



# **Chief Constable of West Mercia Police**

## **Statement of Accounts**

### **2015/16**

# **THE CHIEF CONSTABLE OF WEST MERCIA POLICE**

## **STATEMENT OF ACCOUNTS 2015/16**

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## **Narrative Report**

### **Message From David Shaw, Chief Constable of West Mercia Police**

The Alliance with Warwickshire Police continues to develop and has been formalised in a programme known as StraDA (**Strengthening and Deepening the Alliance**). With a clear focus on the victims of crime we have further refined our vision of 'Protecting people from harm' by setting the Alliance a goal of 'becoming great at protecting vulnerable people' over the coming years. I thank everyone for their work in protecting the communities of West Mercia.

Over the year there has been a rise in recorded crime. The rise in crime volumes from March 2015 are also reflected nationally. The increase is predominantly due to changes and improvements in the recording of crime and the consequential increases in the recording of violent and sexual offences.

Last year there were 72,744 recorded crimes during the year 2015/16 compared to 60,743 the previous year, an increase of 19.8%. Any increase is a concern; the reasons for the rise are complex though some is due to changes in national recording practices. However we continue work to understand the reasons for the growth, remain vigilant and deploy our resources in the most effective way we can to support all victims.

We take pride in the service we provide to the public. The satisfaction of users of our service remains high and is indicative of organisational commitment to our communities.

For the new financial year 2016/17, the current PCC has again confirmed that there will be no targets to reduce specific areas of crime.

The Alliance continues to work to the agreed alliance vision 'to protect people from harm'. Harm includes everything from death and injury to loss or distress. Working with Warwickshire Police we remain committed to provide the best possible protection to people with the resources available to us. This means we focus our resources on tackling the most serious harms and places where most crimes occur.

Our communities want us to deal with the issues that impact directly on them and give greatest cause for concern. Our experience shows we best achieve this by moving away from the traditional method of objective and target setting.

During 2016/17 we will continue target those offenders who are causing the most harm, will deploy resources in areas of high risk and work to safeguard the vulnerable members of our communities. This strategy has proved effective and will build upon our performance over the last few years."

### **Strategy & Structure**

It is the primary function of the PCC to secure the maintenance of an efficient and effective police force and to hold the Chief Constable to account for the exercise of operational policing duties. The PCC, in conjunction with the Chief Constable, developed the Police and Crime Plan, which sets the overarching objectives for the Force in light of the national

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Strategic Policing Requirement and local risk assessments. The national threats have been identified as:

- Terrorism;
- Serious and organised crime;
- Cyber security;
- Threats to public order that cannot be tackled by one force alone;
- Civil emergencies requiring an aggregate response; and
- Child sexual abuse.

For 2015/16 the PCC agreed with the Chief Constable there would continue to be no specific performance objectives other than to reduce total recorded crime. The Chief Constable monitors a range of indicators across crime categories in pursuit of this objective.

The PCC is responsible for ensuring his business is conducted in accordance with the law and proper standards, and that public money is safeguarded, and properly accounted for. The PCC has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the PCC is responsible for putting in place proper arrangements for the governance of his offices affairs and facilitating the exercise of its functions, which includes ensuring a sound system of internal control is maintained through the year and that arrangements are in place for the management of risk. In exercising this responsibility, the PCC places reliance on the Chief Constable to support the governance and risk management processes. The PCC is required to review the governance arrangements annually, the results of which are contained in the Annual Governance Statement (AGS), the review identified the following areas that need attention in 2016/17:

- Further developing and supporting the roles of the Joint Trust Integrity and Ethics Committee;
- Further developing and supporting the role of the independent joint audit committee particularly in relation to procurement and value for money and their review of key policies;
- Further developing the commissioning process for victims' services and community safety activities;
- Development of actions resulting from the Chartered Institute of Public Finance and Accountancy CIPFA Delivering Good Governance consultation, and;
- Developing an awareness of the implications of the new Police and Crime Bill, published February 2016.

The AGS, which is published alongside the Accounts and provides a detailed explanation of the PCC's governance framework, is designed to achieve the objectives set out in the Police and Crime Plan and **manage** risk. The Police and Crime Plan can be found at:

[www.westmercia-pcc.gov.uk/](http://www.westmercia-pcc.gov.uk/)

The Police and Crime Panel (PCP), composed of locally elected councillors and lay members, will hold the PCC to account through a process of scrutiny and review, which includes scrutinising the Police and Crime Plan and the budget and precept. Whilst establishing openness in the conduct of police business the intention is that the PCP

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supports the PCC in the effective exercise of their functions. The role, responsibility and powers of the PCP can also be found on the PCC's website.

The Alliance, between the PCC and Chief Constable and their counterparts in Warwickshire is unique, using a single policing model to police Herefordshire, Shropshire, Telford and Wrekin, Warwickshire and Worcestershire covering an area of 9,400km<sup>2</sup>. The Alliance involves extensive collaboration across all aspects of police business in order to enable both forces to meet the challenge of reducing policing budgets. By working more closely together the forces will benefit from greater operational and organisational resilience. To facilitate joint working, the forces have developed a new shared vision and set of values. These provide a unified purpose for the two organisations and a clear direction to our workforce and our stakeholders how the forces will operate.

Diagram 1 shows how the values and Code of Ethics supports our vision "To Protect People From Harm"

**Diagram 1.**



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The monthly Alliance Governance Group (AGG) oversees the governance of the Alliance. Two key documents that set out the arrangements that govern the Alliance are established under the Police Act 1996 as follows:

- The 'Section 23' agreement sets out how the joint Forces finances will be managed on a day-to-day basis, including the financial arrangements for cost sharing.
- The 'Section 24' agreement allows either Force to conduct policing on the other's geographical area.

These documents can be found at: [www.westmercia.police.uk/](http://www.westmercia.police.uk/)

The aims of the Alliance are

- To provide a more efficient and effective policing service in the geographical areas for which the Parties are responsible for policing; that is: for the communities of Herefordshire, Telford and Wrekin, Shropshire, Warwickshire and Worcestershire;
- Enhanced capability and capacity;
- Greater resilience and flexibility in the use of skilled specialist staff;
- Reduction in duplication of roles and resources, and;
- Greater opportunity to maximise financial savings.

The Alliance vision is to 'Protect People from Harm' where harm constitutes death, injury, loss and distress. To achieve the vision we rely on our workforce; police officers, police community support officers, special constables and police staff. We also value the contribution that the communities of the two policing areas make towards achieving this outcome, whether giving their time as volunteers or engaging with the force in other ways, for example through the Community Safety Partnerships which:

- Establish the levels of crime and disorder problems in local areas;
- Consult widely with local residents to make sure that the partnerships' perception match that of local people, and;
- Devise strategies containing measures to tackle priority problems.

Table 1 shows an analysis of the Alliance workforce. A recent Home Affairs Committee report highlighted the under representation of Black and Minority Ethnic (BME) people in police forces in England Wales. The force seeks to take positive action to ensure that our force better represents the communities we police.

**Table 1.**

	Warwickshire	BME %	Female %	Male %
Police Officers	841	4.7	31.0	69.0
PCSOs	92	7.6	57.0	43.0
Police Staff	631	4.0	58.5	41.5
<b>Total</b>	<b>1,564</b>	<b>4.6</b>	<b>43.8</b>	<b>56.2</b>
	West Mercia	BME %	Female %	Male %
Police Officers	2,091	2.2	30.5	69.5
PCSOs	227	2.6	48.5	51.5
Police Staff	1,613	2.5	63.2	36.8
<b>Total</b>	<b>3,931</b>	<b>2.3</b>	<b>44.9</b>	<b>55.1</b>

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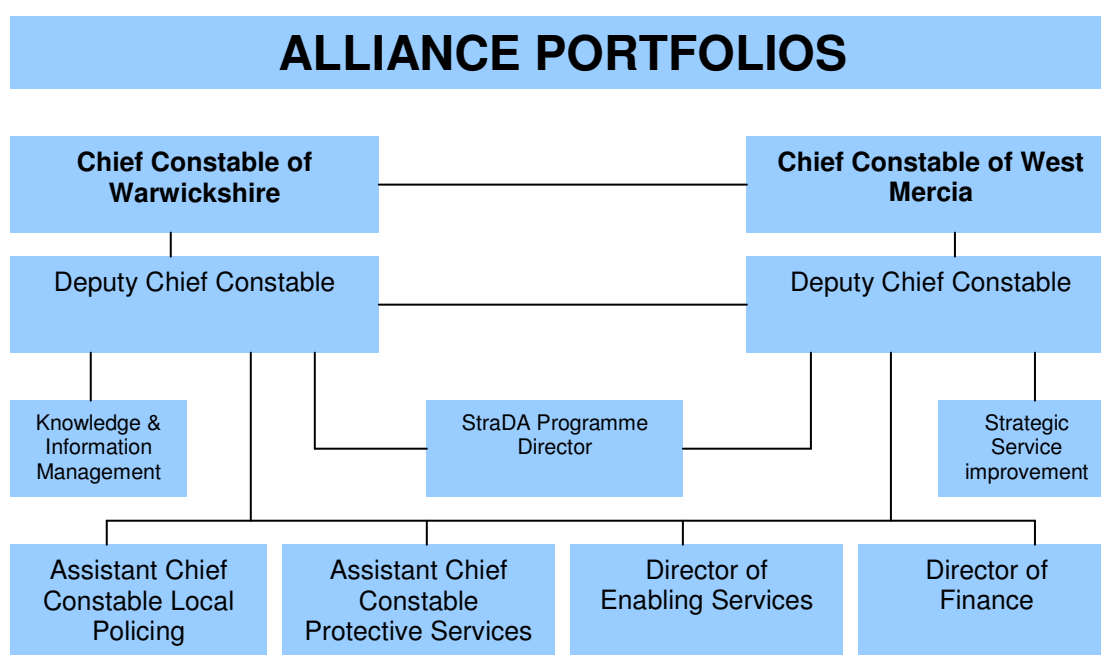
	Alliance	BME %	Female %	Male %
Police Officers	2,932	2.9	30.5	69.5
PCSOs	319	4.1	51.1	48.9
Police Staff	2,244	2.9	61.9	38.1
<b>Total</b>	<b>5,495</b>	<b>3.0</b>	<b>44.6</b>	<b>55.4</b>

The PCC, operating as part of the Alliance identifies evaluates and controls key risks that if they happened could significantly impact on the ability of the PCC and Chief Constable to achieve the objectives set out in the Police and Crime Plan. The key risks are listed, actions are put in place to mitigate these risks and various activities flow from these, for example the work of the **Health** and Wellbeing Board.

- Health and Wellbeing of our workforce;
- Partnership collaboration and funding is uncertain due to budget cuts and devolution arrangements which may **affect** our own delivery;
- The Risk of failing to achieve financial savings within set time limits;
- Quality of Data inputted into systems;
- Requirement to have an overarching Organisational Learning platform in order to develop a Learning Culture that can be built upon across the Alliance. (so that “what works best” can be preserved and shared), and;
- Ability to meet our vision of Protecting People From Harm – the risk that we:
  - Meet our financial challenge but fail to deliver our service.
  - Deliver our service but fail to meet our financial challenge.

Whilst West Mercia Police and Warwickshire Police work in an Alliance each force has retained it’s identify and both forces will work to address local policing priorities agreed with local communities and partners. The Alliance management structure is shown in diagram 2.

**Diagram 2.**





Narrative Report**Financial Performance**

The PCC is responsible for setting the annual budget within which the Chief Constable is expected to operate and against which financial performance is measured. The Chief Constable's only source of income is through the intra-group transfer, where the PCC reimburses the Chief Constable for the cost of day to day policing up to the agreed budget. This is representative of the relationship between the PCC and the Chief Constable, which is underpinned by the governance arrangements.

Financial information is monitored across the Alliance and inclusive of income and expenditure of both the PCC and the Chief Constable, therefore the PCC's outturn position is presented here and explained in the wider context. However, the Chief Constable is only responsible for pooled and non-pooled expenditure for West Mercia.

The annual budget is funded mainly through government funding and the precept. The expenditure that can be charged against the budget is determined on a statutory basis. By contrast the Accounts includes income and expenditure that are measured and reported in accordance with proper accounting practice and conventions as set out, chiefly, in The Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 (the Code). A reconciliation between the figures used to produce the outturn, explained in the following paragraphs and those contained in the Accounts is provided in Note 9. The following table analyses how the budget is funded.

**Table 2.**

Where the Money Came From	Budget £m	Actual £m	%
Formula Grant	66.729	66.729	33.4
Revenue Support Grant	43.637	43.637	21.8
Council Tax Support Grant	9.200	9.200	4.6
Council Tax Freeze Grant	2.775	2.775	1.4
<b>Central Government Funding</b>	<b>122.341</b>	<b>122.341</b>	<b>61.2</b>
<b>Locally Raised Funding – Precept (Council Tax)</b>	<b>77.692</b>	<b>77.692</b>	<b>38.8</b>
<b>Total Funding (excluding reserves)</b>	<b>200.033</b>	<b>200.033</b>	<b>100.0</b>

The PCC agreed a 2015/16 net revenue budget of £204.0m which includes the use of £4.0m of reserves resulting in a budget requirement of £200.0m. The budget is funded by £122.3m of government funding, which has reduced by a further 4.6% (£5.9m) compared to 2014/15. The remaining funding, £77.7m, comes from the council tax through the precept, which the PCC has increased by 1.99% compared to 2014/15. The following table shows the outturn position by comparing the revised budget to the actual for 2015/16, firstly for the Alliance and then for West Mercia Police.



Narrative Report**Table 3. The Alliance Outturn for year ended 31 March 2016**

Warwickshire Police & West Mercia Police	Budget £m	Budget Adjustments £m	Revised Budget £m	Actual £m	%	Variance £m
Police officers' pay	150.917	0.149	151.066	151.063	52.1	0.003
Police staff pay	76.350	(2.834)	73.516	70.914	24.5	2.602
PCSO pay	10.455	0.108	10.563	9.140	3.2	1.423
Police pensions	4.479	0	4.479	4.546	1.6	(0.067)
Other Employee Expenses	2.996	(0.086)	2.910	2.845	1.0	0.065
Premises	11.974	0.020	11.994	9.595	3.3	2.399
Transport	7.328	(0.182)	7.146	6.993	2.4	0.153
Supplies & Services	28.343	1.006	29.349	26.860	9.3	2.489
Third Party Payments	13.738	3.391	17.129	13.866	4.7	3.263
Capital Financing	4.431	0	4.431	11.533	4.0	(7.102)
<b>Expenditure</b>	<b>311.011</b>	<b>1.572</b>	<b>312.583</b>	<b>307.355</b>	<b>106.1</b>	<b>5.228</b>
Income	(14.345)	(1.572)	(15.917)	(17.584)	(6.1)	1.667
<b>Net Expenditure</b>	<b>296.666</b>	<b>0</b>	<b>296.666</b>	<b>289.771</b>	<b>100.0</b>	<b>6.895</b>
<b>Use of Earmarked Reserve</b>						
2014/15 carry forward	0	0.970	0.970	0.829		0.141
PCC Grant Scheme	0	0.751	0.751	0.751		0
Devenport	2.500	0	2.500	2.121		0.379
Rural, Business & Cyber Crime	0	1.500	1.500	1.199		0.301
Invest to save ICT						
-Modernisation Project	0	2.606	2.606	2.262		0.344
-Crime Reduction	0	0.060	0.060	0.055		0.005
-Athena	0	1.095	1.095	0.926		0.169
<b>Total Use of Reserves</b>	<b>2.500</b>	<b>6.982</b>	<b>9.482</b>	<b>8.143</b>		<b>1.339</b>
<b>Net Force Budget Incl. Use of Reserves</b>	<b>299.166</b>	<b>6.982</b>	<b>306.148</b>	<b>297.914</b>		<b>8.234</b>

Table 3 shows the Alliance has underspent by £6.9m against the force net revenue budget of £296.7m. Reported separately, in the lower part of table 3, is the performance against the planned use of reserves, which has under spent by a further £1.3m.

The main causes of the underspend are as follows:

- Despite over spending on overtime and agency costs to compensate for the number of vacant police staff posts the budget for police staff pay has underspent by £2.6m;
- Whilst recruitment to 44 posts is on hold there is a process in place to manage recruitment to a further 122 posts across the Alliance;
- The PCSO pay and overtime budget has underspent by £1.4m, PCSOs experience higher turnover as an effect of the force actively recruiting police officers, however at the end of the financial year there were only 6 vacancies;

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- On 1 September 2015 the Estates staff and premises budget transferred to Place Partnership Limited, the changeover and restructure has resulted in delays in our planned maintenance programme and led to a £2.4m underspend on the premises budget;
- Supplies and services underspent by £2.5m and covers a range of areas of expenditure. A significant part of this (£1.6m) is attributable to savings identified in business cases;
- Payments to third parties for services has underspent by £3.3m and includes chiefly the funding for the Transformational Partner and PCC grant payments, in the latter case the PCC delayed payments in anticipation of a reduction in the government grant;
- The additional payments against capital financing include payments to fund one-off capital expenditure in accordance with the PCC's strategy;
- The income budget was exceeded by £1.7m. A more accurate assessment of income has been developed during the year; this includes taking a risk based view of the mutual aid income, where assistance is provided to other forces. Despite this there is a range of income budgets that contributed relatively small sums to this over achievement of income. Table 4 provides an analysis of the West Mercia Police budget.

**Table 4. The PCC and Chief Constable Outturn for year ended 31 March 2016**

West Mercia Police	Budget £m	Budget Adjustments £m	Revised Budget £m	Actual £m	%	Variance £m
Police officers' pay	103.544	0.031	103.575	103.662	52.1	(0.087)
Police staff pay	52.321	(2.020)	50.301	48.434	24.3	1.867
PCSO pay	7.289	0.108	7.397	6.411	3.0	0.986
Police pensions	3.299	0	3.299	3.281	1.6	0.018
Other Employee Expenses	2.052	(0.059)	1.993	1.972	1.0	0.021
Premises	8.434	0.020	8.454	7.011	3.5	1.443
Transport	5.054	(0.167)	4.887	4.748	2.4	0.139
Supplies & Services	18.919	0.883	19.802	18.256	9.2	1.546
Third Party Payments	3.462	2.546	6.008	5.226	2.6	0.782
Capital Financing	1.895	0	1.895	6.894	3.5	(4.999)
<b>Expenditure</b>	<b>206.269</b>	<b>1.342</b>	<b>207.611</b>	<b>205.895</b>	<b>103.2</b>	<b>1.716</b>

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Income	(7.106)	(1.162)	(8.268)	(9.350)	(4.7)	1.082
<b>Net Force</b>	<b>199.163</b>	<b>0.180</b>	<b>199.343</b>	<b>196.545</b>	<b>98.5</b>	<b>2.798</b>
Office of the PCC	2.915	(1.500)	1.415	1.152	0.6	0.263
Victims & Commissioning	0	0	0	0.003	0.0	(0.003)
PCC Grant Scheme	2.000	0	2.000	0.490	0.3	1.510
PCC Crime Reduction Fund	0	1.320	1.320	1.266	0.6	0.054
<b>Total PCC</b>	<b>4.915</b>	<b>(0.180)</b>	<b>4.735</b>	<b>2.911</b>	<b>1.5</b>	<b>1.824</b>
<b>Net Force</b>	<b>204.078</b>	<b>0</b>	<b>204.078</b>	<b>199.456</b>	<b>100.0</b>	<b>4.622</b>
<b>Use of Earmarked Reserve</b>						
2014/15 carry fwd	0	0.669	0.669	0.572		0.097
PCC Grant Scheme	0	0.697	0.697	0.697		0
Rural, Business & Cyber Crime	0	1.000	1.000	0.885		0.115
Invest to save ICT						
-Modernisation Project	0	1.798	1.798	1.561		0.237
-Athena	0	0.756	0.756	0.639		0.117
<b>Total Use of Reserves</b>	<b>0</b>	<b>4.920</b>	<b>4.920</b>	<b>4.354</b>		<b>0.566</b>
<b>Net Force Budget Including Use of Reserves</b>	<b>204.078</b>	<b>4.920</b>	<b>208.998</b>	<b>203.810</b>		<b>5.188</b>

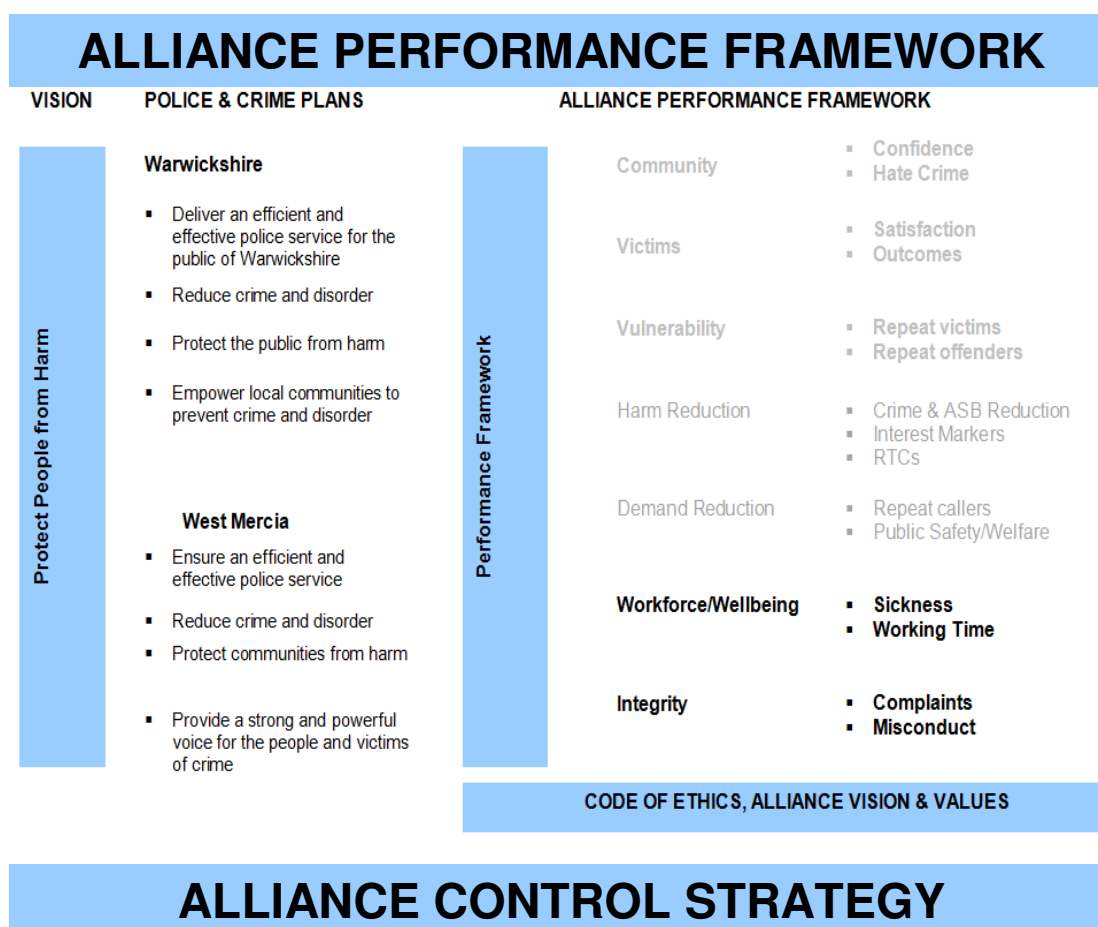
In addition to the spending on day-to-day activities, the PCC incurs expenditure on buildings, information technology, vehicles and other major items of specialist equipment which have a long-term useful life. Assets are held on the PCC's Balance Sheet and the PCC exercise strategic control over assets to achieve objectives set out in the Police and Crime Plan and the aims of the Alliance with West Mercia Police. The capital programme, which contains projects that lead to the creation of new assets or the enhancement of existing assets, is the responsibility of the PCC, who in turn can draw on a range of options to finance capital expenditure, including borrowing, to meet the cost of the capital programme. The Chief Constable is charged for the use of assets in day to day policing. The PCC is also responsible for cash reserves, which are a key part of the Medium Term Financial Plan and used to fund the budget gap and part fund capital expenditure. The capital outturn position, borrowing and reserves are explained in the narrative report section of the Group and PCC Accounts and the accompanying notes.

## Policing Performance

The West Mercia PCC and Warwickshire PCC have set their own objectives, which are monitored under a single Alliance Performance Framework as shown in diagram 3.

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Diagram 3.



As an integral part of the Alliance performance framework day to day performance is monitored through the performance dashboard on the force intranet, which is updated daily across a range of crime areas. The information provided by the dashboard is used to take corrective action to address emerging issues and adverse trends.

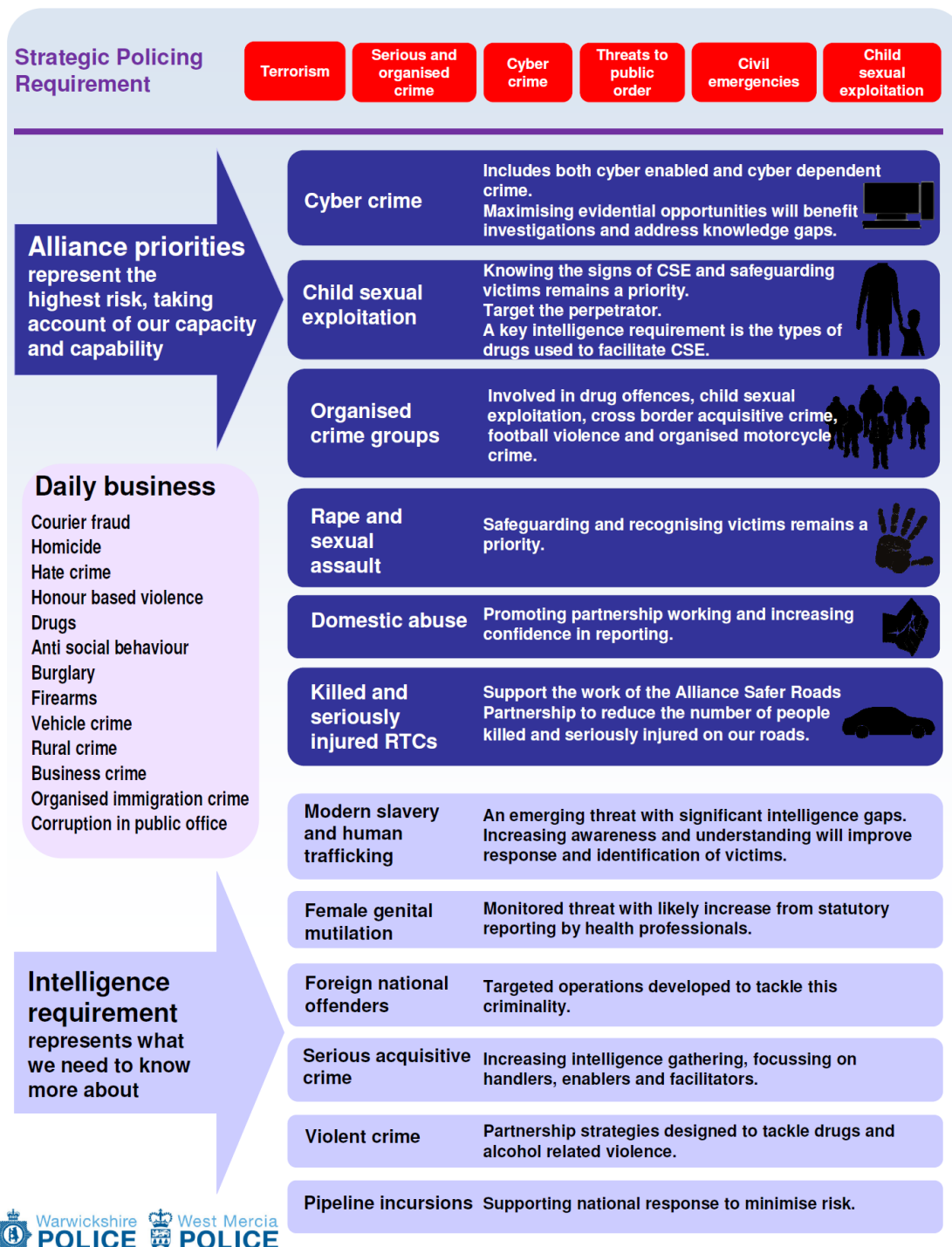
Day-to-day policing is directed by the Chief Constable, which is informed by Police and Crime Plan and the Strategic Assessment. The latter is an assessment of the highest risks and harms at national and local level. The Alliance Control Strategy is set in response to the threats identified in the Strategic Assessment, it is a framework used, by operational officers, for decision making and allocating resources. Diagram 4 shows the current Alliance Control Strategy.

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Diagram 4.

## Alliance Control Strategy 2015

Alliance priorities have been identified using the Management of Risk in Law Enforcement (MoRiLE). MoRiLE is a structured methodology and matrix which aims to provide a consistent approach across law enforcement agencies.



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The Chief Constable controls specific actions through various policies and procedures, the behaviours of the workforce and culture of the Alliance are shaped by our values and the national Code of Ethics. We acknowledge that we do not always get it right and that the actions of a few can let down the vast majority of hard working and dedicated people that work to protect people from harm. However, we seek to ensure that high standards of conduct are enforced, the Professional Standards Team seek to proactively address concerns that are raised with them and to ensure that we learn from our experiences.

Table 5 is a summary of our performance for 2015/16 against the various categories of crime. As at the 31 March 2016 user satisfaction rating stood at 83.3%, which is an improvement on 31 March 2015 when it was at 82.3%. In terms of safety on our roads 2015/16 saw a 28% reduction in the number of people fatally injured, down to 36 compared to 50 in 2014/15, however the total number of serious injuries rose by 14% to 289 in 2015/16 compared to 254 in 2014/15. The increase in total crime follows a national trend and efforts being made by all forces to improve consistency in record crime recording and the greater number of victims of violent and sexual offences coming forward.

**Table 5. Policing performance 2015/16**

	Volume	Compared to 4 Year Trend	Compared to 2014/15
Violent Against the Person with Injury	9,666	+43%	+29%
Violent Against the Person without Injury	12,251	+141%	+86%
Rape	928	+96%	+33%
Other Sexual Offences	1,862	+92%	+45%
Robbery	486	+20%	+22%
Domestic Burglary	2,915	+4%	+8%
Anti Social Behaviour	43,618	+13%	-8%
<b>Total Recorded Crime</b>	<b>71,726</b>	<b>+17%</b>	<b>+20%</b>

### Value for Money

Both the PCC and Chief Constable have a duty to provide efficient and effective policing at an affordable cost. HMIC recently conducted the first PEEL assessment, which compares all force in the areas of effectiveness, efficiency and legitimacy and prior to that the review 'Policing in Austerity: Meeting the Challenge' was undertaken. These reports rated the Force as good across all areas endorsing the steps taken to ensure a secure financial position, the extent to which the force was delivering an affordable way of policing and the level of efficiency in the force. Since then the annual HMIC assessment has continued to rate the force as good with regard to the extent to which the force is efficient at keeping people safe and reducing crime. However the assessment rated the extent to which the force is effective and legitimate at keeping people safe and reducing crime as "requires improvement" for both categories. The HMIC assessments will be used to inform our actions.

In austere times the Alliance has made a significant difference to policing in West Mercia and Warwickshire whilst contributing a significant part of the budget savings and reduction in expenditure required in response to the reduction in the level of government funding.

The Alliance has so far concentrated on structural change to release savings and has developed a single policing model to ensure greater levels of protection from harm, which was endorsed in a recent Police Foundation report. This report has informed the next phase



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of development through the StraDA programme, which will build on this work to make the Alliance more resilient and efficient. A critical element to this is understanding our areas of high demand and the diversity of demand, for example the increase in the number of incidents where mental health issues are flagged up. It is important to understand where and at what times of day demand in its various forms occurs to ensure resources are directed more efficiently. StraDA has been set up in response to three high level challenges facing the Alliance:

- To ensure our two forces are able to protect people from harm in the best possible way, with the resources available to us both now and into the future;
- To ensure the Alliance is designed to be flexible enough to respond to both current and future demands and changing crime types, and;
- To ensure our two forces maximise the opportunities available through public sector integration, blue-light working and regional/national policing.

The change programme forms a key part of the AGG meeting. A bi-monthly Design Authority Group directs and approves new design concepts for service, encouraging debate, creativity and innovation from all involved. It commissions work (reviews) to consider / develop proposals, authorises the production of business cases with clearly defined benefits and approves new projects / programmes. A monthly Change Management Board provides the co-ordinated control, direction, implementation, prioritisation, sequencing and timescales and, where appropriate, initiation of a strategic portfolio of all change management initiatives, programmes and projects. It ensures delivery of appropriate outcomes to achieve strategic objectives and benefits realisation.

During 2015/16 the Alliance entered a joint operation with other public sectors organisations in the region to collaborate on the provision of estates services through the Place Partnership Limited (PPL). PPL is a public sector company, which will manage our estate at a lower cost, whilst providing economic and regeneration benefits. On the 1 April 2016 the PCC took responsibility for the West Mercia Youth Offending Service, transferring staff across from partner agencies, with the aim of making efficiencies and more effective interventions to prevent re-offending.

During 2016/17 Athena will be implemented, a police collaboration ICT system, which will help to identify criminals more quickly, reduce crime and save time and money. Following a successful bid for £2.4m to the Government's Police Innovation fund the Alliance will be building a joint Operational Command and Control system across two sites, one being in West Mercia and one in Warwickshire. The joint OCC will operate on single telephony and IT systems to enhance and deal with calls in an efficient and effective way as well as offering additional flexibility as the police and fire service will be able to support each other during peak periods or critical incidents. This will realise further savings and provides an opportunity for further collaboration beyond the Alliance.

In recognition of the importance of our workforce in delivering the Alliance vision and results from a workforce survey conducted in the year a Health and Wellbeing Board has been set up to ensure the actions identified through the survey are implemented and improvements are made. In response to our low ranking when compared to other forces in terms of attendance Strategic Attendance Panels have been created in each directorate to identify attendance issues and take steps to resolve these and support individual members of the workforce to return to work.



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## **The Medium Term Financial Plan**

Setting the budget and precept proposal is one of the key responsibilities of the West Mercia PCC under the Police Reform and Social Responsibility Act 2011 and one of the most important decisions that he has to make.

The 2016/17 budget has been built for the Alliance and the budget requirement apportioned to each Force in accordance with the agreed cost sharing approach. In setting the budget the PCC has regard to:

- National targets and objectives including the Strategic Policing Requirement;
- The priorities within the police and crime plan and any likely changes to these for 2016/17;
- The outcome of public consultation;
- The plans and policies of other partner agencies relating to community safety and crime reduction;
- The policy of the Government on public spending as set out by the chancellor in the 2015 Comprehensive Spending Review and the funding framework that arises from this;
- The medium term financial obligations;
- Prudent use of the financial reserves;
- The constant drive for continuous improvement and value for money, and;
- The commitment to support the strategic Alliance with Warwickshire PCC and the delivery of existing savings plans.

The PCC agreed a 2016/17 net revenue budget of £207.6m which includes the use of £4.7m of reserves resulting in a budget requirement of £202.9m. The budget is funded by £121.7m of government funding, which has reduced by a further 0.5% (£0.6m) compared to 2015/16. The remaining funding, £81.2m, comes from the council tax through the precept, which has increased by 1.99% compared to 2015/16.

Since 2010 Police Forces have faced significant reductions in resources because of the Government's austerity programme whilst at the same time the nature of crime and its consequent demands have changed significantly particularly regarding cyber crime, child sex exploitation and terrorism. During the period of the previous and current Comprehensive Spending Review West Mercia has implemented spending reductions of £36.9m. In addition an Invest to Save fund has been established to enable future savings delivery with minimal adverse impact on service provision.

The cost of the workforce makes up approximately 80% of the budget, therefore the factors that effect this are closely monitored. This will include the cost of the inflation linked pay award, which is assumed to be in line with the governments intentions and constrained at 1% over the period to 2019/20. After considering other changes beyond our control such as increase in national insurance resulting from the Pension Act and implementation of the Apprentice Levy and other inflationary pressures on the purchase of goods and services overall pay and price is assumed to be 1.5%.

On 25<sup>th</sup> November 2015 the Chancellor announced that "There will be no cuts in the police budget at all. There will be real terms protection for police funding. The police protect us and we are going to protect the police". More details have been given in the 2016/17 Police

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Grant Report and a covering written Ministerial Statement (published on 17<sup>th</sup> December 2015). The statement re-emphasises the Government's commitment to protect the public and protect the overall spending envelope for the police, while finishing the job of police reform. It is clear that the Government believes that there are further efficiencies to be made from improved and better use of IT, from greater collaboration between forces and with other public services and from improving workforce productivity. The Government states that it trusts that Police and Crime Commissioners and Chief Constables will do everything in their power to drive those efficiencies, safeguard the quality of policing and continue to reduce crime. The Alliance is well placed to meet these challenges.

The Minister states that "for 2016/17, direct resource funding for each PCC, including precept, will be protected at flat cash levels, assuming that precept income is increased to the maximum amount available. This means that no PCC will face a reduction in cash funding next year compared to this year and the majority will see marginal increases in funding". He states that PCCs in England will face a 2.0% referendum threshold each year, which would provide £3.3m over the period to 2019/20. It is also anticipated that the council tax base, the number of households paying council tax, will increase during this time.

The 2016/17 budget, the Medium Term Capital Programme and the Medium Term Financial Plan (MTFP) address these challenges. West Mercia faces a savings target of £6.0m over the period to 2019/20, whilst at the same time the Commissioners needs to ensure that policing arrangements continue to be fit for purpose. Policing therefore must be both efficient and effective, address changes in demand and meet public expectations. The PCC therefore intends to:

- Improve the way in which the police listen to and respond to the public;
- Invest significantly in the estate including ANPR cameras and a new OCC at Hindlip;
- Improve the ICT infrastructure including a new telephony system and the implementation of the Athena system leading to further efficiency savings;
- Procure a strategic partner to enable the Chief Constable to "transform" policing in West Mercia;
- Work with the four upper tier local authorities to create a single integrated Youth Offending Service across West Mercia;
- Work with partners to develop specialist capabilities where they are needed to better protect the public, and;
- Commission "One Place" reviews with PPL.

In addition to making further savings and increasing council tax the PCC plans to use a further £6.6m of these reserves over a four year period to support each year's budget through a period of transition whilst savings are identified that will bring spending in line with funding.

The two PCCs undertook a comprehensive review of the capital programme, to reflect the priorities of the two PCCs to achieve full integration of the services and systems of operation across the Alliance. This includes the need to modernise ICT systems and further develop the estate to ensure that policing responds to changes in demand and the nature of crime. These projects improve efficiency and release further savings whilst improving policing. As a result of this review the two PCCs have agreed to invest £87.6m in capital expenditure over the next four years. After the use of the infrastructure reserve the capital programme will be funded through borrowing, capital grants and capital receipts.

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The PCC will continue to drive value for money across all areas of policing and closely monitor financial performance throughout the year to ensure that policing demands can be met within the resources available to the Chief Constable.

The PCC's Medium Term Financial Plan is available on the PCC's website.

## **Environmental Scanning**

Eighteen change drivers, that are expected to play a significant role in public services over the next five years have been identified and prioritised, in terms of impact and uncertainty, as follows:

<b>Social Challenges</b>		<b>Impact</b>	<b>Uncertainty</b>
1	Increasingly connected society faces more diverse cyber threats.	Medium	High
2	Troubled Families Programme expanding.	High	Medium
3	Fewer workers more carers and more elderly people.	Medium	Low
4	Social recession more abuse, isolation, neglect and changes to work life balance.	High	Low
5	State / public pension schemes unsustainable as private sector pay outpaces public sector.	High	Low
6	Welfare cuts impact vulnerable outreach groups.	High	Medium
<b>Partner Challenges</b>			
7	The strength of collective response.	High	High
8	Combined authorities future impact.	High	High
9	Finding and working with new partners.	High	High
10	Legal Aid delays create backlog in justice.	High	Medium
11	Commissioning – more short-term contracts, evidence based Payment By Results.	High	Medium
12	Information sharing and standards.	High	High
<b>Policing Challenges</b>			
13	Skills transformation and professionalisation for efficiencies.	High	Medium
14	Automated knowledge to providers.	Medium	Medium
15	Need to share strategy, information, technology.	Medium	Medium
16	Police must evidence what works	High	Medium
17	New agencies with police type powers	Medium	Low
18	New operating cost and operational demands emerge.	Medium	Low

## **The Statement of Accounts**

It is the purpose of the statement of accounts (the Accounts), consisting of the financial statements and notes to the accounts to demonstrate that the Group, consisting of the PCC and the Chief Constable has accounted for public money properly and been economical, efficient and effective in the use of that public money. To better understand the financial statements it is important to understand the arrangements that govern the PCC and Chief Constable and the relationship between them as well as the relationship with their counterparts in Warwickshire, through the Alliance, which also effects the figures contained in the financial statements and disclosures in the notes to the accounts.

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The treatment of transactions (income and expenditure) and balances (assets, liabilities and reserves) in the PCC's and Chief Constable's Accounts under the Group arrangement and within the context of the Alliance is explained in Note 3, 'Critical Judgements in Applying Accounting Policies'. The PCC and Chief Constable are classified as a group arrangement under accounting standards, the Chief Constable being a subsidiary of the PCC. The specific accounting treatment takes into account the substance of the arrangements for governing the two entities and recognises the formal stage 2 transfer of responsibilities from the PCC to the Chief Constable that took place on 1 April 2014. The Alliance by comparison is instead classified as a joint operation where costs are shared in line with the cost share model on 69% to West Mercia and 31% to Warwickshire.

A summary of these arrangements was set out earlier in this report. The Accounts reflect current legislation and local operating arrangements, where legislation takes precedent over the Code or where the Group position differs from that of the PCC this is explained in the Accounts and the notes. The following is an explanation of the contents of the Accounts and the main financial statements, their purpose and relationship between them.

They comprise:

- The **Statement of Responsibilities** for the Accounts, which sets out the responsibilities of both the Chief Constable and the responsible Chief Finance Officer for the preparation of the Accounts.
- **Auditor's Report** gives the auditor's opinion of the financial statements and of the Group's arrangements for securing economy, efficiency and effectiveness in the use of resources.
- The **Movement in Reserves Statement (MIRS)** shows the movement in the year on the different reserves held by the Chief Constable. A further analysis and explanation of the purpose for which these unusable reserves are held can be found at Note 8. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Chief Constable's services, more details of which are shown in the Comprehensive Income & Expenditure Statement. This is different to the statutory amounts that can be charged against the police fund and taxation, whereas the Net increase before transfers to earmarked reserves is the sum after adjustment for the entries required to comply with a accounting standards, Note 7 provides detailed analysis of the adjustments contained in the MIRS.
- The **Comprehensive Income & Expenditure Statement (CIES)** is a summary of the income and expenditure received and used to provide services during the year and shows how the PCC has funded the cost of net expenditure incurred at the request of the Chief Constable by an intra-group transfer. The surplus or deficit on the provision of services line flows into the MIRS to be transferred into the balance sheet as explained in the previous bullet point.
- The **Balance Sheet**, which shows the value as at the 31 March 2016 of the assets and liabilities recognised by the Chief Constable. The net assets (assets less liabilities) are matched by the usable and unusable reserves, which hold the transfers from the CIES, which have moved through the MIRS. The balance sheet shows that

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the net worth of the Chief Constable is (£2,000.3m) as at 31 March 2016 consisting of the Pensions Reserves of (£1,996.9m) and Other Unusable Reserves of (£3.4m).

- The **Cash Flow Statement**, which summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.
- **Notes to the Accounts**, these comprise a detailed analysis of the summarised financial information in the Core Financial Statements. These also set out the accounting policies adopted by the Chief Constable, which explain the basis on which the financial transactions are presented.
- **Police Officer Pension Fund Account** - This identifies the payments in and out of the Police Officers Pension Fund Account for the year.
- The **Annual Governance Statement** – This section describes how the Chief Constable conducts business in accordance with proper standards and presents the findings from the annual review of the effectiveness of systems of internal control. The Annual Governance Statement does not form part of the Accounts but is included here for reporting purposes.

The Chief Constable's Accounts should be read alongside the Group and PCC Accounts and those of the Warwickshire PCC and Chief Constable for Warwickshire, which can be found through the following links.

<http://www.warwickshire-pcc.gov.uk/>  
[www.warwickshire.police.uk/](http://www.warwickshire.police.uk/)

The following figures reported in the Accounts are of note:

The CIES shows a deficit on the provision of services of £68.4m. The deficit is arrived at after accounting for costs and income in line with the Chief Constable's accounting policies and recognised accounting conventions, which is different to the statutory basis used to identify the net expenditure to be funded from local taxation in the form of the Council Tax. For example, proper accounting practice requires the full cost of future pension liabilities to be recognised in the Accounts and is a significant part of the deficit on the Chief Constable's CIES.

The financial standing of the Chief Constable needs to be viewed from the perspective of the movement in the Police Fund, as set out in the MIRS, which reconciles the CIES to the statutory basis for determining taxation.

### **Pensions Liabilities**

In accordance with International Accounting Standard (IAS) 19, the cost of employment and post-employment liabilities is shown in the Chief Constable's Accounts. The Chief Constable maintains a negative pensions reserve to match the estimated liability in relation to Police Officers, Police Staff and Police Community Support Officers' retirement benefits, which at the 31 March 2016 is £1,996.9m. However, in considering the impact that this has on the financial position of the PCC it must be remembered that:

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- Police Staff and Police Community Support Officers are entitled to join the Local Government Pension Scheme (LGPS), which is a funded scheme. The liability will be funded by future planned increases in both the employee and employer contributions.
- The Police Pension Scheme, under the current arrangements, is funded partly by police officer and employer contributions. If there is insufficient money in the Pension Fund Account to meet all expenditure commitments in any particular year the Home Office will fund the deficit.
- The Police Pension Scheme and LGPS have been subject to reform and as from 1 April 2015 the former became a career average (CARE) scheme; the LGPS became a CARE scheme on 1 April 2014. Therefore the future benefit structures, as well as the level of contributions, will change.

Further information about the IAS 19 liability can be found under Note 21, and information about the Police Pensions Fund Account can be found on page 61.

## Statement of Responsibilities

### Responsibilities of the Chief Constable of West Mercia Police

The Chief Constable is required to:

- make arrangements for the proper administration of the Chief Constable's financial affairs and to ensure that one of his officers has the responsibility for the administration of those affairs. In this organisation that officer is the Director of Finance to the Chief Constable;
- manage the Chief Constable's affairs to secure economic, efficient and effective use of resources and safeguard the Chief Constable's assets;
- approve the Statement of Accounts.

I accept the above responsibilities and approve these Statement of Accounts for 2015/16.

**Anthony Bangham**

**The Chief Constable of West Mercia Police**

**Date:**

### Responsibilities of the Director of Finance

The Director of Finance to the Chief Constable is responsible for the preparation of the Chief Constable's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 (the Code).

In preparing this Statement of Accounts, the Director of Finance to the Chief Constable has:

- selected suitable accounting policies and applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the Code.

The Director of Finance has also:

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

The Statement of Accounts for the Chief Constable of West Mercia Police is duly authorised for issue on 30 June 2016 by authority of the Director of Finance to the Chief Constable.

I certify that the Statement of Accounts represents a true and fair view of the financial position of the Chief Constable of West Mercia Police at the accounting date and of the income and expenditure for the year ended 31 March 2016.

**Heather Costello**

**Director of Finance to the Chief Constable of West Mercia Police**

**Date: September 2016**



**INDEPENDENT AUDITOR'S REPORT TO THE CHIEF CONSTABLE FOR WEST MERCIA.  
TO BE INCLUDED FOLLOWING THE AUDIT**

## TO BE INCLUDED FOLLOWING THE AUDIT

## TO BE INCLUDED FOLLOWING THE AUDIT

## Movement in Reserves Statement (MIRS)

This statement shows the movement in the year on the different reserves held by the Chief Constable, analysed into Usable Reserves (ie those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Group's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. This is different to the statutory amounts charged to the General Fund Balance for council tax setting purposes. 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 are undertaken by the Chief Constable.

	Notes	Police Fund Balance	Unusable Reserves	Total Chief Constable Reserves
		£000	£000	£000
<b>Opening Balance at 1 April 2014</b>		<b>0</b>	<b>(1,905,749)</b>	<b>(1,905,749)</b>
<b>Movement in reserves during 2014/15</b>				
Deficit on Provision of Services	9	(75,723)	0	(75,723)
Other Comprehensive Income and Expenditure	21	0	(244,480)	(244,480)
<b>Total Comprehensive Income and Expenditure</b>		<b>(75,723)</b>	<b>(244,480)</b>	<b>(320,203)</b>
Adjustments between accounting basis and funding basis under regulations	7	75,723	(75,723)	0
<b>Net Increase before transfers to Earmarked Reserves</b>		<b>0</b>	<b>(320,203)</b>	<b>(320,203)</b>
Transfers to/from Earmarked Reserves		0	0	0
<b>Increase/(Decrease) in Year</b>		<b>0</b>	<b>(320,203)</b>	<b>(320,203)</b>
<b>Balance at 31 March 2015 Carried Forward</b>		<b>0</b>	<b>(2,225,952)</b>	<b>(2,225,952)</b>
<b>Movement in reserves during 2015/16</b>				
Deficit on Provision of Services	9	(68,441)	0	(68,441)
Other Comprehensive Income and Expenditure	21	0	294,055	294,055
<b>Total Comprehensive Income and Expenditure</b>		<b>(68,441)</b>	<b>294,055</b>	<b>225,614</b>
Adjustments between accounting basis and funding basis under regulations	7	68,441	(68,441)	0
<b>Net Increase before transfers to Earmarked Reserves</b>		<b>0</b>	<b>225,614</b>	<b>225,614</b>
Transfers to/from Earmarked Reserves		0	0	0
<b>Increase/(Decrease) in Year</b>		<b>0</b>	<b>225,614</b>	<b>225,614</b>
<b>Balance at 31 March 2016 Carried Forward</b>		<b>0</b>	<b>(2,000,338)</b>	<b>(2,000,338)</b>

## Comprehensive Income and Expenditure Statement (CIES)

This Statement recognises the financial resources belonging to the PCC consumed at the request of the Chief Constable in exercising day to day direction and control of the police force for the financial year, presented in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. The CIES includes the intra-group transfer, whereby the PCC provides resources to meet the cost of day to day policing provided by the Chief Constable. The presentation of the intra-group transfer has been revised from last year's Accounts and is now part of the Net Cost of Policing Services; Total Comprehensive Income and Expenditure remains unchanged.

2014/15 Gross Expenditure £000	2014/15 Gross Income £000	2014/15 Net Expenditure £000		Notes	2015/16 Gross Expenditure £000	2015/16 Gross Income £000	2015/16 Net Expenditure £000
90,867	0	90,867	Local Policing		98,326	0	98,326
13,040	0	13,040	Dealing with the Public		15,817	0	15,817
18,806	0	18,806	Criminal Justice Arrangements		19,887	0	19,887
11,006	0	11,006	Road Policing		10,491	0	10,491
13,161	0	13,161	Operational Support		12,882	0	12,882
11,171	0	11,171	Intelligence		12,191	0	12,191
40,832	0	40,832	Investigations		45,798	0	45,798
5,982	0	5,982	Investigative Support		7,880	0	7,880
3,062	0	3,062	National Policing		2,551	0	2,551
0	0	0	Corporate and Democratic Core		0	0	0
1,019	0	1,019	Non Distributed Costs		741	0	741
<b>208,946</b>	<b>0</b>	<b>208,946</b>	<b>Cost of Policing Services</b>	<b>9</b>	<b>226,564</b>	<b>0</b>	<b>226,564</b>
0	(193,128)	(193,128)	PCC's Funding for Resources Consumed	10	(207,388)	0	(207,388)
<b>208,946</b>	<b>0</b>	<b>15,818</b>	<b>Net Cost of Policing Services</b>		<b>19,176</b>	<b>0</b>	<b>19,176</b>
		91,250	Financing and investment net expenditure ( <i>Note 21</i> )				80,064
		(31,345)	Home Office Grant Towards the Cost of Retirement				(30,799)
		<b>75,723</b>	<b>Deficit on Provision of Services</b>				<b>68,441</b>
		244,480	Re-measurement of the net defined benefit liability ( <i>Notes 5 and 21</i> )				(294,055)
		<b>244,480</b>	<b>Other Comprehensive Income &amp; Expenditure</b>				<b>(294,055)</b>
		<b>320,203</b>	<b>Total Comprehensive Income &amp; Expenditure</b>				<b>(225,614)</b>

## Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Chief Constable. The Chief Constable holds employment liabilities, which is associated with the Chief Constable's day-to-day direction and control of police officers and police staff, the costs of which are shown in the CIES. The net liabilities are matched by an unusable reserve held at the bottom of the balance sheet.

31 March 2015		Notes	31 March 2016
£000			£000
0	<b>Long Term Assets</b>		0
406	Inventories	16	485
11,960	Short Term Debtors	17	2,161
0	Intra-Group Debtor	10	3,788
<b>12,366</b>	<b>Current Assets</b>		<b>6,434</b>
(7,098)	Short Term Creditors	18	(9,806)
(551)	Provisions	19	(60)
(7,803)	Intra-Group Creditor	10	0
<b>(15,452)</b>	<b>Current Liabilities</b>		<b>(9,866)</b>
(2,222,866)	Liability Relating to Defined Benefit Pension Schemes	21	(1,996,906)
<b>(2,222,866)</b>	<b>Long Term Liabilities</b>		<b>(1,996,906)</b>
<b>(2,225,952)</b>	<b>Net Liabilities</b>		<b>(2,000,338)</b>
(2,225,952)	Unusable Reserves	8	(2,000,338)
<b>(2,225,952)</b>	<b>Total Reserves</b>		<b>(2,000,338)</b>

## Cash Flow Statement

This statement shows the changes in cash and cash equivalents of the Chief Constable during the reporting period. The statement shows how the Chief Constable 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 extent to which the operations of the Chief Constable are funded by the PCC.

2014/15 £000		Notes	2015/16 £000
75,723	<b>Net deficit on the provision of services</b>		68,441
(75,723)	Adjustments to net (surplus) or deficit on the provision of services for non-cash movements	20	(68,441)
0	Adjustments for items included in the net (surplus) or deficit on the provision of services that are investing and financing activities		0
0	<b>Net cash flows from Operating Activities</b>		0
0	Investing Activities		0
0	<b>Net increase or decrease in cash and cash equivalents</b>		0
0	Cash and cash equivalents at the beginning of the reporting period		0
0	<b>Cash and cash equivalents at the end of the reporting period</b>		0



## Notes to the Financial Statements

The following notes contain information which is in addition to that contained in the main financial statements, and is intended to provide a fuller explanation and description of specific figures to aid the reader's understanding of the Statement of Accounts.

### **1. Accounting Policies**

#### **i. General Principles**

The Statement of Accounts summarises the Chief Constable's transactions for the 2015/16 financial year and its position at the year-end. The accounting policies are the specific principles, bases, conventions, rules and practices applied by the Chief Constable when preparing and presenting the financial statements. The Chief Constable is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which must be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2015/16 and the Service Reporting Code of Practice 2015/16 supported by International Financial Reporting Standards (IFRS).

The accounting convention adopted is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments. The principal accounting policies have been applied consistently throughout the year.

#### **ii. Changes in Accounting Policies**

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

#### **iii. Income and Cost Recognition and Intra-group Adjustment**

The PCC is responsible for the Police Fund into which all income is received including the main funding streams of Police Grant, Revenue Support Grant, National Non-Domestic Rates and Council Tax as well as income from charges and from which all costs are met. The Police Fund is held in a single bank account: the Chief Constable does not have a separate bank account into which money can be received or from which payments can be made.

The Chief Constable's Accounts show the cost of undertaking day to day operational policing under the direction and control of the Chief Constable. Expenditure shown in the CIES include the salaries of police officers, PCSOs and police staff as well as the cost of purchases. In addition, a charge is shown for the Chief Constable's use of assets, which are strategically controlled by the PCC. The capital charge is equal to depreciation of property, plant and equipment and amortisation of intangible assets plus any charge for impairment through obsolescence or physical damage. To fund the operational expenditure the Chief Constable's Accounts show income by way of funding or financial guarantee provided by the PCC to the Chief Constable. This treatment forms the basis of the intra-group adjustment between the Accounts of the PCC and the Chief Constable. However, because the Chief Constable does

Notes to the Financial Statements

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not have a bank account there is no actual transfer of cash between the PCC and the Chief Constable. [REDACTED].

The cost of post employment benefits accrued by serving and ex-police officers and police staff and the cost of accrued absences is also shown in the Chief Constable's Accounts.

#### **iv. Accruals of Income and Expenditure**

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

- Supplies are recorded as expenditure when they are consumed. Where there is a gap between the date supplies are received and their consumption they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by police officers, police staff and PCSOs) are recorded as expenditure when the services are received rather than when payments are made.
- Manual accruals of expenditure are not made where the value of the item is less than £1,000.

Notional transactions between the PCC and the Chief Constable are assumed to be settled immediately. The effect is to minimise the debtors within the Chief Constable's Balance Sheet. Where revenue and expenditure has been recognised but cash has not been paid a creditor for the relevant amount is recorded in the Balance Sheet. However, the PCC has not given consent to the Chief Constable to enter into contracts; therefore creditors for purchases are not shown in the Chief Constable's Accounts. However, accruals for police officers, PCSOs and police staff under the control of the Chief Constable are reflected in the Chief Constable's Accounts.

#### **v. Cash and Cash Equivalents**

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in no more than three months from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

However, the Chief Constable does not have his own bank account, therefore the cash figure is a notional figure derived from the PCC's cash and cash equivalents to balance with corresponding items held on the Balance Sheet.

#### **vi. Charges to Revenue for Non-Current Assets**

Services under the direction and control of the Chief Constable are debited with the following amounts to record the cost of holding non-current assets during the year:

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

## **vii. Employee Benefits**

### **Benefits Payable during Employment**

Short-term employee benefits are those due to be settled wholly within 12 months of the year-end. They include such benefits as wages and salaries, paid annual leave, rest days, toil, paid sick leave and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Chief Constable. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the salary rates applicable at the start of 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 MIRS so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs. The accumulated cost is carried to the Chief Constable's Balance Sheet where it is held as a liability and is matched by an unusable reserve.

### **Termination Benefits**

This policy only applies to members of police staff, including PCSOs.

Termination benefits are amounts payable to employees as a result of a decision by the Chief Constable to terminate their employment before the normal retirement date or an employee's decision to accept voluntary redundancy and are charged on an accruals basis to the Cost of Services in the CIES at the earlier of when the employer can no longer withdraw the offer of those benefits or when the employer recognises costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the Police 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. In the MIRS, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end.

### **Post-Employment Benefits**

Police officers and police staff, including PCSOs have the option of belonging to one of two separate pension schemes relevant to them:

- Police Pension Scheme (PPS) for Police Officers.
- Local Government Pensions Scheme (LGPS) for Police Staff administered by Worcestershire County Council.

Both schemes provide index-linked defined benefits to members (retirement lump sums and pensions) earned as employees work for the Chief Constable and determined by the individuals' pensionable pay and pensionable service.

The LGPS and the PPS are accounted for as defined benefits schemes as follows:

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- the liabilities of the pension fund attributable to the Chief Constable are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of anticipated earnings for current employees.
- International Accounting Standard (IAS) 19 requires the nominal discount rate to be set by reference to market yields on high quality corporate bonds or where there is no deep market in such bonds then by reference to government bonds.
- the PPS liabilities are discounted using the nominal discount rate based on government bond yield of appropriate duration plus an additional margin and the LGPS liabilities are discounted to their value at current prices, using a discount rate based on corporate bond yields at 31 March 2016.
- the discount rates used by the actuaries and other principal assumptions are set out in Note 21.
- the assets of the LGPS fund attributable to the Chief Constable are included in the Balance Sheet at their fair value:
  - quoted securities – current bid price
  - unquoted securities – professional estimate
  - unitised securities – current bid price
  - property – market value

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

- **Current service cost** – the increase in liabilities as a result of years of service earned in the current year – allocated in the CIES to the services for 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 – debited to the Surplus or Deficit on the Provision of Services in the CIES as part of Non Distributed Costs.
- **Net interest on the net defined benefit liability** i.e. net interest expense for the Group – the change during the period in the net defined benefit liability that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the CIES – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability at the end of the period – taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments.
- **Re-measurements comprising:**
  - **the return on plan assets** – excluding amounts included in net interest on the net defined benefit liability – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
  - **actuarial gains and losses** – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or

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because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure

- **Contributions paid to the pension fund** – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the Police Fund Balance to be charged with the amount payable by the Chief Constable to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the MIRS this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the Police Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

A difference between the two schemes is that the PPS is an unfunded, defined benefit, final salary scheme, whereas the LGPS is a funded, defined benefit scheme and, with effect from 1 April 2014, became a career average (CARE) rather than final salary scheme. As the PPS is unfunded there are no investment assets built up to meet the pensions liabilities and cash has to be generated to meet the actual pensions payments as they eventually fall due. This is further explained in the notes to the Police Pension Fund Account on page 61.

It should be noted that the Chief Constable has not exercised powers to make discretionary awards of retirement benefits in the event of early retirements. The approach set out in the joint Government Actuary's Department (GAD)-CIPFA paper "Assessment of Pension Liabilities Disclosures" as realised in the GAD model has been followed in order to satisfy the disclosure requirements of the Code.

The Chief Constable has powers to make awards to Police Officers who have ceased to be members of the police force and are permanently disabled as a result of an injury received without his/her own default in the execution of his/her duty. These payments are made in accordance with the Police (Injury Benefit) Regulations 2006.

#### **viii. Inventories and Long-Term Contracts**

Inventories are required to be included in the Balance Sheet at the lower of cost or current replacement value. Inventories are valued at actual cost price.

#### **ix. Jointly Controlled Operations and Jointly Controlled Assets**

Jointly controlled operations are activities undertaken by the PCC and / or Chief Constable in conjunction with other ventures or organisations that involve the use of the assets and resources of the ventures rather than the establishment of a separate entity.

The Alliance with Warwickshire Police is a jointly controlled operation, which lies at the heart of the policing model and governance of the PCCs and Chief Constables of both Warwickshire and West Mercia. The Alliance is primarily a joint venture for operational purposes where each party draws on the pooled resources to deliver services. Assets created or developed as an integral part of the Alliance are also shared.

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A full explanation of the treatment of transactions and balances under the Alliance has been explained fully in Note 11 to the Accounts 'Pooled Budgets and Joint Ventures'.

**x. Leases**

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

**xi. Overhead and Support Services**

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2015/16 (SeRCOP). The total absorption costing principle is used i.e. the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the PCC's status as a democratic organisation;
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring.

These two cost categories are defined in SeRCOP and accounted for as separate headings in the CIES, as part of Net Expenditure on Cost of Services.

**xii. Prior Year Adjustments**

Prior year adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes are applied retrospectively (unless otherwise stated) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied. No prior year adjustments are required in 2015/16.

**xiii. Provisions, Contingent Liabilities and Contingent Assets**

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

Provisions are charged as an expense to the Cost of Services in the CIES in the year that the Group becomes aware of the obligation, and are measured at the best estimate as at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

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



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

A contingent liability or a contingent asset arises where an event has taken place that gives the Chief Constable a possible obligation or asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Chief Constable. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably. Contingent liabilities and contingent assets are not recognised in the Balance Sheet but disclosed in Note 19 to the Accounts.

#### **xiv. Reserves**

The Chief Constable does not hold any usable reserves as all such reserves are retained by the PCC.

Unusable reserves are held by the Chief Constable to manage the accounting processes for retirement and employee benefits and do not represent usable resources for the Chief Constable. These reserves are explained in the relevant disclosure notes to the accounts.

#### **xv. Value Added Tax**

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

## **2. Accounting Standards That Have Been Issued But Have Not Yet Been Adopted**

The following sets out amendments to accounting standards or new accounting standards that have been issued on or before 1 January 2016 but not yet adopted by the Code:

- Amendments to IAS 19 Employee Benefits (Defined Benefit Plans : Employee Contributions);
- Amendment to IFRS 11 Joint Arrangements (Accounting for Acquisitions of Interests in Joint Operations);
- Amendment to IAS16 PPE and IAS 38 Intangible Assets (Clarification of Acceptable Methods of Depreciation and Amortisation);
- Amendment to IAS 1 Presentation of Financial Statements (Disclosure Initiative);
- The changes to the format of the CIES, MIRS and introduction of new Expenditure and Funding Analysis;
- The changes to the format of the Pension Fund Account and the Net Assets Statement.

It is not expected that any of the above amendments will have a material impact on the information provided in the financial statements, that is there is unlikely to be a change in the reported net cost of services or the Surplus or Deficit on the Provision of Services. However, in



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the 2016/17 year the comparator 2015/16 CIES and MIRS will reflect the new formats and reporting requirements as a result of the CIPFA “Telling the Story” review of presentation of local authority financial statements.

### **3. Critical Judgements in Applying Accounting Policies**

The financial statements are prepared using the accounting policies set out in Note 1; however the Chief Constable is required to exercise judgement and make estimates and assumptions, based on a range of factors including experience or expert valuation, which affects the application of these policies and the value of transactions and balances reported in the financial statements. This is often the case where there are complex transactions or uncertainty about future events and/or figures are not readily available from another source. The estimates and assumptions are kept under review and revisions, where appropriate, are recognised in the period in which they are made. The critical judgements that have a material impact on the Accounts are as follows:

#### **PCC and Chief Constable Group Relationship**

The Police Reform and Social Responsibility Act 2011 came into effect on 22 November 2012, creating two corporation soles: The Police and Crime Commissioner for West Mercia (PCC) and the Chief Constable of West Mercia Police (CC).

The allocation of transactions and balances between the PCC and the CC affects the values reported in the two entities' Accounts. The allocation of transactions and balances is a judgement in light of the legislation, accounting standards and the substance of the local arrangements that are in place rather than the legal form underpinning the arrangements. The treatment of the Group, consisting of the PCC and CC, and the Alliance which also includes the PCC and Chief Constable for Warwickshire has to be considered jointly.

The approach taken to the accounts is that:

- Revenue expenditure directly relating to those budgets delegated to the CC for the provision of policing services is predominantly included within his Accounts;
- The CC's accounts have been charged with the expense associated with IAS19 pensions and accumulated staff absences as well as the fair value of non-current assets consumed during the year and the CC's Balance Sheet contains the net liabilities associated with these items offset by unusable reserves as required by the Code of Practice;
- An intra-group transfer has been made between the CC's and the PCC's CIES offsetting the above expenses;
- Within the Group accounts, where material, a distinction is made between the transactions and balances of the Group and the PCC;
- The Chief Constable's Balance Sheet contains employment-related debtors, creditors and provisions together with all inventories.

#### **Alliance**

The allocation of transactions and balances between partners within the Alliance also affects the values reported in the two entities' respective Accounts.

## Notes to the Financial Statements

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Judgements taken in the application of accounting policies and the allocation of transactions and balances in the Accounts in respect of the Alliance are consistent to those taken in regard to the Group (PCC and CC) and comply with the requirements of the Code. Integral to this judgement is the financial arrangements for the Alliance as set out in the Section 23 Agreement and the cost sharing model. The economic reality of the Alliance cost sharing model takes precedence over the Group in many respects and has been influential in determining the treatment of transactions and balances in the Group Accounts in line with accounting policies and our interpretations of the Code.

A judgement, which is fundamental to the cost sharing model, is that costs and benefits relating to the Alliance are apportioned 69% to West Mercia and 31% to Warwickshire. This has been arrived at by looking at various indicators including funding, demographics, work force profile, expenditure, crime volumes etc. and has been widely consulted on and independently validated. This judgement will be reviewed at an appropriate interval to determine if circumstances have changed as the Alliance develops.

### **Post employment Benefits (Pension Liability)**

Estimation of the pension liability depends on a number of complex judgements and assumptions relating to the discount rate, the future value of the assets and liabilities of the Police Pension Schemes (PPS) and Local Government Pension Scheme (LGPS), the rate of increase in pay, changes in retirement ages and mortality rates. Two actuaries are engaged to provide the Chief Constable with expert advice about the assumptions to be applied to the pension schemes.

The assumptions used to value the pension assets and liabilities are reviewed annually when the actuaries prepare the figures for inclusion in the Accounts. They will vary year on year based on experience and changes to the pension schemes e.g. scheme profiles and the most appropriate inflation index. A variance in the assumptions compared to reality can produce material changes to the assets and liabilities of the pension schemes. The actuary produces sensitivity analysis to show the impact of a plus or minus 1% variation in key assumptions. The impact of these changes is dampened by the fact that only employer contributions, the cost of ill health retirements and injury awards are charged against the General Fund. The impact on the employer's contributions is smoothed over time by the valuation of the schemes, which is undertaken every three years.

### **Employee Benefits**

With the exception of leave built up through flexible working hours the majority of the hours required to calculate the accrued annual leave and toil are taken directly from the HR and Duty Management system. The flexi hours are calculated by extrapolating a sample of police staff. A cost is applied to the hours to calculate the employee benefit accrual using average salary cost per rank based on the data held in the payroll. This is the most significant estimate used to affect the accruals.

### **Cost of Service – Comprehensive Income and Expenditure Statement**

The SerCOP requires income and expenditure to be categorised into nine service areas in the 'Cost of Services' section of the CIES. Team costs are allocated to the category of service that most of their activity contributes to. Support costs, or indirect overheads, are allocated on the

## Notes to the Financial Statements

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basis of police officer and police staff numbers, the reason for this being the workforce is the biggest driver of cost and can be determined quickly and reliably.

The Cost of Policing Services has increased by £17.6m compared to 2014/15, mainly due to the Force carrying fewer vacant posts than in 2014/15 (£7m); additional investment in ICT infrastructure (£4m) including use of reserves; increases in pensions charges (£4m) that are reversed in the MIRS; and additional spend in various operational areas. This overall increase in spend is reflected by increases across the majority of the service areas in the CIES.

### Funding

As explained in the Foreword to the Accounts, there is a high degree of uncertainty around future funding from the Government received through the funding formula. This has been accommodated in the MTFP and is addressed through the requirement to make savings. At this time it is not perceived that this issue will impact further on the assets of the PCC; there is already an asset rationalisation plan in place and as a consequence some land and buildings are classified as assets held for sale, further to this an annual impairment review is also carried out.

### 4. Assumptions Made About the Future and Other Major Sources of Estimation and Uncertainty

The Accounts contain estimated figures that are based on judgements and assumptions made by the Chief Constable about the future or that are otherwise uncertain. However, because balances cannot be determined with certainty, actual results could be materially different from those that have been estimated. The items in the Balance Sheet at 31 March 2016 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

#### Post Employment Benefits (Pension Liability)

The basis of estimating the net liability to pay pension benefits to police officers and police staff is referred to in the previous section. This estimate depends on a number of complex judgements and assumptions around the discount rates used to calculate the pension liabilities. Any changes could have a material impact on the total liability of the pension funds. The actuaries provide illustrations of variations in assumptions to help the Chief Constable understand the potential impact of changes in mortality rates, retirement ages and expected returns on fund assets etc. The actuaries provide the Chief Constable with advice and illustrations of the potential impact of the changes in assumptions and these are set out at the end of Note 20.

### Provisions

The Chief Constable has only one provision remaining as at 31 March 2016 relating to the costs of voluntary redundancies and early retirements on the grounds of voluntary redundancy agreed during the 2015/16 financial year but falling into the following financial year: this is explained fully in Note 19. There is a high degree of certainty that the liabilities will materialise and that the amounts have been reliably estimated with a high degree of accuracy. The provisions, which relate to employment matters, are held in the Chief Constable's balance sheet. The provision amounts to £0.060m; any changes in the assumptions used to estimate these will only have a minor impact on the Accounts.

## 5. Material Items of Income and Expenditure

The re-measurement of the net defined benefit liability in the Other Comprehensive Income and Expenditure section of the CIES is a gain of £294.1m. This contributes to reducing the Pensions Liability, which is held on the Balance Sheet, to £1,996.9m at 31 March 2016. Further information regarding the Pensions Liabilities can be found in Note 21.

## 6. Events After the Reporting Period

### UK vote to leave the European Union (non-adjusting event)

On 23 June 2016 the EU referendum took place to establish if the United Kingdom would remain part of the EU. The vote saw a decision returned to leave the EU. This decision may have an impact on our future accounting assumptions and estimates and we will keep up to date with the situation as it unfolds and as information is available to ensure that this is considered in future years. Areas that may be affected are:

- Future levels of Government support / funding;
- The potential for an economic downturn / recession and impact on service provision / finances;
- Impact on interest rates and investment income;
- Potential impact on property valuations and the Pension Funds.

## 7. 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 Chief Constable in the year in accordance with proper accounting practice to resources that are specified by statutory provisions as being available to the Chief Constable to meet future capital and revenue expenditure.

2015/16	Police Fund Balance
	£000
<b>Adjustments to the Revenue Resources</b>	
<i>Amounts by which income and expenditure included in the CIES are different from revenue for the year calculated in accordance with statutory requirements:</i>	
Pensions Costs (transferred to or from Pensions Reserve)	(68,095)
Holiday pay (transferred to the Accumulated Absences Reserve)	(346)
<b>Total Adjustments</b>	<b>(68,441)</b>

Notes to the Financial Statements

2014/15	Police Fund Balance
	£000
<b>Adjustments to the Revenue Resources</b>	
<i>Amounts by which income and expenditure included in the CIES are different from revenue for the year calculated in accordance with statutory requirements:</i>	
Pensions Costs (transferred to or from Pensions Reserve)	(75,729)
Holiday pay (transferred to the Accumulated Absences Reserve)	6
<b>Total Adjustments</b>	<b>(75,723)</b>

## 8. Unusable Reserves

The Pensions Reserve and Accumulated Absences Reserve are held by the Chief Constable and all other unusable reserves are held by the PCC. Unusable reserves are consolidated in the Group Accounts. The Chief Constable's unusable reserves can be summarised as follows:

31 March 2015 £000		31 March 2016 £000
2,222,866	Pension Reserve	1,996,906
3,086	Accumulated Absences Reserve	3,432
<b>2,225,952</b>	<b>Total Unusable Reserves</b>	<b>2,000,338</b>

### (i) Pensions Reserve

Payments for the cost of post employment benefits and the associated liability are shown in the Chief Constable's Accounts. 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 Chief Constable Accounts for post employment benefits in the CIES 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 Chief Constable makes employers contributions to pension funds or eventually pays any pensions for which he 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 Chief Constable has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits are due to be paid and that the PCC can continue to meet the liability in the Chief Constable's Accounts, which is made up as follows:

2014/15 £000		2015/16 £000
<b>1,902,657</b>	<b>Balance as at 1 April</b>	<b>2,222,866</b>
244,480	Re-measurement of the net defined benefit liability	(294,055)
133,794	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the CIES	127,258
(58,065)	Employer's pensions contributions and direct payments to pensioners payable in the year	(59,163)
<b>2,222,866</b>	<b>Balance as at 31 March</b>	<b>1,996,906</b>

Notes to the Financial Statements**(ii) Accumulated Absences Account**

The cost of employment benefits and the associated Accumulated Absences liability is shown in the Chief Constable's Accounts. The Accumulated Absences Account absorbs the differences that would otherwise arise on the Police Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. time off in lieu carried forward at 31 March. Statutory arrangements require that the impact on the Police Fund Balance is neutralised by transfers to or from the Account.

2014/15			2015/16	
£000	£000		£000	£000
	3,092	<b>Balance as at 1 April</b>		3,086
(3,092)		Cancellation of accrual made at the end of the preceding year	(3,086)	
3,086		Amount accrued at the end of the current year	3,432	
	(6)	Amount by which officer remuneration charged to the CIES on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements		346
	3,086	<b>Balance as at 31 March</b>		3,432

**9. Amounts Reported For Resource Allocation Decisions**

The analysis of income and expenditure by service on the face of the CIES is specified by the SerCOP. However, the PCC on the basis of the budget report makes decisions about resource allocation, as explained in the Revenue Outturn in the Foreword to the Accounts. This report is prepared on a different basis from the accounting policies used in the financial statements. The differences include:

- no charges are made in relation to capital charges whereas depreciation, revaluation and impairment losses and amortisation are charged to services in the CIES;
- the cost of retirement benefits is based on cash flows (payments of employer's pension contributions) rather than current service cost of benefits accrued in the year.

The following tables show how the figures used for budget reporting relate to those contained in the CIES:

2014/15			2015/16	
£000	£000		£000	£000
		<b>CC Reporting of Income and Expenditure</b>		
168,900		Pooled Expenditure	181,643	
28,953		Non-pooled Expenditure (excluding OPCC)	28,606	
	197,853	<b>Total Expenditure</b>		210,249
		<b>Reconciliation of CC Reporting Income and Expenditure to Cost of Services in the Operating Statement</b>		
	197,853	<b>Net expenditure in the reporting analysis</b>		210,249

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		Amounts in the CIES not reported to management		
4,029		Capital Charges	5,740	
41,525		Current cost of pensions	46,453	
(6)		Accumulated absences	347	
1,019		Non distributed costs	741	
(193,128)		PCC's Funding for Resources Consumed	(207,388)	
(822)		Corporate & Democratic Core - PCC	(1,707)	
	<b>(147,383)</b>			<b>(155,814)</b>
		Amounts included in the analysis not included in the CIES		
(26,720)		Cost of pensions based on cash flows (employers contributions)	(28,365)	
(1,771)		Minimum Revenue Provision	(1,613)	
(5,717)		Revenue contributions to capital	(4,837)	
(444)		Interest payable	(444)	
	<b>(34,652)</b>			<b>(35,259)</b>
	<b>15,818</b>	<b>Cost of Services in CIES</b>		<b>19,176</b>

**Reconciliation to Subjective Analysis**

These reconciliations show how the figures in the analysis reported for resource allocation decisions relate to the subjective analysis of the Surplus or Deficit on the Provision of Services included in the CIES.

2015/16	CC Analysis	Amounts not reported for decision making	Amounts not included in Income and Expenditure	Corporate Amounts	Total
	£000	£000	£000	£000	£000
Funding from the PCC for financial resources consumed	0	0	(207,388)	0	(207,388)
Government grants and contributions	0	0	(30,799)	0	(30,799)
<b>Total Income</b>	<b>0</b>	<b>0</b>	<b>(238,187)</b>	<b>0</b>	<b>(238,187)</b>
Pooled Expenditure	181,643	0	0	0	181,643
Non-pooled Expenditure	28,606	0	0	0	28,606
Pensions current cost of service	0	46,453	0	0	46,453
Cost of pensions based on cash flows	0	0	(28,365)	0	(28,365)
Accumulated absences	0	347	0	0	347
Corporate & Democratic Core - PCC	0	(1,707)	0	0	(1,707)
Non distributed costs	0	0	0	741	741
Capital charge	0	5,740	0	0	5,740
Minimum revenue provision	0	0	(1,613)	0	(1,613)
Revenue contributions to capital	0	0	(4,837)	0	(4,837)



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Interest payable	0	0	(444)	0	(444)
Net interest on the net defined benefit liability	0	80,064	0	0	80,064
<b>Total Expenditure</b>	<b>210,249</b>	<b>130,897</b>	<b>(35,259)</b>	<b>741</b>	<b>306,628</b>
<b>Total</b>	<b>210,249</b>	<b>130,897</b>	<b>(273,446)</b>	<b>741</b>	<b>68,441</b>
	<b>Group reporting</b>				<b>Deficit on the Provision of services</b>

2014/15	Group Analysis	Amounts not reported for decision making	Amounts not included in Income and Expenditure	Corporate Amounts	Total
	£000	£000	£000	£000	£000
Funding from the PCC for financial resources consumed	0	0	(193,128)	0	(193,128)
Government grants and contributions	0	0	(31,345)	0	(31,345)
<b>Total Income</b>	<b>0</b>	<b>0</b>	<b>(224,473)</b>	<b>0</b>	<b>(224,473)</b>
Pooled Expenditure	168,900	0	0	0	168,900
Non-pooled Expenditure	28,953	0	0	0	28,953
Pensions current cost of service	0	41,525	0	0	41,525
Cost of pensions based on cash flows	0	0	(26,720)	0	(26,720)
Accumulated absences	0	(6)	0	0	(6)
Corporate & Democratic Core - PCC	0	(822)	0	0	(822)
Non distributed costs	0	0	0	1,019	1,019
Capital charge	0	4,029	0	0	4,029
Minimum revenue provision	0	0	(1,771)	0	(1,771)
Revenue contributions to capital	0	0	(5,717)	0	(5,717)
Interest payable	0	0	(444)	0	(444)
Net interest on the net defined benefit liability	0	91,250	0	0	91,250
<b>Total Expenditure</b>	<b>197,853</b>	<b>135,976</b>	<b>(34,652)</b>	<b>1,019</b>	<b>300,196</b>
<b>Total</b>	<b>197,853</b>	<b>135,976</b>	<b>(259,125)</b>	<b>1,019</b>	<b>75,723</b>
	<b>Group reporting</b>				<b>Deficit on the Provision of services</b>



## 10. Intra-Group Funding Arrangements Between the PCC and the Chief Constable

The treatment of transactions and balances within the Group Accounts is set out in Note 3.

The Intra-Group funding arrangement is eliminated on consolidation of the Group Accounts, a treatment adopted for any transactions between the PCC and Chief Constable. The guarantee from the PCC in respect of the resources consumed by the Chief Constable in 2015/16 amounts to £207.4m (£193.1m in 2014/15). This has been re-presented in the CIES and is now included within the Net Cost of Policing Services, in line with current best practice for the preparation of Police Accounts.

The Chief Constable's Balance Sheet includes an Intra-Group Debtor of £3.788m (Creditor of £7.803m in 2014/15) being the net balance of funding not settled between the PCC and Chief Constable as at the 31 March; this relates mainly to the balance of Debtors and Creditors shown in each of the single-entity accounts as at this date.

The calculation of the Intra-Group funding is set out in the following table:

2014/15 £000		2015/16 £000
208,946	Chief Constable's Cost of Services	226,564
91,250	Interest on the net defined benefit liability	80,064
(31,345)	Home Office grant towards the cost of retirement	(30,798)
244,480	Re-measurement of the net defined benefit liability	(294,055)
<b>513,331</b>	<b>Resources consumed</b>	<b>(18,225)</b>
	<b>Items removed through the MIRS</b>	
(320,209)	Movement in pensions liability	225,959
6	Movement in accumulated absences liability	(346)
<b>193,128</b>	<b>Total resources consumed for the year by the Chief Constable and funded by the PCC</b>	<b>207,388</b>

## 11. Pooled Budgets and Joint Ventures

### Alliance with Warwickshire Police

On 28 June 2011 West Mercia Police Authority and the Chief Constable of West Mercia agreed to enter into an 'Alliance' with Warwickshire Police Authority and the Chief Constable of Warwickshire. The PCCs of both West Mercia and Warwickshire support this decision. The Alliance provides an opportunity for the two neighbouring forces to work closely together and to share resources and assets. Each PCC retains strategic control and their own sovereignty, finances, estates and identity and each Chief Constable retains operational independency.

The new policing model across Herefordshire, Shropshire, Telford and Wrekin, Warwickshire and Worcestershire was implemented on 1 October 2013, resulting in over 90% of all costs being pooled under the Alliance, as set out in the following table. Costs are matched by the contributions from the counterparties to the agreement so as to ensure costs are shared across the entities in line with the cost sharing arrangements, Warwickshire 31%, West Mercia 69%.

Notes to the Financial Statements

The governance arrangements and resulting treatment of transactions and balances is set out in Note 3 and also referred to in the Narrative Statement.

2014/15 £000		2015/16 £000
(75,847)	Contribution from Warwickshire	(81,608)
(168,907)	Contribution from West Mercia	(181,643)
<b>(244,754)</b>	<b>Total Funding provided to the Alliance</b>	<b>(263,251)</b>
211,923	Pay and allowances	223,491
6,460	Transport costs	6,281
23,135	Supplies and Services	28,057
3,236	Third Party Payments	5,422
<b>244,754</b>	<b>Total Expenditure</b>	<b>263,251</b>
0	Other Inter-Force Charges for Supplies and Services	0
<b>244,754</b>	<b>Total Expenditure (pooled)</b>	<b>263,251</b>

### Place Partnership Limited

Place Partnership Limited (PPL) is a single asset management company co-owned by West Mercia Police, Warwickshire Police, Worcestershire County Council, Hereford & Worcester Fire Authority, Redditch Borough Council and Worcester City Council that commenced business on 1 September 2015. Each party has equal shares and equal voting rights. PPL has been classified as a Joint Operation, because there is joint control and the activity of the arrangement is primarily to provide services to the parties within the parties' boundaries. In 2015/16, the operating costs for West Mercia Police were £4.685m and this is reflected in the CIES. PPL has not been fully consolidated into West Mercia Police's Accounts as a Joint Operation, because there is no material difference to the costs already reflected.

West Mercia's share of PPL's Local Government Pension Scheme transactions for 2015/16 have been incorporated into the CIES and the MIRS and are shown separately in the tables in Note 21. The actuaries assessed the assets and liabilities relating to PPL as £23.261m as at 31 March 2016 (West Mercia's share being 34.3%, which is already included in West Mercia's LGPS assets and liabilities): a net liability of zero. In assessing this position the actuaries have taken into account the guarantee that is in place between the partners and PPL to ensure that PPL's pension position is fully funded at inception and at the year end.

### Central Motorway Police Group

The PCC for West Mercia and the PCCs for Staffordshire and the West Midlands are engaged in a jointly controlled operation for the policing of the motorway network in the West Midlands region known as the Central Motorway Police Group (CMPG). The PCC for West Midlands provides the financial administration service for this joint unit.

The assets of the unit in respect of police vehicles, equipment, land and buildings are held individually by each PCC and are shown in their respective balance sheets.

The three PCCs have an agreement in place for funding this unit with contributions to the agreed budget of 50.7% from West Midlands, 25.4% from West Mercia and 23.9% from Staffordshire. The same proportions are used to meet any deficit or share any surplus arising

Notes to the Financial Statements

on the Group budget at the end of each financial year. The revenue account for CMPG covers all operating costs. The details for 2015/16 are as follows:

2014/15		2015/16
£000		£000
(3,953)	Contribution from West Midlands	(3,940)
(1,971)	Contribution from West Mercia	(2,000)
(1,858)	Contribution from Staffordshire	(1,888)
<b>(7,782)</b>	<b>Total funding provided to the CMPG</b>	<b>(7,828)</b>
7,140	Pay and allowances	7,032
58	Premises costs	68
466	Transport costs	539
216	Supplies and Services	196
<b>7,880</b>	<b>Total expenditure</b>	<b>7,835</b>
(98)	External Funding and other Income	(7)
<b>7,782</b>	<b>Total Net Expenditure</b>	<b>7,828</b>

### Central Counties' Air Operations Unit (CCAOU) and National Police Air Service (NPAS)

The CCAOU was a joint operation by the Chief Constables of West Mercia and Staffordshire. The former provided the financial administration service for this joint unit, with the two PCCs jointly owning the helicopter.

NPAS was set up by the Home Office with effect from 2 October 2012 with administration of the service being provided by the Chief Constable of West Yorkshire. The West Mercia and Staffordshire helicopter was formally transferred to the new national service provider on 3 October 2013. NPAS does not constitute a jointly controlled operation and so the PCC only accounts for the expense of payments to NPAS amounting to £0.598m in 2015/16, (£0.598m in 2014/15) and not for a share of the assets or liabilities. The West Mercia share of the helicopter was removed from the Accounts in 2013/14.

As part of the transfer arrangements, the PCC will receive an annual payment from NPAS to reflect the value of the air frame credits for the transferred helicopter. NPAS's liability to the PCC is shown in the PCC's balance sheet as a long term debtor of £0.444m, representing the discounted value of future expected cash flows in 2015/16 and subsequent years. Future payments from NPAS will be offset against these debtors and an annual interest amount credited to the CIES.

## 12. Exit Packages

In order to make savings as part of the Medium Term Financial Plan it has been necessary to review how police services are delivered. As a result a number of exit packages have been approved during 2015/16. Exit packages include charges by the LGPS in respect of benefits paid before normal retirement age. There were no compromise agreements covering the 2015/16 exit packages. All of the employees left the organisation prior to 1 April 2016. All redundancies were voluntary and there were no compulsory redundancies in 2015/16. An additional £0.238m has been paid to PPL relating to West Mercia Police's share of the redundancy costs incurred following PPL's staffing restructure. This contribution was agreed

Notes to the Financial Statements

prior to the commencement of PPL. The number of exit packages resulting from redundant posts with total cost per band is set out in the table:

Exit Package cost band (including special payments)	Number of Exit Packages		Total cost of Exit Packages in each band	
	2014/15	2015/16	2014/15 £000	2015/16 £000
£0 - £20,000	21	24	208	218
£20,001 - £40,000	15	5	484	137
£40,001 - £60,000	4	2	196	95
£60,001 - £80,000	3	1	191	76
£80,001 - £100,000	1	0	82	0
£100,001 - £150,000	1	0	103	0
£150,001 - £200,000	0	1	0	177
<b>Total</b>	<b>45</b>	<b>33</b>	<b>1,264</b>	<b>703</b>

### 13. Officers' Remuneration

Regulation 7(3) of the Accounts and Audit Regulations 2015 sets out the information to be disclosed to increase transparency and accountability in Local Government for reporting remuneration of senior employees and senior police officers. Remuneration includes all sums paid to or receivable by an employee and expense allowance chargeable to tax, including non-cash benefits in kind. The relevant remuneration information is as follows:

#### Senior Officer and Relevant Police Officer Emoluments:

		Salary, Fees & Allowances	Bonuses	Expenses Allowances	Benefits in Kind (e.g. car allowance)	Other Payments (Police Officers only)	Exit Packages	Pension Contributions	Total
		£	£	£	£	£	£	£	£
Chief Constable - Mr D Shaw	2015/16	142,743	0	505	3,197	6,614	0	0	153,059
	2014/15	141,330	0	3,704	5,637	4,955	0	0	155,626
Deputy Chief Constable - Note 1	2015/16	117,761	0	216	4,599	4,281	0	28,498	155,355
	2014/15	92,445	0	682	5,321	3,389	0	22,372	124,209
Asst Chief Constable 1 – Note 2	2015/16	39,850	0	0	1,779	1,784	0	0	43,413
	2014/15	86,652	0	420	3,527	3,685	0	18,983	113,267
Asst Chief Constable 2 – Note 3	2015/16	94,415	0	216	4,677	3,685	0	19,822	122,815
	2014/15	86,652	0	420	3,527	3,685	0	18,983	113,267
Asst Chief Constable 3 – Note 4	2015/16	83,431	0	0	0	3,686	0	19,378	106,495
	2014/15	0	0	0	0	0	0	0	0
Director of Finance	2015/16	102,398	0	216	0	0	0	11,878	114,492
	2014/15	98,054	0	858	4,404	0	0	10,917	114,233

Notes to the Financial Statements

Notes:	
1	Deputy Chief Constable appointed 16 June 2014
2	Assistant Chief Constable 1 left the Force on 31 August 2015.
3	Assistant Chief Constable 2 temporarily acting up into this role from 6 October 2014 until 6 January 2016, subsequently being appointed on a permanent basis from 2 May 2016.
4	Assistant Chief Constable 3 temporarily acting up into this role from 7 January 2016 until 15 May 2016.
*	Under the Alliance agreement the costs of Assistant Chief Officers from West Mercia Police (including Director of Finance) and the costs of Assistant Chief Officers from Warwickshire Police are pooled and the expenditure is shared between the two forces on the basis of 69% West Mercia 31% Warwickshire. The Chief Constable and Deputy Chief Constable costs are not shared.

Senior police officers and police staff receiving more than £50,000 remuneration for the year (excluding employer's pension contributions) and including Senior Officers listed above were paid the following amounts:

Number of Employees		Number of Employees
2014/15	Remuneration Band	2015/16
84	£50,000 - £54,999	106
53	£55,000 - £59,999	63
9	£60,000 - £64,999	19
8	£65,000 - £69,999	7
1	£70,000 - £74,999	6
4	£75,000 - £79,999	2
2	£80,000 - £84,999	4
2	£85,000 - £89,999	2
1	£90,000 - £94,999	0
1	£95,000 - £99,999	0
1	£100,000 - £104,999	2
0	£105,000 - £109,999	0
0	£110,000 - £114,999	0
1	£115,000 - £119,999	0
0	£120,000 - £124,999	0
0	£125,000 - £129,999	1
0	£130,000 - £134,999	0
0	£135,000 - £139,999	0
0	£140,000 - £144,999	0
0	£145,000 - £149,999	0
0	£150,000 - £154,999	1
1	£155,000 - £159,999	0
<b>170</b>	<b>Total</b>	<b>213</b>

#### 14. External Audit Costs

The Chief Constable has incurred the following costs in relation to the Audit of the Statement of Accounts statutory inspections and to non-audit services provided by the Group's external auditors, Grant Thornton.

2014/15 £000		2015/16 £000
(3)	Rebate from the Audit Commission with regard to external audit costs	0
25	Fees payable to Grant Thornton with regard to external audit services carried out by the appointed auditor for the year	19
0	Fees payable to Grant Thornton in respect of other services provided by them during the year	0
22	<b>Total</b>	<b>19</b>

The total audit fee for the statutory audit of the Group's Statement of Accounts payable to Grant Thornton is £53,010 (2014/15 £74,331). The PCC's share of the audit fees is £34,260 (£49,331 in 2014/15).

#### 15. Related Parties

The PCC and the Chief Constable are intrinsically related. The PCC empowers the Chief Constable through the scheme of delegation and provides funding to meet expenditure incurred by the Chief Constable on behalf of the PCC. A full explanation of this relationship is set out in Note 3 to the Accounts.

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

Central government has significant influence over the general operations of the Chief Constable. It is responsible for providing the statutory framework within which the Chief Constable operates. The PCC has direct control over the Group's finances, including making crime and disorder reduction grants and is responsible for setting the Police and Crime Plan. The Chief Constable retains operational independence and operates within the budget set by the PCC, to deliver the aims and objectives set out in the Police and Crime Plan.

Worcestershire County Council administers the LGPS and provides payroll services to the Chief Constable.

The PCC and Chief Constable participate in various partnerships with a range of public bodies, the most significant of which is the Alliance under a Section 23 Agreement with Warwickshire Police. Details of the transactions with other public bodies participating in joint arrangements are set out in Note 11 to the Accounts.

## Notes to the Financial Statements

The Alliance with Warwickshire Police involves a cross-charge in and cross-charge out in 2015/16 of £38.6m (£35.4m in 2014/15) and £47.8m (£41.1m in 2014/15) respectively as shown in the table below.

As explained in Note 11, Place Partnership Limited (PPL) is a single asset management company co-owned by West Mercia Police, Warwickshire Police, Worcestershire County Council, Hereford & Worcester Fire Authority, Redditch Borough Council and Worcester City Council that commenced business on 1 September 2015. Each party holds two shares of £1 each; the PCC and the Chief Constable each hold one share of West Mercia Police's shares. The PCC and Chief Constable receive no remuneration from PPL.

The following table shows the extent of the expenditure and income with other local authorities and police forces.

	Expenditure	Income
	£000	£000
Warwickshire Police Strategic Alliance S23 Agreement cross-charges	38,616	(47,810)
Local Authorities in the Policing Area	3,744	(764)
Other Local Authorities	159	(76)
Seconded Police Officers	0	(1,323)
Other Police Forces	2,398	(678)
Place Partnership Limited	4,685	0
<b>Total</b>	<b>49,602</b>	<b>(50,651)</b>

There are no other related party transactions for the PCC and Chief Constable other than those set out above, which require adjustment of or disclosure in the financial statements or the accompanying notes.

## 16. Inventories

2015/16	Vehicle Fuel	Vehicle Spares	Uniforms	Stationery	IT Equipment	Scenes of Crime Equipment	Total
	£000	£000	£000	£000	£000	£000	£000
<b>Balance outstanding at start of year</b>	<b>69</b>	<b>91</b>	<b>209</b>	<b>16</b>	<b>10</b>	<b>11</b>	<b>406</b>
Purchases	678	18	756	182	387	87	<b>2,108</b>
Recognised as an expense in the year	(686)	(29)	(656)	(183)	(377)	(98)	<b>(2,029)</b>
Written off balances	0	0	0	0	0	0	<b>0</b>
<b>Balance outstanding at end of year</b>	<b>61</b>	<b>80</b>	<b>309</b>	<b>15</b>	<b>20</b>	<b>0</b>	<b>485</b>



Notes to the Financial Statements

2014/15	Vehicle Fuel	Vehicle Spares	Uniforms	Stationery	IT Equipment	Scenes of Crime Equipment	Total
	£000	£000	£000	£000	£000	£000	£000
<b>Balance outstanding at start of year</b>	<b>103</b>	<b>103</b>	<b>203</b>	<b>21</b>	<b>8</b>	<b>13</b>	<b>451</b>
Purchases	730	41	333	172	8	22	<b>1,306</b>
Recognised as an expense in the year	(764)	(53)	(327)	(177)	(6)	(24)	<b>(1,351)</b>
Written off balances	0	0	0	0	0	0	<b>0</b>
<b>Balance outstanding at end of year</b>	<b>69</b>	<b>91</b>	<b>209</b>	<b>16</b>	<b>10</b>	<b>11</b>	<b>406</b>

**17. Debtors**

This note shows money owed to the Chief Constable for funding and services provided on or before 31 March 2016 where the money has not been received by this date.

31 March 2015 £000		31 March 2016 £000
11,917	Central Government bodies (balance of Police Pensions Top-up Grant)	2,150
43	Other entities and individuals	11
<b>11,960</b>	<b>Total Debtors</b>	<b>2,161</b>

**18. Creditors**

This note shows money owed by the Group and PCC for goods and services purchased and received on or before 31 March 2016 where the money has not been paid by this date.

31 March 2015 £000		31 March 2016 £000
(2,892)	Central Government bodies	(3,230)
(566)	Other Local Authorities	(1,668)
(3,640)	Other entities and individuals	(4,908)
<b>(7,098)</b>	<b>Total Creditors</b>	<b>(9,806)</b>



**19. Provisions and Contingent Liabilities**

	<b>Termination Benefits</b>	<b>Employment Appeal Tribunal Ruling</b>	<b>Total Provisions</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Balance at 1 April 2015</b>	<b>331</b>	<b>220</b>	<b>551</b>
Additional provisions made in 2015/16	0	0	0
Amounts used in 2015/16	(271)	0	(271)
Unused amounts reversed in 2015/16	0	(220)	(220)
<b>Balance at 31 March 2016 for the Group</b>	<b>60</b>	<b>0</b>	<b>60</b>
<b>Less Chief Constable's Provisions</b>	<b>(60)</b>	<b>0</b>	<b>(60)</b>
<b>PCC's Provisions</b>	<b>0</b>	<b>0</b>	<b>0</b>

The movement during the year on the provisions that existed as at 1 April 2016 is explained below. No additional provisions were charged to the CIES in 2015/16 in respect of events or decisions which are likely to give rise to payments in the future.

**Termination Benefits**

This provision was established to meet the costs of voluntary redundancies and early retirements on the grounds of voluntary redundancy agreed during the 2014/15 financial year but falling into the following financial year; these payments amounted to £0.141m. An amount of £0.060m has been retained in the provision for the costs of voluntary redundancies agreed during 2015/16 but falling into 2016/17. It also included £0.130m relating to the estimate of an Injury Gratuity for an Officer who suffered an injury in 2012 that was settled during the 2015/16 financial year for the amount of £0.152m. Due to the uncertain timing and value of the payment, this was charged to a provision in 2014/15 with the additional £0.022m being charged to the CIES in 2015/16.

**Employment Appeal Tribunal Ruling in Respect of Holiday Pay**

The ruling from the Employment Appeal Tribunal Bear Scotland vs Fulton, states that employees whilst on holiday are entitled to be paid, under the Working Time Directive and Working Time Regulations, "normal remuneration". The implication is that normal remuneration will be calculated taking into account overtime and various other allowances. Following discussions between the Police Federation of England and Wales and the Home Office an agreed amount was paid to Officers during 2015/16, however the provision for backpay was not required and £0.220m was written back to the CIES in the year.

**Police Pension Scheme - uplifts to commutation factors**

A potential liability was identified in respect of the Pensions Ombudsman's determination regarding uplifts to commutation factors, following a case concerning the lump sum paid to a fire-fighter at retirement (Milne v Government Actuary's Department (GAD)). GAD issued a Technical Bulletin on 15 May 2015 stating that any member who received a pension commutation lump sum between 2001 and 2006 should have received an additional payment because the GAD commutation factor had not been reviewed as required. Due to the complex nature of the calculations and the number of variables involved, an accurate estimate of the liability could not be made and this was shown as a contingent liability in the 2014/15

Notes to the Financial Statements

Accounts. The matching funding from the Home Office was recognised as a Contingent Asset in the 2014/15 Accounts.

West Mercia Police paid the additional lump sums during 2015/16 to the officers affected and the total of these payments, including interest, amounted to £6.158m. GAD have reimbursed the total payments met by the Police Pension Fund Account (PFA) by way of Pensions Top-up from the Home Office. The amount of £6.158m has also been recognised in the Re-measurement of the net defined benefit liability for the Police Pension Scheme 1987 and also in Benefits paid, as set out in Note 21.

### Police Pension Scheme 2015 (CARE scheme) – Legal Challenge

The Chief Constable of West Mercia Police, along with other Chief Constables and the Home Office, currently have claims lodged against them with the Central London Employment Tribunal. The claims are in respect of alleged unlawful discrimination arising from the Transitional Provisions in the Police Pension Regulations 2015. The Tribunal is unlikely to consider the substance of the claims until 2017. Legal advice suggests that there is a strong defence against these claims. The quantum and who will bear the cost is also uncertain, if the claims are partially or fully successful. For these reasons, no provision has been made in the 2015/16 Accounting Statements.

## 20. Cash Flow Statement – Operating Activities

The Chief Constable does not hold a bank account and in order to balance the mandatory cash flow statement a non-cash movement is shown in respect of the sums required at the financial year end to finance the Chief Constable's share of external debtors, external creditors, inventories, provisions and the employment liability due to employees and the pensions accounts, as shown below:

2014/15 £000		2015/16 £000
262	(Increase)/decrease in revenue creditors	(2,708)
6,605	Increase/(decrease) in revenue debtors	(9,799)
(45)	Increase/(decrease) in inventories	79
(6,842)	Movement in Intra-Group Funding	11,591
(75,729)	Movement in pension liability	(68,095)
26	Movement in provisions	491
(75,723)	<b>Total – Group and PCC</b>	<b>(68,441)</b>

## 21. Defined Benefit Pension Schemes

The costs and liabilities associated with retirement benefits are primarily recorded in the Chief Constable's Accounts.

### Participation in Pension Schemes

As part of the terms and conditions of employment for police officers and other employees the Chief Constable makes contributions towards the cost of post-employment benefits (pensions).

## Notes to the Financial Statements

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Although these benefits will not actually be payable until employees retire, the Chief Constable has a commitment to make the payments that need to be disclosed at the time that the employees earn their future entitlement, no matter when the actual financial cost is incurred.

The Chief Constable participates in two defined benefit pension schemes:

- the Local Government Pension Scheme (LGPS), for police staff and PCSOs, administered locally by Worcestershire County Council. This is a funded, defined benefit scheme, meaning that the Chief Constable and the employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets. With effect from 1 April 2014, the LGPS became a career average (CARE) scheme rather than a final salary scheme.
- the Police Pension Scheme 1987 (OPPS), the New Police Pension Scheme 2006 (NPPS) and the Police Pension Scheme 2015 (PPS) for police officers were administered in-house until 30 November when the administration was transferred to Kier Business Services Limited. These are unfunded defined benefit final salary schemes, meaning that there are no investment assets built up to meet the pensions liabilities, and cash has to be generated to meet the actual pensions payments as they eventually fall due. The income and expenditure incurred by the police pension schemes and how they are funded is summarised in the section covering the Police Pensions Fund Account.

The pension schemes above provide members with indexed-linked benefits, which are determined predominantly by the individual's pensionable salary and length of service. As part of the government's pension reforms, these schemes are undergoing significant changes in how they are funded and the benefits they offer. However, the purpose of this note is to explain the financial impact, in accordance with the Code, of the pension schemes on the Accounts. Details of how the police pension schemes operate can be found on the Home Office website and details of how the LGPS operates can be found on the Worcestershire County Council website.

As explained in Note 11, West Mercia's 34.3% share of PPL's transactions for 2015/16 have been incorporated into the CIES and the MIRS and are shown separately in the tables below. The actuaries assessed the total assets and liabilities relating to PPL as £23.261m as at 31 March 2016: a net liability of zero. These values are provisional and will be reviewed as part of the 2016 actuarial valuation.

Discretionary post-retirement benefits on early retirement are an unfunded benefit arrangement, under which liabilities are recognised when awards are made. There are no scheme assets built up to meet these pension liabilities.

### Transactions Relating to Post-Employment Benefits

The cost of retirement benefits is reported in the Cost of Services when they are earned by police officers, police staff and PCSOs, rather than when the benefits are eventually paid as pensions. However, the charge against council tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out of the Police Fund via the Group MIRS. The following transactions have been made in the Group CIES and the Police Fund via the MIRS during the year:

Notes to the Financial Statements

2015/16	LGPS £000	LGPS (PPL ele- ment) £000	Police Pension Scheme 1987 £000	Police Injury Awards £000	Police Pension Scheme 2006 £000	Police Pension Scheme 2015 £000	Total £000
<b>CIES</b>							
<b>Cost of Services:</b>							
– current service costs	10,193	200	20,670	1,960	940	12,490	46,453
– past service costs and gain/loss from settlements	109	52	50	80	330	120	741
<b>Financing and Investment Income and Expenditure</b>							
– net interest expense	10,027	167	64,890	2,390	2,300	290	80,064
<b>Total Post Employment Benefit charged to the surplus or deficit on the Provision of Services</b>	<b>20,329</b>	<b>419</b>	<b>85,610</b>	<b>4,430</b>	<b>3,570</b>	<b>12,900</b>	<b>127,258</b>

<b>Other Post-Employment Benefits charged to the CIES</b>							
Re-measurement of the net defined benefit liability and return on plan assets	(15,198)	(319)	(250,772)	(12,180)	(13,862)	(1,724)	(294,055)
<b>Total Post Employment Benefit charged to the CIES</b>	<b>5,131</b>	<b>100</b>	<b>(165,162)</b>	<b>(7,750)</b>	<b>(10,292)</b>	<b>11,176</b>	<b>(166,797)</b>

<b>MIRS</b>							
Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post-employment benefits in accordance with the Code.	(20,329)	(419)	(85,610)	(4,430)	(3,570)	(12,900)	(127,258)
<b>Actual amount charged against the Police Fund Balance for pensions in the year</b>							
– employers' contributions payable to the scheme	7,371	100	55,168		(552)	(5,154)	56,933
– benefits paid direct to beneficiaries				2,230			2,230

Notes to the Financial Statements

<b>2014/15</b>	<b>LGPS £000</b>	<b>Police Pension Scheme 1987 £000</b>	<b>Police Injury Awards £000</b>	<b>Police Pension Scheme 2006 £000</b>	<b>Total £000</b>
<b>CIES</b>					
<b>Cost of Services:</b>					
– current service costs	6,935	28,050	950	5,590	41,525
– past service costs and gain/loss from settlements	609	20	90	300	1,019
<b>Financing and Investment Income and Expenditure</b>					
– net interest expense	10,470	74,770	3,580	2,430	91,250
<b>Total Post Employment Benefit charged to the surplus or deficit on the Provision of Service</b>	<b>18,014</b>	<b>102,840</b>	<b>4,620</b>	<b>8,320</b>	<b>133,794</b>

<b>Other Post-Employment Benefits charged to the CIES</b>					
Re-measurement of the net defined benefit liability and return on plan assets	31,183	217,969	(12,100)	7,428	244,480
<b>Total Post Employment Benefit charged to the CIES</b>	<b>49,197</b>	<b>320,809</b>	<b>(7,480)</b>	<b>15,748</b>	<b>378,387</b>
<b>MIRS</b>					
Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post-employment benefits.	(18,014)	(102,840)	(4,620)	(8,320)	(133,794)
<b>Actual amount charged against the Police Fund Balance for pensions in the year</b>					
– employers' contributions payable to the scheme	7,168	50,809		(1,772)	56,205
– benefits paid direct to beneficiaries			1,860		1,860

### **Pensions Assets and Liabilities Recognised in the Balance Sheets for the Chief Constable and the Group**

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

Notes to the Financial Statements

2015/16	LGPS £000	Police Pension Scheme 1987 £000	Police Injury Awards £000	Police Pension Scheme 2006 £000	Police Pension Scheme 2015 £000	Total £000
Present value of the defined benefit obligation (including PPL £0.689m)	(295,301)	(1,760,240)	(62,590)	(59,270)	(16,330)	(2,193,731)
Fair value of plan assets (including PPL £0.689m)	196,825	0	0	0	0	196,825
<b>Net liabilities arising from the defined benefit obligation</b>	<b>(98,476)</b>	<b>(1,760,240)</b>	<b>(62,590)</b>	<b>(59,270)</b>	<b>(16,330)</b>	<b>(1,996,906)</b>
2014/15	LGPS £000	Police Pension Scheme 1987 £000	Police Injury Awards £000	Police Pension Scheme 2006 £000	Police Pension Scheme 2015 £000	Total £000
Present value of the defined benefit obligation	(296,718)	(1,980,570)	(72,570)	(69,010)		(2,418,868)
Fair value of plan assets	196,002	0	0	0		196,002
<b>Net liabilities arising from the defined benefit obligation</b>	<b>(100,716)</b>	<b>(1,980,570)</b>	<b>(72,570)</b>	<b>(69,010)</b>		<b>(2,222,866)</b>

**Reconciliation of Present Value of the Scheme Liabilities (Defined Benefit Obligation) for the Chief Constable and the Group**

2015/16	LGPS £000	LGPS (PPL ele- ment) £000	Police Pension Scheme 1987 £000	Police Injury Awards £000	Police Pension Scheme 2006 £000	Police Pension Scheme 2015 £000	Total £000
<b>Opening balance at 1 April</b>	<b>(296,718)</b>	<b>0</b>	<b>(1,980,570)</b>	<b>(72,570)</b>	<b>(69,010)</b>	<b>0</b>	<b>(2,418,868)</b>
Current service cost	(10,193)	(200)	(20,670)	(1,960)	(940)	(12,490)	(46,453)
Interest cost	(10,027)	(167)	(64,890)	(2,390)	(2,300)	(290)	(80,064)
Contributions by scheme participants	(2,663)	(59)	(4,690)	0	(230)	(5,100)	(12,742)
Re-measurement of liabilities *	18,991	(157)	250,652	12,180	13,530	1,670	296,866
Benefits paid *	6,107	(54)	59,978	2,230	10	0	68,271
Past service costs	0	0	(50)	(80)	(330)	(120)	(580)
Curtailments	(109)	(52)	0	0	0	0	(161)
<b>Closing balance 31 March</b>	<b>(294,612)</b>	<b>(689)</b>	<b>(1,760,240)</b>	<b>(62,590)</b>	<b>(59,270)</b>	<b>(16,330)</b>	<b>(2,193,731)</b>

\* Including £6.158m relating to the additional liability for the 1987 Scheme arising from Milne v GAD and the corresponding additional payments made to retired officers (see Note 19).

Notes to the Financial Statements

<b>2014/15</b>	<b>LGPS £000</b>	<b>Police Pension Scheme 1987 £000</b>	<b>Police Injury Awards £000</b>	<b>Police Pension Scheme 2006 £000</b>	<b>Total £000</b>
<b>Opening balance at 1 April</b>	<b>(229,357)</b>	<b>(1,710,570)</b>	<b>(81,910)</b>	<b>(51,490)</b>	<b>(2,073,327)</b>
Current service cost	(6,935)	(28,050)	(950)	(5,590)	(41,525)
Interest cost	(10,470)	(74,770)	(3,580)	(2,430)	(91,250)
Contributions by scheme participants	(2,436)	(8,090)	0	(1,490)	(12,016)
Re-measurement of liabilities	(52,787)	(217,780)	12,100	(7,730)	(266,197)
Benefits paid	5,876	58,710	1,860	20	66,466
Past service costs	0	(20)	(90)	(300)	(410)
Curtailments	(609)	0	0	0	(609)
<b>Closing balance 31 March</b>	<b>(296,718)</b>	<b>(1,980,570)</b>	<b>(72,570)</b>	<b>(69,010)</b>	<b>(2,418,868)</b>

**Reconciliation of the Movements in the Fair Value of the Scheme Assets for the Chief Constable and the Group**

<b>Reconciliation of fair value of the scheme assets (LGPS)</b>	<b>2014/15 £000</b>	<b>2015/16 £000</b>	<b>PPL element 2015/16 £000</b>	<b>Total 2015/16 £000</b>
<b>Opening balance at 1 April</b>	<b>170,670</b>	<b>196,002</b>	<b>0</b>	<b>196,002</b>
Interest income	7,936	6,729	168	6,897
Re-measurement gain/loss: The return on plan assets, excluding the amount included in the net interest expense	13,817	(10,360)	311	(10,049)
Administration expenses	(149)	(162)	(3)	(165)
Contributions by employer	7,168	7,371	100	7,471
Contributions from employees into the scheme	2,436	2,663	59	2,722
Benefits paid	(5,876)	(6,107)	54	(6,053)
<b>Closing balance 31 March</b>	<b>196,002</b>	<b>196,136</b>	<b>689</b>	<b>196,825</b>

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets. The Police Pension Scheme has no assets to cover its liabilities.



Notes to the Financial Statements

The liabilities show the underlying commitments that the Chief Constable and the Group has in the long run to pay post employment retirement benefits. However, statutory arrangements for funding the deficit mean that the financial position of the Chief Constable and the Group remains healthy. The deficit on the LGPS will be made good by increased contributions over the remaining working life of employees, (i.e. before payments fall due) as assessed by the scheme actuary. Finance is only required to be raised to cover police pensions when the pensions are actually paid.

The total contributions expected to be made to the LGPS by the Chief Constable in the year to 31 March 2017 is £7.8m. Expected contributions for the Police Pension Schemes by the Chief Constable in the year to 31 March 2017 are £17.9m.

### Reconciliation of the Re-measurement of the Net Defined Benefit Liabilities for the Chief Constable and the Group

The analysis of the re-measurement of the net defined benefit liabilities for 2015/16 is shown in the table below. The two actuaries concerned have different approaches in providing their respective analyses and the table below is therefore a composite analysis.

Supplementary analyses and the table below is therefore a composite analysis.

		LGPS (PPL element) 2015/16 £000	Police Pension Scheme 1987 £000	Police Injury Awards £000	Police Pension Scheme 2006 £000	Police Pension Scheme 2015 £000	Total £000
2015/16	LGPS £000						
Changes in financial assumptions	(18,991)	157	(161,502)	(5,190)	(13,190)	(1,500)	(200,216)
Changes in demographic assumptions	0	0	(29,610)	(670)	(1,000)	(260)	(31,540)
Return on plan assets	(6,729)	(168)	0	0	0	0	(6,897)
Re-measurement of assets	10,522	(308)	0	0	0	0	10,214
Experience gains and losses	0	0	(59,660)	(6,320)	328	36	(65,616)
Total re-measurement	(15,198)	(319)	(250,772)	(12,180)	(13,862)	(1,724)	(294,055)
2014/15	LGPS £000		Police Pension Scheme 1987 £000	Police Injury Awards £000	Police Pension Scheme 2006 £000		Total £000
Changes in financial assumptions	52,787		301,720	10,630	14,780		379,917
Changes in demographic assumptions	0		(50,080)	(26,230)	(5,460)		(81,770)
Return on plan assets	(7,936)		0	0	0		(7,936)
Re-measurement of assets	(13,668)		0	0	0		(13,668)
Experience gains and losses	0		(33,671)	3,500	(1,892)		(32,063)
Total re-measurement	31,183		217,969	(12,100)	7,428		244,480

Notes to the Financial Statements**LGPS Assets**

The LGPS assets consist of the following categories, by proportion of the total assets held:

	<b>Total 31 March 2015 £000</b>	<b>Split of Assets between Investment categories %</b>	<b>Total 31 March 2016 £000</b>	<b>Split of Assets between Investment categories %</b>
Equities	180,125	92	163,807	83
Government Bonds	1,372	1	816	1
Other Bonds	11,369	6	11,209	6
Property	0	0	8,873	4
Alternatives–UK Infrastructure	0	0	7,276	4
Cash-Liquidity	3,136	1	4,155	2
<b>Total Assets</b>	<b>196,002</b>	<b>100</b>	<b>196,136</b>	<b>100</b>

**Basis for Estimating Assets and Liabilities**

Liabilities have been assessed on an actuarial basis using the projected unit actuarial method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc.

The assets and liabilities of the LGPS which is administered by Worcestershire County Council (County Council Fund) have been assessed by Mercer Ltd, an independent firm of actuaries, estimates for the County Council Fund being based on the latest full valuation of the scheme as at 31 March 2013, projected forward to 31 March 2016. The liabilities for the Police Pension Schemes have been assessed by the Government Actuary's Department. The principal assumptions used by the actuaries have been:

<b>2014/15</b>			<b>2015/16</b>	
<b>LGPS</b>	<b>Police Pension Schemes</b>		<b>LGPS</b>	<b>Police Pension Schemes</b>
		Mortality assumptions		
		Longevity at 65 for current pensioners:		
23.4 years	23.3 years	Men	23.5 years	23.1 years
25.8 years	25.7 years	Women	25.9 years	25.1 years
		Longevity at 65 for future pensioners:		
25.6 years	25.4 years	Men	25.8 years	25.1 years
28.1 years	27.9 years	Women	28.2 years	27.2 years
2.1%	2.1%	Rate of CPI inflation	2.0%	2.2%
3.6%	4.2%	Rate of increase in salaries	3.5%	4.2%
2.1%	2.2%	Rate of increase in pensions	2.0%	2.2%
3.4%	3.3%	Rate for discounting scheme liabilities	3.6	3.55%
50%	100%	Take-up of option to convert annual pension into retirement lump sum	50%	100%

# Notes to the Financial Statements

Life expectancy is based on the Self Administered Pensions Scheme (SAPS) year of birth tables adjusted for specific characteristics of the membership of the two schemes.

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

	Impact on the Defined Benefit Obligation in the Scheme	
	Increase in assumption	Decrease in assumption
	£000	£000
Longevity (increase or decrease in 1 year)	47,010	(47,010)
Rate of inflation (increase or decrease by 1%) – Police staff only	6,343	(6,343)
Rate of increase in salaries (increase or decrease by 1%)	40,718	(40,718)
Rate of increase in pensions (increase or decrease by 1%) – PPS only	320,800	(320,800)
Rate for discounting scheme liabilities (increase or decrease by 1%)	(410,168)	410,168

## Police Pension Fund Account

The Chief Constable administers the Police Pension Fund Account (the Account) on behalf of the PCC; amounts debited and credited to the Account are specified by legislation, the Police Pension Fund Regulations 2007 [Statutory Instrument 2007 No 1932], (the Regulations). In relation to the Account the use of the word 'Fund' should not be taken to mean the Police Pension Scheme is a funded scheme, as there are no assets or investments associated with the Account to provide for future benefits. Instead the purpose of the Account is to provide a basis for demonstrating the balance of cash based transactions taking place over the year and for identifying the arrangements needed to balance the account for that year.

2014/15			2015/16	
£000	£000		£000	£000
		<b>Contributions Receivable</b>		
		From employer		
(16,757)		- Normal at 21.3% of pensionable pay (see below)	(15,586)	
(954)		- Ill Health Capital Sum Income	(1,052)	
(9,584)		From members (serving police officers)	(10,028)	
	<b>(27,295)</b>			<b>(26,666)</b>
	<b>(326)</b>	<b>Individual Transfers In from other schemes</b>		<b>(514)</b>
		<b>Benefits Payable</b>		
44,432		Pensions	46,170	
13,140		Commutations and Lump Sum retirement benefits	7,243	
0		Additional Lump Sum payments to members following Ombudsman decision in Milne v GAD	6,158	
91		Lump sum death benefits	460	
	<b>57,663</b>			<b>60,031</b>
		<b>Payments to and on account of leavers</b>		
13		Refunds of contributions	5	
1,290		Individual transfers out to other schemes	62	
	<b>1,303</b>			<b>67</b>
	<b>31,345</b>	<b>Sub-total for the year before transfer from the Group of amount equal to the deficit</b>		<b>32,918</b>
	<b>(31,345)</b>	<b>Additional funding payable by the Group to meet deficit for the year</b>		<b>(32,918)</b>
	<b>0</b>	<b>Net Amount Payable / Receivable for the year</b>		<b>0</b>
	-	Adjustment of 2.9% to the cashflow due to a reduction in the employer contribution rate from 24.2% to 21.3% that is reflected in a reduction in the Home Office Pensions Top Up funding		2,120
	-	Actual Home Office Top Up funding in 2015/16		(30,798)

## Notes to the Police Pension Fund Account

The principles contained in the Regulations, which have been adopted in preparing the Account are as follows:

1. The Account collects the costs and income relating to retired police officers that are in receipt of pensions and income associated with serving police officers that are members of the Police Pension Scheme 1987 (OPPS), the New Police Pension Scheme 2006 (NPPS) or the Police Pension Scheme 2015 (PPS). There are certain exceptions to this arrangement, such as pensions payable under the Police Injury Pension Regulations, which are charged directly to the Cost of Services in the CIES;
2. The Account is prepared on an accruals basis with the exception of accounting for lump sum transfer values to and from other pension schemes. Due to the unpredictable nature of transfer values they have been attributed to or transferred from the Account on a payment and receipts basis;
3. The annual cost of police pensions is met, in part, by contributions from the employer and serving police officers and other minor sources of income. Under the Police Pension Fund Regulations 2007, if the Account is in deficit an amount equal to the deficit is transferred from the Police Fund to meet the deficit; the cost to the Police Fund is subsequently reimbursed by the Home Office by way of the Pensions Top Up. Conversely, if the Account was to be in surplus, this would be transferred to the Police Fund and subsequently paid over to the Home Office;
4. The amounts due from the Home Office in respect of the shortfall on the Account is the responsibility of the Chief Constable and has therefore been included in the Chief Constable's (and the Group's) Balance Sheet;
5. The Account includes the relevant payments made to pension scheme members following the Ombudsman decision in Milne v GAD (explained further in Note 19 to the Accounts) and also the additional Top Up funding reimbursed by the Home Office to fund these payments;
6. This Account does not take account of long-term liabilities to pay future pension benefits after the year end, details of the Group's pension liability can be found in Note 21;
7. Employers' contributions, which are set by the Home Office subject to the Government Actuary's Department triennial valuation, are calculated at 21.3% of police officer pensionable pay from 1 April 2015. However, the difference between the old employer contribution rate of 24.2% and the new rate will be retained by the Exchequer, reducing Pensions Top Up as shown at the foot of the Pension Fund Account. In 2015/16 the force therefore budgeted as though there were an employer contribution rate of 24.2%;
8. Police officer contributions are deducted from officer salaries. The contribution rates were increased on 1 April 2012 to reflect the agreement reached between the Home Secretary and the Police Negotiating Board. Contribution rates range between 11.00% and 15.05% dependant on the range the police officer's salary falls into and whether the officer is a member of the OPPS, NPPS or PPS;
9. There are no related party transactions to the Account.

## Glossary of Terms

**Accounts and Audit (England) Regulations 2011** – The regulations that govern the preparation, approval and audit of statements of accounts and other accounting statements prepared in respect of the year ending 31 March 2011 onwards.

**Accounting Policies** – The specific principles, bases, conventions, rules and practices applied by an entity in preparing and presenting The Statement of Accounts.

**Accrual** – The recognition, in the correct accounting period, of income and expenditure as it is earned and incurred, rather than as cash is received or paid.

**Actuarial Gains and Losses** – For a defined benefit scheme, the changes in actuarial deficits or surpluses that arise because events have not coincided with the actuarial assumptions made for the last valuation (experience gains or losses) or the actuarial assumptions have changed.

**Accumulated Absences Account** – This account holds the liability value of accumulated accrued absences (annual leave, time owing in lieu etc) that are due to employees at the end of the financial year.

**Actuarial Valuation** – A valuation of assets held, an estimate of the present value of benefits to be paid and an estimate of required future contributions, by an actuary, on behalf of a pension fund.

**Amortisation** – The expensing of the acquisition cost minus the residual value of intangible assets in a systematic manner over their estimated useful economic lives.

**Amortised Cost** – The carrying amount of some financial assets and liabilities in the Balance Sheet will be written down or up via the Comprehensive Income and Expenditure Statement over the term of the instrument.

**Appropriations** – Amounts transferred to or from revenue or capital reserves.

**Asset** – An item owned by the PCC, which has a value, for example, land and buildings, vehicles, equipment and cash. These can be held over the long or short term.

**Billing Authority** – A local authority that, by statute, collects the council tax and national non-domestic rates and manages the Collection Fund.

**Budget** – A statement of the PCC's Policing Plan in financial terms for a specific financial year, which starts on 1 April and ends on 31 March. A budget is prepared and approved by the PCC before the start of each financial year.

**Capital Adjustment Account** – An account that manages the timing differences between the amounts that have been set aside for capital expenditure, which are not aligned with the charges made for assets such as depreciation, revaluation and impairment, along with the amortisation of intangible assets.

**Capital Expenditure** – Expenditure on new assets or on the enhancement of existing assets so as to prolong their life or enhance market value.

## Glossary of Terms

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**Capital Financing Charges** – The repayment of loans and interest for capital projects.

**Capital Grant** – A grant from central government used to finance specific schemes in the capital programme.

**Capital Programme** – The plan of capital projects and future spending on purchasing land, buildings, vehicles, IT and equipment.

**Capital Receipts** – The proceeds from the sale of an asset, which may be used to finance capital expenditure or to repay outstanding loan debt.

**Cash** – Cash in hand and held at the bank in on-demand deposits.

**Cash Equivalents** – Short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

**Cash Flows** – Inflows and outflows of cash and cash equivalents.

**Chief Constable** – Chief Constable is the rank used by the chief police officer of a territorial police force, who has overall responsibility for the day to day operational direction and control of the Force. The Chief Constable has ultimate statutory responsibility for maintaining the Queen's peace.

**CIPFA** – The Chartered Institute of Public Finance and Accountancy is the body that oversees financial standards and financial reporting in public organisations. It is also the professional body for accountants working in the public services.

**Code of Practice on Local Authority Accounting in the United Kingdom (The Code)** – The Code is based on approved accounting standards issued by the International Accounting Standards Board and interpretations of the International Financial Reporting Standards Committee, except where these are inconsistent with specific statutory requirements. The Code specifies the principles and practices, sets out the accounting requirements for local authorities and is based on International Financial Reporting Standards (IFRS).

**Collection Fund Adjustment Account** – The account that manages the differences arising from the recognition of council tax income as it falls due from taxpayers compared to the statutory arrangements for receiving amounts from the billing authorities.

**Comprehensive Income and Expenditure Statement** - The total of income less expenditure, including other comprehensive income and expenditure items, presented in the CIES and prepared in accordance with IFRS as set out in the Code.

**Contingency** – A sum of money set aside to meet unforeseen expenditure or a liability.

**Corporate and Democratic Core** – Activities which the PCC engages in because they are an elected body and costs associated with co-ordinating and accounting for the service provided to the public.

**Corporation Sole** – this a legal entity consisting of a single incorporated office, occupied by a sole person. This allows corporations to pass from one office holder to the next successor-in-



## Glossary of Terms

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office, giving the positions legal continuity with subsequent office holders having identical powers to their predecessors.

**Council Tax** – The local tax levied on householders, based on the relative market values of property, which helps to fund local services including the police.

**Creditors** – Individuals or organisations to which the Police and Crime Commissioner owes money at the end of the financial year.

**Current Assets** – These are assets which can either be converted to cash or used to pay current liabilities within 12 months. Typical current assets include cash, cash equivalents, short-term investments, debtors and stock.

**Current Liabilities** – These are liabilities that are to be settled within 12 months. Typical current liabilities include creditors and loan payments due within 12 months.

**Current Service Costs (Pensions)** – The increase in the present value of a defined benefit scheme's liabilities expected to arise from the employees' service in the current period.

**Curtailment Costs** – Costs that arise when many employees transfer out of the pension scheme at the same time, such as when an organisation transfers its members to another scheme. The cost represents the value of the pensions rights accrued by the transferring staff.

**Debtors** – Individuals or organisations who owe the PCC money at the end of the financial year.

**Defined Benefit Scheme** – A pension scheme which defines the benefits paid to individuals independently of the contributions payable and the benefits are not directly related to the investments of the scheme.

**Depreciation** – An annual charge to reflect the extent to which an asset has been worn or consumed during the financial year, which is charged to the Comprehensive Income and Expenditure Statement.

**Disclosure** – Information that must be shown in the accounts under the CIPFA Code of Practice.

**Discretionary Benefits** – Retirement benefits which the employer has no legal, contractual or constructive obligation to award and which are awarded under the PCC's discretionary powers.

**Earmarked Reserves** – Monies set aside that are intended to be used for a specific purpose and held in the Balance Sheet.

**Exit Packages** – Payments such as redundancy payments, either voluntary or compulsory, or early retirement payments made to employees leaving the Group before their due retirement dates.

**Fair Value** – The amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

## Glossary of Terms

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**Financial Instruments** – The borrowings and investments disclosed in the Balance Sheet, consisting of loans and investments.

**Finance Leases and Operating Leases** – A Finance lease transfers all of the risks and rewards of ownership of a non-current asset to the lessee. If these leases are used, the assets acquired have to be included within the non-current assets in the balance sheet at the market value of the asset involved. With an operating lease, the ownership of the asset remains with the leasing company and an annual rent is charged to the revenue account.

**Financial Reporting Standards (FRS)** – Recommendations on the treatment of certain items within the accounts.

**Financing Activities** – Activities that result in changes in the size and composition of the principal, received from or repaid to external providers of finance.

**Financial Management Code of Practice for the Police Services of England and Wales 2012** – The Financial Management Code of Practice provides clarity around the financial governance arrangements within the police service in England and Wales, and reflects the fact that the police service has a key statutory duty to secure value for money in the use of public funds.

**Financial Year** – The period of twelve months for the accounts, from 1 April to 31 March.

**Fixed Assets** – Tangible assets, such as buildings and equipment are assets that yield benefits for a period of more than one year. Intangible fixed assets have no physical substance but provide a benefit for more than one year, e.g. computer software.

**General Fund** – The main account into which income is received into and expenditure is paid from.

**General Reserves** – Funds set aside to be used in the future.

**Government Grants** – Assistance by government and inter-government agencies and similar bodies, whether local, national or international, in the form of cash or transfers of assets to the PCC in return for past or future compliance with certain conditions relating to the activities of the PCC.

**Gross Spending** – The costs of providing services before allowing for government grants and other income.

**Group Accounts** – The financial statements that combine the accounts for the PCC and the Chief Constable, that show the performance of the Group as if it was a single entity.

**Home Office Grant (Pensions)** – If there is insufficient money in the Pension Fund Account to meet all expenditure commitments in any particular year, the Home Office will fund the deficit by way of a grant.

**Impairment** – The amount by which the recoverable value of an asset falls below its carrying (or book) value.

**Intangible Asset** – A non-physical non-current asset, e.g. computer software.

## Glossary of Terms

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**Interest Income** – The money earned from investing activities, typically the investment of surplus cash.

**International Accounting Standards Board (IASB)** – This is the independent, accounting standard-setting body, which is responsible for developing International Financial Reporting Standards and promoting the use and application of these standards.

**International Financial Reporting Standards (IFRS) & International Accounting Standards (IAS)** – The accounting rules and principles, adopted by the International Accounting Standards Board, on which the Statement of Accounts is based. The Code is prepared in accordance with the IFRS.

**Inventories** – Assets acquired in the form of materials or supplies to be held for consumption in the future delivery of policing services.

**Investing Activities** – The buying and selling of long-term assets and investments that are not cash equivalents.

**Investment Properties** – Property assets that are used solely to earn rentals and/or for capital appreciation.

**Jointly Controlled Operations** - Activities undertaken by the Chief Constable and/or the PCC that are jointly controlled with other venturers. The jointly controlled operation does not give rise to the creation of a separate entity.

**Liabilities** – Amounts that are due to be settled by the PCC in the future, which includes Current Liabilities and Long Term Liabilities.

**Major Precepting Authority** – Authorities that make a precept on the billing authority's collection fund, e.g. County Councils and Police and Crime Commissioners.

**Materiality** – Omissions or misstatements of items are material if they could, individually or collectively, influence the decisions or assessments of users made on the basis of financial statements. Materiality depends on the nature or size of the item omission or misstatement judged in the surrounding circumstances.

**Minimum Revenue Provision (MRP)** – The statutory minimum amount that is required to be set aside on an annual basis as a provision to repay debt.

**National Non-Domestic Rates (NNDR)** – The national non-domestic rate in the pound is the same for all non-domestic rate payers and is set annually by the government. Income from non-domestic rates goes into a central government pool that is then distributed according to resident population.

**Net Book Value** – The amount at which non-current assets are included in the balance sheet, i.e. their historical cost or current values less the cumulative amounts provided for depreciation.

**Non-Current Assets (Fixed Assets)** – These are tangible assets that have long-term benefits over a period of more than one year.

## Glossary of Terms

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**Non-Distributed Costs** – Overheads where it is not appropriate to charge or apportion them across individual services.

**Notes to the Accounts** – The notes contain information in addition to that presented in the Movement in Reserves Statement, Comprehensive Income and Expenditure Statement, Balance Sheet and Cash Flow Statement.

**Operating Activities** – The activities of the entity that are its normal activities, excluding its investment and financing activities.

**Outturn** – The actual amount spent in the financial year.

**Past Service Cost** – For a defined benefit scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods but arising in the current period as a result of the introduction of, or improvement to retirement benefits.

**Payments in Advance** – These represent payments made prior to 31 March for supplies and services received on or after 1 April.

**Pension Fund** – The fund that makes pension payments following the retirement of its participants.

**Pensions Expected Rate of Return on Assets** – For a funded defined benefit scheme, the average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets held by the scheme.

**Pensions Interest Costs** – For a defined benefit scheme, the expected increase during the period at the present value of the scheme liabilities because the benefits are one period closer to settlement.

**Pensions Reserve** – A non-cashable reserve used to reconcile payments made for the year to various statutory pension schemes and the net change in the recognised liability under IAS19 for the same period.

**Police and Crime Commissioner (the PCC)** – an elected representative charged with securing efficient and effective policing of a police area in England and Wales. The elections were on 15 November 2012, and the successful candidate took up office on 22 November 2012. PCCs replaced the now abolished Police Authorities.

**Police Act 1996** – An Act of the Parliament of the United Kingdom which defined the current police areas in England and Wales, constituted the Police Authorities for those areas (now superseded by PCCs), and set out the relationship between the Home Secretary and the English and Welsh territorial police forces.

**Police and Crime Panel** – The Police Reform and Social Responsibility Act 2011 established Police and Crime Panels within each force area in England and Wales. The panel is responsible for scrutinising PCCs' decisions; they also review the Police and Crime Plan and have a right of veto over the precept.

## Glossary of Terms

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**Police and Crime Plan** - The Police Reform and Social Responsibility Act 2011 introduces a duty on the PCC to prepare a Police and Crime Plan which should determine, direct and communicate their priorities during their period in office.

**Police Fund Balance** - The Police Fund Balance is the statutory fund into which all the receipts of the PCC are required to be paid and out of which all liabilities of the PCC are to be met, except to the extent that statutory rules might provide otherwise. These rules can also specify the financial year in which liabilities and payments should impact on the Police Fund, which is not necessarily in accordance with proper accounting practice. The Police Fund Balance therefore summarises the resources that the Commissioner is statutorily empowered to spend on his services or on capital investment.

**Police Principal Grant** – This is part of the total specific government grant support for police services. The amount is determined annually by the Home Office on a formula basis.

**Police Reform and Social Responsibility Act 2011 (The Act)** – this is an Act of the Parliament of the United Kingdom. It transfers the control of police forces from Police Authorities to elected PCCs. The first PCC elections were held in November 2012, and will be held every four years thereafter.

**Precept** – The amount of council tax that the PCC, as a major precepting authority, has instructed the billing authorities to collect and pay over in order to finance its net expenditure.

**Provisions** – The amounts set aside to provide for liabilities that are likely to be incurred, but the exact amount and the date on which it will arise is uncertain.

**Public Works Loan Board (PWLB)** – A government agency which provides long-term loans to local authorities at interest rates only slightly higher than those at which the government itself can borrow.

**Receipts in Advance** – These represent income received prior to 31 March for supplies and services provided by the Authority on or after 1 April.

**Reimbursements** – Payments received for the work carried out for other public organisations, e.g. the government.

**Related Parties** – Bodies or individuals that have the potential to control or influence the Chief Constable and/or the PCC.

**Reserves** – Monies set aside by the PCC that do not fall within the definition of provisions. Reserves held for specific purposes are known as earmarked reserves.

**Retirement Benefits** – All forms of consideration given by an employer in exchange for services rendered by employees that are payable after the completion of employment.

**Revaluation Reserve** – The Reserve records the accumulated gains on the non-current assets held by the PCC arising from increases in value. It is charged with the part of the depreciation charge for the asset which relates to the revaluation. Any balance on this account is written back to the Capital Adjustment Account upon disposal of the asset.

## Glossary of Terms

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**Revenue Expenditure and Income** – Day to day expenses mainly salaries, general running expenses and debt charges. These costs are met from the Council Tax, Government Grants, fees and charges.

**Revenue Support Grant (RSG)** – General Government Grant support towards the PCC's expenditure.

**Scheme Liabilities (Pensions)** – The liabilities of a defined benefit scheme for outgoings due after the valuation date. Scheme liabilities are measured using the projected unit method to reflect the benefits that are committed to be provided for service up to the valuation date.

**Scheme of Delegation and Consent, Financial and Contract Regulations 2012/13** – The Scheme of Delegation and Consent details the key roles of the PCC and those functions that they designate to the Chief Executive, Treasurer, the Chief Constable and, if appointed, the Deputy PCC. The scheme also provides a framework to ensure that business is carried out efficiently, ensuring that decisions are not unnecessarily delayed. The Financial and Contract Regulations establish overarching financial responsibilities; confer duties, rights and powers upon the PCC, the Chief Constable and their officers providing clarity about the financial accountability of groups or individuals. They apply to every member and officer of the service and anyone acting on their behalf.

**Service Reporting Code of Practice (SeRCOP)** – CIPFA guide regarded as best practice under the Code, which sets out the framework for financial reporting to net cost of services level, with the objective of ensuring consistency and comparability of financial information between public sector organisations to inform stakeholders and support organisations in the delivery of value for money services.

**Specific Grant** – Payments from the government to cover Local Authority spending on a particular service or project (for example, the Crime Fighting Fund). Specific grants are usually a fixed percentage of the cost of a service or project and have strict rules detailing eligible expenditure.

**(Strategic) Alliance** – The alliance formed by Warwickshire Police and West Mercia Police to use their combined resources to deliver all policing services to the people and communities of Herefordshire, Shropshire, Telford & Wrekin, Warwickshire and Worcestershire.

**Surplus or Deficit on the Provision of Services** – The total of income less expenditure, excluding the components of Other Comprehensive Income and Expenditure. Presented in the Comprehensive Income and Expenditure Statement in accordance with IFRS as set out in the Code.

**Tangible Non-current Assets** – Physical non-current assets, e.g. land, buildings, vehicles and equipment held for a period of over one year.

**Taxation and Non-Specific Grant Income** – Council Tax and all grants and contributions recognised in the financial year.

**Transfer Value** – A sum of money transferred between pension schemes to provide an individual with entitlement to benefits under the pension scheme to which the transfer is made.

## **APPENDIX 1**

### **Chief Constable of West Mercia Police Annual Governance Statement 2015-16**