



# Statement of Accounts

## 2015/16

# THE GROUP AND POLICE AND CRIME COMMISSIONER FOR WEST MERCIA

## STATEMENT OF ACCOUNTS 2015/16

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## **Narrative Report**

### **Message From John Campion, the West Mercia Police & Crime Commissioner (PCC)**

It seems that every year throws up new challenges and opportunities that we have to address and 2015/16 has not proved any different. From agreeing the implementation of the Athena programme, referred to later in this report, through to the commissioning of local victims' services the last year has been another busy year.

In particular there was uncertainty around future police funding and the Comprehensive Spending Review, leading up to the Chancellor's announcement in November 2015. The outcome was that West Mercia is subject to a £0.6 million reduction in funding formula. We are confident that our strategic Alliance is just one example of how we have and will work to provide an effective and efficient police force, well placed to protect people from harm.

The level of violent crime has continued to increase during 2015/16 with 9,666 reported offences of violence with injury compared to 7,469 offences in 2014/15, a 29% increase. There is no doubt that some of this continued increase can be attributed to better recording standards introduced as a result of the Her Majesty's Inspector of Constabulary (HMIC) Crime Data Integrity Inspection and the inclusion of DASH (Domestic Abuse and Stalking and Harassment risk indicator) assessments onto the force's recording systems resulting in previously undisclosed offences being included. This led to a significant increase in volume at the beginning of 2015/16, followed by more stable, albeit higher average levels since then.

As part of the holding to account sessions between the PCC and the Chief Constable, assurance was sought and given on the increasing levels of violent crime in the Autumn. As a consequence residents can be satisfied that the force understands the crime patterns and has responded appropriately. The more recent stability in violent crime figures supports this.

Overall, despite an increase in crime, the focus for the Alliance to protect people from harm, along with the support from partners and communities will continue to ensure West Mercia remains a safe place to live

My predecessor's 2015/16 Annual Report provides a comprehensive review of performance against the objectives set out in the Police and Crime Plan and can be found at:

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

I've committed to continuing the reform program to get good value for money for the tax payer and these Accounts are a good foundation to build on.

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

- Terrorism;

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- 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, the budget and the precept. Whilst establishing openness in the conduct of police business the intention is that the PCP 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.

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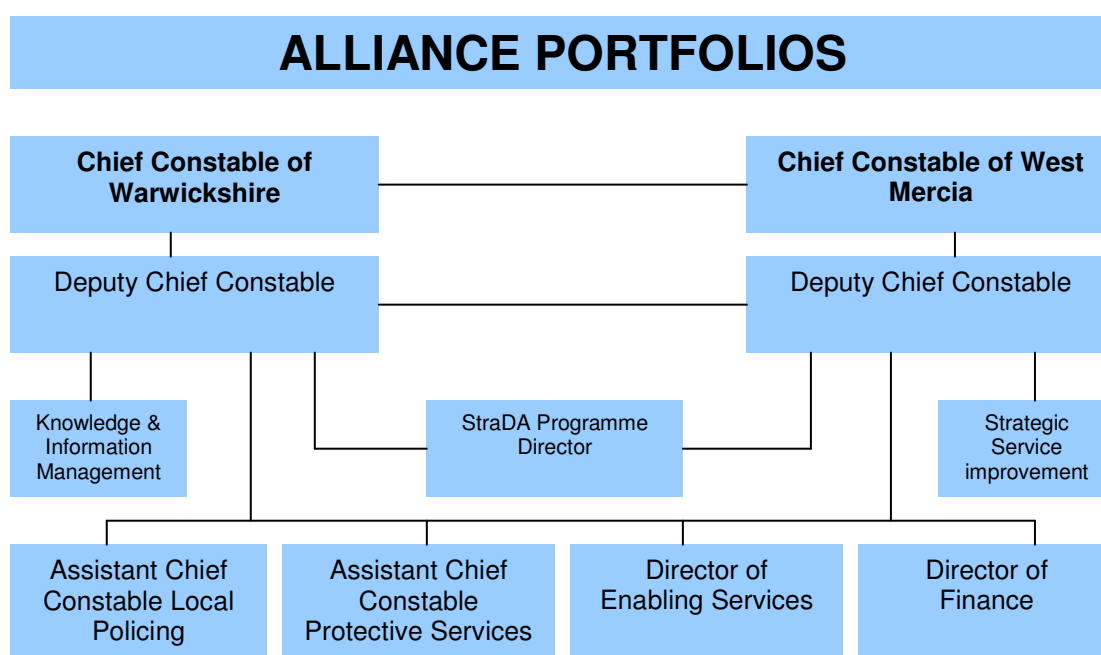
	Alliance	BME %	Female %	Male %
Police Officers	2,932	2.9	30.5	69.5
PCSOs	319	4.1	51.1	48.9
Police Staff	2,244	2.9	61.9	38.1
<b>Total</b>	<b>5,495</b>	<b>3.0</b>	<b>44.6</b>	<b>55.4</b>

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 effect 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 its identity 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 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.**

<b>Where the Money Came From</b>	<b>Budget £m</b>	<b>Actual £m</b>	<b>%</b>
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.

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

<b>Warwickshire Police &amp; West Mercia Police</b>	<b>Budget £m</b>	<b>Budget Adjustments £m</b>	<b>Revised Budget £m</b>	<b>Actual £m</b>	<b>%</b>	<b>Variance £m</b>
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)

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<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>9.482</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;
- 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

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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>
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 forward	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.

Table 5 shows an analysis of capital expenditure and how this has been funded. The Alliance capital expenditure of £16.4m is significantly greater than the last year but less than the approved budget of £19.5m.

Narrative Report**Table 5.**

<b>Programme Capital Expenditure for the year</b>	<b>September Approved Budget £m</b>	<b>Actual £m</b>	<b>%</b>	<b>Variance £m</b>
ICT	10.395	7.480	45.5	2.915
Estates	4.367	3.854	23.4	0.513
Vehicles	4.432	4.826	29.4	(0.394)
Plant & Equipment	0.325	0.277	1.7	0.048
<b>Total Expenditure</b>	<b>19.519</b>	<b>16.437</b>	<b>100.0</b>	<b>3.082</b>
<b>Programme Capital Funding for the year</b>				
Home Office General Capital Grant	12.015	8.970	54.6	3.045
Revenue Contribution to Capital Expenditure	6.794	7.467	45.4	(0.673)
Capital Receipts	0.710	0	0.0	0.710
<b>Total Funding</b>	<b>19.519</b>	<b>16.437</b>	<b>100.0</b>	<b>3.082</b>

A significant part of the capital programme has been spent on the integration of operational services and systems across the Alliance, in line with the priorities of the two PCCs. This integration is key to delivering the full savings potential of the Alliance and remains a priority. It is planned to undertake in the region of a further £100m of capital expenditure up to the end of 2020/21. The construction of the new Operational Command Control centre is a major development taking place over the next couple of years.

The majority of the expenditure in the table above is on the ICT programme with significant investment being made in the Athena project, workspace modernisation and replacement of the data network to the value of £4.4m. However, both the data network and workspace modernisation replacement project have experienced some slippage, accounting for £1.8m of the variation. Slippage on the remainder of the capital programme is immaterial, where work is unable to progress as planned opportunities are taken to accelerate other projects.

Of the £3.9m spend on the Estates programme, £1.8m is attributable to the purchase of Neville House in Warwickshire, which is the chosen location for the Warwickshire component of the joint Operational Command Centre.

Capital expenditure has been funded partly through capital grant, using both in year grant and that set aside from previous years and partly from the revenue budget. The use of in year revenue contributions to fund capital follows the PCC policy in recent years. The use of revenue funding offsets the need to borrow and avoid ongoing interest costs and has been made possible due to control of expenditure against the budget resulting in a one-off underspend. The extent of the total offset borrowing for West Mercia, referred to as internal borrowing, stands at £22.1m, by comparison the extent of external borrowing stood at £10.0m as at the 31 March 2016.

The PCC holds significant cash balances at the 31 March 2016 (£46.6m). However, as expenditure aligns to the budget and reserves are used to support the revenue budget cash balances will be depleted. Therefore, at some point in the future it will be necessary to

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borrow to fund capital investment. The affordability of borrowing is controlled through the PCC's Treasury Management Strategy, which is monitored through the Audit Committee. The precise timing, value and period of borrowing will depend on the PCC's cash flow position, prevailing and forecast interest rates as well as the requirement to fund capital expenditure. It is estimated that of the £100m Alliance capital programme it will be necessary to borrow in the region of £37m with the remainder funded from grants and capital receipts from sale of property.

The Alliance reserves at the 31 March 2016 stand at £91.4m, of which £60.1m is attributable to West Mercia PCC. Reserves are an important part of the PCC strategy to deliver the objectives set out in the Policing Plan and the Medium Term Financial Plan (MTFP). During 2016/17 a review of the extent to which recurring expenditure is being funded from reserves will be undertaken. The issue is that this masks the challenges in the MTFP. Note 7 in the Accounts provides an analysis of the reserves at the 31 March 2016 and shows the movement since the 31 March 2015, whilst table 6 below shows how West Mercia PCC's reserves are planned to be used during the period up to 31 March 2020.

**Table 6. West Mercia Reserves**

Reserve	Opening Balance 31/03/2015 £m	Transfer from Reserves				Closing Balance 31/03/2020 £m
		2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	
Budget	12.5	(5.2)	(2.6)	0	0.8	5.5
Invest to Save	6.6	(3.3)	(2.0)	0	0	1.3
Rural, Business & Cyber	4.1	(1.1)	(1.0)	(1.0)	0	1.0
Infrastructure	23.4	(3.4)	(5.0)	(5.0)	(5.0)	5.0
General	13.5	0	0	0	0	13.5
<b>Total</b>	<b>60.1</b>	<b>(13.0)</b>	<b>(10.6)</b>	<b>(6.0)</b>	<b>(4.2)</b>	<b>26.3</b>

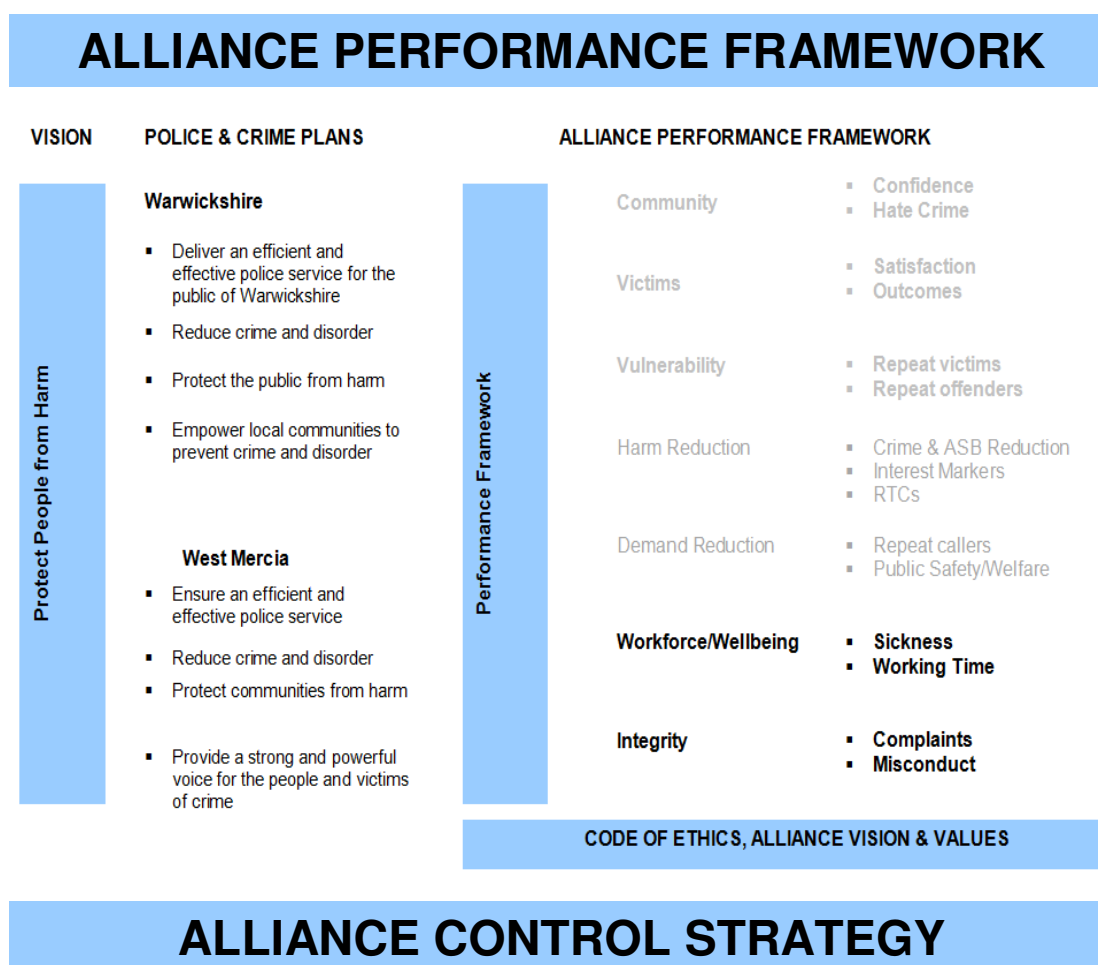
The MTFP contains the Treasurer's annual review of the adequateness of reserves. Cash balances are invested in line with the Treasury Management Strategy, the priority being to protect our investments ahead of making a return. As at the 31 March 2016 the PCC had £46.6m invested short-term and during 2015/16 achieved an average return of 0.42% it is anticipated that low interest rates will continue into 2018.

**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.

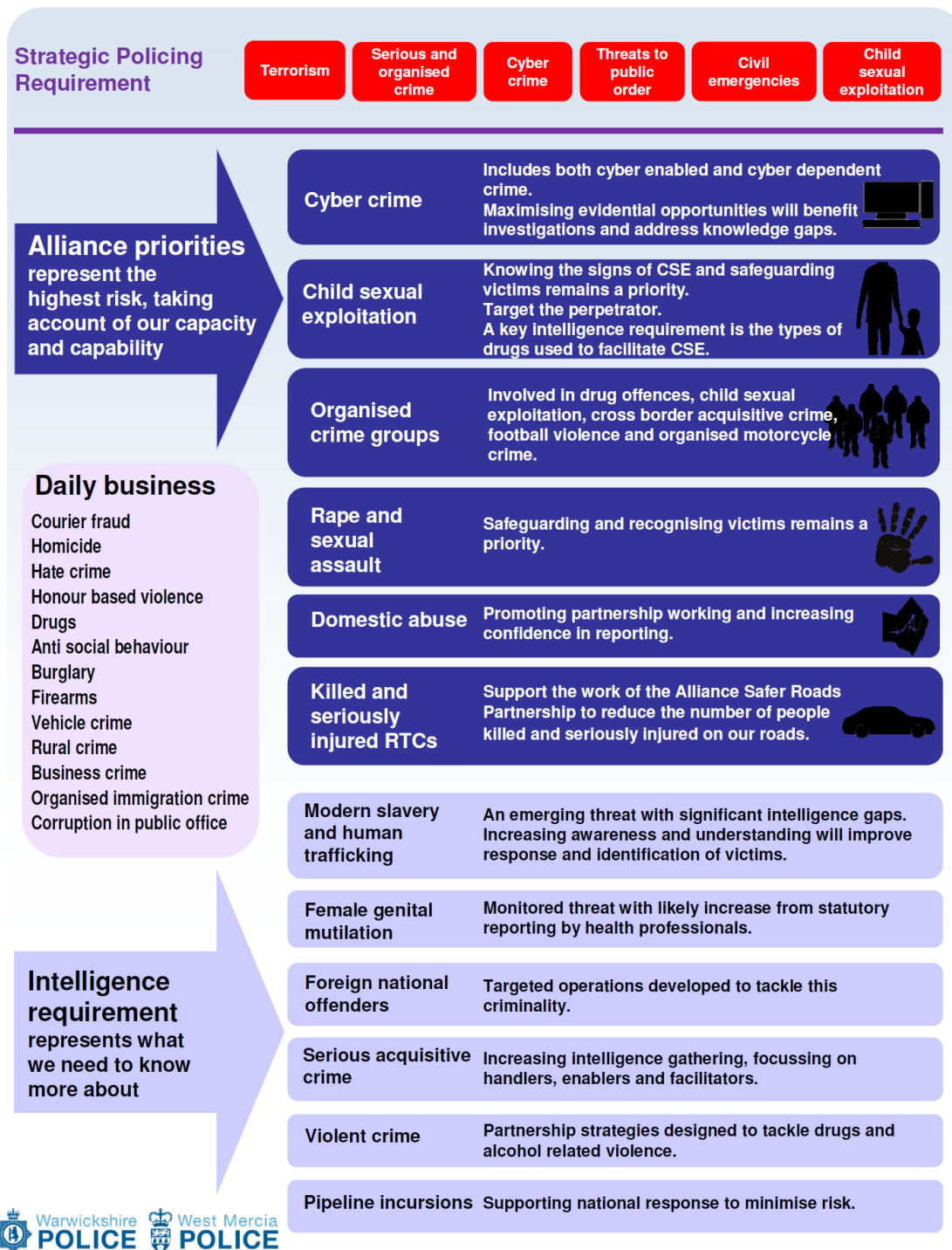
Day-to-day policing is directed by the Chief Constable, which is informed by Police and Crime Plan and the Strategic Assessment. The latter is an assessment of the highest risks and harms at national and local level. The Alliance Control Strategy is set in response to the threats identified in the Strategic 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.



**Narrative Report**

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 7 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 7. 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>72,746</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. We await the next round of reviews and recommendations that we will respond to and use to inform what we do.

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 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

## Narrative Report

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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 Grant

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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 £93.5m 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.

## Narrative Report

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.

## Narrative Report

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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 PCC 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 PCC, analysed into 'usable reserves' and other, unusable reserves. A further analysis and explanation of the purpose for which usable and unusable reserves are held can be found at Note 7 and Note 8 respectively. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the PCC'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 accounting standards, Note 6 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 Group and the PCC. 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 Group is (£1,904.0m) as at 31 March 2016 consisting of Usable Reserves of £65.7m, the Pensions Reserves of (£1,996.9m) and Other Unusable Reserves of £27.2m.

- 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 Group and the PCC, 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 PCC 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 Group Accounts should be read alongside the Chief Constable's 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 Group CIES shows a deficit on the provision of services of £68.471m, whilst the PCC's shows a deficit of £0.030m. The reason for this is that the cost of policing and the costs associated with pensions are shown in the Chief Constable's Accounts. The deficit is arrived at after accounting for costs and income in line with the PCC'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 Group CIES.

The financial standing of the PCC 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. A transfer of £3.7m was made from the earmarked reserves, lower than the budgeted amount of £8.9m due to the under spend of £5.2m, as set out in Table 4.

## **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

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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:

- 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 36, and information about the Police Pensions Fund Account can be found on page 97.

## Statement of Responsibilities

### Responsibilities of the Police and Crime Commissioner for West Mercia (the PCC)

The PCC is required to:

- make arrangements for the proper administration of the PCC'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 Treasurer to the Commissioner;
- manage the PCC's affairs to secure economic, efficient and effective use of resources and safeguard the PCC's assets;
- approve the Statement of Accounts.

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

**John Campion**

**Police and Crime Commissioner for West Mercia**

**Date:**

### Responsibilities of the Treasurer to the Commissioner

The Treasurer to the Commissioner is responsible for the preparation of the Statement of Accounts for the Police and Crime Commissioner for West Mercia and Group 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 Treasurer to the Commissioner has:

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

The Treasurer has also:

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

The Statement of Accounts for the Police and Crime Commissioner for West Mercia and Group is duly authorised for issue on 30 June 2016 by authority of the Treasurer to the Commissioner.

I certify that the Statement of Accounts represents a true and fair view of the financial position of the PCC and the Group at the accounting date and of the income and expenditure for the year ended 31 March 2016.

**Elizabeth Hall**

**Treasurer to the Police and Crime Commissioner for West Mercia**

**Date:**

**INDEPENDENT AUDITOR'S REPORT TO THE POLICE AND CRIME COMMISSIONER  
FOR WEST MERCIA**

**TO BE INCLUDED FOLLOWING THE AUDIT**

**TO BE INCLUDED FOLLOWING THE AUDIT**

## TO BE INCLUDED FOLLOWING THE AUDIT

Financial Statements**Movement in Reserves Statement (MIRS) for the Group**

This statement shows the movement in the year on the different reserves held by the Group, 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 Group.

	Notes	Police Fund Balance	Earmarked Police Fund Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Group Reserves
		£000	£000	£000	£000	£000	£000	£000
<b>Opening Balance at 1 April 2014</b>		<b>0</b>	<b>53,141</b>	<b>841</b>	<b>3,575</b>	<b>57,557</b>	<b>(1,886,604)</b>	<b>(1,829,047)</b>
<b>Movement in reserves during 2014/15</b>								
Deficit on Provision of Services	9	(59,959)	0	0	0	(59,959)	0	(59,959)
Other Comprehensive Income and Expenditure (Notes 8(i) and (iii))		0	0	0	0	0	(242,435)	(242,435)
<b>Total Comprehensive Income and Expenditure</b>		<b>(59,959)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(59,959)</b>	<b>(242,435)</b>	<b>(302,394)</b>
Adjustments between accounting basis and funding basis under regulations	6	70,716	0	2,130	1,313	74,159	(74,159)	0
<b>Net Increase/(Decrease) before transfers to Earmarked Reserves</b>		<b>10,757</b>	<b>0</b>	<b>2,130</b>	<b>1,313</b>	<b>14,200</b>	<b>(316,594)</b>	<b>(302,394)</b>
Transfers to/from Earmarked Reserves	7	(10,757)	10,757	0	0	0	0	0
<b>Increase/(Decrease) in Year</b>		<b>0</b>	<b>10,757</b>	<b>2,130</b>	<b>1,313</b>	<b>14,200</b>	<b>(316,594)</b>	<b>(302,394)</b>
<b>Balance at 31 March 2015 Carried Forward</b>		<b>0</b>	<b>63,898</b>	<b>2,971</b>	<b>4,888</b>	<b>71,757</b>	<b>(2,203,198)</b>	<b>(2,131,441)</b>
<b>Movement in reserves during 2015/15</b>								
Deficit on Provision of Services	9	(68,471)	0	0	0	(68,471)	0	(68,471)
Other Comprehensive Income and Expenditure (Notes 8(i) and (iii))		0	0	0	0	0	295,926	295,926
<b>Total Comprehensive Income and Expenditure</b>		<b>(68,471)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(68,471)</b>	<b>295,926</b>	<b>227,455</b>
Adjustments between accounting basis and funding basis under regulations	6	64,694	0	1,629	(3,884)	62,439	(62,439)	0
<b>Net Increase/(Decrease) before transfers to Earmarked Reserves</b>		<b>(3,777)</b>	<b>0</b>	<b>1,629</b>	<b>(3,884)</b>	<b>(6,032)</b>	<b>233,487</b>	<b>227,455</b>
Transfers to/from Earmarked Reserves	7	3,777	(3,777)	0	0	0	0	0
<b>Increase/(Decrease) in Year</b>		<b>0</b>	<b>(3,777)</b>	<b>1,629</b>	<b>(3,884)</b>	<b>(6,032)</b>	<b>233,487</b>	<b>227,455</b>
<b>Balance at 31 March 2016 Carried Forward</b>		<b>0</b>	<b>60,121</b>	<b>4,600</b>	<b>1,004</b>	<b>65,725</b>	<b>(1,969,711)</b>	<b>(1,903,986)</b>

## Financial Statements

## Movement in Reserves Statement (MIRS) for the PCC

This statement shows the movement in the year on the different reserves held by the PCC, 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 PCC'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 PCC.

	Notes	Police Fund Balance	Earmarked Police Fund Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Group Reserves
		£000	£000	£000	£000	£000	£000	£000
<b>Opening Balance at 1 April 2014</b>		<b>0</b>	<b>53,141</b>	<b>841</b>	<b>3,575</b>	<b>57,557</b>	<b>19,145</b>	<b>76,702</b>
<b>Movement in reserves during 2014/15</b>								
Surplus on Provision of Services (restated – see CIES footnote)	9	15,764	0	0	0	15,764	0	15,764
Other Comprehensive Income and Expenditure	8(i)	0	0	0	0	0	2,045	2,045
<b>Total Comprehensive Income and Expenditure</b>		<b>15,764</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>15,764</b>	<b>2,045</b>	<b>17,809</b>
Adjustments between accounting basis and funding basis under regulations	6	(5,007)	0	2,130	1,313	(1,564)	1,564	0
<b>Net Increase before transfers to Earmarked Reserves</b>		<b>10,757</b>	<b>0</b>	<b>2,130</b>	<b>1,313</b>	<b>14,200</b>	<b>3,609</b>	<b>17,809</b>
Transfers to/from Earmarked Reserves	7	(10,757)	10,757	0	0	0	0	0
<b>Increase/(Decrease) in Year</b>		<b>0</b>	<b>10,757</b>	<b>2,130</b>	<b>1,313</b>	<b>14,200</b>	<b>3,609</b>	<b>17,809</b>
<b>Balance at 31 March 2015 Carried Forward</b>		<b>0</b>	<b>63,898</b>	<b>2,971</b>	<b>4,888</b>	<b>71,757</b>	<b>22,754</b>	<b>94,511</b>
<b>Movement in reserves during 2015/16</b>								
Deficit on Provision of Services	9	(30)	0	0	0	(30)	0	(30)
Other Comprehensive Income and Expenditure	8(i)	0	0	0	0	0	1,871	1,871
<b>Total Comprehensive Income and Expenditure</b>		<b>(30)</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>(30)</b>	<b>1,871</b>	<b>1,841</b>
Adjustments between accounting basis and funding basis under regulations	6	(3,747)	0	1,629	(3,884)	(6,002)	6,002	0
<b>Net Increase before transfers to Earmarked Reserves</b>		<b>(3,777)</b>	<b>0</b>	<b>1,629</b>	<b>(3,884)</b>	<b>(6,032)</b>	<b>7,873</b>	<b>1,841</b>
Transfers to/from Earmarked Reserves	7	3,777	(3,777)	0	0	0	0	0
<b>Increase/(Decrease) in Year</b>		<b>0</b>	<b>(3,777)</b>	<b>1,629</b>	<b>(3,884)</b>	<b>(6,032)</b>	<b>7,873</b>	<b>1,841</b>
<b>Balance at 31 March 2016 Carried Forward</b>		<b>0</b>	<b>60,121</b>	<b>4,600</b>	<b>1,004</b>	<b>65,725</b>	<b>30,627</b>	<b>96,352</b>

## Financial Statements

## Comprehensive Income and Expenditure Statement (CIES) for the Group

This Statement shows the consolidated Group accounting cost and funding in the year of providing services presented in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. The Group raises taxation to cover expenditure in accordance with regulations; this is different from the accounting cost. The taxation position is shown in the MIRS.

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
93,740	(1,178)	92,562	Local Policing		97,978	(1,847)	96,131
13,043	(508)	12,535	Dealing with the Public		15,861	(504)	15,357
18,810	(888)	17,922	Criminal Justice Arrangements		19,924	(868)	19,056
11,008	(2,556)	8,452	Road Policing		10,527	(2,088)	8,439
13,164	(551)	12,613	Operational Support		12,895	(496)	12,399
11,174	(198)	10,976	Intelligence		12,219	(236)	11,983
40,841	(1,195)	39,646	Investigations		45,893	(995)	44,898
5,982	(47)	5,935	Investigative Support		7,899	(100)	7,799
3,062	(1,215)	1,847	National Policing		2,554	(1,489)	1,065
4,039	(820)	3,219	Corporate and Democratic Core		5,819	(1,375)	4,444
1,019	0	1,019	Non Distributed Costs		741	0	741
<b>215,882</b>	<b>(9,156)</b>	<b>206,726</b>	<b>Net Cost of Policing Services</b>	<b>9</b>	<b>232,310</b>	<b>(9,998)</b>	<b>222,312</b>
		879	Other operating expenditure – Loss on disposal of non-current assets				1,568
		91,283	Financing and investment net expenditure ( <i>Note 11</i> )				79,876
		(238,929)	Taxation and non-specific grant income ( <i>Note 12</i> )				(235,285)
		<b>59,959</b>	<b>Deficit on Provision of Services</b>				<b>68,471</b>
		(2,045)	(Surplus) or deficit on revaluation of Property, Plant & Equipment Assets ( <i>Note 8 (i)</i> )				(1,871)
		244,480	Re-measurement of the net defined benefit liability ( <i>Note 36</i> )				(294,055)
		242,435	<b>Other Comprehensive Income &amp; Expenditure</b>				(295,926)
		<b>302,394</b>	<b>Total Comprehensive Income &amp; Expenditure</b>				<b>(227,455)</b>

## Financial Statements

## Comprehensive Income and Expenditure Statement (CIES) for the PCC

This Statement shows the accounting cost and funding in the year of providing services presented in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. The PCC raises taxation to cover expenditure in accordance with regulations; this is different from the accounting cost. The taxation position is shown in the MIRS. 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
4,792	(3,097)	1,695	Local Policing		2,372	(4,567)	(2,195)
276	(781)	(505)	Dealing with the Public		399	(859)	(460)
327	(1,211)	(884)	Criminal Justice Arrangements		368	(1,199)	(831)
162	(2,716)	(2,554)	Road Policing		435	(2,487)	(2,052)
278	(826)	(548)	Operational Support		274	(757)	(483)
224	(419)	(195)	Intelligence		342	(550)	(208)
736	(1,922)	(1,186)	Investigations		1,185	(2,085)	(900)
108	(155)	(47)	Investigative Support		236	(317)	(81)
23	(1,238)	(1,215)	National Policing		56	(1,542)	(1,486)
4,039	(820)	3,219	Corporate and Democratic Core		5,819	(1,375)	4,444
0	0	0	Non Distributed Costs		0	0	0
<b>10,965</b>	<b>(13,185)</b>	<b>(2,220)</b>	<b>Cost of Policing Services</b>	<b>9</b>	<b>11,486</b>	<b>(15,738)</b>	<b>(4,252)</b>
193,128	0	193,128	Funding to the Chief Constable for financial resources consumed	10	207,388	0	207,388
<b>204,093</b>	<b>(13,185)</b>	<b>190,908</b>	<b>Net Cost of Policing Services</b>		<b>218,874</b>	<b>(15,738)</b>	<b>203,136</b>
		879	Other operating expenditure – Loss on disposal of non-current assets				1,568
		33	Financing and investment net expenditure ( <i>Note 11</i> )				(188)
		(207,584)	Taxation and non-specific grant income ( <i>Note 12</i> )				(204,486)
		<b>(15,764)</b>	<b>(Surplus) or Deficit on Provision of Services</b>				<b>30</b>
		(2,045)	(Surplus) or deficit on revaluation of Property, Plant & Equipment Assets ( <i>Note 8 (i)</i> )				(1,871)
		<b>(2,045)</b>	<b>Other Comprehensive Income &amp; Expenditure</b>				<b>(1,871)</b>
		<b>(17,809)</b>	<b>Total Comprehensive Income &amp; Expenditure</b>				<b>(1,841)</b>

## Financial Statements

## Balance Sheets for the Group and the PCC

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Group and the PCC. The net assets of the Group and the PCC (assets less liabilities) are matched by the reserves held by the Group and the PCC. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Group and the PCC may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example, the Capital Receipts Reserve may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the Group and the PCC are not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example, the Revaluation Reserve) where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the MIRS in the line 'Adjustments between accounting basis and funding basis under regulations'.

The PCC as at 31 March 2015 £000	The Group as at 31 March 2015 £000		Notes	The PCC as at 31 March 2016 £000	The Group as at 31 March 2016 £000
47,421	47,421	Property, Plant & Equipment	20	53,951	53,951
370	370	Investment Property	22	370	370
1,856	1,856	Intangible Assets	23	2,005	2,005
4,114	4,114	Long Term Debtors	24	4,055	4,055
<b>53,761</b>	<b>53,761</b>	<b>Long Term Assets</b>		<b>60,381</b>	<b>60,381</b>
852	852	Assets Held for Sale	25	627	627
0	406	Inventories	26	0	485
14,119	26,079	Short Term Debtors	27	15,202	17,363
40,909	40,909	Cash and Cash Equivalents	28	46,580	46,580
7,803	0	Intra-Group Debtor	10	0	0
<b>63,683</b>	<b>68,246</b>	<b>Current Assets</b>		<b>62,409</b>	<b>65,055</b>
(62)	(62)	Short Term Borrowing	31	(62)	(62)
(12,827)	(19,925)	Short Term Creditors	29	(12,544)	(22,350)
0	0	Intra-Group Creditor	10	(3,788)	0
0	(551)	Provisions	30	0	(60)
<b>(12,889)</b>	<b>(20,538)</b>	<b>Current Liabilities</b>		<b>(16,394)</b>	<b>(22,472)</b>
(10,000)	(10,000)	Long Term Borrowing	31	(10,000)	(10,000)
0	(2,222,866)	Liability Relating to Defined Benefit Pension Schemes	36	0	(1,996,906)
(44)	(44)	Capital Grants Receipts in Advance	13	(44)	(44)
<b>(10,044)</b>	<b>(2,232,910)</b>	<b>Long Term Liabilities</b>		<b>(10,044)</b>	<b>(2,006,950)</b>
<b>94,511</b>	<b>(2,131,441)</b>	<b>Net Assets</b>		<b>96,352</b>	<b>(1,903,986)</b>
71,757	71,757	Usable Reserves	7	65,725	65,725
22,754	(2,203,198)	Unusable Reserves	8	30,627	(1,969,711)
<b>94,511</b>	<b>(2,131,441)</b>	<b>Total Reserves</b>		<b>96,352</b>	<b>(1,903,986)</b>

## Cash Flow Statements for the Group and the PCC

This statement shows the changes in cash and cash equivalents of the Group and the PCC during the reporting period. The statement shows how the PCC 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 PCC are funded by way of taxation and grant income or from the recipients of services provided by the PCC and Chief Constable. Investing activities represent the extent to which cash outflows have been made for resources, which are intended to contribute to future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the PCC.

The PCC 2014/15 £000	The Group 2014/15 £000		Notes	The PCC 2015/16 £000	The Group 2015/16 £000
(15,764)	59,959	<b>Net (surplus) or deficit on the provision of services</b>	9	30	68,471
(5,498)	(81,221)	Adjustments to net (surplus) or deficit on the provision of services for non-cash movements	34	(18,697)	(87,138)
5,178	5,178	Adjustments for items included in the net (surplus) or deficit on the provision of services that are investing and financing activities	34	5,689	5,689
<b>(16,084)</b>	<b>(16,084)</b>	<b>Net cash flows from Operating Activities</b>		<b>(12,978)</b>	<b>(12,978)</b>
4,782	4,782	Investing Activities	35	7,307	7,307
<b>(11,302)</b>	<b>(11,302)</b>	<b>Net increase or decrease in cash and cash equivalents</b>		<b>(5,671)</b>	<b>(5,671)</b>
(29,607)	(29,607)	Cash and cash equivalents at the beginning of the reporting period	28	<b>(40,909)</b>	<b>(40,909)</b>
<b>(40,909)</b>	<b>(40,909)</b>	<b>Cash and cash equivalents at the end of the reporting period</b>		<b>(46,580)</b>	<b>(46,580)</b>

## 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 for the Group and the PCC

#### i. General Principles

The Statement of Accounts summarises the Group's and the PCC'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 Group and the PCC when preparing and presenting the financial statements. The Group and the PCC are 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 Group's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

The Group are required to apply the fair value measurement and disclosure requirements of Section 2.10 of the Code prospectively from 1 April 2015 and the requirements of this are set out in policy viii below. Restatement of prior year transactions is not required.

A minor change has been made to the basis of depreciation for vehicles to ensure consistency across the Alliance. Previously West Mercia vehicles were depreciated over four years on a reducing balance method, with the residual value being retained until the vehicle was sold. With effect from 1 April 2015, vehicles are depreciated on a straight-line basis over three to seven years, depending on the type of vehicle. This change hasn't been applied to the 2014/15 year as the effect is negligible.

#### 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.

## Notes to the Financial Statements

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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 not have a bank account there is no actual transfer of cash between the PCC and the Chief Constable. The Intra-Group funding has been re-presented in the CIES and is now part of the Net Cost of Policing Services, rather than being shown after Other Comprehensive Income and Expenditure.

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:

- Revenue from the sale of goods is recognised when the Group transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Group.
- Revenue from the provision of services is recognised when the Group can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Group.
- Supplies are recorded as expenditure when they are consumed. Where there is a gap between the date supplies are received and their consumption they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by police officers, police staff and PCSOs) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

### **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

**Notes to the Financial Statements**

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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.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Group's cash management

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

Services 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.

The Group is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Group in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the Police Fund Balance (Minimum Revenue Provision), by way of an adjusting transaction with the Capital Adjustment Account in the MIRS for the difference between the two. Further information can be found in the Treasury Management Strategy available on the PCC's website.

**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, bonuses and non-monetary benefits (e.g. cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Group. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end 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.

## Notes to the Financial Statements

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Termination benefits are amounts payable to employees as a result of a decision by the PCC or 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 Group and determined by the individuals' pensionable pay and pensionable service.

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

- the liabilities of the pension fund attributable to the Group are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of 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 36.
- the assets of the LGPS fund attributable to the Group are included in the Balance Sheet at their fair value:
  - quoted securities – current bid price

Notes to the Financial Statements

- 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 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 Group 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. 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 96.

**Notes to the Financial Statements**

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It should be noted that the Group 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 Group 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. Fair Value Measurement**

The Group measure some of its non-financial assets such as surplus assets and investment properties and some of its financial instruments such as loans at fair value at each reporting date. Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The fair value measurement assumes that the transaction to sell the asset or transfer the liability takes place either:

- a) in the principal market for the asset or liability; or
- b) in the absence of a principal market, in the most advantageous market for the asset or liability.

The Group measures the fair value of an asset or liability using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

When measuring the fair value of a non-financial asset, the Group takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data is available, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

Inputs to the valuation techniques in respect of assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, as follows:

- Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date;
- Level 2 – inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly;
- Level 3 – unobservable inputs for the asset or liability.

## **ix. Financial Instruments**

### **Financial Liabilities**

Financial liabilities are recognised on the Balance Sheet when the Group becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the CIES for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For the straightforward borrowings that the Group has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the CIES is the amount payable for the year according to the loan agreement.

The Group has not entered into the repurchase or early settlement of borrowing.

### **Financial Assets**

The Group holds loans and receivables; assets that have fixed or determinable payments but are not quoted in an active market. It does not hold available for sale assets.

Loans and receivables are recognised on the Balance Sheet when the Group becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the CIES for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Group has taken out, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the CIES is the amount receivable for the year in the loan agreement.

The Group has not impaired, or incurred gains or losses, on recognition of loans and receivables during the year.

## **x. Government Grants and Contributions**

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Group when there is reasonable assurance that:

- the Group will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the Group are not credited to the CIES until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, the grant conditions must be adhered to and specific outputs, or future economic benefits or service potential delivered, otherwise the grant sum, must be returned to the transferor.

**Notes to the Financial Statements**

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Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and all capital grants) in the CIES.

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

**xi. Intangible Assets**

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

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and intended to be completed (with adequate resources being available) and the Group will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised). Expenditure on the development of websites is not capitalised if the website is solely or primarily intended to promote or advertise the Group's services.

Intangible assets are measured initially at cost. Amounts are only re-valued where the fair value of the assets held by the Group can be determined by reference to an active market. The depreciable amount of all intangible assets is amortised over their useful lives to the Cost of Services in the CIES. An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the Cost of Services in the CIES. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to the Other Operating Expenditure line in the CIES.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the Police Fund Balance. The gains and losses are therefore reversed out of the Police Fund Balance in the MIRS and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

**xii. 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.

**xiii. Investment Property**

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.

## Notes to the Financial Statements

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Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's length, that is the significant observable inputs (Level 2 in the fair value hierarchy). Properties are not depreciated but are re-valued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the CIES. The same treatment is applied to gains and losses on disposal.

Rentals received in relation to investment properties are credited to the Financing and Investment Income line and result in a gain for the General Fund Balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the Police Fund Balance. The gains and losses are therefore reversed out of the Police Fund Balance in the MIRS and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

### **xiv. 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 Group recognises on its Balance Sheet the assets (Property, ICT and Vehicles) that it controls or its share thereof. Joint assets give rise to benefits of the joint venturers. The Group also recognises the liabilities that it incurs. The CIES is debited and credited with the expenditure it incurs and the share of costs incurred or income earned through the joint operation.

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.

A full explanation of the treatment of transactions and balances under the Alliance has been explained fully in Note 14 to the Accounts 'Pooled Budgets and Joint Ventures'.

### **xv. Leases**

Leases are classified as finance leases where the terms of the lease transfer substantially all of the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. The Group has reviewed its contracts register and has determined that it has no finance leasing arrangements. All other leases are classified as operating leases.

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

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

### **The Group as Lessee (Operating Lease)**

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

## Notes to the Financial Statements

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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).

### **The Group as Lessor (Operating Lease)**

Where the Group grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the CIES. Credits are made on a straight-line basis 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 premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

### **The Group as Lessor (Finance Lease)**

Where the PCC grants a finance lease over a property, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (Property, Plant and Equipment) is written off to the Other Operating Expenditure line in the CIES as part of the gain or loss on disposal. A gain, representing the PCC's net investment in the lease, is credited to the same line in the CIES as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet. Lease rentals receivable are apportioned between:

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

The gain credited to the CIES on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the capital receipts reserve in the MIRS. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts in the MIRS. When the future rentals are received, the element for the capital receipt for the disposal of the asset is used to write down the lease debtor. At this point the deferred capital receipts are transferred to the Capital Receipts Reserve. The written-off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the MIRS.

### **xvi. 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:

## Notes to the Financial Statements

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- 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.

### **xvii. 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.

### **xviii. Property, Plant and Equipment**

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

#### **Recognition**

Expenditure on the acquisition, creation or enhancement of PPE is capitalised on an accruals basis, provided that it is probable that the future economic benefits or service potential associated with the item will flow to the Group and the cost of the item can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

#### **Measurement**

Assets are initially measured at cost, comprising:

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

The cost of assets acquired other than by purchase is deemed to be its fair value; the Group has not acquired any asset via an exchange. The Group received donated assets amounting to £0.491m from the PCC for Warwickshire during the year, as explained in Notes 20 and 23.

Assets are then carried in the Balance Sheet using the following measurement bases:

- Assets Under Construction – historical cost;
- Operational property – fair value, determined as the amount that would be paid for the asset in its existing use (Existing Use Value – EUV);
- Where non-property assets that have short useful lives and / or low values, historical cost basis is used as a proxy for fair value.

Assets included in the Balance Sheet at fair value are re-valued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year end, but as a minimum every five years. Desktop reviews are carried out annually to ensure that this holds

## Notes to the Financial Statements

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true as at the Balance Sheet date; following this review, management determined that the carrying amounts of Operational Assets were not materially different from their fair value. Valuations are carried out by qualified valuers, Lambert Smith Hampton, the most recent being carried out as at 31 March 2016. The basis of valuation used is set out below as recommended by CIPFA and in line with the Statements of Asset Valuation Practice and guidance notes of the Royal Institute of Chartered Surveyors (RICS). Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the CIES where they arise from the reversal of a loss previously charged to the Cost of Services.

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

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains); or
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the Cost of Services in the CIES.

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

The PCC is holding plots of land around the Hindlip site which are important to securing the ongoing operational use of the site by prohibiting access and controlling its use: for example the church and farm land. These are not operational as such but neither is it right to classify them as heritage assets or investment assets, even where a small amount of income is generated on the farm land, which is coincidental to its main purpose.

### Componentisation

Componentisation will only be applied to new buildings and significant refurbishments completed after 1 April 2010 and to revaluations undertaken after 1 April 2010.

Buildings are classed as material where the cost is above the Group's materiality threshold.

The value of each component is considered in relation to the value of the asset. As a rule significant expenditure amounting to greater than 25% of the total cost will be considered for componentisation.

Expenditure on Improvements amounting to less than £250k will not be considered for componentisation.

Components of buildings and the life of each component are:

- |                             |          |
|-----------------------------|----------|
| • Structure                 | 60 years |
| • Mechanical and electrical | 15 years |
| • Roof – pitch              | 60 years |
| • Roof – flat               | 20 years |

## Impairment

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

Where impairment losses are identified, they are accounted for as follows:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains);
- where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the Cost of Services in the CIES.

Where an impairment loss is reversed subsequently, the reversal is credited to the Cost of Services in the CIES, up to the amount of the original loss and adjusted for depreciation that would have been charged if the loss had not been recognised.

## Depreciation

Depreciation is provided for on all PPE assets by the systematic allocation of their depreciable amounts over their useful lives. Exception is made for assets without a determinable finite useful life, i.e. freehold land and assets that are not yet available for use such as assets under construction.

Depreciation is calculated on the straight-line method over:

- buildings – straight line allocation over the useful life of the property as estimated by the valuer;
- plant, furniture and equipment (including ICT) – 5 years;
- vehicles – over 3 to 7 years.

No depreciation is charged for the financial year in which an asset is acquired. A full year's depreciation charge is made for the year of asset disposal.

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

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

## Disposals and Non-Current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is re-valued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent

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

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

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether PPE or Assets Held for Sale) is written off to the Other Operating Expenditure line in the CIES as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the CIES also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

The written-off value of disposals is not a charge against council tax, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the Police Fund Balance in the MIRS.

### **De Minimis**

The Group has agreed a de minimis level of £10,000 for the acquisition, renewal or replacement of buildings, plant and machinery or other equipment to count as prescribed capital expenditure.

### **xix. Provisions, Contingent Liabilities and Contingent Assets**

Provisions are made where an event has taken place that gives the Group a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Group 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 Group settles the obligation.

A contingent liability or a contingent asset arises where an event has taken place that gives the Group 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 Group. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably. Contingent liabilities and contingent assets are not recognised in the Balance Sheet but disclosed in Note 30 to the Accounts.

### **xx. Reserves**

The Group sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the Police Fund Balance in the MIRS. When expenditure to be financed from a reserve is incurred, it is charged to the Cost of Services in that year to score against the Surplus or Deficit on the Provision of Services in the CIES. The reserve is then appropriated back into the Police Fund Balance in the MIRS so that there is no net charge against Council Tax for the expenditure.

### **xxi. Revenue Expenditure Funded from Capital Under Statute**

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the CIES in the year. Where the PCC has determined to meet the cost of this expenditure from existing capital resources or by borrowing, a transfer in the MIRS from the General Fund Balance to the CAA then reverses out the amounts charged so that there is no impact on the level of council tax. Notes 20 and 23 explain the REFCUS incurred by the PCC during the year.

### **xxii. 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);

## Notes to the Financial Statements

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- 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 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 PCC 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.

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 PCC and 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 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 Net Cost of Policing Services has increased by £15.6m 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; spending on PCC initiatives from reserves (£1.5m); and a net increase in pensions and capital charges (£2m) that are reversed in the MIRS. This overall increase in spend is reflected by increases across the majority of the service areas in the CIES.

## **The National Police Air Service (NPAS)**

Following the transfer of all appropriate assets and liabilities from the Central Counties' Air Operations Unit (CCAOU) to NPAS on 3 October 2013, NPAS will make an annual payment over the remaining useful life of the aircraft rather than paying a cash lump sum for it. However, since the PCC no longer owns or controls the asset this annual payment is treated as a deferred capital receipt in line with the Code. The discount rate applied to future cash flows is based on Treasury rates contained in the Green Book and is a key judgment in this context.

## **Funding**

As explained in the Narrative Statement, 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 PCC 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 Group's Balance Sheet at 31 March 2016 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

## **Property, Plant and Equipment**

The basis of estimating the value of assets is referred to in the previous section. Assets are depreciated over their Useful Economic Lives (UEL), which is determined by external valuers, based on judgements, which include assumptions about the level of repairs and maintenance that will be incurred on individual assets. These estimates are important for example, if the

## Notes to the Financial Statements

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UEL is reduced, depreciation charged to the CIES would increase and the carrying value of the asset would fall. It is estimated that the annual depreciation charge for buildings would increase by £0.066m for every year that useful lives were reduced. The Net Book Value of Property, Plant and Equipment as at 31 March 2016 is £54.0m (£47.4m as at 31 March 2015).

### 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 PCC and Chief Constable understand the potential impact of changes in mortality rates, retirement ages and expected returns on fund assets etc. The actuaries provide the Group with advice and illustrations of the potential impact of the changes in assumptions and these are set out at the end of Note 36.

### Provisions

The Group 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 30. 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 provision amounts to £0.060m and is held in the Chief Constable's balance sheet as it relates to employment matters; 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 36.

The CIES, Cost of Services contains a £4.916m contribution to capital expenditure, which is a one-off transaction made possible through the revenue under spend and the requirement to fund capital expenditure.

## 6. Adjustments Between Accounting Basis and Funding Basis under Regulations

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

## Notes to the Financial Statements

2015/16	Usable Reserves		
	Police Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied
	£000	£000	£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)	0	0
Council tax (transfers to or from Collection Fund)	(145)	0	0
Holiday pay (transferred to the Accumulated Absences Reserve)	(346)	0	0
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items charged to the CAA)	(8,326)	0	3,884
<i>Total Adjustments to Revenue Resources</i>	(76,912)	0	3,884
<b>Adjustments between Revenue and Capital Resources</b>			
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	1,581	(1,581)	0
Statutory provision for the repayment of debt (transfer from the CAA)	1,613	0	0
Capital expenditure financed from revenue balances (transfer to the CAA)	4,916	0	0
<i>Total Adjustments between Revenue and Capital Resources</i>	8,110	(1,581)	0
<b>Adjustments to Capital Resources</b>			
Application of capital grants to finance capital expenditure	4,108	0	0
Cash payments in relation to deferred capital receipts	0	(48)	0
<i>Total Adjustments to Capital Resources</i>	4,108	(48)	0
<b>Total Adjustments - Group</b>	<b>(64,694)</b>	<b>(1,629)</b>	<b>3,884</b>
<i>Less: Chief Constable only adjustments</i>			
Pensions Costs	68,095	0	0
Holiday pay	346	0	0
<b>Total Adjustments - PCC</b>	<b>3,747</b>	<b>(1,629)</b>	<b>3,884</b>
2014/15	Usable Reserves		
	Police Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied
	£000	£000	£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)	0	0
Council tax (transfers to or from Collection Fund)	2,185	0	0
Holiday pay (transferred to the Accumulated Absences Reserve)	6	0	0
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items charged to the CAA)	(8,529)	0	(1,313)
<i>Total Adjustments to Revenue Resources</i>	(82,067)	0	(1,313)

**Notes to the Financial Statements**

<b>Adjustments between Revenue and Capital Resources</b>			
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	2,085	(2,085)	0
Statutory provision for the repayment of debt (transfer from the CAA)	1,771	0	0
Capital expenditure financed from revenue balances (transfer to the CAA)	5,716	0	0
<i>Total Adjustments between Revenue and Capital Resources</i>	<i>9,572</i>	<i>(2,085)</i>	<i>0</i>
<b>Adjustments to Capital Resources</b>			
Application of capital grants to finance capital expenditure	1,779	0	0
Cash payments in relation to deferred capital receipts	0	(45)	0
<i>Total Adjustments to Capital Resources</i>	<i>1,779</i>	<i>(45)</i>	<i>0</i>
<b>Total Adjustments - Group</b>	<b>(70,716)</b>	<b>(2,130)</b>	<b>(1,313)</b>
<i>Less: Chief Constable only adjustments</i>			
Pensions Costs	75,729	0	0
Holiday pay	(6)	0	0
<b>Total Adjustments - PCC</b>	<b>5,007</b>	<b>(2,130)</b>	<b>(1,313)</b>

**7. Reserves**

The PCC holds all of the Group's reserves. This note sets out the amounts set aside from the Police Fund Balances into earmarked reserves to provide financing for future expenditure plans and the amounts posted from earmarked reserves to meet Police Fund expenditure in 2015/16. The use of these reserves is explained in the Foreword to the Statement of Accounts.

<b>PCC and Group Earmarked Reserves</b>	<b>Balance at 1 April 2014</b>	<b>Transfers out 2014/15</b>	<b>Transfers in 2014/15</b>	<b>Balance at 31 March 2015</b>	<b>Transfers out 2015/16</b>	<b>Transfers in 2015/16</b>	<b>Balance at 31 March 2016</b>
	£000	£000	£000	£000	£000	£000	£000
Budget Reserve	(29,241)	0	(9,257)	(38,498)	25,981	0	(12,517)
PCC Investment Priorities	(5,000)	0	0	(5,000)	885	0	(4,115)
Invest to Save	(6,900)	0	0	(6,900)	2,200	(1,912)	(6,612)
Investment in Infrastructure	0	0	0	0	0	(23,377)	(23,377)
General Reserve	(12,000)	0	(1,500)	(13,500)	0	0	(13,500)
<b>Total Earmarked Reserves</b>	<b>(53,141)</b>	<b>0</b>	<b>(10,757)</b>	<b>(63,898)</b>	<b>29,066</b>	<b>(25,289)</b>	<b>(60,121)</b>
Capital Receipts Reserve	(841)	0	(2,130)	(2,971)	0	(1,629)	(4,600)
Capital Grants Reserve	(3,575)	0	(1,313)	(4,888)	3,884	0	(1,004)
<b>Total Usable Reserves</b>	<b>(57,557)</b>	<b>0</b>	<b>(14,200)</b>	<b>(71,757)</b>	<b>32,950</b>	<b>(26,918)</b>	<b>(65,725)</b>

Notes to the Financial Statements

Capital receipts may be used to fund future capital expenditure or to repay debt, and capital grants will be used to fund future capital expenditure.

Movements in the Group and PCC usable reserves are detailed in the MIRS. The purposes of the Earmarked Reserves are as follows:

- **Budget Reserve** will support the budget up to 31 March 2018.
- **PCC Investment Priorities Reserve** has been created to support initiatives tackling rural, business and cyber crime.
- **Invest to Save Reserve** enables projects to be funded on a corporate basis focusing on service improvement and cost reductions.
- **Investment in Infrastructure Reserve** is held to support delivery of the Capital Programme.
- **General Reserve** has been created to meet unexpected, unusual and one-off events.

## 8. Unusable Reserves

The Pensions Reserve and Accumulated Absences Reserves 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 unusable reserves can be summarised as follows:

31 March 2015 £000		31 March 2016 £000
	<b>The PCC</b>	
(6,176)	Revaluation Reserve	(7,448)
(10,501)	Capital Adjustment Account	(17,295)
(4,089)	Deferred Capital Receipts Reserve	(4,041)
(1,988)	Collection Fund Adjustment Account	(1,843)
<b>(22,754)</b>	<b>PCC Total:</b>	<b>(30,627)</b>
	<b>The Chief Constable Unusable Reserves</b>	
2,222,866	Pension Reserve	1,996,906
3,086	Accumulated Absences Account	3,432
<b>2,225,952</b>	<b>Total: Chief Constable Unusable Reserves</b>	<b>2,000,338</b>
<b>2,203,198</b>	<b>Total Group Unusable Reserves</b>	<b>1,969,711</b>

### (i) Revaluation Reserve

The Revaluation Reserve contains the gains made by the Group arising from increases in the value of its PPE and Intangible Assets. The balance is reduced when assets with accumulated gains are:

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

Notes to the Financial Statements

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

2014/15			2015/16	
£000	£000		£000	£000
	(4,523)	<b>Group and PCC Balance as at 1 April</b>		<b>(6,176)</b>
(2,130)		Upward revaluation of assets	(3,414)	
85		Downward revaluation of assets and impairment losses not charged to the Surplus or Deficit on the Provision of Services	1,543	
	<b>(2,045)</b>	<b>Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services</b> (Other Comprehensive Income and Expenditure)		<b>(1,871)</b>
35		Difference between fair value depreciation and historical cost depreciation	42	
357		Accumulated gains on assets sold or scrapped	557	
	<b>392</b>	Amount written off to the Capital Adjustment Account		<b>599</b>
	<b>(6,176)</b>	<b>Group and PCC Balance as at 31 March</b>		<b>(7,448)</b>

**(ii) Capital Adjustment Account**

The Capital Adjustment Account absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The Account is debited with the cost of acquisition, construction or enhancement as depreciation, impairment losses and amortisations are charged to the CIES (with reconciling postings from the Revaluation Reserve to convert fair value figures to an historical cost basis). The Account is credited with the amounts set aside by the PCC as finance for the costs of acquisition, construction and enhancement. The Account also contains revaluation gains accumulated on PPE before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

2014/15			2015/16	
£000	£000		£000	£000
	<b>(14,375)</b>	<b>Group and PCC Balance as at 1 April</b>		<b>(10,501)</b>
		Reversal of items relating to capital expenditure debited or credited to the CIES:		
3,690		Charges for depreciation and impairment of non-current assets	5,149	
2,701		Revaluation losses (gains) on PPE	(564)	
452		Amortisation of intangible assets	549	
6,297		Amounts of non-current assets written off on disposal as part of the gain/loss on disposal to the CIES	2,593	
48		Revenue expenditure funded from capital under statute	491	
(48)		Donated Assets	(491)	
	<b>13,140</b>	<b>Net written out amount of the cost of non-current assets consumed in the year</b>		<b>7,727</b>

Notes to the Financial Statements

		Capital financing applied in the year:		
0		Use of the Capital Receipts Reserve to finance new capital expenditure	(3,884)	
(1,779)		Capital grants and contributions credited to the CIES that have been applied to capital financing	(4,108)	
0		Application of grants to capital financing from the Capital Grants Unapplied Account		
(1,771)		Statutory provision for the financing of capital investment charged against the General Fund	(1,613)	
0		Capital expenditure funded from Reserves	0	
(5,716)		Capital expenditure charged against the General Fund	(4,916)	
	<b>(9,266)</b>			<b>(14,521)</b>
	0	Movements in the market value of Investment Properties debited or credited to the CIES		0
	<b>(10,501)</b>	<b>Group and PCC Balance as at 31 March</b>		<b>(17,295)</b>

**(iii) 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:

<b>2014/15 £000</b>		<b>2015/16 £000</b>
<b>1,902,657</b>	<b>Group and Chief Constable Balance as at 1 April</b>	<b>2,222,866</b>
244,480	Re-measurement of the net defined benefit liability (Other Comprehensive Income and Expenditure)	(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>Group and Chief Constable Balance as at 31 March</b>	<b>1,996,906</b>

**(iv) Collection Fund Adjustment Account**

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax income in the CIES as it falls due from council tax payers compared with the

Notes to the Financial Statements

statutory arrangements for paying across amounts to the Police Fund from the Collection Fund.

2013/14 £000		2014/15 £000
197	<b>Group and PCC Balance as at 1 April</b>	(1,988)
(2,185)	Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	145
(1,988)	<b>Group and PCC Balance as at 31 March</b>	(1,843)

**(v) 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 2016. 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>Group and Chief Constable 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>Group and PCC Balance as at 31 March</b>		3,432

**(vi) Deferred Capital Receipts Reserve**

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, the Group does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve. The balance relates to the Finance Lease arrangement with Hereford & Worcester Fire Authority amounting to £3.597m (see Note 19 (i)) and to the disposal of the West Mercia Police share of the Central Counties' Air Operations Unit helicopter in the sum of £0.444m (Note 14).

2014/15 £000		2015/16 £000
(444)	<b>Balance as at 1 April</b>	(4,089)
(3,690)	Transfer of deferred sale proceeds credited as part of the gain/loss on disposal to the CIES	0
45	Transfer to the Capital Receipts Reserve upon receipt of cash	48
(4,089)	<b>Balance as at 31 March</b>	(4,041)

Notes to the Financial Statements**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:

**The Group**

2014/15			2015/16	
£000	£000		£000	£000
		<b>Group Reporting of Income and Expenditure</b>		
155,819		Employee costs	164,609	
37,318		Other running costs	42,858	
7,932		Capital financing	6,973	
	<b>201,069</b>	<b>Total Expenditure</b>		<b>214,440</b>
(166)		Interest earned	(389)	
(9,401)		Other income	(10,241)	
	<b>191,502</b>	<b>Net Expenditure</b>		<b>203,810</b>
		<b>Reconciliation of Group Reporting Income and Expenditure to Cost of Services in the CIES</b>		
	<b>191,502</b>	<b>Net Expenditure in the reporting analysis</b>		<b>203,810</b>
		<b>Amounts in the CIES not reported to management</b>		
6,927		Depreciation, Amortisation, Revaluation Loss and REFCUS	5,667	
41,525		Current cost of pensions	46,453	
(6)		Accumulated absences	347	
1,019		Non distributed costs	741	
	<b>49,465</b>			<b>53,208</b>

## Notes to the Financial Statements

		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	(4,916)	
(444)		Interest payable	(444)	
166		Interest receivable	389	
204		Income from Finance Lease	202	
41		Income from investment properties	41	
	(34,241)			(34,706)
	206,726	<b>Cost of Services in CIES</b>		<b>222,312</b>

## The PCC

2014/15			2015/16	
£000	£000		£000	£000
		<b>Group Reporting of Income and Expenditure</b>		
	3,216	<b>Total Expenditure</b>		<b>4,191</b>
(166)		Interest earned	(389)	
(9,401)		Other income	(10,241)	
	(6,351)	<b>Net Income</b>		<b>(6,439)</b>
		<b>Reconciliation of Group Reporting Income and Expenditure to Cost of Services in the CIES</b>		
	(6,351)	<b>Net expenditure in the reporting analysis</b>		<b>(6,439)</b>
		<b>Amounts in the CIES not reported to management</b>		
6,926		Depreciation, Amortisation, Revaluation Loss and REFCUS	5,667	
823		Corporate & Democratic Core	1,707	
193,128		Funding to the Chief Constable for financial resources consumed	207,388	
(4,029)		Capital charge income from the Chief Constable	(5,740)	
	196,848			<b>209,022</b>
		<b>Amounts included in the analysis not included in the CIES</b>		
166		Interest receivable	389	
204		Income from Finance Lease	202	
41		Income from investment properties	41	
0		Revenue contributions to capital (from PCC budget)	(79)	
	411			<b>553</b>
	190,908	<b>Cost of Services in CIES</b>		<b>203,136</b>

## Notes to the Financial Statements

## 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.

The Group 2015/16	Group Analysis	Amounts not reported for decision making	Amounts not included in Income and Expenditure	Corporate Amounts	Group Total
	£000	£000	£000	£000	£000
Fees, charges and other service income	(10,241)	0	243	0	(9,998)
Investment property income	0	(41)	0	0	(41)
Interest and investment income	(389)	0	0	0	(389)
Finance Lease income	0	(202)	0	0	(202)
Income from council tax	0	(77,547)	0	0	(77,547)
Government grants and contributions	0	(157,738)	0	0	(157,738)
<b>Total Income</b>	<b>(10,630)</b>	<b>(235,528)</b>	<b>243</b>	<b>0</b>	<b>(245,915)</b>
Police officers pay	103,662	0	0	0	103,662
Police staff pay	55,688	0	0	0	55,688
Police pensions	3,281	0	0	0	3,281
Other Employee Expenses	1,978	0	0	0	1,978
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
Other service expenditure	42,858	0	0	0	42,858
Non distributed costs	0	0	0	741	741
Depreciation, Amortisation, Revaluation Loss and REFCUS	0	5,667	0	0	5,667
Interest payable	444	0	0	0	444
Minimum revenue provision	1,613	0	(1,613)	0	0
Revenue contributions to capital	4,916	0	(4,916)	0	0
Net interest on the net defined benefit liability	0	80,064	0	0	80,064
Loss on disposal of non-current assets	0	1,568	0	0	1,568
<b>Total Expenditure</b>	<b>214,440</b>	<b>134,099</b>	<b>(34,894)</b>	<b>741</b>	<b>314,386</b>
<b>Total</b>	<b>203,810</b>	<b>(101,429)</b>	<b>(34,651)</b>	<b>741</b>	<b>68,471</b>
	<b>Group reporting</b>				<b>Deficit on the Provision of services</b>

## Notes to the Financial Statements

The Group 2014/15	Group Analysis	Amounts not reported for decision making	Amounts not included in Income and Expenditure	Corporate Amounts	Group Total
	£000	£000	£000	£000	£000
Fees, charges and other service income	(9,401)	0	245	0	(9,156)
Investment property income	0	(41)	0	0	(41)
Interest and investment income	(166)	0	0	0	(166)
Finance Lease income	0	(204)	0	0	(204)
Income from council tax	0	(76,159)	0	0	(76,159)
Government grants and contributions	0	(162,770)	0	0	(162,770)
<b>Total Income</b>	<b>(9,567)</b>	<b>(239,174)</b>	<b>245</b>	<b>0</b>	<b>(248,496)</b>
Police officers pay	100,034	0	0	0	100,034
Police staff pay	52,482	0	0	0	52,482
Police pensions	3,303	0	0	0	3,303
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)
Other service expenditure	37,318	0	0	0	37,318
Non distributed costs	0	0	0	1,019	1,019
Depreciation, Amortisation, Revaluation Loss and REFCUS	0	6,927	0	0	6,927
Interest payable	444	0	0	0	444
Minimum revenue provision	1,771	0	(1,771)	0	0
Revenue contributions to capital	5,717	0	(5,717)	0	0
Net interest on the net defined benefit liability	0	91,250	0	0	91,250
Loss on disposal of non-current assets	0	879	0	0	879
<b>Total Expenditure</b>	<b>201,069</b>	<b>140,575</b>	<b>(34,208)</b>	<b>1,019</b>	<b>308,455</b>
<b>Total</b>	<b>191,502</b>	<b>(98,599)</b>	<b>(33,963)</b>	<b>1,019</b>	<b>59,959</b>
	<b>Group reporting</b>				<b>Deficit on the Provision of Services</b>

## Notes to the Financial Statements

The PCC 2015/16	Group Analysis	Amounts not reported for decision making	Amounts not included in Income and Expenditure	PCC Total
	£000	£000	£000	£000
Fees, charges and other service income	(10,241)	0	243	(9,998)
Investment property income	0	(41)	0	(41)
Interest and investment income	(389)	0	0	(389)
Finance Lease Income	0	(202)	0	(202)
Income from council tax	0	(77,547)	0	(77,547)
Government grants and contributions	0	(126,939)	0	(126,939)
Capital Charge from Chief Constable	0	(5,740)	0	(5,740)
<b>Total Income</b>	<b>(10,630)</b>	<b>(210,469)</b>	<b>243</b>	<b>(220,856)</b>
Running costs	4,112	0	0	4,112
Revenue contributions to capital (from PCC budget)	79	0	(79)	0
Depreciation, Amortisation, Revaluation Loss and REFCUS	0	5,667	0	5,667
Interest payable	0	0	444	444
Corporate and democratic core	0	1,707	0	1,707
Loss on disposal of non-current assets	0	1,568	0	1,568
Funding to the Chief Constable for financial resources consumed	0	0	207,388	207,388
<b>Total Expenditure</b>	<b>4,191</b>	<b>8,942</b>	<b>207,753</b>	<b>220,886</b>
<b>Total</b>	<b>(6,439)</b>	<b>(201,527)</b>	<b>207,996</b>	<b>30</b>
	<b>Group reporting</b>			<b>Deficit on the Provision of Services</b>

The PCC 2014/15	Group Analysis	Amounts not reported for decision making	Amounts not included in Income and Expenditure	PCC Total
	£000	£000	£000	£000
Fees, charges and other service income	(9,401)	0	245	(9,156)
Investment property income	0	(41)	0	(41)
Interest and investment income	(166)	0	0	(166)
Finance Lease Income	0	(204)	0	(204)
Income from council tax	0	(76,159)	0	(76,159)
Government grants and contributions	0	(131,425)	0	(131,425)
Capital Charge from Chief Constable	0	(4,029)	0	(4,029)
<b>Total Income</b>	<b>(9,567)</b>	<b>(211,858)</b>	<b>245</b>	<b>(221,180)</b>

Notes to the Financial Statements

Running costs	3,216	0	0	3,216
Depreciation, Amortisation, Revaluation Loss and REFCUS	0	6,926	0	6,926
Interest payable	0	0	444	444
Corporate & Democratic Core	0	823	0	823
Loss on the disposal of non-current assets	0	879	0	879
Funding to the Chief Constable for financial resources consumed	0	0	193,128	193,128
<b>Total Expenditure</b>	<b>3,216</b>	<b>8,628</b>	<b>193,572</b>	<b>205,416</b>
<b>Total</b>	<b>(6,351)</b>	<b>(203,230)</b>	<b>193,817</b>	<b>(15,764)</b>
	<b>Group reporting</b>			<b>Surplus 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 PCC's Balance Sheet includes an Intra-Group Creditor of £3.788m (Debtor 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:

<b>2014/15 £000</b>		<b>2015/16 £000</b>
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>

Notes to the Financial Statements**11. Financing and Investment Income and Expenditure**

<b>2014/15 £000</b>		<b>2015/16 £000</b>
444	Interest payable	444
(166)	Interest receivable	(389)
(204)	Other interest receivable – Finance Lease income	(202)
(41)	Income and expenditure in relation to investment properties and changes in their fair value	(41)
<b>33</b>	<b>Total for the PCC</b>	<b>(188)</b>
91,250	Net interest on the net defined benefit liability	80,064
<b>91,283</b>	<b>Total for the Group</b>	<b>79,876</b>

**12. Taxation and Non-Specific Grant Income**

<b>2014/15 £000</b>	<b>2014/15 £000</b>		<b>2015/16 £000</b>	<b>2015/16 £000</b>
	<b>(76,159)</b>	Council tax precepts		<b>(77,547)</b>
(71,079)		Police Grant	(66,729)	
(45,230)		Ex-DCLG Formula Funding	(43,637)	
(9,200)		Local Council Tax Support Grant	(9,199)	
(2,775)		Council Tax Freeze Grant	(2,775)	
(1,739)		Capital grants	(1,424)	
(1,402)		Capital Contributions	(3,175)	
	<b>(131,425)</b>	Total Non-specific Grant Income		<b>(126,939)</b>
	<b>(207,584)</b>	<b>Taxation and Non-Specific Grant Income - PCC</b>		<b>(204,486)</b>
	(31,345)	Home Office grant towards the cost of retirement benefits		(30,799)
	<b>(238,929)</b>	<b>Taxation and Non-Specific Grant Income – The Group</b>		<b>(235,285)</b>

Notes to the Financial Statements**13. Grant Income**

The PCC and Group credited the following grants, contributions and donations to the CIES in 2015/16:

2014/15 £000		2015/16 £000
(131,425)	<b>Credited to Taxation and Non Specific Grant Income - PCC, as per Note 12</b>	<b>(126,939)</b>
(31,345)	Home Office Grant towards the cost of retirement benefits in Chief Constable Accounts	(30,799)
<b>(162,770)</b>	<b>Credited to Taxation and Non Specific Grant Income - Group</b>	<b>(157,738)</b>
	<b>Credited to Services</b>	
(2,325)	Speed Awareness Contributions	(1,807)
(425)	Victim Support Services	(1,095)
(452)	Innovation Grant	(449)
(411)	DBS Vetting Service Fees	(389)
(102)	Proceeds of Crime Contributions	(293)
0	Restorative Justice	(278)
(148)	Counter Terrorism Grant: Prison	(157)
(97)	National Security Grant: Ports	(121)
(26)	Other Grants	(67)
(395)	Victims Competed Fund Grant	0
<b>(4,381)</b>	<b>Total Credited to Services – PCC and Group</b>	<b>(4,656)</b>

The Group has received capital grants and contributions that have yet to be recognised as income as they have conditions attached to them that will require the monies to be returned to the provider if the conditions are not met.

The balances at the year end are as follows:

31 March 2015 £000		31 March 2016 £000
(12)	Home Office Grant for Custody and Case Preparation	(12)
(32)	National Police Improvement Agency for Mobile Data	(32)
<b>(44)</b>	<b>Total</b>	<b>(44)</b>

**14. Pooled Budgets and Joint Operations****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

Notes to the Financial Statements

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%.

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 assets and liabilities as at 31 March 2016 have been incorporated into the Accounts and are shown separately in the tables in Note 36. 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%): 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.

## Notes to the Financial Statements

### 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 on the pooled 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

Notes to the Financial Statements

payments from NPAS will be offset against these debtors and an annual interest amount credited to the CIES.

## 15. Officers' Remuneration

Regulation 7 of the Accounts and Audit 2011 (SI 2011 No. 533) as amended by SI 2009 No 332 introduced a legal requirement 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
Police & Crime Commissioner	2015/16	75,000	0	0	0	0	0	0	75,000
	2014/15	75,000	0	2,565	0	0	0	0	77,565
Deputy PCC	2015/16	58,010	0	0	0	0	0	0	58,010
	2014/15	56,993	0	4,993	0	0	0	0	61,986
Chief Executive to the PCC	2015/16	98,213	0	0	1,556	0	0	11,393	111,161
	2014/15	94,735	0	4,772	1,570	0	0	10,516	111,593
Treasurer to the PCC – Note 5	2015/16	32,319	0	258	991	0	0	3,749	37,317
	2014/15	0	0	0	0	0	0	0	0

# 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.
5	The post of Treasurer to the Commissioner in the PCC office is shared 50/50 between the West Mercia and Warwickshire PCCs. The Treasurer commenced in post on 17 August 2015 and is employed by West Mercia PCC: the whole salary for this post is shown in the table above. The previous postholder was employed by Warwickshire PCC and these costs are shown in full in the Warwickshire PCC's Accounts.
*	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		Remuneration Band	Number of Employees	
Group	PCC		Group	PCC
2014/15	2014/15		2015/16	2015/16
85	1	£50,000 - £54,999	106	0
54	1	£55,000 - £59,999	66	3
10	1	£60,000 - £64,999	19	0
8	0	£65,000 - £69,999	7	0
1	0	£70,000 - £74,999	6	0
5	1	£75,000 - £79,999	3	1
2	0	£80,000 - £84,999	4	0
2	0	£85,000 - £89,999	2	0
1	0	£90,000 - £94,999	0	0
1	0	£95,000 - £99,999	0	0
2	1	£100,000 - £104,999	3	1
0	0	£105,000 - £109,999	0	0
0	0	£110,000 - £114,999	0	0
1	0	£115,000 - £119,999	0	0
0	0	£120,000 - £124,999	0	0
0	0	£125,000 - £129,999	1	0
0	0	£130,000 - £134,999	0	0
0	0	£135,000 - £139,999	0	0
0	0	£140,000 - £144,999	0	0
0	0	£145,000 - £149,999	0	0
0	0	£150,000 - £154,999	1	0
1	0	£155,000 - £159,999	0	0
<b>174</b>	<b>5</b>	<b>Total</b>	<b>218</b>	<b>5</b>

Notes to the Financial Statements**16. 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 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>

**17. External Audit Costs**

The PCC 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
(7)	Rebate from the Audit Commission with regard to external audit costs	0
74	Fees payable to Grant Thornton with regard to external audit services carried out by the appointed auditor for the year	53
0	Fees payable to Grant Thornton in respect of other services provided by them during the year	0
<b>67</b>	<b>Total Group</b>	<b>53</b>

The PCC's share of the audit fees is £34,260 (£49,331 in 2014/15) and the Chief Constable's share is £18,750 (£25,000 in 2014/15).

## 18. 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 Group is required to disclose material transactions with related parties; bodies or individuals that have the potential to control or influence the Group or to be controlled or influenced by the Group. Disclosure of these transactions allows readers to assess the extent to which the Group 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 Group.

Central government has significant influence over the general operations of the Group. It is responsible for providing the statutory framework within which the Group operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Group has with other parties (e.g. council tax bills). Grants received from government are set out in Notes 12 and 13.

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. Section 28 of the Police Reform and Social Responsibility Act 2011 requires that the local authorities covered by the police area must establish a Police and Crime Panel (PCP) for that area. The PCP scrutinises the decisions of the PCC, reviews the Police and Crime Plan and has a right of veto over the precept.

Worcestershire County Council administers the LGPS and provides payroll services to the Group. With effect from 1 December 2015, the administration of the police pension schemes has been provided by Kier Business Services Limited.

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 14 to the Accounts. 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 14, 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 PCC's Chief Executive is a Director and Company Secretary of PPL and also receives no benefit or remuneration.

The former PCC, William Longmore, is an unremunerated director of Inside Products Ltd, a non-profit making enterprise established in partnership between the OPCC and four HM Prison establishments to create purposeful activity for current offenders, create better employment opportunities for ex-offenders and create profits for reinvestment in reducing reoffending. The

**Notes to the Financial Statements**

PCC's Chief Executive is Company Secretary of Inside Products Ltd and also receives no benefit or remuneration. The PCC made a grant of £0.037m to Inside Products during the 2015/16 financial year.

The following table shows the extent of the Force's expenditure and income with other local authorities, police forces and PPL.

	<b>Expenditure</b>	<b>Income</b>
	<b>£000</b>	<b>£000</b>
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. All contracts have been entered into in compliance with the Scheme of Delegation and Financial and Contract Regulations 2015/16. The following table shows the seven suppliers with which the Group incurred expenditure in excess of £1m in 2015/16:

	<b>Expenditure</b>
	<b>£000</b>
Home Office	1,751
Primecare Forensic Medical Service	1,745
Kcom Group plc	1,315
The Police and Crime Commissioner for West Midlands	1,121
	<b>5,932</b>

**19. Leases**

The cost of operating leases is shown in the Chief Constable's Accounts to reflect the day-to-day direction and control the Chief Constable exercises over the resources acquired. However the PCC holds ultimate responsibility for entering into lease arrangements.

**The Group as Lessee**

The PCC occupies 34 premises on an operating lease basis. The lease payments due in future years are:

<b>Restated 31 March 2015 £000</b>		<b>31 March 2016 £000</b>
674	Not later than one year	688
2,157	Later than one year and not later than five years	1,943
4,494	Later than five years	3,991
<b>7,325</b>	<b>Total PCC and Group</b>	<b>6,622</b>

Notes to the Financial Statements

The amount paid in 2015/16 was £0.6m (£0.8m in 2014/15).

## The Group as Lessor

### (i) Finance Lease

The PCC entered into a partnership with Hereford and Worcester Fire Authority (H&WFA) to build a joint facility in Bromsgrove. The costs of the build were met fully by West Mercia PCC with H&WFA leasing its part of the building over an initial 30 year term, commencing with effect from 1 April 2014. This arrangement has been identified as a finance lease and has a remaining term of 28 years.

The PCC has a gross investment in the lease, made up of the minimum lease payments expected to be received over the remaining term and the residual value anticipated for H&WFA's part of the property when the lease comes to an end. The minimum lease payments comprise settlement of the long-term debtor for the interest in the property acquired by the lessee (see Note 24) and finance income that will be earned by the PCC in future years whilst the debtor remains outstanding. The gross investment is made up of the following amounts:

31 March 2015 £000		31 March 2016 £000
	Finance Lease debtor (net present value of minimum lease payments):	
48	Current	51
3,212	Non-current	3,161
3,975	Unearned finance income	3,774
385	Unguaranteed residual value of property	385
<b>7,620</b>	<b>Gross investment in the lease</b>	<b>7,371</b>

The gross investment in the lease and the minimum lease payments will be received over the following periods:

Gross Investment in the Lease	Minimum Lease Payments		Gross Investment in the Lease	Minimum Lease Payments
31 March 2015 £000	31 March 2015 £000		31 March 2016 £000	31 March 2016 £000
249	249	Not later than one year	249	249
998	998	Later than one year and not later than five years	998	998
6,373	5,988	Later than five years	6,124	5,738
<b>7,620</b>	<b>7,235</b>	<b>Total PCC and Group</b>	<b>7,371</b>	<b>6,985</b>

Notes to the Financial Statements**(ii) Operating Leases**

The PCC leases out property under operating leases for the following purposes:

- for the provision of community services such as the Community Hub in Evesham
- for the tenancy of Hindlip Farm (land only)
- for the provision of equipment on masts

The lease payments receivable in future years are:

<b>Restated 31 March 2015 £000</b>		<b>31 March 2016 £000</b>
128	Not later than one year	107
98	Later than one year and not later than five years	38
0	Later than five years	0
<b>226</b>	<b>Total PCC and Group</b>	<b>145</b>

The amount received in 2015/16 was £0.1m (£0.2m in 2014/15).

**20. Property, Plant and Equipment (PPE)**

The PCC holds all the Group's PPE. Assets are strategic in nature and are controlled by the PCC to achieve strategic outcomes.

Assets created under the alliance with the PCC for Warwickshire are jointly controlled and only the PCC's share is held in the Balance Sheet. Where the PCC's share of these assets was originally purchased by the PCC for Warwickshire, they have been donated by the latter to the PCC. The PCC has then made a REFCUS payment to the PCC for Warwickshire equivalent to the expenditure incurred. ICT Equipment Assets amounting to £0.110m (£0.009m in 2014/15) and ICT Assets Under Construction amounting to £0.381m (nil in 2014/15) have been treated in this manner. Conversely, where the PCC for Warwickshire's share of these assets was originally purchased by the PCC for West Mercia, they have been donated to the PCC for Warwickshire. The PCC for Warwickshire has then made a grant payment to the PCC equivalent to the expenditure incurred. ICT Equipment Assets amounting to £1.186m (£0.907m in 2014/15) and ICT Assets Under Construction amounting to £0.509m (nil in 2014/15) have been treated in this manner.

The movements on the balances of the PPE assets are shown in the following tables:

Notes to the Financial Statements

<b>PCC and Group Movements in 2015/16</b>	<b>Land &amp; Buildings</b>	<b>Vehicles</b>	<b>Plant, Furniture &amp; Equipment</b>	<b>Surplus Assets</b>	<b>Assets Under Construction</b>	<b>Total PPE</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Cost or valuation at 1 April 2015</b>	<b>52,278</b>	<b>10,978</b>	<b>11,497</b>	<b>1,846</b>	<b>312</b>	<b>76,911</b>
Additions	1,330	3,439	4,143	0	2,492	11,404
Transfer from Assets under Construction	308	0	0	0	(308)	0
Transfer to Surplus Assets	(101)	0	0	101	0	0
Donated Assets	0	0	110	0	382	492
Revaluation increases / (decreases) recognised in the Revaluation Reserve	1,703	0	0	125	0	1,828
Revaluation increases / (decreases) recognised in the Surplus/Deficit on the Provision of Services	564	0	0	0	0	564
De-recognition – disposals	(139)	(2,808)	0	(186)	0	(3,133)
De-recognition – donated	0	0	(1,186)	0	(509)	(1,695)
De-recognition – other	0	0	(1,886)	0	0	(1,886)
Asset Reclassified (to)/from Held For Sale	(508)	0	0	0	0	(508)
<b>At 31 March 2016</b>	<b>55,435</b>	<b>11,609</b>	<b>12,678</b>	<b>1,886</b>	<b>2,369</b>	<b>83,977</b>
<b>Less Accumulated Depreciation and Impairment</b>						
<b>At 1 April 2015</b>	<b>(16,824)</b>	<b>(6,992)</b>	<b>(5,674)</b>	<b>0</b>	<b>0</b>	<b>(29,490)</b>
<b>Depreciation charge</b>						
Depreciation written out to the Revaluation Reserve	(42)	0	0	0	0	(42)
Depreciation written out to the Surplus/Deficit on the Provision of Services	(1,245)	(1,777)	(2,125)	0	0	(5,147)
De-recognition – disposals	23	2,744	0	0	0	2,767
De-recognition – other	0	0	1,886	0	0	1,886
<b>At 31 March 2016</b>	<b>(18,088)</b>	<b>(6,025)</b>	<b>(5,913)</b>	<b>0</b>	<b>0</b>	<b>(30,026)</b>
<b>Net book value at 31 March 2016</b>	<b>37,347</b>	<b>5,584</b>	<b>6,765</b>	<b>1,886</b>	<b>2,369</b>	<b>53,951</b>
<b>Net book value at 31 March 2015</b>	<b>35,454</b>	<b>3,986</b>	<b>5,823</b>	<b>1,846</b>	<b>312</b>	<b>47,421</b>

Notes to the Financial Statements

<b>PCC and Group Movements in 2014/15</b>	<b>Land &amp; Buildings</b>	<b>Vehicles</b>	<b>Plant, Furniture &amp; Equipment</b>	<b>Surplus Assets</b>	<b>Assets Under Construction</b>	<b>Total PPE</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Cost or valuation at 1 April 2014</b>	<b>58,584</b>	<b>10,721</b>	<b>11,875</b>	<b>2,106</b>	<b>0</b>	<b>83,286</b>
Additions	189	2,421	3,529	2	312	6,453
Transfer from Assets under Construction	0	0	0	0	0	0
Donated Assets	0	0	9	0	0	9
Revaluation increases / (decreases) recognised in the Revaluation Reserve	2,045	0	0	0	0	2,045
Revaluation increases / (decreases) recognised in the Surplus/Deficit on the Provision of Services	(2,701)	0	0	0	0	(2,701)
De-recognition – disposals	(1,355)	(2,164)	0	(200)	0	(3,719)
De-recognition – donated	0	0	(907)	0	0	(907)
De-recognition – other	(3,690)	0	(3,009)	0	0	(6,699)
Asset Reclassified (to)/from Held For Sale	(794)	0	0	(62)	0	(856)
<b>At 31 March 2015</b>	<b>52,278</b>	<b>10,978</b>	<b>11,497</b>	<b>1,846</b>	<b>312</b>	<b>76,911</b>
<b>Less Accumulated Depreciation and Impairment</b>						
<b>At 1 April 2014</b>	<b>(16,056)</b>	<b>(8,351)</b>	<b>(6,836)</b>	<b>0</b>	<b>0</b>	<b>(31,243)</b>
<b>Depreciation charge</b>						
Depreciation written out to the Revaluation Reserve	(35)	0	0	0	0	(35)
Depreciation written out to the Surplus/Deficit on the Provision of Services	(1,290)	(553)	(1,847)	0	0	(3,690)
De-recognition – disposals	557	1,912	0	0	0	2,469
De-recognition – other	0	0	3,009	0	0	3,009
<b>At 31 March 2015</b>	<b>(16,824)</b>	<b>(6,992)</b>	<b>(5,674)</b>	<b>0</b>	<b>0</b>	<b>(29,490)</b>
<b>Net book value at 31 March 2015</b>	<b>35,454</b>	<b>3,986</b>	<b>5,823</b>	<b>1,846</b>	<b>312</b>	<b>47,421</b>
<b>Net book value at 31 March 2014</b>	<b>42,528</b>	<b>2,370</b>	<b>5,039</b>	<b>2,106</b>	<b>0</b>	<b>52,043</b>

## Notes to the Financial Statements

## Revaluations

The PCC carries out a rolling programme that ensures that all Land and Buildings required to be measured at current value are revalued at least every five years, with desktop valuations being carried out more frequently where appropriate. Further information about the revaluations including the bases used is set out in Accounting Policy xviii in Note 1 to the Accounts. Values for PPE (excluding Surplus Assets) are set out below:

2014/15 PCC and Group		Land and buildings	Vehicles, Plant, Furniture & Equipment	Assets Under Construction	Total 2015/16 PCC and Group
£000		£000	£000	£000	£000
5,364	Carried at historical cost	0	3,439	2,369	5,808
n/a	Carried at current value at 31 March 2016	15,113	8,910	0	24,023
29,391	Carried at current value at 31 March 2015	20,722	0	0	20,722
5,059	Carried at current value at 31 March 2014	1,125	0	0	1,125
6,337	Carried at current value at 31 March 2013	220	0	0	220
175	Carried at current value at 31 March 2012	167	0	0	167
1,095	Carried at current value at 31 March 2011	0	0	0	0
<b>47,421</b>	<b>Total Valuations</b>	<b>37,347</b>	<b>12,349</b>	<b>2,369</b>	<b>52,065</b>

Surplus Assets are defined as properties that are not being used to deliver services, but that do not meet the Code's criteria to be classified as either Investment Properties or an Assets Held for Sale. Surplus Assets are valued at fair value and the following table summarises the valuations of these assets, measured using significant observable inputs (Level 2 of the fair value hierarchy):

2014/15 PCC and Group		2015/16 PCC and Group
£000		£000
n/a	Carried at current value at 31 March 2016	1,815
1,400	Carried at current value at 31 March 2015	0
446	Carried at current value at 31 March 2014	71
<b>1,846</b>	<b>Total Valuations</b>	<b>1,886</b>

## 21. Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the table below together with the resources used to finance it. Where capital expenditure is to be financed in future years, by charges to revenue as assets are used by the Group, the expenditure results

Notes to the Financial Statements

in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Group that has yet to be financed.

2014/15		2015/16
£000		£000
35,593	<b>Opening Capital Financing Requirement – PCC and Group</b>	33,822
	<b>Capital investment:</b>	
6,453	Property, plant and equipment	11,404
995	Intangible assets	1,013
48	Revenue expenditure funded from capital under statute	491
	<b>Sources of finance:</b>	
0	Capital receipts	0
(1,779)	Government grants and other contributions	(7,992)
	<b>Sums set aside from revenue:</b>	
(5,717)	Direct revenue contributions	(4,916)
0	Contribution from Reserves	0
(1,771)	Minimum Revenue Provision	(1,613)
33,822	<b>Closing Capital Financing Requirement – PCC and Group</b>	32,209
	<b>Explanation of movements in the year</b>	
(1,771)	Increase in underlying need to borrow (unsupported by government financial assistance)	(1,613)
(1,771)	<b>Increase/(Decrease) in Capital Financing Requirement</b>	(1,613)

## Capital Commitments

As at 31 March 2016, the Group had capital commitments of £1.9m (£3.4m as at 31 March 2015), mainly relating to spend on ICT projects that had been ordered during 2015/16 but had not been delivered as at 31 March 2016.

## 22. Investment Properties

Rental income of £41,650 from Evesham Customer Contact Centre has been accounted for in 2015/16 (£41,650 in 2014/15) in the Financing and Investment Income and Expenditure line in the CIES. There are no restrictions on the PCC's ability to realise the value inherent in its investment property or on the PCC's right to the remittance of income and the proceeds of disposal. The PCC has no contractual obligations to purchase, construct or develop investment property or undertake repairs, maintenance or enhancement. The following table summarises the movement in the fair value of investment properties over the year, measured using significant observable inputs (Level 2 of the fair value hierarchy):

2014/15		2015/16
£000		£000
370	Balance at start of the year – PCC and Group	370
0	Net gains/losses from fair value adjustments	0
370	<b>Balance at end of the year – PCC and Group</b>	370

## Notes to the Financial Statements

**23. Intangible Assets**

Software is accounted for as intangible assets, to the extent that the software is not an integral part of a particular ICT system and accounted for as part of the hardware item in PPE. All software is given a finite useful life of 5 years.

The carrying amount of software assets is amortised on a straight-line basis. The amortisation charge to revenue expenditure is absorbed as an overhead across all divisions of service. It is not possible to quantify exactly how much of the amortisation is attributable to each service heading. Amortisation costs are charged to the Net Cost of Services in the CIES.

Intangible assets created under the Alliance with the PCC for Warwickshire are jointly controlled and only the PCC's share is held in the Balance Sheet. Where the PCC's share of these assets was originally purchased by the PCC for Warwickshire, they have been donated by the latter to the PCC. The PCC has then made a REFCUS payment to the PCC for Warwickshire equivalent to the expenditure incurred. There were no Intangible Assets treated in this manner in 2015/16 (£0.039m in 2014/15). Conversely, where the PCC for Warwickshire's share of these assets was originally purchased by the PCC for West Mercia, they have been donated to the PCC for Warwickshire. The PCC for Warwickshire has then made a grant payment to the PCC equivalent to the expenditure incurred. Intangible Assets amounting to £0.314m (£0.308m in 2014/15) have been treated in this manner.

The PCC holds a motor vehicle registration licence plate, which has previously been re-valued every 5 years. This asset is assessed as having an indefinite useful life and is therefore not amortised. The licence plate was re-valued in 2013/14 using National Numbers, an online evaluation company backed by the DVLA who hold the British Standard Institute Quality Award. The company is a member of the Cherished Number Dealers Association.

The movement of Intangible Assets during the year is as follows:

2014/15				2015/16		
Vehicle Licence	Software	Total		Vehicle Licence	Software	Total
£000	£000	£000		£000	£000	£000
			<b>Balance at start of year – PCC and Group</b>			
200	2,388	2,588	Gross carrying amounts	200	2,761	2,961
0	(1,006)	(1,006)	Accumulated amortisation	0	(1,105)	(1,105)
<b>200</b>	<b>1,382</b>	<b>1,582</b>	<b>Net carrying amount at start of year</b>	<b>200</b>	<b>1,656</b>	<b>1,856</b>
0	995	995	Additions	0	1,012	1,012
0	39	39	Donated Assets	0	0	0
0	(308)	(308)	Other disposals	0	(314)	(314)
0	(452)	(452)	Amortisation for the period	0	(549)	(549)
<b>200</b>	<b>1,656</b>	<b>1,856</b>	<b>Net carrying amount at end of year</b>	<b>200</b>	<b>1,805</b>	<b>2,005</b>
			Comprising:			
200	2,761	2,961	Gross carrying amount	200	3,180	3,380
0	(1,105)	(1,105)	Accumulated amortisation	0	(1,375)	(1,375)
<b>200</b>	<b>1,656</b>	<b>1,856</b>	<b>Balance at end of the year – PCC and Group</b>	<b>200</b>	<b>1,805</b>	<b>2,005</b>

Notes to the Financial Statements**24. Long Term Debtors**

This note shows money owed to the Group and PCC for funding and services provided on or before 31 March 2016 where the money will be received in excess of one year from this date. The balance mainly relates to NPAS's liability to the PCC in respect of the disposal of the helicopter as explained in Note 14 (£0.444m) and the net investment in the Finance Lease in respect of the partnership with Hereford and Worcester Fire Authority (H&WFA) to build a joint facility in Bromsgrove (£3.597m), as explained in Note 19 (i). These two items are matched by balances held as Deferred Capital Receipts.

2014/15 £000		2015/16 £000
460	<b>Balance at start of year</b>	<b>4,114</b>
0	NPAS - Helicopter	0
3,690	Additions in Year – Finance Lease H&WFA	0
(45)	Settlements relating to the Finance Lease	(48)
9	Other minor additions / (repayments)	(11)
<b>4,114</b>	<b>Total</b>	<b>4,055</b>

**25. Assets Held for Sale**

Through the Asset Rationalisation Programme the PCC is actively reducing the extent of land and buildings held for operational purposes. Where the characteristics of an asset matches those set out for asset held for sale in the Code, it is necessary to show assets held for sale separately and ensure the carrying value is estimated in accordance with accounting policy. Further details of the basis for valuation of these assets is set out in Note 1, Accounting Policy xviii. There are 3 assets that meet the strict definition of Assets Held for Sale as at 31 March 2016 (5 as at 31 March 2015).

2014/15 £000		2015/16 £000
496	<b>Balance outstanding at start of year</b>	<b>852</b>
	Assets newly classified as held for sale:-	
856	Property, Plant and Equipment	508
0	Revaluation increases / (decreases) recognised in the Revaluation Reserve	43
(500)	Assets sold	(776)
<b>852</b>	<b>Total</b>	<b>627</b>

Notes to the Financial Statements**26. 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 for the Group</b>	<b>61</b>	<b>80</b>	<b>309</b>	<b>15</b>	<b>20</b>	<b>0</b>	<b>485</b>
<b>Less Chief Constable's Inventories</b>	<b>(61)</b>	<b>(80)</b>	<b>(309)</b>	<b>(15)</b>	<b>(20)</b>	<b>(0)</b>	<b>(485)</b>
<b>Balance at year end for the PCC</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

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 for the Group</b>	<b>69</b>	<b>91</b>	<b>209</b>	<b>16</b>	<b>10</b>	<b>11</b>	<b>406</b>
<b>Less Chief Constable's Inventories</b>	<b>(69)</b>	<b>(91)</b>	<b>(209)</b>	<b>(16)</b>	<b>(10)</b>	<b>(11)</b>	<b>(406)</b>
<b>Balance at year end for the PCC</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>

**27. Debtors**

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

Notes to the Financial Statements

31 March 2015 £000		31 March 2016 £000
15,509	Central Government bodies	5,296
6,889	Other Local Authorities	6,401
1	NHS bodies	3
2,264	Council taxpayers	2,333
1,416	Other entities and individuals	3,330
<b>26,079</b>	<b>Group Debtors</b>	<b>17,363</b>
(11,917)	<b>Less</b> Chief Constable Debtors: Central Government bodies	(2,150)
(43)	<b>Less</b> Chief Constable Debtors: Other entities and individuals	(11)
<b>14,119</b>	<b>PCC Debtors</b>	<b>15,202</b>

**28. Cash and Cash Equivalents**

The balance of the PCC's cash and cash equivalents is made up of the following elements:

31 March 2015 £000		31 March 2016 £000
19	Cash held by the Group	20
872	Bank current accounts	522
40,018	Short term deposits	46,038
<b>40,909</b>	<b>Total Group and PCC</b>	<b>46,580</b>

**29. 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
(2,317)	Central Government bodies	(4,008)
(4,381)	Other Local Authorities	(6,266)
(198)	NHS bodies	(48)
(1,447)	Council taxpayers	(1,463)
(11,581)	Other entities and individuals	(10,565)
<b>(19,925)</b>	<b>Group Creditors</b>	<b>(22,350)</b>
2,892	<b>Less</b> Chief Constable Creditors: Central Government bodies	3,230
566	<b>Less</b> Chief Constable Creditors: Other Local Authorities	1,668
3,640	<b>Less</b> Chief Constable Creditors: Other entities and individuals	4,908
<b>(12,827)</b>	<b>PCC Creditors</b>	<b>(12,544)</b>

**30. Provisions and Contingent Liabilities**

	Termination Benefits	Employment Appeal Tribunal Ruling	Total Provisions
	£000	£000	£000
<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 2014/15 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 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 36.

**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.

**31. Financial Instruments****Categories of Financial Instruments**

The PCC holds simple financial instruments (investments and borrowings), which is reflected in the scope of this Note to the Accounts. The following categories of financial instruments are carried in the Balance Sheet.

	Long Term		Current	
	31 March 2016	31 March 2015	31 March 2016	31 March 2015
	£000	£000	£000	£000
Investments - Loans and receivables	0	0	46,038	40,018
Debtors - Loans and receivables		25	8,220	19,072
Cash - Loans and receivables	0	0	542	891
Borrowings - Financial liabilities at amortised cost	10,000	10,000	62	62
Creditors - Financial liabilities at amortised cost		0	17,526	15,241
Debtors that are not financial instruments (taxes and payments in advance)	0	0	9,143	7,007
Creditors that are not financial instruments (taxes, National Insurance and prepayments)	0	0	4,823	4,684

**Income, Expense, Gains and Losses**

The interest received on Financial Assets Loans and Receivables (investments) and interest paid on Financial Liabilities Measured at Amortised Cost (borrowings) are as follows:

Notes to the Financial Statements

	Financial Liabilities – Measured at Amortised Cost	Financial Assets – Loans and Receivables	PCC and Group Total
	£000	£000	£000
<b>2015/16</b>			
Interest Expense Payable and Similar Charges	444	0	444
Interest Income	0	(389)	(389)
<b>2014/15</b>			
Interest Expense Payable and Similar Charges	444	0	444
Interest Income	0	(166)	(166)

**Fair Value of Assets and Liabilities**

Financial liabilities, financial assets represented by loans and receivables and long-term debtors and creditors are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions (other significant observable inputs – Level 2 of the fair value hierarchy):

- estimated interest rates at 31 March 2016 of 2.15% for loans from the Public Works Loans Board (PWLB);
- no early repayment or impairment is recognised;
- where an instrument will mature in the next 12 months the carrying amount is assumed to approximate to fair value;
- the fair value of trade and other receivables is taken to be the invoiced or billed amount (equal to the carrying amount shown in the table above).

The fair values calculated are as follows:

PCC and Group	31 March 2016		31 March 2015	
	Carrying amount	Fair Value	Carrying amount	Fair Value
	£000	£000	£000	£000
Financial Liabilities	10,062	15,325	10,062	15,252

The fair value of the liabilities is higher than the carrying amount because the Group's portfolio of loans includes two fixed rate loans where the interest rate payable is higher than the prevailing rates at the Balance Sheet date. This shows a notional future gain (based on economic conditions at 31 March 2016) arising from a commitment to pay interest to lenders at a different rate from current market rates. The calculation of fair value amount is supplied by the PWLB

**32. Nature and Extent of Risks Arising From Financial Instruments**

The Group's activities expose it to a variety of financial risks, principally:

- **Credit risk:** The possibility that other parties might fail to pay amounts due to the Group;

## Notes to the Financial Statements

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- **Liquidity risk:** The possibility that the Group might not have funds available to meet our commitments to make payments;
- **Market risk:** The possibility that financial loss might arise as a result of changes in such measures as interest rates and stock market movements (the Group does not hold any share equity).

The Group has adopted CIPFA's Treasury Management in Public Services Code of Practice and set treasury management indicators to control financial instrument risks in accordance with CIPFA's Prudential Code. The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund police services. Risk management is carried out by a Treasury Management Team, under policies approved by the PCC in the annual Treasury Management Strategy. The PCC provides written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk and the investment of surplus cash. The Treasury Management Strategy can be found on the PCC's website.

### Credit Risk

The overriding aim of the Group is to maintain the security of its capital and liquidity of its investments over the requirement for an investment return. The Group will also aim to achieve the optimum return on its investments, commensurate with proper levels of security and liquidity. The risk appetite of the Group is extremely low in order to give overriding and absolute priority to the security of its investments. The borrowing of monies purely to invest or lend on and make a return is unlawful and the Group does not engage in such activity.

The principal risks are minimised by the Annual Investment Strategy, which forms part of the overall Treasury Management Strategy. It is a requirement that cash balances are invested with banks and building societies with strong short-term credit rating, other local authorities and the UK Government Debt Management Office. However, in continuance of the caution, which was adopted following turbulent financial markets in 2008/09, the Group limited its list of borrowers to the Bank of England and other local authorities in 2015/16.

The Group has stipulated the minimum acceptable credit quality of counterparties for inclusion on the counterparty or lending list. The 'creditworthiness methodology' used to create the counterparty list takes account of the ratings and observations published by three ratings agencies, Fitch, Moodys and Standard and Poors.

It is recognised that ratings or the ratings of any one agency should not be given undue weighting or be the sole determinant of the quality of an institution and that it is important to continually assess and monitor the financial sector and economic and political environments in which the institutions operate. The assessment will also take account of information that reflects the opinion of the markets and overlay that information on top of the credit ratings. Other information sources used will include the financial press and share price in order to establish the most robust scrutiny process on the suitability of potential investment counterparties. The aim of the strategy is to generate a list of highly creditworthy counterparties, which will allow investments to spread rather than be concentrated with a limited range of institutions. The creditworthiness of institutions is monitored on an on-going basis. Should an institution no longer meet the minimum criteria and be deemed no longer appropriate to invest with then investments will be moved immediately.

At 31 March 2016 the short- term investment balances were as follows:

**Notes to the Financial Statements**

<b>2014/15 £000</b>		<b>2015/16 £000</b>
10,008	- On call (available immediately) (variable rate)	3,607
25,008	- Repayable in 1 month (fixed rates)	26,427
5,002	- Repayable in 2 months (fixed rates)	16,004
<b>40,018</b>	<b>Total PCC and Group</b>	<b>46,038</b>

It is not unheard of for local authorities and public bodies to hold investments that subsequently the financial institution fails to repay. However, there has been no experience of default on investment of these cash balances and there is no reason to suspect that there will be in the future.

Where it is appropriate to do so customers are assessed, taking into account their financial position, past experience and other factors, with individual credit limits being set in accordance with internal ratings with parameters set by the Group. However, the vast majority of transactions do not justify this approach.

Receipts from customers for sales of services and recoupable costs from other public bodies are a relatively small part of the Group's income (£5.3m in 2015/16). A small number of old invoices amounting to £0.026m were written off in 2015/16.

The Group generally allows a 30 day standard credit term for customers such that £1.199m of the £1.715m balance outstanding from customers at 31 March 2016 was past the point of 30 days from the date of invoice. This past due amount can be analysed as follows:

<b>31 March 2015 £000</b>		<b>31 March 2016 £000</b>
2,355	Less than 3 months	497
141	3 to 6 months	244
136	6 to 12 months	87
122	Over 12 months	371
<b>2,754</b>		<b>1,199</b>

The following table summarises the potential maximum exposure at the year end to credit risks other than treasury investments and cash-equivalent investments.

	<b>%</b>	<b>£000</b>
Balance of debtors ledger at 31 March 2016		1,715
Historical experience of default	0.5	
Historical experience adjusted for market conditions at 31 March 2016	0.5	
Estimated maximum exposure to default at 31 March 2016		155
Estimated maximum exposure to default at 31 March 2015		155

**Liquidity Risk**

The Group has a cash flow management system that seeks to ensure that cash is available as needed. If unexpected movements happen the Group has ready access to borrowings from the PWLB. There is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. There is a degree of risk that borrowing will need to

**Notes to the Financial Statements**

be undertaken at a time of unfavourable interest rates, therefore, the position is monitored closely.

Borrowing limits for the Group are set in the Prudential Indicators prepared as a requirement of the CIPFA Prudential Code. Maximum borrowing limits for 2015/16 were set at £40m. The Group raised a loan in 2007/08 for the first time in many years. The maturity analysis of its financial liabilities is:

31 March 2015 £000		31 March 2016 £000
10,000	More than 20 years	10,000

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

**Market Risk**

The Group holds fixed rate short-term investments. Over time, in line with changes to interest rates generally, there has been a significant reduction in interest rates and therefore a fall in overall investment returns. A reduction in interest rates has the following effect on investments:

- Investments at variable rates – the interest income credited to the Surplus or Deficit on the Provision of Services (CIES) will fall;
- Investments at fixed rates – the fair value of assets will rise.

An increase in interest rates will have the opposite effect. Generally the nature of short-term investments indicates that any difference between the actual value and fair value of the investment would be marginal.

The Group holds fixed rate loans, which eliminates the risk of interest rate movement on borrowing. Borrowings are not carried at fair value, so nominal gains or losses on fixed rate borrowings would not impact on the Surplus or Deficit on the Provision of Services or Other Comprehensive Income and Expenditure.

The approach to borrowing for capital projects is to delay borrowing and to temporarily use working capital balances. The present relative rates of interest for borrowing and lending mean that it is advantageous to delay long-term borrowing whilst the overall cash flow is positive. Capital expenditure temporarily funded from working capital up to 31 March 2016 was £22.147m (£23.760m at 31 March 2015).

It is probable that this capital expenditure will eventually require external borrowing. There is a risk that rates may be adverse when and if this borrowing takes place. Monitoring medium and long-term borrowing costs versus the opportunity costs of not investing working capital mitigates this risk. The Treasury Management team has an active strategy for assessing interest rates exposure that feeds into setting the Medium Term Financial Plan and annual budget and is used to update the budget quarterly during the year.

It is calculated that if interest rates had been 1% higher for 2015/16 with all other variables held constant, the financial effect would be:

	£000
Increase in interest payable on fixed rate borrowings	100
Increase in interest receivable on fixed rate short term investments	(496)
<b>Impact on Surplus or Deficit on then Provision of Services</b>	<b>(396)</b>

**Notes to the Financial Statements**

The impact of a 1% fall in interest rates would be as above but with the movements being reversed.

**33. Proceeds of Crime**

The Act gives powers to the Police and Customs to seize cash derived from, or intended for use in crime, and to secure its forfeiture in civil magistrates' court proceedings. The PCC is currently holding cash totalling £0.261m.

**34. Cash Flow Statement – Operating Activities**

The cash flows for operating activities include the following items:-

<b>2014/15 £000</b>		<b>2015/16 £000</b>
159	Interest received	368
(444)	Interest paid	(444)
<b>(285)</b>	<b>Total – Group and PCC</b>	<b>(76)</b>

The surplus/deficit on the provision of services has been adjusted for the following non-cash movements:-

<b>PCC 2014/15 £000</b>	<b>Group 2014/15 £000</b>		<b>PCC 2015/16 £000</b>	<b>Group 2015/16 £000</b>
(3,725)	(3,725)	Depreciation	(5,191)	(5,191)
(2,701)	(2,701)	(Downward)/Upward valuations	564	564
(452)	(452)	Amortisation of intangible assets	(549)	(549)
(4,716)	(4,454)	(Increase)/decrease in revenue creditors *	1,411	(1,297)
2,218	8,823	Increase/(decrease) in revenue debtors *	(191)	(9,990)
0	(45)	Increase/(decrease) in inventories	0	79
6,842	0	Movement in Intra-Group Funding	(11,591)	0
0	(75,729)	Movement in pension liability	0	(68,095)
0	26	Movement in provisions	0	491
(2,964)	(2,964)	Carrying amount of non-current assets sold	(3,150)	(3,150)
<b>(5,498)</b>	<b>(81,221)</b>	<b>Total – Group and PCC</b>	<b>(18,697)</b>	<b>(87,138)</b>

\* The comparative figures for movements in revenue creditors and debtors have been adjusted to reflect a compensating amendment in 2014/15's Accounts that was shown on the Balance Sheet but not adjusted in the Notes to the Cash Flow Statement.

The surplus/deficit on the provision of services has been adjusted for the following items that are investing and financing activities:-

<b>2014/15 £000</b>		<b>2015/16 £000</b>
2,085	Proceeds from the sale of property, plant and equipment	1,581
3,093	Capital Grants	4,108
<b>5,178</b>	<b>Total – Group and PCC</b>	<b>5,689</b>

**35. Cash Flow Statement – Investing Activities**

2014/15 £000		2015/16 £000
8,527	Purchase of property, plant and equipment and intangible assets	11,781
(1,868)	Proceeds from the sale of property, plant and equipment	(1,798)
(1,877)	Other receipts from investing activities	(2,676)
<b>4,782</b>	<b>Total – Group and PCC</b>	<b>7,307</b>

**36. 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). 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.

**Notes to the Financial Statements**

As explained in Note 14, West Mercia's 34.3% share of PPL's LGPS assets and liabilities as at 31 March 2016 have been incorporated into the Accounts 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:

<b>2015/16</b>	<b>LGPS £000</b>	<b>LGPS (PPL ele- ment) £000</b>	<b>Police Pension Scheme 1987 £000</b>	<b>Police Injury Awards £000</b>	<b>Police Pension Scheme 2006 £000</b>	<b>Police Pension Scheme 2015 £000</b>	<b>Total £000</b>
<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>

## Notes to the Financial Statements

<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

<b>2014/15</b>		<b>Police Pension Scheme 1987</b>	<b>Police Injury Awards</b>	<b>Police Pension Scheme 2006</b>	<b>Total</b>
	<b>LGPS</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£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)

**Notes to the Financial Statements**

<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:

<b>2015/16</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>Police Pension Scheme 2015 £000</b>	<b>Total £000</b>
Present value of the defined benefit obligation (including PPL £7.978m)	(302,590)	(1,760,240)	(62,590)	(59,270)	(16,330)	(2,201,020)
Fair value of plan assets (including PPL £7.978m)	204,114	0	0	0	0	204,114
<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>

<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>
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>

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

<b>2015/16</b>	<b>LGPS £000</b>	<b>LGPS (PPL element) £000</b>	<b>Police Pension Scheme 1987 £000</b>	<b>Police Injury Awards £000</b>	<b>Police Pension Scheme 2006 £000</b>	<b>Police Pension Scheme 2015 £000</b>	<b>Total £000</b>
<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
Liabilities assumed on entity combinations	n/a	(7,289)	n/a	n/a	n/a	n/a	(7,289)
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>(7,978)</b>	<b>(1,760,240)</b>	<b>(62,590)</b>	<b>(59,270)</b>	<b>(16,330)</b>	<b>(2,201,020)</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 30).

<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>

Notes to the Financial Statements**Reconciliation of the Movements in the Fair Value of the Scheme Assets for the Chief Constable and the Group**

Reconciliation of fair value of the scheme assets (LGPS)	2014/15 £000	2015/16 £000	PPL element 2015/16 £000	Total 2015/16 £000
<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
Business combinations	n/a	n/a	7,289	7,289
Benefits paid	(5,876)	(6,107)	54	(6,053)
<b>Closing balance 31 March</b>	<b>196,002</b>	<b>196,136</b>	<b>7,978</b>	<b>204,114</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.

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.

## Notes to the Financial Statements

		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)

## LGPS Assets

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

	Total 31 March 2015 £000	Split of Assets between Investment categories %	Total 31 March 2016 £000	Split of Assets between Investment categories %
Equities	180,125	92	170,470	83
Government Bonds	1,372	1	849	1
Other Bonds	11,369	6	11,665	6
Property	0	0	9,234	4
Alternatives-UK Infrastructure	0	0	7,572	4
Cash-Liquidity	3,136	1	4,324	2
<b>Total Assets</b>	<b>196,002</b>	<b>100</b>	<b>204,114</b>	<b>100</b>

**Notes to the Financial Statements****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:

2014/15			2015/16	
LGPS	Police Pension Schemes		LGPS	Police Pension Schemes
		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%	3.6%
50%	100%	Take-up of option to convert annual pension into retirement lump sum	50%	100%

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.

Notes to the Financial Statements

	Impact on the Defined Benefit Obligation in the Scheme	
	Increase in assumption	Decrease in assumption
	£000	£000
Longevity (increase or decrease in 1 year)	47,149	(47,149)
Rate of inflation (increase or decrease by 1%) – Police staff only	6,505	(6,505)
Rate of increase in salaries (increase or decrease by 1%)	40,778	(40,778)
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%)	(410,326)	410,326

## 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>
	-	<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</b>		<b>2,120</b>
	-	<b>Actual Home Office Top Up funding in 2015/16</b>		<b>(30,798)</b>

## 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 30 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 37;
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

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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

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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.

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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.

**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.

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

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

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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.

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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. The Police Fund Balance therefore summarises the resources that the PCC is statutorily empowered to spend on 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.

**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.

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**Revenue Expenditure Funded from Capital Under Statute (REFCUS)** – Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset. These costs may be charged as expenditure to the relevant service in the CIES in the year.

**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 CIES 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**

### **Police and Crime Commissioner for West Mercia Annual Governance Statement 2015-16**