(221)
<u>(1,710)</u>	Amount written off to the Capital Adjustment Account	<u>(904)</u>
21,088	Balance at 31 March	20,184

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 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.

Note 8 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

31 March 2012			31 March 2013
£'000		£'000	£'000
95,722	Balance at 1 April		93,357
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
(5,568)	Charges for depreciation and impairment of non-current assets	(6,406)	
(937)	Revaluation losses on Property, Plant and Equipment	0	
(131)	Amortisation of intangible assets	(144)	
	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	(17)	
(918)	Assets held for sale written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(1,425)	
(1,500)			
<hr/> (9,054)		<hr/> (7,992)	
1,605	Adjusting amounts written out of the Revaluation Reserve	(962)	
<hr/> (7,449)			
	Net written out amount of the cost of non-current assets consumed in the year		(8,954)
	Capital Financing applied in the year:		
354	Use of the Capital Receipts Reserve to finance new capital expenditure	1,939	
2,653	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	2,143	
847	Application of grants to capital financing from the Capital Grants Unapplied Account	0	
1,072	Statutory provision for the financing of capital investment charged against the General Fund balances	1,420	
158	Capital expenditure charged against the General Fund balances	1,504	
<hr/> 5,084		<hr/>	<hr/> 7,006
93,357	Balance at 31 March		91,409

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.

Year Ended 31 March 2012		Year Ended 31 March 2013
£'000		£'000
(1,698,143)	Balance at 1 April	(2,064,285)
(313,581)	Actuarial gains or (losses) on pensions assets and liabilities	(63,043)
(125,407)	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	(139,724)
72,846	Employer's pensions contributions and direct payments to pensioners payable in the year	68,654
<u>(2,064,285)</u>	Balance at 31 March	<u>(2,198,398)</u>

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.

Year Ended 31 March 2012		Year Ended 31 March 2013
£'000		£'000
1,531	Balance at 1 April	1,872
341	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	(289)
<u>1,872</u>	Balance at 31 March	<u>1,583</u>

Short Term 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.

31 March 2012			31 March 2013	
£'000	£'000		£'000	£'000
	(8,416)	Balance at 1 April		(9,173)
8,416		Settlement or cancellation of accrual made at the end of the preceding year	9,173	
<u>(9,173)</u>		Amounts accrued at the end of the current year	<u>(9,706)</u>	
	<u>(757)</u>	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		<u>(533)</u>
	<u>(9,173)</u>	Balance at 31 March		<u>(9,706)</u>

NOTE 23(a): CASHFLOW STATEMENT - OPERATING ACTIVITIES

The cashflows for operating activities include the following items:

31 March 2012			31 March 2013	
£'000			£'000	
(8,079)		Net cash (receipts)/payments from operating activities excluding interest receipts and payments	(21,826)	
(346)		Interest received	(527)	
<u>1,329</u>		Interest paid	<u>1,330</u>	
<u>(7,096)</u>		Net Cash flows from operating activities	<u>(21,023)</u>	

NOTE 23(b): CASHFLOW STATEMENT - INVESTING ACTIVITIES

31 March 2012			31 March 2013	
£'000			£'000	
8,946		Purchase of property, plant and equipment, investment property and intangible assets	7,882	
(4,000)		Net movement in short and long term investments	22,000	
<u>(1,650)</u>		Proceeds from the sale of property, plant and equipment, investment property and intangible assets	<u>(1,430)</u>	
<u>3,296</u>		Net cash flows from investing activities	<u>28,452</u>	

NOTE 23 (c): CASHFLOW STATEMENT – FINANCING ACTIVITIES

Year Ended 31 March 2012			Year Ended 31 March 2013	
£'000			£'000	
0		Grant Receipts in Advance - Capital	(68)	
<u>0</u>		Cash payments to reduce finance lease liabilities	<u>102</u>	
<u>0</u>		Net cash flows from financing activities	<u>34</u>	

NOTE 24: AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

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

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

Income and Expenditure Reported to Management for the Year Ended 31 March 2013

	Outturn Spend 2011-12	Outturn Spend 2012-13
	£'000	£'000
Police Officer Costs	162,980	165,541
Police Staff Costs	66,122	64,351
Change Costs	2,886	49
Training	759	569
Major Operations	910	690
Premises	11,113	9,980
Contract Based	18,020	16,712
Transport	6,224	6,526
Legal	959	903
Partnerships & Regional Initiatives	2,969	3,023
Pensions	2,001	2,196
Specific Grants	(12,011)	(10,836)
Income	(7,110)	(6,631)
All other budget costs	18,617	10,674
Net Force Expenditure	274,439	263,747
Treasury Management	1,832	1,914
Police Authority & Police and Crime Commissioner	1,505	1,673
Total Net Expenditure	277,776	267,334
Contributions to / from earmarked reserves	9,762	13,231
Overall Outturn Position	287,538	280,565

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

	2011-12	2012-13
	£'000	£'000
Cost of Services Reported to management	287,538	280,565
Amounts in the Comprehensive Income and Expenditure Statement not reported in the Report to management	589	16,289
Amounts reported to management not reported in the Comprehensive Income and Expenditure Statement	(11,751)	(15,247)
Cost of Services in Comprehensive Income and Expenditure Statement	276,376	281,607

Reconciliation of Income and Expenditure reported to the Police and Crime Commissioner to the Surplus on the Provision of Services in the Comprehensive Income and Expenditure Statement by Subjective Heading

For the Year Ended 31 March 2013

	Reported to management	Not included in report to management*	Not included Income and Expenditure Account	Total
	£'000	£'000	£'000	£'000
Fees, charges & other service income	(8,636)	0	0	(8,636)
Interest and Investment Income	(734)	0	0	(734)
Government grants and contributions	(11,390)	(30,085)	0	(41,475)
Non specific government grant	(180,795)	(2,916)	0	(183,711)
Income from council tax	(99,770)	288	0	(99,482)
Total Income	(301,325)	(32,713)	0	(334,038)
Employee expenses	236,974	101,689	0	338,663
Other service expenses	48,370	0	0	48,370
Interest Payments	1,330	0	0	1,330
Minimum Revenue Provisions for the Repayment of Debt	1,420	0	(1,420)	0
Depreciation, amortisation and impairment	0	6,550	0	6,550
Loss on the disposal/revaluation of non Current assets	0	1,649	0	1,649
Total Operating Expenses	288,094	109,888	(1,420)	396,562
Net Operating Income	(13,231)	77,175	(1,420)	62,524
Transfer to reserves	13,231	0	(13,231)	0
Surplus on Provision of Services	0	77,175	(14,651)	62,524

*Expenses not included in the report to management are items that are excluded by regulation from the costs to be charged against taxation

Reconciliation of Income and Expenditure reported to the Police and Crime Commissioner to the Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement by Subjective Heading

For the Year Ended 31 March 2012
(Provided for comparative purposes)

	Reported to Resources Committee	Not included in report to Resources Committee*	Not included Income and Expenditure Account	Total
	£'000	£'000	£'000	£'000
Fees, charges & other service income	(9,152)	0	0	(9,152)
Interest and Investment Income	(570)	0	0	(570)
Government grants and contributions	(12,233)	(32,344)	0	(44,577)
Non specific government grant	(191,220)	(2,653)	0	(193,873)
Income from Council Tax	(96,318)	(341)	0	(96,659)
Total Income	(309,493)	(35,338)	0	(344,831)
Employee expenses	246,131	85,661	0	331,792
Exit Costs	2,867	0	0	2,867
Other service expenses	48,174	0	0	48,174
Interest Payments	1,329	0	0	1,329
Minimum Revenue Provisions for the Repayment of Debt	1,072	0	(1,072)	0
Capital Expenditure charged against general fund	158	0	(158)	0
Depreciation, amortisation and impairment	0	5,700	0	5,700
Loss on the disposal/revaluation on non Current Assets	0	1,705	0	1,705
Total Operating Expenses	299,731	93,066	(1,230)	391,567
Net Operating Expenses	(9,762)	57,728	(1,230)	46,736
Transfer to/(from) Earmarked Reserves	9,762	0	(9,762)	0
Surplus on Provision of Services	0	57,728	(10,992)	46,736

*Expenses not included in the report to management are items that are excluded by regulation from the costs to be charged against taxation

NOTE 25: MEMBERS ALLOWANCES

A total of £168.3k was paid for the year ended 31 March 2013 in respect of allowances and expenditure payable to Members of the Police Authority prior to the creation of the Police and Crime Commissioner.

NOTE 26: EXTERNAL AUDIT COSTS

The audit fee payable to Grant Thornton during the year totalled £79k for the Group, while the portion relating to the Police and Crime Commissioner is £54k.

Year Ended 31 March 2012		Year Ended 31 March 2013
£'000		£'000
83	Fees payable to external auditors with regard to external audit services carried out by the appointed auditor for the year	79
0	Other services provided by external auditor	0
<u>83</u>		<u>79</u>

NOTE 27: OFFICERS' REMUNERATION FOR YEAR ENDED 31 MARCH 2013

This note shows the officer remuneration costs for the Office of the Police and Crime Commissioner (OPCC) for Devon & Cornwall and for the Chief Constable for Devon & Cornwall Police.

The Police and Crime Commissioner (PCC) is an elected official and is excluded from this note. The salary and expenses of the PCC are published on the PCC's website. <http://www.devonandcornwall-pcc.gov.uk/About-Us/What-We-Spend/PCC-expenses.aspx>

Post Holder Information	Note	Salary (Including fees & allowances)	Bonuses	Subsistence & Expense Allowances	Benefits in Kind	Total Remuneration excl. Pension contributions 2012-13	Employers Pension Contributions	Total Remuneration including Pension Contributions 2012-13
		£	£	£	£	£	£	£
<u>Office of Police & Crime Commissioner</u>								
<u>Salary £50,000 to £149,999 per year</u>								
OPCC Chief Executive		98,319	-	-	-	98,319	15,829	114,148
OPCC Treasurer		87,384	-	-	-	87,384	9,734	97,118
<u>Chief Constable</u>								
<u>Salary £150,000 plus per year</u>								
Chief Constable – Shaun Sawyer		157,490	-	8,921	18,323	184,734	36,818	221,552
<u>Salary £50,000 to £149,999 per year</u>								
Deputy Chief Constable	1	105,299	-	5,599	9,755	120,653	25,482	146,135
ACC Crime & Justice	2	10,775	-	440	812	12,027	2,184	14,211
ACC Crime & Justice	3	85,325	-	3,982	11,473	100,780	19,772	120,552
ACC Local Policing & Partnerships		110,705	-	4,422	10,701	125,828	25,559	151,387
ACC Operational Response		107,814	-	4,422	10,908	123,144	25,561	148,705
Director of People & Leadership		100,557	-	4,422	8,631	113,610	16,190	129,800
Director of Legal Services		100,557	-	4,422	7,364	112,343	16,190	128,533
Director of Finance & Resources		106,097	-	4,422	-	110,519	15,874	126,393

Note

- 1 Deputy Chief Constable 28/05/12-31/03/13
- 2 ACC Crime & Justice 01/04/12-06/05/12
- 3 ACC Crime & Justice 07/05/12-31/03/13

NOTE 27: OFFICERS' REMUNERATION FOR YEAR ENDED 31 MARCH 2012

(included for comparative purposes)

Post Holder Information	Note	Salary (Including fees & allowances)	Bonuses	Subsistence & Expense Allowances	Benefits in Kind	Total Remuneration excl. Pension contributions 2011-12	Employers Pension Contributions	Total Remuneration including Pension Contributions 2011-12
<u>Salary £150,000 plus per year</u>		£	£	£	£	£	£	£
Chief Constable - Stephen Otter	1	167,510	-	8,535	3,236	179,281	35,315	214,596
Chief Constable – Shaun Sawyer	2	4,360	-	232	378	4,970	1,055	6,025
<u>Salary £50,000 to £149,999 per year</u>								
Police Authority Chief Executive		97,408	-	392	-	97,800	15,293	113,093
Police Authority Treasurer		52,953	-	-	-	52,953	6,155	59,108
Deputy Chief Constable	3	120,389	-	12,965	10,267	143,621	29,134	172,755
ACC Crime & Justice	4	54,618	-	2,211	2,558	59,387	12,791	72,178
ACC Crime & Justice	5	46,664	-	2,211	402	49,277	10,964	60,241
ACC Local Policing & Partnerships		106,837	-	4,422	438	111,697	24,827	136,524
ACC Operational Response		104,880	-	4,422	3,464	112,766	24,829	137,595
Director of Human Resources		100,557	-	4,422	8,272	113,251	15,787	129,038
Director of Legal Services		100,557	-	4,422	7,027	112,006	15,787	127,793
Director of Finance & Resources		103,222	-	4,422	-	107,644	15,028	122,672

Note

- 1 Chief Constable 01/04/11-18/03/2012
- 2 Chief Constable 19/03/2012-31/03/2012
- 3 Deputy Chief Constable 01/04/2011-18/03/2012
- 4 ACC Crime & Justice 01/04/2011-30/09/2011
- 5 ACC Crime & Justice 01/10/2011-31/03/2012

The number of people paid by the Police and Crime Commissioner whose remuneration, excluding employer's pension contributions was £50,000 or more in bands of £5,000 were:

Remuneration Band	2011-12	2012-13
£50,000 - £54,999	138	127
£55,000 - £59,999	94	99
£60,000 - £64,999	14	11
£65,000 - £69,999	9	9
£70,000 - £74,999	7	10
£75,000 - £79,999	11	8
£80,000 - £84,999	5	9
£85,000 - £89,999	2	3
£90,000 - £94,999	2	2
£95,000 - £99,999	-	1
£100,000 - £104,999	1	-
£105,000 - £109,999	1	-
£110,000 - £114,999	-	-
£115,000 - £119,999	-	-
Total	284	279

- 1 These figures do not include the remuneration of the senior employees and relevant police officers who have been disclosed separately.
- 2 The banding figures include both police staff and police officers remuneration.
- 3 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).
- 4 Remuneration includes exit costs as set out in the table below
- 5 The above table does not include staff paid below £50,000. These staff make up approximately 94% of the workforce.

Group Exit Costs

The total group exit costs shown in the table below are the cash payments made to individuals plus cash payments to recompense the pension for the strain payments that have been calculated on an actuarial basis in 2011-12 and 2012-13. The charge to the Comprehensive Income and Expenditure statement 2012-13 excludes those exit costs provided for in the 2011-12 accounts and includes a provision of £153,000 for costs due as at 31 March 2013 but not yet paid.

(a)	(b)		(c)		(d)		(e)	
Exit package cost band (including special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band (b) and (c)		Total cost of exit packages in each band	
	2011-12	2012-13	2011-12	2012-13	2011-12	2012-13	2011-12	2012-13
							£000	£000
£0 – £20,000	68	8	71	1	139	9	1,260	88
£20,001 - £40,000	23	5	48	1	71	6	1,943	168
£40,001 - £60,000	1	0	6	1	7	1	324	52
£60,001 - £150,000	0	0	4	1	4	1	310	70
TOTAL	92	13	129	4	221	17	3,837	378
							£000	£000
Provision for Forecast Redundancy Costs 2011-12							(1,395)	(425)
Provision for Forecast Redundancy Costs 2012-13							425	166
Exit Costs charged to the Comprehensive Income and Expenditure Statement							2,867	119

Of the exit packages in 2012-13, 1 relates to the Office of the Police and Crime Commissioner and the remainder to the Force.

NOTE 28: RELATED TRANSACTIONS & PARTNERSHIPS

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.

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 Note 24 on reporting for resources allocation decisions and in Note 30 on taxation and non specific grant income. Outstanding balances are set out in notes 16 and 19.

Members

The Chief Executive of the Office of the Police and Crime Commissioner has written to all members explaining the need for disclosure. Member's interests are also publicly reported on the Police Authority website and the Police and Crime Commissioner's website. No relevant transactions have been reported.

Officers

The Chief Executive of the Office of the Police and Crime Commissioner has written to all senior officers explaining the need for disclosure. No relevant transactions have been reported.

Other Public Bodies

Most of the revenue to pay for the costs of policing comes from government grants and business rates 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. Outstanding balances with other public bodies are shown in notes 16 and 19.

Precepts

Year Ended 31 March 2012 £000	Billing Authority:	Year Ended 31 March 2013 £000
8,938	East Devon	9,316
5,942	Exeter	6,086
4,542	Mid Devon	4,601
5,431	North Devon	5,581
12,045	Plymouth	12,350
6,039	South Hams	6,141
7,711	Teignbridge	7,888
7,795	Torbay	8,062
3,802	Torridge	3,902
3,299	West Devon	3,431
30,568	Cornwall	32,185
206	Isles of Scilly	227
96,318		99,770
341	Adjusted for accruals	178
96,659		99,948

The Police and Crime Commissioner purchases some services from Devon County Council, mainly internal audit and the pension administration services. Transactions within the pension fund are shown in note 34. Outstanding balances with other public bodies are shown in Notes 16 and 19.

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 and the liabilities and expenses that it incurs in relation to partnership activities. The most significant partnerships are shown in the table below.

Expenditure 2011-12 £000	Income 2011-12 £000	Note	Expenditure 2012-13 £000	Income 2012-13 £000
		Activity		
163	0	(i) Drug Arrest Referral	167	0
315	0	(ii) Youth Offending Teams	315	0
442	(416)	(iii) Sexual Assault Referral Centres	200	0
881	(717)	(iv) Devon and Cornwall Safety Camera Partnership	880	(703)
108	0	(v) Domestic Abuse	99	0
1,909	(1,133)		1,661	(703)

There are no significant jointly controlled assets or liabilities as at 31 March 2013.

The funding mechanisms for partnerships are complex, and the table above shows expenditure that has passed through the Police and Crime Commissioners accounts. These partnerships may receive funding for their activities direct from external funding bodies.

- (i) The Drug Arrest Referral Scheme is a partnership between the Police and Crime Commissioner, the local authorities and primary care trusts operating in Devon and Cornwall, the probation service and the prison service. Further assistance is provided by the Home Office and the National Treatment Agency. The team jointly commissions services related to substance misuse, education, access to information and development of services for vulnerable people.
- (ii) The Youth Offending Team is funded by a combination of government grants, and contributions from the Police and Crime Commissioner, Local Authorities, Primary Care Trusts and the National Probation Service. The initiative provides programmes for young people with the intention of preventing re-offending.
- (iii) The Sexual Assault Referral Centres are funded by a combination of government grants, partnership grants and contributions from the Police and Crime Commissioner. The centres are set up in safe locations, where victims of sexual assault can receive medical care and counselling. Referral centres bring together all agencies and departments in one place, which helps both the victims and those investigating the crimes.
- (iv) The Safety Camera Partnership membership includes the Police and Crime Commissioner, Highways Authorities in Devon and Cornwall and the Highways Agency. Its purpose is to reduce road casualties by deterring and detecting speeding and traffic light offences. Funding is drawn from a Road Safety Grant.
- (v) The Domestic Violence Partnership includes the Police and Crime Commissioner, Local Authorities, the National Probation Service, Primary Care Trusts and the Department of Communities and Local Government.

NOTE 29: THIRD PARTY FUNDS

These are funds held by the Police and Crime Commissioner in accordance with the Proceeds of Crime Act 2002. This money is held until the Courts issue a confiscation order or decides the money can be returned. The income and expenditure and assets and liabilities relating to these funds are not included in the Police and Crime Commissioner's accounting statements.

	31 March 2012		31 March 2013	
	Income	Expenditure	Income	Expenditure
	£'000	£'000	£'000	£'000
Seized Funds	1,042	692	797	910
	Assets	Liabilities	Assets	Liabilities
Seized Funds	1,274	1,274	1,161	1,161

NOTE 30: GRANT INCOME

The Police and Crime Commissioner credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement.

	31 March 2012		31 March 2013	
	£'000	£'000	£'000	£'000
Credited to Taxation and Non Specific Grant Income				
Police Grant	(118,940)		(110,454)	
Revenue Support Grant	(17,067)		(1,338)	
Non-Domestic Rates	(55,213)		(69,003)	
		(191,220)		(180,795)
Recognised Capital grant and contributions		(2,653)		(2,916)
Total		(193,873)		(183,711)
Credited to Services				
Crime Fighting Fund		0		0
Rural Policing		0		0
DNA		0		0
Special Priority Payments		0		0
Council Tax Freeze		(2,392)		0
PCSO		(7,446)		(7,569)
Counter Terrorism		(1,726)		(1,516)
Criminal Justice		(35)		0
BCU Commanders Fund Grant		0		0
Other Local Grants		(393)		(128)
Other minor grants		(241)		(2,177)
Total		(12,233)		(11,390)
Credited to other Operating Expenditure				
Pensions Top Up Grant		(32,344)		(30,085)

Revenue Grants

The Police and Crime Commissioner has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the giver. These grants are included as short term creditors on the balance sheet. The balances at year end are as follows:

31 March 2012	31 March 2013
£'000	£'000
297	163
<u>297</u>	<u>163</u>

NOTE 31: CAPITAL EXPENDITURE AND FINANCING

Within its three-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.

31 March 2012 £000		31 March 2013 £000	£000
35,519	Opening capital financing requirement		39,376
Capital Investment:			
5,446	Land and buildings	5,117	
1,719	Vehicles & other transport	2,153	
0	Helicopter	0	
1,079	Equipment & ICT related	2,380	
<u>8,244</u>		<u>9,650</u>	
702	Intangible Assets	213	
<u>8,946</u>			9,863
Less Sources of Finance:			
(3,500)	Government grants	(2,142)	
(354)	Capital receipts	(1,939)	
<u>(1,235)</u>	Reserves, provisions and MRP	<u>(2,924)</u>	
(5,089)			(7,005)
<u>3,857</u>	Increase in capital financing requirement for the year		<u>2,858</u>
<u>39,376</u>	Closing capital financing requirement for the year		<u>42,234</u>
Represented by:			
Underlying need to borrow can be analysed as follows:			
32,778	External Borrowing (cumulative) excluding accruals for interest due	32,778	
6,598	Internal Borrowing	8,866	
<u>0</u>	Finance Lease Liabilities	<u>590</u>	
<u>39,376</u>		<u>42,234</u>	
Borrowing During the Year			
0	External Borrowing	0	
3,857	Internal Borrowing	2,268	
<u>0</u>	Finance Lease	<u>590</u>	
<u>3,857</u>		<u>2,858</u>	
0	Supported by Government financial assistance	0	
3,857	Unsupported by Government financial assistance	2,268	
<u>0</u>	Assets acquired under finance leases	<u>590</u>	
<u><u>3,857</u></u>		<u><u>2,858</u></u>	

NOTE 32: LEASES

Police and Crime Commissioner as Lessee

Finance leases

The Police and Crime Commissioner has acquired a number of multi functional printing and copying devices.

The assets acquired under these leases are carried as Property, Plant and Equipment in the Balance Sheet at the following net amounts:

	31 March 2012	31 March 2013
	£'000	£'000
Net Book Value		
Property, Plant and Equipment	3	571
	3	571

The Police and Crime Commissioner is committed to making minimum payments under these leases comprising settlement of the liability for the interest (where applicable) and finance costs that will be payable by the Police and Crime Commissioner in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

	31 March 2012	31 March 2013
	£'000	£'000
Finance lease liabilities (net present value of minimum lease payments):		
Current	3	165
Non-current	0	425
Finance costs payable in future years:		
Current	0	37
Non-current	0	48
Minimum lease payments	3	675

The minimum lease payments will be payable over the following periods:

	Minimum Lease Payments		Finance Lease Liabilities	
	31 March 2012	31 March 2013	31 March 2012	31 March 2013
	£'000	£'000	£'000	£'000
Not later than one year	3	202	3	165
Later than one year and not later than five years	0	473	0	425
Later than five years	0	0	0	0
	3	675	3	590

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:

As at 31 March 2012		As at 31 March 2013
£'000		£'000
1,151	Not later than one year	1,090
2,927	Later than one year and not later than five years	2,271
<u>1,163</u>	Later than five years	<u>886</u>
5,241		4,247

With the exception of dilapidation clauses, there are no significant terms attached to the Police and Crime Commissioners property leases which lead to potential future assets or liabilities for the Police and Crime Commissioner over and above those disclosed above.

The total costs of property leases included in the Comprehensive Income and Expenditure Statement are:

For year ended 31 March 2012		For year ended 31 March 2013
£'000		£'000
1,357	Cost of leases during year	1,218

NOTE 33: TERMINATION PAYMENTS

The Police and Crime Commissioner terminated the contracts of a number of employees in 2012-13. Full details are provided in note 27, the amount charged in the Comprehensive Income and Expenditure Statement are as follows:

31 March 2012	31 March 2012		31 March 2013	31 March 2013
Redundancy	Strain		Redundancy	Strain
Costs	Payments		Costs	Payments
£'000	£'000		£'000	£'000
2,732	1,105	Termination costs	345	33
<u>(687)</u>	<u>(283)</u>	Movement in Provision	<u>(241)</u>	<u>(18)</u>
<u>2,045</u>	<u>822</u>	Total	<u>104</u>	<u>15</u>

Strain payments have been included in the calculation of post employment benefit liabilities as set out in note 34 below.

NOTE 34: DEFINED BENEFIT PENSION SCHEMES

As part of the terms and conditions of employment of its officers and other employees, the Police and Crime Commissioner offers retirement benefits. Although these benefits will not actually be payable until employees retire, the Police and Crime Commissioner has a commitment to make the payments. This needs to be disclosed at the time that the employees earn their future entitlement. The Police and Crime Commissioner operates three pension schemes, two for police officers and one for police staff. All are defined benefits schemes, providing members with benefits based on their final pensionable pay and length of service. The disclosures on pensions use specialist terminology. Definitions are provided in the glossary.

a) Participation in Pension Schemes – Police Officer Schemes

From 1 April 2006 the Police Officers' pension scheme was replaced by a "new Police Pension Scheme". The new scheme is open to all new recruits. Both of the police officer pension schemes are unfunded defined benefit final salary schemes administered by the Police and Crime Commissioner for Devon and Cornwall, meaning that there are no investment assets built up to meet the pensions liabilities, and cash has to be generated to meet actual pensions payments as they eventually fall due. Pensions are financed from the Police and Crime Commissioner's and employee's (police officers) contributions. Any deficit is met by the Home Office in the form of a top up grant. The Police and Crime Commissioner's and the employee contributions are paid into a separate Police Officers' Pension Fund Account. The details of this account are provided on page 94.

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 Commissioners General Fund in to 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, which then must repay the amount to central government. The Police and Crime Commissioner 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 (see accounting policies), the independent actuary has estimated the costs and they are included within Police Officers scheme disclosure.

b) Transactions relating to Retirement Benefits – Police Officer Schemes

The Police and Crime Commissioner 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.

Year Ended 31 March 2012 Old Scheme £'000	Year Ended 31 March 2012 New Scheme £'000	<u>Comprehensive Income and Expenditure Account</u>	Year Ended 31 March 2013 Old Scheme £'000	Year Ended 31 March 2013 New Scheme £'000
		<i>Cost of Services</i>		
21,954	1,610	Current service cost	32,873	2,864
35	0	Past service cost	40	0
		<i>Financing and Investment Income and Expenditure</i>		
87,894	876	Interest cost	87,123	1,156
109,883	2,486	Total Post Employment Benefit charged to the surplus and deficit on the provision of services	120,036	4,020
		<i>Other Post Employment Benefits Charged to Comprehensive Income and Expenditure Account</i>		
260,999	5,934	Actuarial (gains) and losses	65,933	1,556
370,882	8,420	Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statements	185,969	5,576
		<u>Movement In Reserves Statement</u>		
		Reversal of charges made to the Surplus or Deficit for the Provision of services for post employment benefits		
(109,883)	(2,486)		(120,036)	(4,020)
		Actual amount charged against the General Fund Balance for pensions in the year:		
28,443	3,171	Employer contributions payable to scheme	27,722	3,188
32,344	0	Home Office Top Up Grant	30,085	0

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statements to the 31 March 2013 is a loss of £52.495m.

c) Liabilities in relation to Retirement Benefits - Police Officer Schemes

Reconciliation of present value of the scheme liabilities:

Year Ended 31 March 2012 Old Scheme £'000	Year Ended 31 March 2012 New Scheme £'000		Year Ended 31 March 2013 Old Scheme £'000	Year Ended 31 March 2013 New Scheme £'000
(1,619,598)	(14,302)	Opening defined benefit obligation	(1,924,848)	(24,396)
(21,954)	(1,610)	Current service cost	(32,873)	(2,864)
(87,894)	(876)	Interest cost	(87,123)	(1,156)
(260,999)	(5,934)	Actuarial gains/(losses)	(65,933)	(1,556)
76,569	(433)	Net benefits paid	74,051	(126)
(35)	0	Past service cost/Gain	(40)	0
(12,014)	(1,241)	Contributions by participants	(12,748)	(1,375)
1,077	0	Injury Pension Payments	1,193	0
(1,924,848)	(24,396)	Closing defined benefit obligation	(2,048,321)	(31,473)

d) Scheme History – Police Officer Schemes

<u>Present value of liabilities</u>	31/03/09 £'000	31/03/10 £'000	31/03/11 £'000	31/03/12 £'000	31/03/13 £'000
Old Scheme	(1,498,801)	(2,289,946)	(1,619,598)	(1,924,848)	(2,048,321)
New Scheme	(4,946)	(15,273)	(14,302)	(24,396)	(31,473)
Deficit in the schemes	<u>(1,503,747)</u>	<u>(2,305,219)</u>	<u>(1,633,900)</u>	<u>(1,949,244)</u>	<u>(2,079,794)</u>

The liabilities show the underlying commitments that the Police and Crime Commissioner has in the long run to pay retirement benefits. The total liability of £2.08 billion has a substantial impact on the net worth of the Police and Crime Commissioner as recorded in the balance sheet resulting in a negative overall balance of £2.04 billion. However, statutory arrangements for funding the deficit mean that the financial position of the Police and Crime Commissioner remains healthy:

- 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 by the Police and Crime Commissioner in the year to 31 March 2014 is £28,711k.

e) Basis for Estimating Assets and Liabilities – Police Officer Schemes

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 for both schemes have been assessed by Barnet Waddingham LLP an independent partnership of actuaries, based on the latest full valuation as at 31 March 2012.

The principal assumptions used by the actuary have been:

	31 March 2012		31 March 2013	
<u>Financial Assumptions</u>	(% pa)		(% pa)	
Discount rate for scheme liabilities	4.6		4.5	
Rate of general long term increase in salaries	4.8		4.8	
Rate of increase to pensions in payment	2.5		2.6	
Rate of inflation	2.5		2.6	
<u>Mortality Assumptions</u>	Females	Males	Females	Males
Life Expectancy from age 65 (retiring today)	24.1	21.5	24.2	21.6
Life Expectancy from age 65 (retiring in 20 years)	25.9	23.4	26.0	23.5

It is assumed that 50% of members will exchange half of their commutable pension for cash at retirement.

f) History of Experience Gains and Losses - Police Officer Schemes

The actuarial gains identified as movements on the Pensions Reserve can be analysed into the following categories:

	2008-09	2009-10	2010-11	2011-12	2012-13
<u>Old Scheme</u>	%	%	%	%	%
Experience gains and (losses) on scheme liabilities	(1.0)	0	20.9	(0.1)	0
<u>New Scheme</u>					
Experience gains and (losses) on scheme liabilities	1.4	0	30.6	0	0

g) Participation in Pension Schemes – Police Staff Scheme

Police Staff are part of the Local Government Pension Scheme administered by Devon County Council – this is a funded defined benefit final salary scheme, meaning that the Police and Crime Commissioner and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities 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.

h) Transactions relating to Retirement Benefits – Police Staff Schemes

The Police and Crime Commissioner recognises the cost of retirement benefits for police staff in the reported cost of services when they are earned by police staffs 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.

Year Ended 31 March 2012 £'000	<u>Comprehensive Income and Expenditure Account</u>	Year Ended 31 March 2013 £'000
	<i>Cost of Services</i>	
9,657	Current service cost	11,943
0	Past service cost – Change to Consumer Price Index	0
1,379	Loss on curtailments	54
	<i>Financing and Investment Income and Expenditure</i>	
12,727	Interest cost	13,178
(10,725)	Expected Return on Assets	(9,507)
13,038	Total Post Employment Benefit Charged to the surplus or deficit on the provision of services	15,668
	<i>Other Post Employment Benefits Charged to Comprehensive Income and Expenditure Account</i>	
46,648	Actuarial (gains) and losses	(4,446)
59,686	Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statements	11,222
	<u>Movement In Reserves Statement</u>	
(13,038)	Reversal of charges made to the Surplus or Deficit for the Provision of services for post employment benefits	(15,668)

Year Ended 31 March 2012 £'000		Actual amount charged against the General Fund Balance for pensions in the year:	Year Ended 31 March 2013 £'000	
Funded Liabilities	Unfunded Liabilities		Funded Liabilities	Unfunded Liabilities
8,736	0	Employer contributions payable to scheme	7,501	0
0	152	Retirement benefits payable to pensioners (net of transfers in)	0	158

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statements to the 31 March 2013 is a loss of £64,605k.

i) Assets and Liabilities in Relation to Post Employment Benefits – Police Staff Scheme

Reconciliation of the present value of the scheme liabilities:

Year Ended 31 March 2012 £'000	Local Government Pension Scheme	Year Ended 31 March 2013 £'000
(228,584)	Opening present value of liabilities	(288,202)
(9,657)	Current service cost	(11,943)
(12,727)	Interest cost	(13,178)
(3,202)	Contributions by participants	(3,041)
(41,223)	Actuarial gains/(losses) on liabilities	(8,090)
8,570	Net benefits paid out	6,558
0	Past service gain – Change to CPI*	0
(1,379)	Loss on curtailments	(54)
(288,202)	Closing present value of liabilities	(317,950)
	Unfunded Liabilities contained within the total liabilities shown above	
2,486	Present Value of Unfunded Obligation	2,576
2,486	Closing present value of liabilities	2,576

Reconciliation of the present value of the scheme assets:

31 March 2012 £'000		31 March 2013 £'000
164,341	Opening fair value of assets	173,161
10,725	Expected return on assets	9,507
(5,425)	Actuarial gains/(losses) on assets	12,536
8,888	Contributions by employer	7,659
3,202	Contributions by participants	3,041
(8,570)	Net benefits paid out	(6,558)
173,161	Closing fair value of assets	199,346

The Police and Crime Commissioner for Devon and Cornwall employs a building block approach in determining the rate of return on fund assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation for the Fund at 31 March 2013.

The actual return on scheme assets in the year was £22,044k. (£5,299k 2011-12)

j) Scheme History – Police Staff Scheme

The history of asset values, present value of liabilities and surplus/deficit to 31 March 2013:

History of asset values, present value of liabilities and surplus/(deficit)	31/03/09 £'000	31/03/10 £'000	31/03/11 £'000	31/03/12 £'000	31/03/13 £'000
Funded Benefits					
Fair value of assets	109,750	151,130	164,341	173,161	199,346
Present value of liabilities	(191,790)	(270,746)	(226,228)	(285,716)	(315,374)
Surplus/(deficit)	(82,040)	(119,616)	(61,887)	(112,555)	(116,028)
Unfunded Benefits					
Fair value of assets	0	0	0	0	0
Present value of liabilities	(2,590)	(2,723)	(2,356)	(2,486)	(2,576)
Surplus/(deficit)	(2,590)	(2,723)	(2,356)	(2,486)	(2,576)
Total surplus/(deficit)	(84,630)	(122,339)	(64,243)	(115,041)	(118,604)

The liabilities show the underlying commitment that the Police and Crime Commissioner has in the long run to pay retirement benefits. The total liability of £118.604m has a substantial impact on the net worth of the Police and Crime Commissioner as recorded in the balance sheet resulting in a negative overall balance of £2.04 billion. However, statutory arrangements for funding the deficit mean that the financial position of the Police and Crime Commissioner remains healthy:

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

The Police and Crime Commissioners contribution to the Local Government Pension Scheme for the accounting period to 31 March 2014 is estimated to be £7,454k. Expected payments for discretionary benefits for the accounting period to 31 March 2014 are estimated to be £158k.

k) Basis for Estimating Assets and Liabilities – Police Staff Scheme

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 for both schemes have been assessed by Barnett Waddingham LLP an independent partnership of actuaries, based on the latest full valuation as at 31 March 2010.

The principal assumptions used by the actuary have been:

The principal assumptions used by the actuary have been:				
	31 March 2012		31 March 2013	
<u>Financial Assumptions</u>	(% pa)		(% pa)	
Discount rate for scheme liabilities	4.6		4.6	
Rate of general long term increase in salaries	4.7		4.8	
Rate of increase to pensions in payment	2.5		2.6	
Rate of inflation	2.5		2.6	
	31 March 2012		31 March 2013	
<u>Mortality Assumptions</u>	Females	Males	Females	Males
Future lifetime from age 65 (currently aged 65)	24.5	20.5	24.6	20.6
Future lifetime from age 65 (currently aged 45)	26.4	22.5	26.5	22.6

The actuaries have updated their assumptions on mortality rates to reflect data collected at the last valuation in 2010, this led to a downward adjustment to life expectancy.

Expected Return on Assets

The expected return on assets is based on the long-term future expected investment return for each asset class as at the beginning of the period. The returns on gilts and other bonds are assumed to be the gilt yield and corporate bond yield (with an adjustment to reflect default risk) respectively at the relevant date. The returns on equities and property are then assumed to be a margin above gilt yields.

<u>Expected Rate of Return on Assets Assumptions</u>	31 March 2012	31 March 2013
	(% pa)	(% pa)
Equities	7.4	6.3
Gilts	4.4	3.3
Other bonds	5.5	4.6
Property	5.4	4.3
Cash	3.0	3.0
Absolute Return Funds	5.0	4.7
Weighted average of expected rate of return on fund assets	6.5	5.4

Other Assumptions

It is assumed that each member will exchange half of their commutable pension for cash at retirement and active members will retire one year later than they are first able to do so without reduction.

The Local Government Pension Scheme as administered by Devon County Council has assets consisting of the following categories, by proportion of the total assets held:

	31 March 2012 (%)	31 March 2013 (%)
Equities	69	61
Gilts	18	13
Property	6	8
Cash	6	3
Other	1	15
	<hr/> 100	<hr/> 100

I) History of Experience Gains and Losses – Police Staff Scheme

The actuarial gains and (losses) identified as movements on the Pensions Fund Reserve can be analysed into the following categories:

	2008-09 %	2009-10 %	2010-11 %	2011-12 %	2012-13 %
Differences between the expected and actual return on assets	(32.8)	19.9	(1.8)	(3.1)	6.3
Experience gains and (losses) on scheme liabilities	(0.2)	0.1	(3.3)	(0.0)	0

Devon County Council publishes annual details of the Fund's performance. They can be contacted at County Hall, Topsham Road, Exeter, EX2 4QJ.

NOTE 35: CONTINGENT LIABILITIES

The Police and Crime Commissioner is currently undertaking a job evaluation exercise to establish a fair and equitable grading structure. The planned implementation date of the new grading scheme is April 2014. A reserve has been established to fund any one off impact of the new pay structure; it is unclear at present whether this reserve will be adequate. The level of uncertainty is too high for a reliable estimate of any potential liability to be calculated.

For the period April 2011 to September 2012 the former Police Authority had a policy to require police officers to retire once they reached 30 year service. A number of officers have made claims for compensation through an employment tribunal stating lack of consultation and age discrimination as the basis of the claim. The claims with regard to lack of consultation were not successful; the position with regard to the claims for age discrimination is unresolved. As with the previous liability, the level of uncertainty is too high for a reliable estimate to be calculated.

There is uncertainty with regard to the Police and Crime Commissioner's position with regard to the Scheme of Arrangement for Municipal Mutual Insurance Claims. A claim of £209k has been sent by the Scheme Administrator to the Police Authority but it is uncertain as to whether the Police and Crime Commissioner is liable to meet this claim.

NOTE 36: CONTINGENT ASSETS

The Police and Crime Commissioner has no significant contingent assets.

NOTE 37: NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS AND HOW THE AUTHORITY MANAGES THOSE RISKS

The Police and Crime Commissioner's activities expose it to a variety of financial risks:

- 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 might arise for the Police and Crime Commissioner as a result of changes in such measures as interest rates and stock market movements.

Overall Procedures for Managing Risk

The Police and Crime Commissioner's overall risk management procedures focus on the unpredictability of financial markets, and implementing restrictions to minimise these risks. The procedures for risk management are contained in the Local Government Act 2003 and the associated regulations. These require the Police and Crime Commissioner to comply with the CIPFA Prudential Code, the CIPFA Treasury Management in the Public Services Code of Practice and Investment Guidance issued through the Act. Overall, the Police and Crime Commissioner has met these requirements in 2012-13 by:

- formally adopting the requirements of the Code of Practice
- approving annually in advance prudential indicators for the following three years
- approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investment counter-parties in compliance with the government guidance

Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Authority's customers.

This risk is minimised through the Annual Investment Strategy, which requires that deposits are not

made with financial institutions unless they meet identified minimum credit criteria, as laid down by Fitch Ratings Service. The Annual Investment Strategy also imposes a maximum sum to be invested with a financial institution located within each category. The credit criteria (as at 31 March 2013) 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 Commissioners website.

The following analysis summarises the Police and Crime Commissioner's potential maximum exposure to credit risk, based on experience of default and uncollectability over the last financial year, adjusted to reflect current market conditions. The Police and Crime Commissioner does not expect any losses from non-performance by any of the counterparties in relation to deposits and bonds.

	31 March 2013 £000	Historical experience of default %	Historical Experience adjusted for market conditions at 31 March 2013 %	Estimated maximum exposure to default and uncollectability £000
	A	B	C	(A X C)
Deposits with banks and financial institutions	55,669	0	0.06	34
Customers	1,556	0	6.8	106
Other Debtors	12,675	0	0	0
	<u>69,900</u>			<u>140</u>

The Police and Crime Commissioner maintains strict credit criteria for investment counter-parties. For this reason the Police and Crime Commissioner does not expect any losses from non-performance by any of its counter-parties in relation to deposits.

The Police and Crime Commissioner does not generally allow more than 28 days credit for customers. The debt can be analysed by age as follows:

31 March 2012 £000		31 March 2013 £000
528	Not past due date	431
27	1- 30 days past due date	1,073
19	31-50 days past due date	9
59	51 days and more past due date	43
<u>633</u>	Total	<u>1,556</u>

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 and the Public Works Loan Board. There is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the Police and Crime Commissioner will be bound to replenish a significant proportion of its borrowing at a time of unfavourable rates.

Borrowing has been planned to avoid a large amount of debt maturing in any one year. The maturity analysis of financial liabilities (including accrued interest) is as follows:

31 March 2012 £000		31 March 2013 £000
528	Less than one year	528
6,500	Between one and ten years	6,500
26,278	More than ten years	26,278
<u>33,306</u>	Total	<u>33,306</u>

All trade and other payables are due to be paid in less than one year.

Market Risk

The Police and Crime Commissioner is exposed to risk in terms of its exposure to interest rate movements on its borrowings and 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 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 Income and Expenditure Account or Statement of Total Recognised Gains and Losses. The Police and Crime Commissioner has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and which is used to update the budget quarterly during the year.

If interest rates had been 1% higher with all other variables held constant, there would be no material impact on the accounts. This is because long term borrowing is at fixed rates, short term borrowing is minimal. There would have been some impact on the interest received from the externally managed loans but this would not have a material effect on the accounts.

Foreign Exchange Risk

The Police and Crime Commissioner has no financial assets or liabilities denominated in foreign currencies and thus has no exposure to loss on financial instruments arising from movements in exchange rates.

POLICE OFFICERS' PENSION FUND ACCOUNTING STATEMENTS

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 PCC Group Police Fund. The statement shows income and expenditure for the Police Pension Scheme, this expenditure is not consolidated into the PCC Group Accounts.

Police Officer Pension Fund Revenue Account

31 March 2012 £000		31 March 2013 £000
	FUND ACCOUNT	
	Contributions Receivable	
(29,622)	Employers (normal)	(28,711)
(13,255)	Employees (normal)	(14,123)
(915)	Ill Health capital charge	(1,006)
	Transfers In	
(529)	Individual transfers from other schemes	(315)
	Benefits payable	
52,787	Pensions	57,054
23,551	Commutations	16,480
	Payment to and on account of leavers	
327	Individual transfers to other schemes	706
32,344	Net amount paid during the year	30,085
(32,344)	Transfer from Chief Constables General Fund*	(30,085)
0	Net amount payable / receivable for the year	0

*Additional contribution funded by the Chief Constable is met by a top up grant from the Home Office as follows:

21,598	Received in year	25,285
10,746	Debtor	4,800
32,344		30,085

Police Officer Pension Fund Asset Statement

This statement shows the assets and liabilities of the Police Pension Scheme and the New Police Pension Scheme which does not form part of the Chief Constables or the PCC Group Statement of Accounts.

31 March 2012 £000	NET ASSETS STATEMENT	31 March 2013 £000
	CURRENT ASSETS	
0	Funding to meet deficit due from the Chief Constable	0
	CURRENT LIABILITIES	
0	Unpaid pensions benefits	0
0	Surplus for the year owing to the Chief Constable	0
0		0

POLICE OFFICERS' PENSION FUND ACCOUNTING STATEMENTS

Notes

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 24.2% of police officer pay for 2012-13. 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 set out in the statement of accounting policies as set out in Note 2 where those policies are applicable. Recoverable overpayments have been estimated by Devon Pensions Service according to scheme regulations.

For further information on the Police Officers' Pension Scheme see note 34.

As the scheme is unfunded there are no investment assets.

This Financial Statement does not take account of liabilities to pay pensions and other benefits after the 31 March 2013.

GLOSSARY OF FINANCIAL TERMS

The following definitions of technical terms used in these accounts may help the general reader:

Accounting period	The period of time covered by the accounts, usually a full year, which for this Authority runs from 1 April to 31 March.
Accrual	Amounts included in the final accounts to cover income and expenditure due in 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 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.
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 an Authority bears each year from entering into a financial liability. The Police Authority 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	Something of practical use that can be measured in cash terms, e.g. land and buildings, or computer and radio equipment.
Bid price	A valuation of financial assets based on the highest price a buyer is willing to offer.
Budget	The Authority's plan for providing resources to meet its service obligations. Devon and Cornwall Police Authority sets an annual budget within a three-year financial strategy.

GLOSSARY OF FINANCIAL TERMS

The following definitions of technical terms used in these accounts may help the general reader:

Capital expenditure	The cost of buying or building significant assets (e.g. land and buildings) which have a long-term value to the Authority. <i>(Also referred to as capital spending or capital payments).</i>
Capital grants	Grants received by the Authority 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.
Commutation of Pension	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.
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.)
Corporate & democratic core	The costs of actually running the Police Authority.

GLOSSARY OF FINANCIAL TERMS

The following definitions of technical terms used in these accounts may help the general reader:

Council tax	A tax based on the value of property, which is administered by District and Unitary authorities.
Creditors	Amounts owed by the Authority 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 & 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 Authority but unpaid by the end of the accounting period.
Deferred charges	Costs build up 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 authority's discretionary powers.
Earmarked Reserves	These reserves represent monies set aside to be used for a specific purpose.

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Exit costs	These are costs of packages for which the authority 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 & 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	Assets that the Authority can use for a period of more than one year.
Financial Reporting Standards (FRS)	Accounting standards issued by the Accounting Standards Board of the Financial Reporting Council (FRC), the UK's independent regulator for corporate reporting and governance.
Home Office grant	A central government grant paid by the Home Office to Police Authorities 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.

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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 – which 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.
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 Authority's outstanding debt that must be charged to the General Fund each year.
National non-domestic rates (NNDR)	Rates set nationally and paid by local businesses to the Government, then shared by local and police authorities in proportion to their resident population.
Non distributed costs (NDC)	For the Police Authority 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 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 OF FINANCIAL TERMS

The following definitions of technical terms used in these accounts may help the general reader:

Precept	A levy collected by District and Unitary Councils from council taxpayers on behalf of the Authority.
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 Authority plans its reserves as part of a three-year strategy.
Revaluation Reserve	The Reserve records the accumulated gains on the fixed assets held by the Authority 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 Authority, 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 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.

GLOSSARY OF FINANCIAL TERMS

The following definitions of technical terms used in these accounts may help the general reader:

Third party payments Payments made to outside contractors and other bodies who provide specialist or support services for the Authority.