



# **Chief Constable of West Mercia Police**

# **Statement of Accounts**

# **2016/17**

# THE CHIEF CONSTABLE OF WEST MERCIA POLICE

## STATEMENT OF ACCOUNTS 2016/17

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## Narrative Report

### Message From Anthony Bangham, Chief Constable of West Mercia Police

“West Mercia Police, working together with Warwickshire Police as part of the strategic alliance, continues to have a clear focus on achieving its vision of ‘Protecting People from Harm’ and specifically to ‘become great at protecting the most vulnerable’. To realise this ambition a well established ‘Looking to 2020’ change programme has been developed to lead the transformation of policing in the county during the coming years.

I thank everyone in West Mercia Police and across the alliance for their continued hard work and dedication in ensuring together we are building a safer and stronger West Mercia, leading with confidence and serving with compassion.

Over the year proactive policing and our dynamic response to policing demands has resulted in some excellent outcomes meaning our communities can be reassured that we are prioritising and responding appropriately. However, there has been a rise in recorded crime. This rise in crime volumes from April 2016 to March 2017 is also reflected nationally. The increase is predominantly due to changes and improvements in the recording of crime and the consequential increases in the recording of violent and sexual offences.

We take pride in the service we provide to the public and the satisfaction levels of users of our service remain good. In comparison to the previous year there has been an increase in hate crime satisfaction levels and this is indicative of our continued commitment to protecting and working with our communities.

For the new financial year 2017/18, the Police and Crime Commissioner (PCC) has again confirmed that there will be no targets to reduce specific areas of crime. Strategic aims and objectives are contained within the Safer West Mercia Plan. These include putting victims and survivors first, reform of the police service and ensuring communities are secure and feel reassured.

This financial year will be the year of delivery, with delivery of more technology than we have had in the last two decades to modernise the force. There has been significant investment made in major projects and we anticipate that these will begin to deliver benefits during 2017/18. During this coming year we will be delivering some key infrastructural and technological changes such as developing our new Operational and Communications Centre and new command and control system Saab SAFE, implementing a new crime management IT system (Athena), and rolling out new Body Worn Videos and mobile IT equipment, such as the new smartphones and laptops to our front line officers to allow them to work in more agile and efficient ways.

We will also continue to develop our transformation plans to ensure investments made are fully utilised to progress and ensure we are a modern, responsive police service.

Against this backdrop and seeking to maximise the use of the new technology we are implementing, we will continue to design our services to be the most efficient and effective possible, we will focus our resources on tackling the most serious harms and in places where most crimes occur and ensure we put victims first.

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We know that our communities want us to deal with the issues that impact directly on them and give greatest cause for concern. We will continue to engage with people and businesses to understand their needs and respond to these through our local neighbourhood policing.

During 2017/18 we will also continue to target those offenders who are causing the most harm, we will deploy resources in areas of high risk and work to safeguard the most vulnerable members of our communities. This approach has proved effective in previous years and therefore we will seek to build upon this strategy, using our new technology, to ensure we deliver the best possible protection to the communities of West Mercia Police using the available resources.”

### **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;
- 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.

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 office’s 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 2017/18:

- Potential transfer of Fire and Rescue Authority responsibilities to the Police and Crime Commissioner;
- Preparation for the changes in the arrangements for dealing with police complaints;
- Implementation of the alliance transformation programme, and;
- Successful recruitment of new Joint Audit Committee members who have the skill and knowledge to undertake the function.

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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), composes of locally elected councillors and lay members, who hold the PCC to account through a process of scrutiny and review, which includes scrutinising the Police and Crime Plan and the budget and precept. Whilst establishing openness in the conduct of police business the intention is that the PCP supports the PCC in the effective exercise of their functions. The role, responsibility and powers of the PCP can also be found on the PCC’s website.

The Alliance, between the PCC and Chief Constable and their counterparts in Warwickshire is unique, using a single policing model to police Herefordshire, Shropshire, Telford and Wrekin, Warwickshire and Worcestershire covering an area of 9,400km2. The Alliance involves extensive collaboration across all aspects of police business in order to enable both forces to meet the challenge of reducing policing budgets. By working more closely together the forces will benefit from greater operational and organisational resilience. To facilitate joint working, the forces have developed a new shared vision and set of values. These provide a unified purpose for the two organisations and a clear direction to our workforce and our stakeholders how the forces will operate. Diagram 1 shows how the values and Code of Ethics supports our vision “To Protect People From Harm”

Diagram 1.



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

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

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

The aims of the Alliance are

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

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

- Establish the levels of crime and disorder problems in local areas;
- Consult widely with local residents to make sure that the partnerships’ perception matches 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	847	5.19	30.93	69.07
PCSOs	106	7.54	58.49	41.51
Police Staff	654	3.97	59.02	40.98
<b>Total</b>	<b>1,607</b>	<b>4.85</b>	<b>44.18</b>	<b>55.82</b>
	West Mercia	BME %	Female %	Male %
Police Officers	2,075	2.50	30.70	69.30
PCSOs	245	3.67	48.57	51.43
Police Staff	1,778	2.36	63.10	36.90
<b>Total</b>	<b>4,098</b>	<b>2.51</b>	<b>45.82</b>	<b>54.18</b>

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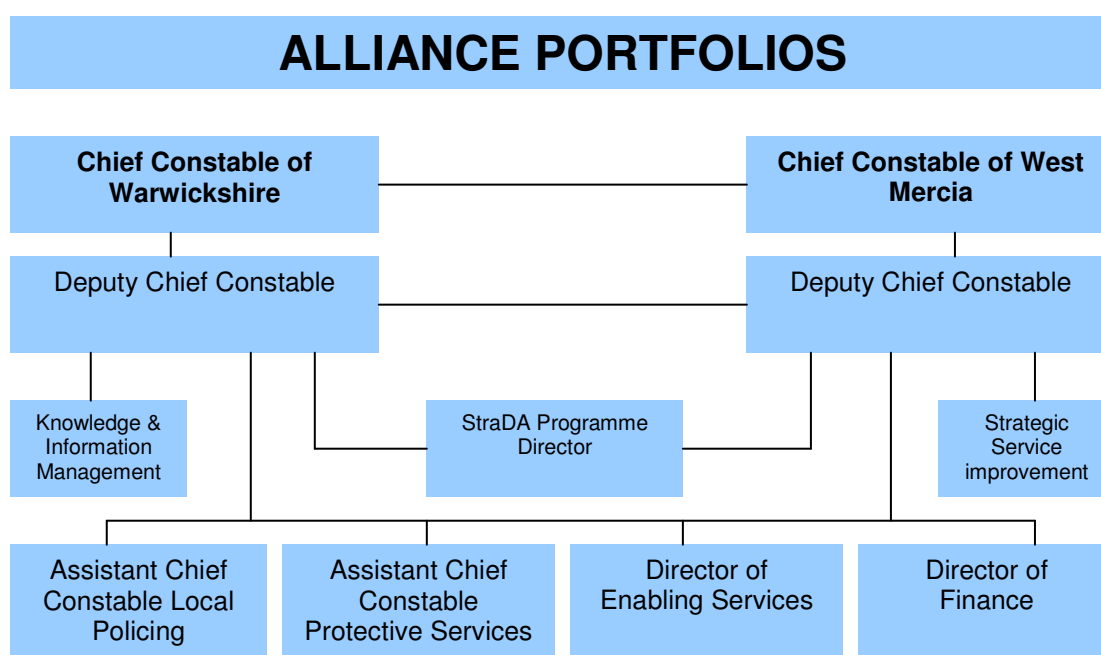
	Alliance	BME %	Female %	Male %
Police Officers	2,922	3.28	30.76	69.24
PCSOs	351	4.84	51.56	48.44
Police Staff	2,432	2.70	62.00	38.00
<b>Total</b>	<b>5,705</b>	<b>3.17</b>	<b>45.36</b>	<b>54.64</b>

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

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

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

**Diagram 2.**



Narrative Report**Financial Performance**

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

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

The annual budget is funded mainly through government funding and the precept. The expenditure that can be charged against the budget is determined on a statutory basis. By contrast the Accounts includes income and expenditure that are measured and reported in accordance with proper accounting practice and conventions as set out, chiefly, in The Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 (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 1. The following table analyses how the budget is funded.

**Table 2.**

Where the Money Came From	Budget £m	Actual £m	%
Central Government Grant (Core Funding)	121.711	121.711	100.00
Locally Raised Funding – Precept (Council Tax)	81.175	81.175	100.00
<b>Total Funding (excluding reserves)</b>	<b>202.886</b>	<b>202.886</b>	<b>100.00</b>

The PCC agreed a 2016/17 net revenue budget of £207.7m which includes the use of £4.8m 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 the PCC has increased by 1.99% compared to 2015/16. The following table shows the outturn position by comparing the revised budget to the actual for 2016/17, firstly for the Alliance and then for West Mercia Police.

**Table 3. The Alliance Outturn for year ended 31 March 2017**

Warwickshire Police & West Mercia Police	Budget £m	Budget Adjustments £m	Revised Budget £m	Actual £m	%	Variance £m
Police officers' pay	158.214	(1.546)	156.668	154.713	52.6	1.955
Police staff pay	76.468	0.837	77.305	78.315	26.6	(1.010)
PCSO pay	10.628	0.000	10.628	10.508	3.6	0.120
Police pensions	5.143	0.006	5.149	4.240	1.4	0.909
Other Employee Expenses	3.046	0.035	3.081	2.350	0.8	0.731
Premises	12.065	(0.101)	11.964	12.232	4.2	(0.268)



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Transport	7.303	0.015	7.318	7.206	2.5	0.112
Supplies & Services	27.413	2.303	29.716	29.609	10.1	0.107
Third Party Payments	17.690	0.754	18.444	18.484	6.3	(0.040)
Capital Financing	4.006	0.205	4.211	4.378	1.5	(0.167)
<b>Expenditure</b>	<b>321.976</b>	<b>2.508</b>	<b>324.484</b>	<b>322.035</b>	<b>109.6</b>	<b>2.449</b>
Income	(18.073)	(2.508)	(20.581)	(21.521)	(7.3)	0.940
<b>Net Expenditure</b>	<b>303.903</b>	<b>0.000</b>	<b>303.903</b>	<b>300.514</b>	<b>102.3</b>	<b>3.389</b>
<b>Total Use of Reserves</b>	<b>(9.912)</b>	<b>0.000</b>	<b>(9.912)</b>	<b>(6.523)</b>	<b>(2.3)</b>	<b>(3.389)</b>
<b>Net Force Budget Incl. Use of Reserves</b>	<b>293.991</b>	<b>0.000</b>	<b>293.991</b>	<b>293.991</b>	<b>100.0</b>	<b>0.000</b>

Table 3 shows the Alliance net expenditure is £6.5m more than the core funding from Government grants and precept. The budgeted drawdown from reserves was £9.9m, although the final net expenditure of £300.5m requires a drawdown from reserves of £6.5m. This is £3.4m less than the original budget, however, it is still £6.5m more than the recurring income.

The main causes of this variance are as follows:

- The underspend on police officers pay in 2016/17, is due to a number of issues including a significant number opting out of the pension scheme; a reduction in officers entitled to allowances for housing and rent; and the impact of general turnover;
- The total overspend on police staff pay of £1m has arisen as a result of funding three key projects – the OCC, Athena case management and workspace modernisation. These projects have been financed from reserves.
- PCSO pay has underspent against budget by £0.120m largely as a result of turnover during the year;
- Place Partnership Limited manage the estates, there have been savings across utilities of £0.464m in 2016/17, offsetting increased expenditure on areas of spend including maintenance, cleaning, security and rents costs of £0.733m.
- Transport costs – There has been a net underspend on transport related costs of £0.112m. This is due to lower fuel costs than budgeted and improved efficiency from newer vehicles. Repairs costs were £0.441m higher than budget, but increased driver training and telematics should help to mitigate these costs in future years;
- Supplies and services underspent by £0.107m and covers a range of areas of expenditure, including change programmes, consultancy costs and other operational running costs contributing relatively small sums to this net underspend;
- Payments to third parties for services has a slight net overspend. This includes increased grant payments from the PCC office of £1.2m, funded from reserves to further work specifically with victims, business, rural and cyber crime initiatives. There have been other corresponding underspends on regional intelligence, motorways policing and rate refunds on each of the Justice Centres;
- The additional payments against capital financing include increased revenue contributions to finance costs incurred in accordance with the PCC's strategy;
- The income budget was exceeded by £0.940m. The main variations are attributable to reduced mutual aid income of £1.7m, where assistance is provided to other forces on current active operations and lower income receivable from speed awareness and driver improvement initiatives due to the scheme being under review and no highways

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enforcement for part of the year. These reductions have been offset against income received from Worcestershire County Council in respect of the Youth offending service and its transfer to the PCC, increased vetting income, decreased bad debt provision due to improved recovery of debts and increased grants received for the Athena and Armed uplift programmes.

Table 4 provides an analysis of the West Mercia Police budget.

**Table 4. The PCC and Chief Constable Outturn for year ended 31 March 2017**

West Mercia Police	Budget £m	Budget Adjustments £m	Revised Budget £m	Actual £m	%	Variance £m
Police officers' pay	108.680	(1.132)	107.548	105.657	52.1	1.891
Police staff pay	48.862	0.690	49.552	51.278	25.3	(1.726)
PCSO pay	7.458	0.000	7.458	7.382	3.6	0.076
Police pensions	3.684	0.006	3.690	3.098	1.5	0.592
Other Employee Expenses	2.054	0.025	2.079	1.289	0.6	0.790
Premises	8.424	(0.103)	8.321	9.024	4.4	(0.703)
Transport	4.897	0.009	4.906	4.754	2.3	0.152
Supplies & Services	18.336	1.629	19.965	19.945	9.8	0.020
Third Party Payments	6.991	0.480	7.471	6.598	3.3	0.873
Capital Financing	1.948	0.142	2.090	2.158	1.1	(0.068)
<b>Expenditure</b>	<b>211.334</b>	<b>1.746</b>	<b>213.080</b>	<b>211.183</b>	<b>104.0</b>	<b>1.897</b>
Income	(7.669)	(1.495)	(9.164)	(9.240)	(4.5)	0.076
<b>Net Force</b>	<b>203.665</b>	<b>0.251</b>	<b>203.916</b>	<b>201.943</b>	<b>99.5</b>	<b>1.973</b>
Office of the PCC	1.416	0.000	1.416	1.190	0.6	0.226
PCC – Youth Offending Service (YOS)	0.173	0.000	0.173	(0.523)	(0.3)	0.696
Victims & Commissioning	0.000	0.000	0.000	0.026	0.0	(0.026)
PCC Grant Scheme	2.495	(0.251)	2.244	2.466	1.2	(0.222)
PCC – Business, Rural & Cyber Crime	0.000	0.000	0.000	0.523	0.3	(0.523)
PCC Crime Reduction Fund	0.000	0.000	0.000	0.000	0.0	0.000
<b>Total PCC</b>	<b>4.084</b>	<b>(0.251)</b>	<b>3.833</b>	<b>3.682</b>	<b>1.8</b>	<b>0.151</b>
<b>Net Force</b>	<b>207.749</b>	<b>0.000</b>	<b>207.749</b>	<b>205.625</b>	<b>101.3</b>	<b>2.124</b>
<b>Total Use of Reserves</b>	<b>(4.863)</b>	<b>0.000</b>	<b>(4.863)</b>	<b>(2.739)</b>	<b>(1.3)</b>	<b>(2.124)</b>
<b>Net Force Budget Including Use of Reserves</b>	<b>202.886</b>	<b>0.000</b>	<b>202.886</b>	<b>202.886</b>	<b>100.0</b>	<b>0.000</b>

In addition to the spending on day-to-day activities, the PCC incurs expenditure on buildings, information technology, vehicles and other major items of specialist equipment which have a long-term useful life. Assets are held on the PCC's Balance Sheet and the PCC exercise strategic control over assets to achieve objectives set out in the Police and Crime Plan and the aims of the Alliance with West Mercia Police. The capital programme, which contains projects that lead to the creation of new assets or the enhancement of existing assets, is the

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responsibility of the PCC, who in turn can draw on a range of options to finance capital expenditure, including borrowing, to meet the cost of the capital programme. The Chief Constable is charged for the use of assets in day to day policing. The PCC is also responsible for cash reserves, which are a key part of the Medium Term Financial Plan and used to fund the budget gap and part fund capital expenditure. The capital outturn position, borrowing and reserves are explained in the narrative report section of the Group and PCC Accounts and the accompanying notes.

**Policing Performance**

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

**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

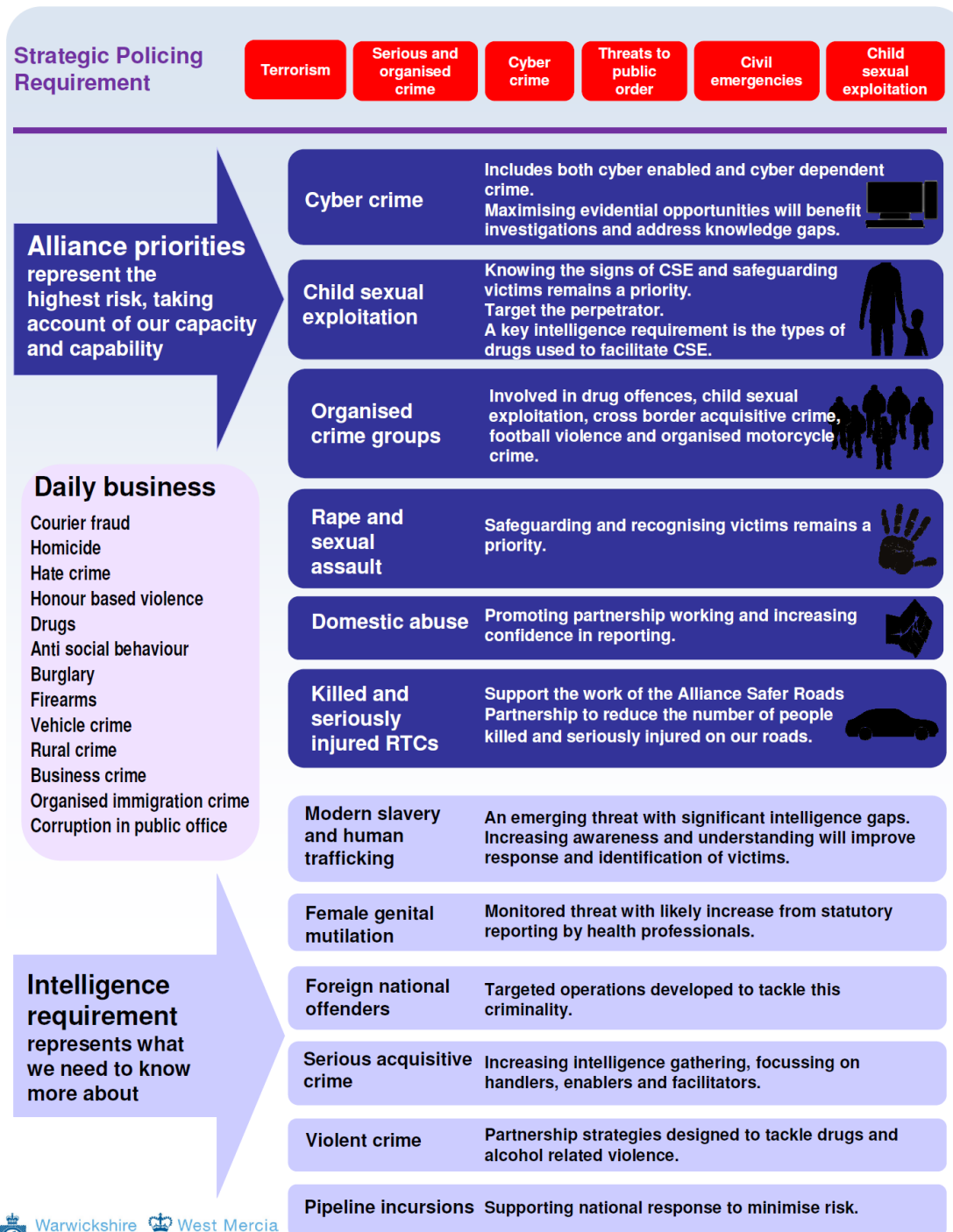
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threats identified in the Strategic Assessment, it is a framework used, by operational officers, for decision making and allocating resources. Diagram 4 shows the current Alliance Control Strategy.

Diagram 4.

## Alliance Control Strategy 2015

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



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

Table 5 is a summary of our performance for 2016/17 against the various categories of crime. As at the 31 March 2017 user satisfaction rating stood at 81.9%, which is a slight deterioration from 31 March 2016 when it stood at 83.3%, but is still generally high based on the ‘whole experience’ service. In terms of safety on our roads 2016/17 saw a 30% increase in the number of fatalities, rising to 47 compared to 36 in 2015/16. The increase in total crime follows a national trend and efforts being made by all forces to improve consistency in crime recording and the greater number of victims of violent and sexual offences coming forward.

**Table 5. Policing performance 2016/17**

	Volume	Compared to 4 Year Trend	Compared to 2015/16
Violent Against the Person with Injury	10,302	+40%	+7%
Violent Against the Person without Injury	16,508	+118%	+34%
Rape	1,087	+80%	+17%
Other Sexual Offences	2,068	+69%	+11%
Robbery	582	+42%	+20%
Domestic Burglary	3,085	+12%	+6%
Anti Social Behaviour	45,460	-7%	+4%

**Value for Money**

Both the PCC and Chief Constable have a duty to provide efficient and effective policing at an affordable cost. HMIC conducted their annual PEEL assessment during 2016, with their final report published in 2017. The assessments cover 3 specific areas:

- Effectiveness – how effective are the force at keeping people safe and reducing crime
- Efficient - does the force provide value for money
- Legitimacy – treating people with fairness and respect.

The full report is available on the HMIC website

<https://www.justiceinspectorates.gov.uk/hmic/peel-assessments/peel-2016/west-mercia/>

The assessment rated the force as good in each of the categories which demonstrated an improvement from the previous assessment for the latter two categories. With specific regard for value for money – there were 3 questions relating to efficiency which the assessment considered. These were how well the force deals with current demand, how it uses its resources to manage this demand, and how well it plans for future demand. The force was rated as good in each of these value for money categories and the assessment outlined how the forces financial plans were prudent, but allowed for future investment and linked into the ambitious Alliance transformation programme to deliver organisational change. The force is however committed to embracing the various improvement areas identified in the report to further enhance future performance.

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

The Alliance has already implemented some structural change to release savings and has developed a single policing model to ensure greater levels of protection from harm. The next phase of development through the StraDA programme will be transformational and will build on the work to make the Alliance more resilient and efficient, particularly by utilising and embracing new technology. These changes will help us to better identify our areas of high demand – where and when they are occurring, and the diversity of that demand, for example the increase in the number of incidents where mental health issues are flagged up, thus allowing more effective and efficient use of resources. StraDA was 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. The benefits realised from the transformation and change programme in terms of efficiency and the generation of savings will be closely monitored as they develop.

During 2016/17 the Alliance continued its joint operation with other public sector organisations in the region to collaborate on the provision of estates services through Place Partnership Limited (PPL). PPL is a public sector company, which manages our estate, with the aim of 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, restructuring the service to make further efficiencies and provide more effective interventions to prevent re-offending.

During 2016/17 work on preparing and testing Athena has continued, with full implementation due in 2017/18. Athena is a police collaboration ICT system, which will help to identify criminals more quickly, reduce crime and save time and money. Throughout 2016/17, the Alliance has also been building a joint Operational Command and Control system across two sites, one being in Warwickshire and one in West Mercia. 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 during peak periods or critical incidents. This will realise further savings and forms a key part of the Transformation programme for the

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Alliance, as well as providing scope for further collaboration beyond the Alliance in future years.

Our workforce is essential in delivering the Alliance vision, and in recognition of this, and to address some of the issues raised in the latest staff survey, the Health and Wellbeing Board meets regularly. It ensures 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 are continuing to work to identify attendance issues and take steps to resolve these and support individual members of the workforce to return to work.

### **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 2017/18 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 2017/18;
- 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 2017/18 net revenue budget of £212.2m which includes the use of £9.7m of reserves resulting in a budget requirement of £202.5m. The budget is funded by £120.2m of government funding, which has reduced by a further 0.4% (£0.5m) compared to 2016/17. The remaining funding, £82.3m, comes from the council tax through the precept, which has not been increased in 2017/18 from 2016/17.

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 and to help organisational reform.

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The cost of the workforce makes up approximately 80% of the budget, therefore the factors that affect this are closely monitored. This will include the cost of the inflation linked pay award, which is assumed to be in line with the government's intentions and constrained at 1% over the period to 2019/20, along with other changes beyond our control such as increases in National Insurance resulting from the Pension Act and other inflationary pressures on the purchase of goods and services.

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". On 15<sup>th</sup> December 2016, the Minister for Policing and the Fire Service reaffirmed this commitment. He emphasised the government's intention to provide the resources necessary for the police to do their critical work but also stressed that the government would also "prioritise finishing the job of police reform by enabling the police to transform". He believes that "there is still scope for forces to continue to improve the efficiency of their operations and transform the way in which they operate, and it is vital that the pace or urgency of change continues". The Police and Crime Commissioner shares this belief and demonstrates this through his 2017/18 budget and Medium Term Financial Plan.

The 2017/18 budget, the Medium Term Capital Programme and the Medium Term Financial Plan (MTFP) address these challenges. West Mercia faces a savings target of £21.9m over the period to 2020/21, whilst at the same time the Commissioner 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:

- Strengthen the resources dedicated to the prevention and investigation of Child Sexual Exploitation and High Tech Crime;
- Improve the way in which the police listen to and respond to the public;
- Invest significantly in the estate with new facilities such as the OCC, the firearms range and multi-agency facilities in the Hereford and Shrewsbury areas;
- Improve the ICT infrastructure including a new telephony and communications systems, including more self-serve opportunities for the community;
- Implement the Athena case management system leading to further efficiency savings and improved witness and victim care;
- Encourage more effective and efficient ways of working through the implementation of Mobile and Agile Working delivering greater visibility for front line police;
- Enhance the capacity and capability of police officers and staff giving them the skills and ability to better respond to the public;
- Fund better equipment for police officers such as Body Worn video and replacement body armour ensuring their safety and that of the public;
- Commission "One Place" reviews with PPL to promote shared use of facilities with key partners such as fire and rescue services and local authorities;
- Work with partners to further develop specialist capabilities where they are needed to better protect the public;

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



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result of this review the two PCCs have agreed to invest £91.3m in capital expenditure over the period 2017/18 to 2021/21, by utilising the infrastructure reserve initially, and then funding the remaining costs through a combination of borrowing, capital grants and capital receipts.

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	Connected society faces diverse cyber threats.	High	Low
2	More than Troubled: Modern vulnerabilities.	High	Low
3	Debt and corruption in carers and elderly abuse.	High	Low
4	Social recession abuse, isolation, neglect and work life balance.	High	Low
5	‘My house is my pension’. Spending, property values and future vulnerabilities.	High	Low
6	Funding cuts and outreach groups.	High	Medium
<b>Partner Challenges</b>			
7	Understanding and responding to demand as part of a collective system.	High	High
8	Combined authority’s future impact.	High	High
9	Finding and working with new partners.	High	High
10	Delivery of “Statutory Services” in Austerity	High	Medium
11	Commissioning – what this means for short-term contracts, expectation management and 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	Low
14	Automated knowledge to providers.	High	High
15	Need for shared strategies/ systems/ technologies.	High	Medium
16	Police must evidence “what works”.	High	Medium
17	New agencies with police type powers	Low	Medium
18	New operating cost and operational demands emerge, as society and culture changes.	Medium	High

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## 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 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.

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 Accounting Policies**, which sets out the accounting policies adopted by the Chief Constable and explains the basis on which the financial transactions are presented;
- The **Statement of Responsibilities** for the Accounts, which sets out the responsibilities of both the Chief Constable and the responsible Chief Finance Officer for the preparation of the Accounts;
- **Auditor's Report** gives the auditor's opinion of the financial statements and of the Group's arrangements for securing economy, efficiency and effectiveness in the use of resources;
- The **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 below. Following the the CIPFA Telling the Story review, income and expenditure is now analysed segmentally, reporting performance on the basis of how the organisation is structured and how financial performance is monitored and

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managed. This change is explained further in Accounting Policies (ii) and (xi). A prior period adjustment has been made to reflect these changes, Note 7;

- The **Movement in Reserves Statement (MIRS)** shows the movement in the year on the different reserves held by the Chief Constable. A further analysis and explanation of the purpose for which these unusable reserves are held can be found at Note 9. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Chief Constable's services, more details of which are shown in the CIES. 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 8 provides detailed analysis of the adjustments contained in the MIRS;
- The **Balance Sheet**, which shows the value as at the 31 March 2017 of the assets and liabilities recognised by the Chief Constable. The net assets (assets less liabilities) are matched by the usable and unusable reserves, which hold the transfers from the CIES, which have moved through the MIRS;
- The **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, including the new Expenditure and Funding Analysis (Note 1);
- **Police Officer Pension Fund Account** - This identifies the payments in and out of the Police Officers Pension Fund Account for the year;
- The **Annual Governance Statement** – This section describes how the Chief Constable conducts business in accordance with proper standards and presents the findings from the annual review of the effectiveness of systems of internal control. The Annual Governance Statement does not form part of the Accounts but is included here for reporting purposes.

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

<https://www.westmercia-pcc.gov.uk/key-information/financial-information/>

<http://www.warwickshire-pcc.gov.uk/key-information/financial-information/annual-statement-of-accounts/>

<https://www.warwickshire.police.uk/article/3908/What-we-spend-and-how-we-spend-it>

The following figures reported in the Accounts are of note:

The CIES shows a deficit on the provision of services of £56.7m. The deficit is arrived at after accounting for costs and income in line with the Chief Constable's accounting policies and recognised accounting conventions, which is different to the statutory basis used to identify the net expenditure to be funded from local taxation in the form of the Council Tax. For example, proper accounting practice requires the full cost of future pension liabilities to be

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recognised in the Accounts and is a significant part of the deficit on the Chief Constable's CIES.

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

### **Pensions Liabilities**

In accordance with International Accounting Standard (IAS) 19, the cost of employment and post-employment liabilities is shown in the Chief Constable's Accounts. The Chief Constable maintains a negative pensions reserve to match the estimated liability in relation to Police Officers, Police Staff and Police Community Support Officers' retirement benefits, which at the 31 March 2017 is £2,483.9m. 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 20, and information about the Police Pensions Fund Account can be found on page 60.

## Statement of Accounting Policies

### **i. General Principles**

The Statement of Accounts summarises the Chief Constable's transactions for the 2016/17 financial year and its position at the year-end. The accounting policies are the specific principles, bases, conventions, rules and practices applied by the Chief Constable when preparing and presenting the financial statements. The Chief Constable is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which must be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and the Service Reporting Code of Practice 2016/17 supported by International Financial Reporting Standards (IFRS).

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

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

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

Accounting Policy xi. Overhead and Support Services has been removed and replaced with a new policy "Segmental Analysis" to reflect the Code changes following the CIPFA Telling the Story review. Previously income and expenditure was categorised into nine service areas in the 'Cost of Services' section of the CIES and support costs, or indirect overheads, were charged to service areas in accordance with the costing principles of the CIPFA Service Reporting Code of Practice (SeRCOP). The Telling the Story review replaced the SeRCOP analysis with a segmental analysis that requires performance to be reported on the basis of how the organisation is structured and how financial performance is monitored and managed. A prior period adjustment has been made to reflect these changes, Note 7.

A new statement, the Expenditure and Funding Analysis (EFA) has now been introduced that brings together the Group's performance reported on the basis of expenditure measured under proper accounting practices with statutorily defined charges to the Police Fund. The EFA reconciles the net expenditure chargeable to council tax to the CIES, analysed by service segment and thereby provides a direct link between the CIES and the budget ie the Police Fund.

### **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

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separate bank account into which money can be received or from which payments can be made.

The Chief Constable's Accounts show the cost of undertaking day to day operational policing under the direction and control of the Chief Constable. Expenditure shown in the CIES include the salaries of police officers, PCSOs and police staff as well as the cost of purchases. In addition, a charge is shown for the Chief Constable's use of assets, which are strategically controlled by the PCC. The capital charge is equal to depreciation of property, plant and equipment and amortisation of intangible assets plus any charge for impairment through obsolescence or physical damage. To fund the operational expenditure the Chief Constable's Accounts show income by way of funding or financial guarantee provided by the PCC to the Chief Constable. This treatment forms the basis of the intra-group adjustment between the Accounts of the PCC and the Chief Constable. However, because the Chief Constable does not have a bank account there is no actual transfer of cash between the PCC and the Chief Constable.

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

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

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

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

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

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

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

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

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

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

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

**vii. Employee Benefits**

**Benefits Payable during Employment**

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

**Termination Benefits**

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

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

Where termination benefits involve the enhancement of pensions, statutory provisions require the Police Fund Balance to be charged with the amount payable by the Group to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the MIRS, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement

Statement of Accounting Policies

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termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year end.

### Post-Employment Benefits

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

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

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

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

- the liabilities of the pension fund attributable to the Chief Constable are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of anticipated earnings for current employees.
- International Accounting Standard (IAS) 19 requires the nominal discount rate to be set by reference to market yields on high quality corporate bonds or where there is no deep market in such bonds then by reference to government bonds.
- the PPS liabilities are discounted using the nominal discount rate based on government bond yield of appropriate duration plus an additional margin and the LGPS liabilities are discounted to their value at current prices, using a discount rate based on corporate bond yields at 31 March 2017.
- the discount rates used by the actuaries and other principal assumptions are set out in Note 20.
- the assets of the LGPS fund attributable to the Chief Constable are included in the Balance Sheet at their fair value:
  - quoted securities – current bid price
  - unquoted securities – professional estimate
  - unitised securities – current bid price
  - property – market value

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

- **Current service cost** – the increase in liabilities as a result of years of service earned in the current year – allocated in the CIES to the services for which the employees worked.



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

A difference between the two schemes is that the PPS is an unfunded, defined benefit, final salary scheme, whereas the LGPS is a funded, defined benefit scheme and, with effect from 1 April 2014, became a career average (CARE) rather than final salary scheme. As the PPS is unfunded there are no investment assets built up to meet the pensions liabilities and cash has to be generated to meet the actual pensions payments as they eventually fall due. This is further explained in the notes to the Police Pension Fund Account on page 60.

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

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

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

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

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

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

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

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

**x. Leases**

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

**xi. Segmental Analysis**

Income and Expenditure is reported in the CIES on the basis of the Chief Constable's organisational structure. The Chief Constable monitors and manages its financial performance on the basis of a single segment, Policing Services, to reflect this distinct service area. The costs of overheads and support services are charged to this segment on the same basis as they are reported in the financial performance reports. That is, the costs fall in the segment that is responsible for the support service and that directly monitors and manages that service.

The new EFA Note brings together local authority performance reported on the basis of expenditure measured under proper accounting practices (including depreciation and the value of pension benefits earned by the employees) with statutorily defined charges to the Police Fund. The EFA reconciles the net expenditure that is chargeable to taxation and reconciles it to the CIES, analysed by service segments.

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**xii. Prior Year Adjustments**

Prior year adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes are applied retrospectively (unless otherwise stated) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied. A prior year adjustment is required to demonstrate the impact on the CIES of the changes emanating from the CIPFA Telling the Story review, replacing the SeRCOP analysis with a segmental analysis.

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

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

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

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

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

A contingent liability or a contingent asset arises where an event has taken place that gives the Chief Constable a possible obligation or asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Chief Constable. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably. Contingent liabilities and contingent assets are not recognised in the Balance Sheet but disclosed in Note 18 to the Accounts.

**xiv. Reserves**

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

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

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**xv. Value Added Tax**

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

## Statement of Responsibilities

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

The Chief Constable is required to:

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

I accept the above responsibilities and approve these Statement of Accounts for 2016/17.

**Anthony Bangham**

**The Chief Constable of West Mercia Police**

**Date:**

### Responsibilities of the Director of Finance

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

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

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

The Director of Finance has also:

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

The Statement of Accounts for the Chief Constable of West Mercia Police is duly authorised for issue on 5 June 2017 by authority of the Director of Finance to the Chief Constable.

I certify that the Statement of Accounts represents a true and fair view of the financial position of the Chief Constable of West Mercia Police at the accounting date and of the income and expenditure for the year ended 31 March 2017.

**Heather Costello**

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

**Date:**

## **INDEPENDENT AUDITOR'S REPORT TO THE CHIEF CONSTABLE FOR WEST MERCIA POLICE**

We have audited the financial statements of the Chief Constable for West Mercia (the "Chief Constable") for the year ended 31 March 2017 under the Local Audit and Accountability Act 2014 (the "Act"). The financial statements comprise the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, the Balance Sheet, the Cash Flow Statement and the related notes and include the police pension fund financial statements of West Mercia comprising the Fund Account and the related notes 1 to 9. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17.

This report is made solely to the Chief Constable, as a body, in accordance with Part 5 of the Act and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Chief Constable those matters we are required to state to the Chief Constable in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Chief Constable as a body, for our audit work, for this report, or for the opinions we have formed.

### **Respective responsibilities of the Director of Finance and auditor**

As explained more fully in the Statement of Responsibilities, the Director of Finance is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17, which give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law, the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the "Code of Audit Practice" and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### **Scope of the audit of the financial statements**

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of whether the accounting policies are appropriate to the Chief Constable's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Director of Finance; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Narrative Report and the Annual Governance Statement to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### **Opinion on financial statements**

In our opinion:

- the financial statements present a true and fair view of the financial position of the Chief Constable as at 31 March 2017 and of its expenditure and income for the year then ended; and
- the financial statements have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 and applicable law.

### **Opinion on other matters**

In our opinion, the other information published together with the audited financial statements in the Narrative Report and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the audited financial statements.

### **Matters on which we are required to report by exception**

We are required to report to you if:

- in our opinion the Annual Governance Statement does not comply with the guidance included in 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE; or
- we have reported a matter in the public interest under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Chief Constable under section 24 of the Act in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Act.

We have nothing to report in respect of the above matters.

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

#### **Respective responsibilities of the Chief Constable and auditor**

The Chief Constable is responsible for putting in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance, and to review regularly the adequacy and effectiveness of these arrangements.

We are required under Section 20(1)(c) of the Act to be satisfied that the Chief Constable has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Chief Constable's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

**Scope of the review of the Chief Constable's arrangements for securing economy, efficiency and effectiveness in its use of resources**

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, as to whether the Chief Constable had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criteria as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Chief Constable put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

We planned our work in accordance with the Code of Audit Practice. Based on our risk assessment, we undertook such work as we considered necessary to form a view on whether in all significant respects the Chief Constable has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

**Conclusion**

On the basis of our work, having regard to the guidance on the specified criteria issued by the Comptroller and Auditor General in November 2016, we are satisfied that in all significant respects the Chief Constable put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2017.

**Certificate**

We certify that we have completed the audit of the financial statements of the Chief Constable in accordance with the requirements of the Act and the Code of Audit Practice.

*Alex Walling*

Alex Walling  
for and on behalf of Grant Thornton UK LLP, Appointed Auditor

Hartwell House  
55-61 Victoria Street  
Bristol  
BS1 6FT

31 July 2017



## Comprehensive Income and Expenditure Statement (CIES)

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

2015/16 Restated Gross Expenditure £000	2015/16 Restated Gross Income £000	2015/16 Restated Net Expenditure £000		Notes	2016/17 Gross Expenditure £000	2016/17 Gross Income £000	2016/17 Net Expenditure £000
226,564	0	226,564	Policing Services		224,786	0	224,786
<b>226,564</b>	<b>0</b>	<b>226,564</b>	<b>Cost of Policing Services</b>	<b>1</b>	<b>224,786</b>	<b>0</b>	<b>224,786</b>
(207,388)	0	(207,388)	PCC's Funding for Resources Consumed	10	(215,048)	0	(215,048)
<b>19,176</b>	<b>0</b>	<b>19,176</b>	<b>Net Cost of Policing Services</b>		<b>9,738</b>	<b>0</b>	<b>9,738</b>
		80,064	Financing and investment net expenditure				77,759
		(30,799)	Home Office Grant Towards the Cost of Retirement				(30,784)
		<b>68,441</b>	<b>Deficit on Provision of Services</b>				<b>56,713</b>
		(294,055)	Re-measurement of the net defined benefit liability				430,200
		<b>(294,055)</b>	<b>Other Comprehensive Income &amp; Expenditure</b>				<b>430,200</b>
		<b>(225,614)</b>	<b>Total Comprehensive Income &amp; Expenditure</b>				<b>486,913</b>

## Movement in Reserves Statement (MIRS)

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

	Notes	Police Fund Balance	Unusable Reserves	Total Chief Constable Reserves
		£000	£000	£000
<b>Opening Balance at 1 April 2015</b>		0	(2,225,952)	(2,225,952)
<b>Movement in reserves during 2015/16</b>				
<b>Total Comprehensive Income and Expenditure</b>	20	(68,441)	294,055	225,614
Adjustments between accounting basis and funding basis under regulations	8	68,441	(68,441)	0
<b>Net Increase before transfers to Earmarked Reserves</b>		0	225,614	225,614
Transfers to/from Earmarked Reserves		0	0	0
<b>Increase/(Decrease) in Year</b>		0	225,614	225,614
<b>Balance at 31 March 2016 Carried Forward</b>		0	(2,000,338)	(2,000,338)
<b>Movement in reserves during 2016/17</b>				
<b>Total Comprehensive Income and Expenditure</b>	20	(56,713)	(430,200)	(486,913)
Adjustments between accounting basis and funding basis under regulations	8	56,713	(56,713)	0
<b>Net Increase before transfers to Earmarked Reserves</b>		0	(486,913)	(486,913)
Transfers to/from Earmarked Reserves		0	0	0
<b>Increase/(Decrease) in Year</b>		0	(486,913)	(486,913)
<b>Balance at 31 March 2017 Carried Forward</b>		0	(2,487,251)	(2,487,251)

## Balance Sheet

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

31 March 2016		Notes	31 March 2017
£000			£000
0	<b>Long Term Assets</b>		0
2,646	Short Term Debtors and other current assets	16	11,693
3,788	Intra-Group Debtor	10	0
<b>6,434</b>	<b>Current Assets</b>		<b>11,693</b>
(9,806)	Short Term Creditors	17	(5,814)
(60)	Provisions	18	(12)
0	Intra-Group Creditor	10	(9,188)
<b>(9,866)</b>	<b>Current Liabilities</b>		<b>(15,014)</b>
(1,996,906)	Liability Relating to Defined Benefit Pension Schemes	20	(2,483,930)
<b>(1,996,906)</b>	<b>Long Term Liabilities</b>		<b>(2,483,930)</b>
<b>(2,000,338)</b>	<b>Net Liabilities</b>		<b>(2,487,251)</b>
(2,000,338)	Unusable Reserves	9	(2,487,251)
<b>(2,000,338)</b>	<b>Total Reserves</b>		<b>(2,487,251)</b>

## Cash Flow Statement

This statement shows the changes in cash and cash equivalents of the Chief Constable during the reporting period. The statement shows how the Chief Constable generates and uses cash and cash equivalents by classifying cash flows as; operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Chief Constable are funded by the PCC.

2015/16 £000		Notes	2016/17 £000
68,441	<b>Net deficit on the provision of services</b>		56,713
(68,441)	Adjustments to net (surplus) or deficit on the provision of services for non-cash movements	19	(56,713)
0	Adjustments for items included in the net (surplus) or deficit on the provision of services that are investing and financing activities		0
<b>0</b>	<b>Net cash flows from Operating Activities</b>		<b>0</b>
0	Investing Activities		0
<b>0</b>	<b>Net increase or decrease in cash and cash equivalents</b>		<b>0</b>
0	Cash and cash equivalents at the beginning of the reporting period		0
<b>0</b>	<b>Cash and cash equivalents at the end of the reporting period</b>		<b>0</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. Expenditure and Funding Analysis (EFA)

This Statement shows how annual expenditure is used and funded from resources (government grants and council tax) by PCCs in comparison with those resources consumed or earned by PCCs in accordance with generally accepted accounting practices. It also shows how this expenditure is allocated for decision making purposes between the PCC's service areas. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the CIES.

	2016/17 Net Expenditure Chargeable to the Police Fund Balances £000	2016/17 Adjustments between the Funding and Accounting Basis £000	2016/17 Net Expenditure in the CIES £000
Policing Services	215,434	9,352	224,786
<b>Net Cost of Policing Services</b>	<b>215,434</b>	<b>9,352</b>	<b>224,786</b>
Funding from the PCC	(215,434)	386	(215,048)
Other income and expenditure	0	46,975	46,975
<b>(Surplus) or deficit on provision of Services</b>	<b>0</b>	<b>56,713</b>	<b>56,713</b>

Opening Police Fund at 31 March 2016	0
Less Deficit on Police Fund in Year	0
<b>Closing Police Fund at 31 March 2017</b>	<b>0</b>

	2015/16 Net Expenditure Chargeable to the Police Fund Balances £000	2015/16 Adjustments between the Funding and Accounting Basis £000	2015/16 Net Expenditure in the CIES £000
Policing	210,249	16,315	226,564
<b>Net Cost of Policing Services</b>	<b>210,249</b>	<b>16,315</b>	<b>226,564</b>
Funding from the PCC	(210,249)	2,861	(207,388)
Other income and expenditure	0	49,265	49,265
<b>(Surplus) or deficit on provision of Services</b>	<b>0</b>	<b>68,441</b>	<b>68,441</b>

Opening Police Fund at 31 March 2015	0
Deficit on Police Fund in Year	0
<b>Closing Police Fund at 31 March 2016</b>	<b>0</b>

Notes to the Financial Statements

1(a) Note to the EFA

Adjustments between Funding and Accounting Basis

2016/17						
Adjustments from Police Fund to arrive at the CIES amounts	Adjustments for Capital Purposes (note i)	Net Change for the Pensions Adjustments (note ii)	Financing and Investment Adjustments (note iii)	Other Adjustments (note iv)	Intragroup Adjustments (note v)	Total Adjustments
	£000	£000	£000	£000	£000	£000
Policing Services	58	9,849	(444)	(111)	0	9,352
<i>Net Cost of Services</i>	58	9,849	(444)	(111)	0	9,352
Funding from the PCC	(58)	0	444	0	0	386
Other income and expenditure from the Funding Analysis	0	46,975	0	0	0	46,975
<b>Difference between Police Fund surplus or deficit and CIES surplus or deficit</b>	<b>0</b>	<b>56,824</b>	<b>0</b>	<b>(111)</b>	<b>0</b>	<b>56,713</b>

2015/16						
Adjustments from Police Fund to arrive at the CIES amounts	Adjustments for Capital Purposes (note i)	Net Change for the Pensions Adjustments (note ii)	Financing and Investment Adjustments (note iii)	Other Adjustments (note iv)	Intragroup Adjustments (note v)	Total Adjustments
	£000	£000	£000	£000	£000	£000
Policing Services	(711)	18,829	(444)	347	(1,706)	16,315
<i>Net Cost of Services</i>	(711)	18,829	(444)	347	(1,706)	16,315
Funding from the PCC	711	0	444	0	1,706	2,861
Other income and expenditure from the Funding Analysis	0	49,265	0	0	0	49,265
<b>Difference between Police Fund surplus or deficit and CIES surplus or deficit</b>	<b>0</b>	<b>68,094</b>	<b>0</b>	<b>347</b>	<b>0</b>	<b>68,441</b>

Note (i) Adjustments for Capital Purposes

This column adds in depreciation and amortisation in the services line. MRP and other revenue contributions to capital expenditure are deducted because they are not chargeable under generally accepted accounting practices.

Notes to the Financial Statements

**Note (ii) Net Change for Pensions Adjustments**

This column reflects the net change for the removal of pension contributions and the addition of IAS19 Employee Benefits pension related expenditure and income:

- For services this represents the removal of the employer pension contributions made by the Group as allowed by statute and the replacement with current service costs and past service costs;
- For Financing and investment income and expenditure – the net interest on the defined benefit liability is charged to the CIES.

**Note (iii) Financing and Investment Income and Expenditure Adjustments** – this column adjusts for borrowing costs that are charged to the Police Fund but are not included in the Net Costs of Policing Services.

**Note (iv) Other Adjustments** – this column reflects timing differences relating to accruing for compensated absences earned but not taken in the year (absorbed by the Accumulated Absences Account).

**Note (v) Intragroup Adjustments** – this column adjusts for items that were reported to management for presentational purposes as Policing Services in 2015/16 but were actually PCC-related costs for the purposes of the CIES.

**1(b) Expenditure and Income Analysed by Nature**

2015/16 £000		2016/17 £000
103,662	Police officers pay	105,657
54,794	Police staff pay	58,660
3,281	Police pensions	3,098
1,918	Other Employee Expenses	1,289
46,453	Pensions current cost of service	37,520
(28,365)	Cost of pensions based on cash flows	(28,936)
347	Accumulated absences	(111)
741	Non distributed costs	1,265
37,993	Other service expenditure	40,257
5,667	Depreciation, Amortisation, Revaluation Loss and REFCUS	3,355
73	Capital Charges from the PCC to the Chief Constable – net	2,733
80,064	Net interest on the net defined benefit liability	77,759
<b>306,628</b>	<b>Total Expenditure</b>	<b>302,546</b>
(207,388)	Funding from the PCC for financial resources consumed	(215,048)
(30,799)	Government grants and contributions	(30,785)
<b>(238,187)</b>	<b>Total Income</b>	<b>(245,833)</b>
<b>68,441</b>	<b>Deficit on the Provision of services</b>	<b>56,713</b>

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

The Code requires the Chief Constable to disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted by the Code for the relevant financial year. The only changes in respect of 2017/18 relate to pension fund accounts and are not relevant to the Group.

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

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

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

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

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

The approach taken to the accounts is that:

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



## **Alliance**

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

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

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

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

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

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

## **Employee Benefits**

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

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

As explained in the Accounting Policies, the SerCOP analysis previously shown in the 'Cost of Services' section of the CIES has been replaced with a segmental analysis. Income and expenditure is now categorised into a single segment: Policing Services, as this is how the organisation monitors and manages its financial performance. Support service costs are reported as part of the services where they are monitored and managed. Note 7, Prior Year Adjustment demonstrates the impact of the new requirements on the comparative figures in the CIES.

## **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 Chief Constable about the future or that are otherwise uncertain. However, because balances cannot be determined with certainty, actual results could be materially different from those that have been estimated. The items in the Balance Sheet at 31 March 2017 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

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

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

### **Provisions**

The Chief Constable has only one provision remaining as at 31 March 2017 relating to the costs of voluntary redundancies and early retirements on the grounds of voluntary redundancy agreed during the 2016/17 financial year but falling into the following financial year: this is explained fully in Note 18. There is a high degree of certainty that the liabilities will materialise and that the amounts have been reliably estimated with a high degree of accuracy. The provisions, which relate to employment matters, are held in the Chief Constable's balance

Notes to the Financial Statements

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sheet. The provision amounts to £0.012m; 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 loss of £430.2m, due to the actuaries decreasing the rate for discounting scheme liabilities. This contributes to increasing the Pensions Liability, which is held on the Balance Sheet, to £2,483.9m at 31 March 2017. Further information regarding the Pensions Liabilities can be found in Note 20.

## **6. Events After the Reporting Period**

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

On 23 June 2016 the EU referendum took place to establish if the United Kingdom would remain part of the EU. The vote saw a decision returned to leave the EU. On 29 March 2017, Article 50 was triggered by the United Kingdom notifying the EU of its intention to leave. This decision may have an impact on our future accounting assumptions and estimates and we will keep up to date with the situation as it unfolds and as information is available to ensure that this is considered in future years. Areas that may be affected are:

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

## **7. Prior Period Restatement of Service Expenditure and Income**

The 2016/17 Code requires the Chief Constable to present expenditure and income on services in the CIES on the basis of its reportable segments. These segments are based on the Group's internal management reporting structure. This note shows how the CIES expenditure and income has been restated from the SeRCOP basis that was used previously.

Notes to the Financial Statements

Net Expenditure	As reported in the CIES 2015/16	Adjustments between SeRCOP classifications and internal reporting classifications	Restated 2015/16	Service Segment
	£000	£000	£000	
Local Policing	98,326	(98,326)	0	
Dealing with the Public	15,817	(15,817)	0	
Criminal Justice Arrangements	19,887	(19,887)	0	
Road Policing	10,491	(10,491)	0	
Operational Support	12,882	(12,882)	0	
Intelligence	12,191	(12,191)	0	
Investigations	45,798	(45,798)	0	
Investigative Support	7,880	(7,880)	0	
National Policing	2,551	(2,551)	0	
Corporate and Democratic Core	0	0	0	
Non Distributed Costs	741	(741)	0	
		226,564	226,564	Policing Services
<b>Net Cost of Policing Services</b>	<b>226,564</b>	<b>0</b>	<b>226,564</b>	

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

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

2016/17	Police Fund Balance
	£000
<b>Adjustments to the Revenue Resources</b>	
<i>Amounts by which income and expenditure included in the CIES are different from revenue for the year calculated in accordance with statutory requirements:</i>	
Pensions Costs (transferred to or from Pensions Reserve)	(56,824)
Holiday pay (transferred to the Accumulated Absences Reserve)	111
<b>Total Adjustments</b>	<b>(56,713)</b>
2015/16	Police Fund Balance
	£000
<b>Adjustments to the Revenue Resources</b>	
<i>Amounts by which income and expenditure included in the CIES are different from revenue for the year calculated in accordance with statutory requirements:</i>	
Pensions Costs (transferred to or from Pensions Reserve)	(68,095)
Holiday pay (transferred to the Accumulated Absences Reserve)	(346)
<b>Total Adjustments</b>	<b>(68,441)</b>

Notes to the Financial Statements**9. Unusable Reserves**

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

31 March 2016 £000		31 March 2017 £000
1,996,906	Pension Reserve	2,483,930
3,432	Accumulated Absences Reserve	3,321
<b>2,000,338</b>	<b>Total Unusable Reserves</b>	<b>2,487,251</b>

**(i) Pensions Reserve**

Payments for the cost of post employment benefits and the associated liability are shown in the Chief Constable's Accounts. The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post employment benefits and for funding benefits in accordance with statutory provisions. The Chief Constable Accounts for post employment benefits in the CIES as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Chief Constable makes employers contributions to pension funds or eventually pays any pensions for which he is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Chief Constable has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits are due to be paid and that the PCC can continue to meet the liability in the Chief Constable's Accounts, which is made up as follows:

2015/16 £000		2016/17 £000
<b>2,222,866</b>	<b>Balance as at 1 April</b>	<b>1,996,906</b>
(294,055)	Re-measurement of the net defined benefit liability	430,200
127,258	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the CIES	116,544
(59,163)	Employer's pensions contributions and direct payments to pensioners payable in the year	(59,720)
<b>1,996,906</b>	<b>Balance as at 31 March</b>	<b>2,483,930</b>

**(ii) Accumulated Absences Account**

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

Notes to the Financial Statements

2015/16			2016/17	
£000	£000		£000	£000
	3,086	<b>Balance as at 1 April</b>		<b>3,432</b>
(3,086)		Cancellation of accrual made at the end of the preceding year	(3,432)	
3,432		Amount accrued at the end of the current year	3,321	
	346	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		(111)
	<b>3,432</b>	<b>Balance as at 31 March</b>		<b>3,321</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 2016/17 amounts to £215.0m (£207.4m in 2015/16). This has been re-presented in the CIES and is now included within the Net Cost of Policing Services, in line with current best practice for the preparation of Police Accounts.

The Chief Constable's Balance Sheet includes an Intra-Group Creditor of £9.188m (Debtor of £3.788m in 2015/16) 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:

2015/16 £000		2016/17 £000
226,564	Chief Constable's Cost of Services	224,786
80,064	Interest on the net defined benefit liability	77,759
(30,798)	Home Office grant towards the cost of retirement	(30,784)
(294,055)	Re-measurement of the net defined benefit liability	430,200
<b>(18,225)</b>	<b>Resources consumed</b>	<b>701,961</b>
	<b>Items removed through the MIRS</b>	
225,959	Movement in pensions liability	(487,024)
(346)	Movement in accumulated absences liability	111
<b>207,388</b>	<b>Total resources consumed for the year by the Chief Constable and funded by the PCC</b>	<b>(215,048)</b>

Notes to the Financial Statements**11. Pooled Budgets and Joint Ventures****Alliance with Warwickshire Police**

West Mercia Police and Warwickshire Police operate in an 'Alliance' that provides an opportunity for the two neighbouring forces to work closely together and to share resources and assets. Each PCC retains strategic control and their own sovereignty, finances, estates and identity and each Chief Constable retains operational independency.

The Alliance policing model results in over 90% of all costs being pooled, as set out in the following table. Costs are shared across the entities in line with the cost sharing arrangements, West Mercia 69%, Warwickshire 31%. The governance arrangements and resulting treatment of transactions and balances is set out in Note 3.

2015/16 £000		2016/17 £000
(81,608)	Contribution from Warwickshire	(83,063)
(181,643)	Contribution from West Mercia	(184,880)
<b>(263,251)</b>	<b>Total Funding provided to the Alliance</b>	<b>(267,943)</b>
223,491	Pay and allowances	228,087
6,281	Transport costs	6,241
28,057	Supplies and Services	27,615
5,422	Third Party Payments	5,762
0	Revenue Contribution to Capital	238
<b>263,251</b>	<b>Total Expenditure (pooled)</b>	<b>267,943</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 2016/17, the operating costs for West Mercia Police were £7.493m (£4.685m in 2015/16 for 7 months) 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 Police's share of PPL's Local Government Pension Scheme assets and liabilities as at 31 March 2017 have been incorporated into the Accounts and are shown separately in the tables in Note 20. The actuaries assessed the assets and liabilities relating to PPL as £29.858m as at 31 March 2017 (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 Group budget at the end of each financial year. The revenue account for CMPG covers all operating costs. The details for 2016/17 are as follows:

2015/16		2016/17
£000		£000
(3,940)	Contribution from West Midlands	(3,907)
(2,000)	Contribution from West Mercia	(1,959)
(1,888)	Contribution from Staffordshire	(1,845)
<b>(7,828)</b>	<b>Total funding provided to the CMPG</b>	<b>(7,711)</b>
7,032	Pay and allowances	7,049
68	Premises costs	68
539	Transport costs	429
196	Supplies and Services	168
<b>7,835</b>	<b>Total expenditure</b>	<b>7,714</b>
(7)	External Funding and other Income	(3)
<b>7,828</b>	<b>Total Net Expenditure</b>	<b>7,711</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 £0.576m in 2016/17, (£0.598m in 2015/16) 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 £0.375m, representing the discounted value of future expected cash flows in 2016/17 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.

## 12. Exit Packages

In order to make savings as part of the Medium Term Financial Plan it has been necessary to review how police services are delivered. As a result a number of exit packages have been approved during 2016/17 and the costs are included in the Chief Constable's CIES.

Exit packages include charges by the LGPS in respect of benefits paid before normal retirement age. There were no compromise agreements covering the 2016/17 exit packages. All of the employees left the organisation prior to 1 April 2017. 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	
	2015/16	2016/17	2015/16 £000	2016/17 £000
£0 - £20,000	24	2	218	39
£20,001 - £40,000	5	4	137	103
£40,001 - £60,000	2	0	95	0
£60,001 - £80,000	1	0	76	0
£80,001 - £100,000	0	0	0	0
£100,001 - £150,000	0	1	0	104
£150,001 - £200,000	1	0	177	0
<b>Total</b>	<b>33</b>	<b>7</b>	<b>703</b>	<b>246</b>

## 13. Officers' Remuneration

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

Notes to the Financial Statements

**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 1 - Mr D Shaw – Note 1	2016/17	47,778	0	0	930	1,652	0	0	50,360
	2015/16	142,743	0	505	3,197	6,614	0	0	153,059
Chief Constable 2 - Mr A Bangham - Note 1	2016/17	135,809	0	0	5,615	4,281	0	32,661	178,366
	2015/16	117,761	0	216	4,599	4,281	0	28,498	155,355
Deputy Chief Constable 1 – Note 2	2016/17	96,293	0	107	2,244	3,685	0	25,050	127,379
	2015/16	94,415	0	216	4,677	3,685	0	19,822	122,815
Deputy Chief Constable 2 – Note 3	2016/17	97,161	0	0	0	0	0	15,643	112,804
	2015/16	30,641	0	0	0	0	0	7,415	38,056
Asst Chief Constable 1– Note 4	2016/17	90,688	0	1,367	0	3,685	0	20,114	115,854
	2015/16	83,431	0	0	0	3,686	0	19,378	106,495
Asst Chief Constable 2 – Note 5	2016/17	0	0	0	0	0	0	0	0
	2015/16	39,850	0	0	1,779	1,784	0	0	43,413
Director of Finance	2016/17	106,563	0	0	5,354	0	0	11,152	123,069
	2015/16	102,398	0	216	0	0	0	11,878	114,492
Notes:									
1	Chief Constable Mr Shaw retired 31 July 2016 and Mr Bangham became Chief Constable on 1 August 2016 (originally appointed as DCC on 16 June 2014).								
2	Deputy Chief Constable from 19 February 2017. Acted up as temporary ACC from 6 October 2014 until 6 January 2016, subsequently being appointed on a permanent basis from 2 May 2016.								
3	Previously ACC employed by Warwickshire Police until becoming temporary DCC for West Mercia from 1 August 2016 to 19 February 2017, before reverting back to ACC.								
4	Assistant Chief Constable 1 temporarily acting up into this role from 7 January 2016 until 15 May 2016 and from 1 August 2016 until 2 April 2017.								
5	Assistant Chief Constable 2 left the Force on 31 August 2015.								
*	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:

Notes to the Financial Statements

Number of Employees		Number of Employees
2015/16	Remuneration Band	2016/17
106	£50,000 - £54,999	116
63	£55,000 - £59,999	70
19	£60,000 - £64,999	27
7	£65,000 - £69,999	6
6	£70,000 - £74,999	6
2	£75,000 - £79,999	4
4	£80,000 - £84,999	4
2	£85,000 - £89,999	2
0	£95,000 - £99,999	2
2	£100,000 - £104,999	0
0	£105,000 - £109,999	1
1	£125,000 - £129,999	0
0	£145,000 - £149,999	1
1	£150,000 - £154,999	0
<b>213</b>	<b>Total</b>	<b>239</b>

#### 14. External Audit Costs

The Chief Constable has incurred £18,750 (£18,750 in 2015/16) in relation to the Statement of Accounts statutory audit provided by the Group's external auditors, Grant Thornton. The total audit fee for the Group is £53,010 (2015/16 £53,010). The PCC's share of the audit fees is £34,260 (£34,260 in 2015/16). Grant Thornton provided no non-audit services during the year (nil in 2015/16).

#### 15. Related Parties

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

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

Central government has significant influence over the general operations of the Chief Constable. It is responsible for providing the statutory framework within which the Chief Constable operates. The PCC has direct control over the Group's finances, including making crime and disorder reduction grants and is responsible for setting the Police and Crime Plan.

Notes to the Financial Statements

The Chief Constable retains operational independence and operates within the budget set by the PCC, to deliver the aims and objectives set out in the Police and Crime Plan.

Worcestershire County Council administers the LGPS and provides payroll services to the Chief Constable. The administration of the police pension schemes is 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 11 to the Accounts. The Alliance with Warwickshire Police involves a cross-charge in and cross-charge out in 2016/17 of £35.9m (£38.6m in 2015/16) and £46.7m (£47.8m in 2015/16) respectively as shown in the table below.

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

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

	Expenditure	Income
	£000	£000
Warwickshire Police Strategic Alliance S23 Agreement cross-charges	35,883	(46,724)
Local Authorities in the Policing Area	3,869	(2,058)
Other Local Authorities	169	(7)
Seconded Police Officers	0	(1,791)
Other Police Forces	3,257	(2,008)
Place Partnership Limited	7,493	0
<b>Total</b>	<b>50,671</b>	<b>(52,588)</b>

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

## 16. Debtors and other current assets

This note shows money owed to the Chief Constable for funding and services provided on or before 31 March 2017 where the money has not been received by this date. Inventories amounting to £0.502m (£0.485m in 2015/16) are now shown as part of other entities and individuals.

Notes to the Financial Statements

31 March 2016 £000		31 March 2017 £000
2,150	Central Government bodies (balance of Police Pensions Top-up Grant)	7,570
0	Other Local Authorities	35
496	Other entities and individuals (April pensions paid 31 March 2017: £3.597m)	4,088
<b>2.646</b>	<b>Total Debtors</b>	<b>11,693</b>

## 17. Creditors

This note shows money owed by the Group and PCC for goods and services purchased and received on or before 31 March 2017 where the money has not been paid by this date.

31 March 2016 £000		31 March 2017 £000
(3,230)	Central Government bodies	(121)
(1,668)	Other Local Authorities	(760)
(4,908)	Other entities and individuals	(4,933)
<b>(9,806)</b>	<b>Total Creditors</b>	<b>(5,814)</b>

## 18. Provisions and Contingent Liabilities

	Termination Benefits £000
<b>Balance at 1 April 2016</b>	<b>60</b>
Amounts used in 2016/17	(48)
<b>Balance at 31 March 2017 for the CC</b>	<b>12</b>

The movement during the year on the provisions that existed as at 1 April 2017 is explained below. No additional provisions were charged to the CIES in 2016/17 in respect of events or decisions which are likely to give rise to payments in the future.

### Termination Benefits

This provision was retained in 2016/17 to meet the costs of voluntary redundancies agreed during 2016/17 but falling into 2017/18.

### 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. Claims of unlawful discrimination have also been made in relation to the changes to the Judiciary and Firefighters Pension regulations. In the case of the Judiciary claims the claimants were successful and in the Firefighters case the respondents were successful. Both of these judgements are subject

Notes to the Financial Statements

to appeal, the outcome of which may determine the outcome of the Police claims. The Tribunal has yet to set a date for a preliminary or substantive Police hearing. Legal advice suggests that there is a strong defence against the Police 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 2016/17 Accounting Statements.

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

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

2015/16 £000		2015/16 £000
(2,708)	(Increase)/decrease in revenue creditors	3,992
(9,799)	Increase/(decrease) in revenue debtors	9,030
79	Increase/(decrease) in inventories	17
11,591	Movement in Intra-Group Funding	(12,976)
(68,095)	Movement in pension liability	(56,824)
491	Movement in provisions	48
<b>(68,441)</b>	<b>Total – Group and PCC</b>	<b>(56,713)</b>

**20. 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) are administered by Kier Business Services

Notes to the Financial Statements

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 disclosures for the various Police Pension Schemes, including the Injury Awards Scheme, are consolidated in the notes below, as the rules of the schemes are not materially different. The income and expenditure incurred by the police pension schemes and how they are funded is summarised in the section covering the Police Pensions Fund Account.

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

As explained in Note 11, West Mercia's 34.3% share of PPL's LGPS assets and liabilities as at 31 March 2017 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 £29.858m as at 31 March 2017 (£23.261m as at 31 March 2016): a net liability of zero.

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:

2016/17	LGPS £000	LGPS (PPL ele- ment) £000	Police Pension Schemes £000	Total £000
<b>CIES</b>				
<b>Cost of Services:</b>				
– current service costs	9,164	326	28,030	37,520
– past service costs and gain/loss from settlements	666	79	520	1,265
<b>Financing and Investment Income and Expenditure</b>				
– net interest expense	10,454	285	67,020	77,759
<b>Total Post Employment Benefit charged to the surplus or deficit on the Provision of Services</b>	<b>20,284</b>	<b>690</b>	<b>95,570</b>	<b>116,544</b>

Notes to the Financial Statements

<b>Other Post-Employment Benefits charged to the CIES</b>				
Re-measurement of the net defined benefit liability and return on plan assets	31,937	(463)	398,726	430,200
<b>Total Post Employment Benefit charged to the CIES</b>	<b>52,221</b>	<b>227</b>	<b>494,296</b>	<b>546,744</b>

<b>MIRS</b>				
Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post-employment benefits in accordance with the Code.	(20,284)	(690)	(95,570)	(116,544)
<b>Actual amount charged against the Police Fund Balance for pensions in the year</b>				
– employers' contributions payable to the scheme	7,998	227	49,276	57,501
– benefits paid direct to beneficiaries			2,220	2,220

<b>2015/16</b>	<b>LGPS £000</b>	<b>LGPS (PPL ele- ment) £000</b>	<b>Police Pension Schemes £000</b>	<b>Total £000</b>
<b>CIES</b>				
<b>Cost of Services:</b>				
– current service costs	10,193	200	36,060	46,453
– past service costs and gain/loss from settlements	109	52	580	741
<b>Financing and Investment Income and Expenditure</b>				
– net interest expense	10,027	167	69,870	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>106,510</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)	(278,538)	(294,055)
<b>Total Post Employment Benefit charged to the CIES</b>	<b>5,131</b>	<b>100</b>	<b>(172,028)</b>	<b>(166,797)</b>

<b>MIRS</b>				
Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post-employment benefits in accordance with the Code.	(20,329)	(419)	(106,510)	(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	49,462	56,933
– benefits paid direct to beneficiaries			2,230	2,230



Notes to the Financial Statements

**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>2016/17</b>	<b>LGPS £000</b>	<b>LGPS (PPL element) £000</b>	<b>Police Pension Schemes £000</b>	<b>Total £000</b>
Present value of the defined benefit obligation	(370,143)	(10,241)	(2,341,230)	(2,721,614)
Fair value of plan assets	227,444	10,241	0	237,685
<b>Net liabilities arising from the defined benefit obligation</b>	<b>(142,699)</b>	<b>0</b>	<b>(2,341,230)</b>	<b>(2,483,929)</b>

<b>2015/16</b>	<b>LGPS £000</b>	<b>LGPS (PPL element) £000</b>	<b>Police Pension Schemes £000</b>	<b>Total £000</b>
Present value of the defined benefit obligation	(295,301)	(689)	(1,898,430)	(2,194,420)
Fair value of plan assets	196,825	689	0	197,514
<b>Net liabilities arising from the defined benefit obligation</b>	<b>(98,476)</b>	<b>0</b>	<b>(1,898,430)</b>	<b>(1,996,906)</b>

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

<b>2016/17</b>	<b>LGPS £000</b>	<b>LGPS (PPL element) £000</b>	<b>Police Pension Schemes £000</b>	<b>Total £000</b>
<b>Opening balance at 1 April</b>	<b>(294,612)</b>	<b>(689)</b>	<b>(1,898,430)</b>	<b>(2,193,731)</b>
Current service cost	(9,164)	(326)	(28,030)	(37,520)
Interest cost	(10,454)	(285)	(67,020)	(77,759)
Contributions by scheme participants	(2,738)	(97)	(9,990)	(12,825)
Re-measurement of liabilities	(61,294)	(1,727)	(397,020)	(460,041)
Liabilities assumed on entity combinations	0	(7,289)	0	(7,289)
Reallocation to PCC from CC	2,398	0	0	2,398
Benefits paid	6,387	251	59,780	66,418
Past service costs	0	0	(520)	(520)
Curtailments	(666)	(79)	0	(745)
<b>Closing balance 31 March</b>	<b>(370,143)</b>	<b>(10,241)</b>	<b>(2,341,230)</b>	<b>(2,721,614)</b>

Notes to the Financial Statements

2015/16	LGPS £000	LGPS (PPL ele- ment) £000	Police Pension Schemes £000	Total £000
<b>Opening balance at 1 April</b>	<b>(296,718)</b>	<b>0</b>	<b>(2,122,150)</b>	<b>(2,418,868)</b>
Current service cost	(10,193)	(200)	(36,060)	(46,453)
Interest cost	(10,027)	(167)	(69,870)	(80,064)
Contributions by scheme participants	(2,663)	(59)	(10,020)	(12,742)
Re-measurement of liabilities *	18,991	(157)	278,032	296,866
Benefits paid *	6,107	(54)	62,218	68,271
Past service costs	0	0	(580)	(580)
Curtailments	(109)	(52)	0	(161)
<b>Closing balance 31 March</b>	<b>(294,612)</b>	<b>(689)</b>	<b>(1,898,430)</b>	<b>(2,193,731)</b>

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

**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)	2015/16 £000	PPL element 2015/16 £000	Total 2015/16 £000	2016/17 £000	PPL element 2016/17 £000	Total 2016/17 £000
<b>Opening balance at 1 April</b>	<b>196,002</b>	<b>0</b>	<b>196,002</b>	<b>196,136</b>	<b>689</b>	<b>196,825</b>
Interest income	6,729	168	6,897	7,136	288	7,424
Re-measurement gain/loss: The return on plan assets, excluding the amount included in the net interest expense	(10,360)	311	(10,049)	21,323	1,907	23,230
Administration expenses	(162)	(3)	(165)	(161)	(5)	(166)
Contributions by employer	7,371	100	7,471	7,998	227	8,225
Contributions from employees into the scheme	2,663	59	2,722	2,738	97	2,835
Business Combinations	0	0	0	0	7,289	7,289
Reallocation to PCC from CC	0	0	0	(1,339)	0	(1,339)
Benefits paid	(6,107)	54	(6,053)	(6,387)	(251)	(6,638)
<b>Closing balance 31 March</b>	<b>196,136</b>	<b>689</b>	<b>196,825</b>	<b>227,444</b>	<b>10,241</b>	<b>237,685</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

Notes to the Financial Statements

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 2018 is £9.6m. Expected contributions for the Police Pension Schemes by the Chief Constable in the year to 31 March 2018 are £17.8m.

**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 2016/17 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.

<b>2016/17</b>	<b>LGPS £000</b>	<b>LGPS (PPL element) 2016/17 £000</b>	<b>Police Pension Schemes £000</b>	<b>Total £000</b>
Changes in financial assumptions	79,306	9,736	445,466	534,508
Changes in demographic assumptions	(4,534)	(118)	(41,060)	(45,712)
Return on plan assets	(7,136)	(288)	0	(7,424)
Re-measurement of assets	(22,221)	(9,191)	0	(31,412)
Experience gains and losses	(13,478)	(602)	(5,680)	(19,760)
<b>Total re-measurement</b>	<b>31,937</b>	<b>(463)</b>	<b>398,726</b>	<b>430,200</b>

<b>2015/16</b>	<b>LGPS £000</b>	<b>LGPS (PPL element) 2015/16 £000</b>	<b>Police Pension Schemes £000</b>	<b>Total £000</b>
Changes in financial assumptions	(18,991)	157	(181,382)	(200,216)
Changes in demographic assumptions	0	0	(31,540)	(31,540)
Return on plan assets	(6,729)	(168)	0	(6,897)
Re-measurement of assets	10,522	(308)	0	10,214
Experience gains and losses	0	0	(65,616)	(65,616)
<b>Total re-measurement</b>	<b>(15,198)</b>	<b>(319)</b>	<b>(278,538)</b>	<b>(294,055)</b>

Notes to the Financial Statements**LGPS Assets**

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

	Total 31 March 2016	Split of Assets between Investment categories	Total 31 March 2017	Split of Assets between Investment categories
	£000	%	£000	%
Equities	163,807	83	202,817	85
Government Bonds	816	1	0	0
Other Bonds	11,209	6	12,930	6
Property	8,873	4	10,077	4
Alternatives–UK Infrastructure	7,276	4	6,417	3
Cash-Liquidity	4,155	2	5,444	2
<b>Total Assets</b>	<b>196,136</b>	<b>100</b>	<b>237,685</b>	<b>100</b>

**Basis for Estimating Assets and Liabilities**

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

The assets and liabilities of the LGPS which is administered by Worcestershire County Council (County Council Fund) have been assessed by Mercer Ltd, an independent firm of actuaries, estimates for the County Council Fund being based on the latest full valuation of the scheme as at 31 March 2016, projected forward to 31 March 2017. 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:

2015/16			2016/17	
LGPS	Police Pension Schemes		LGPS	Police Pension Schemes
		Mortality assumptions		
		Longevity at 65 for current pensioners:		
23.5 years	23.1 years	Men	22.6 years	23.2 years
25.9 years	25.1 years	Women	25.6 years	25.2 years
		Longevity at 65 for future pensioners:		
25.8 years	25.1 years	Men	24.8 years	25.2 years
28.2 years	27.2 years	Women	27.9 years	27.3 years
2.0%	2.2%	Rate of CPI inflation	2.3%	2.35%
3.5%	4.2%	Rate of increase in salaries (long-term)	3.8%	4.35%
n/a	1.0%	Rate of increase in salaries (short-term)	n/a	1.0%
2.0%	2.2%	Rate of increase in pensions	2.3%	2.35%
3.6%	3.6%	Rate for discounting scheme liabilities	2.6%	2.65%
50%	100%	Take-up of option to convert annual pension into retirement lump sum	50%	100%

Notes to the Financial Statements

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

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analyses below have been determined based on reasonably possible changes of the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant.

The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice this is unlikely to occur, and changes in some of the assumptions may be interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, i.e. on an actuarial basis using the projected unit credit method. The methods and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

	Impact on the Defined Benefit Obligation in the Scheme	
	Increase in assumption	Decrease in assumption
	£000	£000
Longevity (increase or decrease in 1 year)	209,710	(209,710)
Rate of inflation (increase or decrease by 1%) – Police staff only	150,619	(150,619)
Rate of increase in salaries (increase or decrease by 1%)	198,420	(198,420)
Rate of increase in pensions (increase or decrease by 1%) – PPS only	431,000	(431,000)
Rate for discounting scheme liabilities (increase or decrease by 1%)	(320,260)	320,260

## 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.

2015/16			2016/17	
£000	£000		£000	£000
		<b>Contributions Receivable</b>		
		From employer		
(15,586)		- Normal at 21.3% of pensionable pay (see below)	(15,582)	
(1,052)		- Ill Health Capital Sum Income	(869)	
(10,028)		From members (serving police officers)	(9,991)	
	<b>(26,666)</b>			<b>(26,442)</b>
	<b>(514)</b>	<b>Individual Transfers In from other schemes</b>		<b>(462)</b>
		<b>Benefits Payable</b>		
46,170		Pensions	47,330	
7,243		Commutations and Lump Sum retirement benefits	12,373	
6,158		Additional Lump Sum payments to members following Ombudsman decision in Milne v GAD	0	
460		Lump sum death benefits	10	
	<b>60,031</b>			<b>59,713</b>
		<b>Payments to and on account of leavers</b>		
5		Refunds of contributions	52	
62		Individual transfers out to other schemes	44	
	<b>67</b>			<b>96</b>
	<b>32,918</b>	<b>Sub-total for the year before transfer from the Group of amount equal to the deficit</b>		<b>32,905</b>
	<b>(32,918)</b>	<b>Additional funding payable by the Group to meet deficit for the year</b>		<b>(32,905)</b>
	<b>0</b>	<b>Net Amount Payable / Receivable for the year</b>		<b>0</b>
	<b>2,120</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>(30,798)</b>	<b>Actual Home Office Top Up funding</b>		<b>(30,785)</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 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 20;
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 both years 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 2015** – 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 2016 onwards.

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

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

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

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

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

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

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

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

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

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

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

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

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



Glossary of Terms

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Glossary of Terms

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

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

**Creditors** – Individuals or organisations to which the Chief Constable 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.

**Curtailed 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 Chief Constable money at the end of the financial year.

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

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

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

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

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

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

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

Glossary of Terms

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Glossary of Terms

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Glossary of Terms

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

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

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

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

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

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

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

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

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

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

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

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

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

Glossary of Terms

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

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

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

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

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

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

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

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

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

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

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

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

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

Glossary of Terms

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

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

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

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

**Service Reporting Code of Practice (SeRCOP)** – CIPFA guide previously used as the framework for financial reporting to net cost of services level, replaced from the 2016/17 financial year by reporting based on service segments following CIPFA's Telling the Story review.

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

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

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

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

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

**Telling the Story** – CIPFA's review of the presentation of Public Sector financial statements. The CIES now reflects the way that organisation's operate and manage services.

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

## **APPENDIX 1**

### **Chief Constable of West Mercia Police Annual Governance Statement 2016-17**