John Campion
Police and Crime Commissioner
West Mercia

Statement of Accounts

2017/18

THE GROUP AND POLICE AND CRIME COMMISSIONER FOR WEST MERCIA

STATEMENT OF ACCOUNTS 2017/18

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

In the past year I have continued to deliver on my promise to reform West Mercia Police. After confirming a multi-million pound investment in mobile technology, I have successfully rolled out mobile phones, laptops and body worn video to officers to enable them to be more visible in communities and deliver an improved service.

As part of the wider transformation programme, we have seen more collaboration between the police and fire services – particularly with the new Operational Control Centre (OCC) building at Hindlip Hall. I hope to see this collaboration continue and develop more in the coming years.

Earlier in 2018, I was pleased to announce a budget of £211m after increasing council tax in line with inflation. A typical home in West Mercia now contributes just 2p more a day towards protecting visible community policing and ensuring work continues to tackle the root causes of crime.

I have continued to engage with our communities and work closely with our partners through our extensive commissioning and grants programmes. This includes continuing to protect victims and witnesses, whilst also focusing on the perpetrator in order to change behaviours.

The year ending September 2017 showed an increase in overall recorded crime in West Mercia, but showed a decrease in reported crime. This increase is also reflected nationally and is predominantly due to changes and improvements in the recording of crime, and the consequential increases in the recording of violent and sexual crimes. The satisfaction levels of users are good, and this too plays a part in the reporting of crime. I will continue to ensure that West Mercia Police is working efficiently and effectively to tackle existing and emerging demand, in order to protect our communities

I am committed to building a Safer West Mercia to deliver the best possible value for money and service to our communities.

Strategy & Structure

The primary function of the Police and Crime Commissioner (PCC) is 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 his Police and Crime Plan, which sets the overarching objectives for the Force in light of the national Strategic Policing Requirement and local risk assessments. Half-way through his term, the work and progress on initiatives in West Mercia is well-documented. However, the national threats remain and are identified as:

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

For 2017/18 the PCC agreed with the Chief Constable that there would continue to be no specific performance objectives other than to reduce total recorded crime. The Chief Constable monitors a range of indicators across crime categories in pursuit of this objective.

The PCC is responsible for the Youth Offending Service (YOS) in the West Mercia area, and following the subsequent transfer of the YOS staff to the employment of the PCC, the costs of running the YOS (including the net pensions liability) are disclosed in the PCC's Financial Statements, as was the case in the 2016/17 accounts.

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. Separate PCC and force strategic risk registers are held and reviewed regularly to manage risk, with mitigations identified and taken where necessary. 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 formally review the governance arrangements annually, the results of which are contained in the Annual Governance Statement (AGS). Although there is not considered to be any significant governance issues in accordance with the CIPFA definition, during 2018-19 the following areas will be addressed:

- Subject to Home Secretary approval of the submitted business case, preparation for the potential transfer of governance of Hereford and Worcestershire and Shropshire Fire Authorities to the PCC;

- Preparation for the changes in the arrangements for dealing with police complaints;

- Implementation of the alliance transformation programme and monitoring of the benefits realisation and delivery of savings;

- Review arrangements for the governance and oversight of ethical issues for when the current term of appointments to the Trust, Integrity and Ethics Committee end in August 2018.

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. A full copy of the Police and Crime Plan can be found at: www.westmercia-pcc.gov.uk/

The PCC is supportive of greater collaboration across emergency services to deliver efficiencies and improved service delivery, in line with the principles outlined in the Policing and Crime Act 2017 which received Royal Assent on 31st January 2017. This legislation introduced a range of measures to enable closer collaboration between emergency services.

In particular, it enabled PCC's to take on the governance of their Fire and Rescue services, where a local case is made.

During 2017/18 the PCC worked with an independent consultant to consider the available options for greater collaboration in West Mercia, and in late 2017 a local business case was duly submitted to the Home Office. This submission followed an extensive consultation process, whereby it was proposed that the PCC would assume responsibility, under the governance model for the functions of the Fire and Rescue Authorities. The business case indicated significant savings and efficiencies over the medium term, by adopting such an approach.

On receipt of the submission, the Policing and Fire Minister commissioned CIPFA to undertake an independent assessment of the proposal on 20th November 2017, as the proposal did not have the support of the relevant upper tier local authorities (Herefordshire Council, Shropshire Council, Telford and Wrekin and Worcestershire County Council). The Home Secretary reviewed the independent report and the consultation process undertaken, early in the new year and the decision to accept the proposal was notified on 26th March 2018. In its acceptance the Home Office outlined how it felt that a transfer of governance would be in the interests of economy, efficiency and effectiveness and that it did not have an adverse effect on public safety. The ambition to have stronger collaboration across policing and fire and rescue services in West Mercia to secure more sustainable and resilient services for local people was recognised and welcomed. The decision of the Home Secretary may be subject to Judicial Review.

The new model should be implemented later in 2018/19 and will see the commencement of work to deliver on the business plan aims and the commitment to establish a fire alliance between Hereford and Worcester Fire and Rescue Services (HWFRS) and Shropshire Fire and Rescue Services (SFRS) to enable more effective collaboration with West Mercia Police and other partners, whilst retaining the separate identifies of the three services. The implementation plan has been developed and is currently being enacted. This will be developed further over the medium term to incorporate each area of the business and inevitably further changes to the governance framework will continue to ensure that the responsibilities and requirement for the Fire and Rescue services are fully met, in addition to those for policing.

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, the budget and the precept. The panel meets formally in open session throughout the year, to undertake their role. 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. Further details on 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. However, the Alliance also recognises the difference between the two forces and their separate aims and objectives, but identifies that 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 on 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.

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/
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. The PCC supports many of these initiatives through his grant scheme and extensive community engagement work, which includes working particularly closely with the local Community Safety Partnerships which:

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

The Alliance workforce is key to the delivery of effective policing, an analysis of which is shown at table 1. A 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. Workforce Analysis

	Warwickshire	BME %	Female %	Male %
Police Officers	805	5.09	30.56	69.44
PCSOs	86	9.30	58.14	41.86
Police Staff	708	5.37	58.62	41.38
Total	**1,599**	**5.44**	**44.50**	**55.50**
	West Mercia	**BME %**	**Female %**	**Male %**
Police Officers	1,973	2.58	31.07	68.93
PCSOs	215	2.79	49.30	50.70
Police Staff	1,667	2.58	64.13	35.87
Total	**3,855**	**2.59**	**46.40**	**53.60**

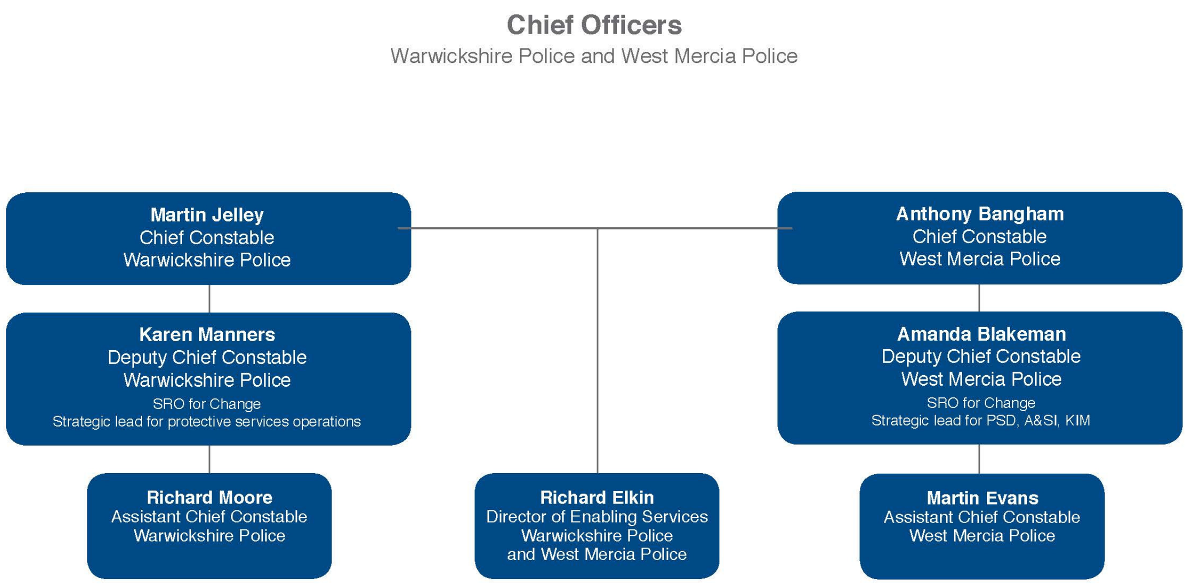
	Alliance	BME %	Female %	Male %
Police Officers	2,778	3.31	30.92	69.08
PCSOs	301	4.65	51.83	48.17
Police Staff	2,375	3.41	62.48	37.52
Total	**5,454**	**3.43**	**45.82**	**54.18**

The PCC and Chief Constable each have a Strategic Risk Strategy in place to ensure that the risks facing the force and the PCC's office are effectively and appropriately identified, evaluated and reported. The key risks for the PCC are listed below, actions are put in place to mitigate these risks and various activities flow from these:

- The risk of the PCC not meeting his statutory responsibilities;
- The risk that the Strategic Alliance fails;
- The risk of failing to manage our finances effectively;
- The risk that the PCC does not hold the Chief Constable to account;
- The risk of inadequate commissioning of Victims Services;
- The risk that we do not manage our partnerships effectively which could lead to our objectives not being achieved, poor value for money and an adverse impact on the reputation of the PCC;
- The risk of failure in performance by external partners including the Force impacting negatively on the delivery of the Police and Crime Plan;
- The risk of the PCC failing to engage with the community.

Whilst West Mercia Police and Warwickshire Police work in an Alliance each force has retained its 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 below, it has been refined during the course of 2017/18 to reflect the operational requirements of each force.

Diagram 2.



Financial Performance

The PCC is responsible for setting the annual budget within which the Chief Constable is expected to operate and against which financial performance is measured.

The annual budget is funded mainly through government grants 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 2017/18 (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. Funding 2017/18

Where the Money Came From	Budget £m	Actual £m	%
Central Government Funding	**120.177**	**120.177**	**100**
Locally Raised Funding – Precept (Council Tax)	**82.277**	**82.277**	**100**
Total Funding (excluding reserves)	**202.454**	**202.454**	**100**

The PCC agreed a 2017/18 net revenue budget of £213.417m which includes the use of £10.963m of reserves resulting in a budget requirement of £202.454m. The budget is funded by £120.177m of government funding and £82.277m comes from the council tax through the precept, which the PCC has kept at the same levels in 2017/18 as in 2016/17.

The following table shows the outturn position by comparing the revised budget to the actual for 2017/18, firstly for the Alliance and then for West Mercia Police.

Table 3. The Alliance Outturn for year ended 31 March 2018

Warwickshire Police & West Mercia Police	Budget £m	Budget Adjustments £m	Revised Budget £m	Actual £m	%	Variance £m
Police officers' pay	152.359	(1.573)	150.786	148.440	1.6	2.346
Police officers' overtime	4.167	0.146	4.313	5.623	(30.4)	(1.310)
Police staff pay	79.848	3.889	83.737	81.418	2.8	2.319
Police staff overtime	0.926	(0.002)	0.924	0.970	(5.0)	(0.046)
PCSO pay	10.654	0.047	10.701	10.271	4.0	0.430
Police pensions	5.127	(0.375)	4.752	4.518	4.9	0.234
Other Employee Expenses	1.981	(0.434)	1.547	3.570	130.8	(2.023)
Premises	12.412	(0.020)	12.392	11.335	8.5	1.057
Transport	6.630	(0.211)	6.419	6.704	(4.4)	(0.285)
Supplies & Services	31.951	1.696	33.647	31.676	5.9	1.971
Third Party Payments	23.488	(1.846)	21.642	21.262	1.8	0.380
Capital Financing	3.442	0.418	3.860	3.417	11.5	0.443
Expenditure	**332.985**	**1.735**	**334.720**	**329.204**	**1.6**	**5.516**

Income	(21.742)	(1.115)	(22.857)	(22.065)	3.5	(0.792)
Net Expenditure	**311.243**	**0.620**	**311.863**	**307.139**	**1.5**	**4.724**
Total Use of Reserves	(17.727)	(0.620)	(18.347)	(13.623)	25.7	(4.724)
Net Force Budget Incl. Use of Reserves	**293.516**	**0.000**	**293.516**	**293.516**	**0.0**	**0.000**

Table 3 shows the actual Alliance net expenditure in 2017/18 of £307.139m, which is £13.623m more than the core funding from Government grants and precept. The revised budgeted drawdown from reserves was £18.347m, so this represents a reduction in the planned use of reserves of £4.724m at year end.

The main causes of this variance are as follows:

- The underspend on police officers pay of £2.346m in 2017/18, is due to a number of issues including a higher number of officers leaving the alliance than anticipated, and most of these occurring earlier in the year and at an increased saving rate than budgeted for. However, this saving should be considered alongside the increased costs in year of police officer overtime of £1.310m, which has been incurred to maintain capacity. Some additional costs have also been incurred to react to a series of major incidents within the alliance and in other force areas. Overtime costs incurred by the alliance for example in supporting national incidents like the Grenfell fire and Salisbury nerve agent attack are recovered and shown within income;

- The total underspend on police staff pay of £2.319m has arisen as a result of an overachievement of the target set for vacancies and staff turnover;

- PCSO pay has underspent against budget by £0.430m largely as a result of increased turnover during the year, than that budgeted for;

- Police pensions have underspent by £0.234m due to a lower number of officer medical retirements in 17/18 than anticipated;

- Other employee expenses have overspent by £2.023m mainly due to increased redundancy and associated costs including actuarial strain in 2017/18. Inevitably as the alliance goes through a period of change, such costs will increase and are likely to fluctuate dependent on the timing of decision making and delivery around various phases of the programme of change;

- Place Partnership Limited manage the estates on behalf of the alliance, and premises costs are unpooled under the alliance cost sharing model. The total underspend on premise related costs is £1.057m. £0.516m of these reduced costs relate to rates refunds on Warwickshire properties including Leek Wootton, in addition to delayed maintenance, due to decisions around the decommissioning of some assets;

- Transport costs have overspent by a total of £0.285m in year, however, this includes some significant variations in terms of increased repairs costs, largely due to the number of collisions of police vehicles, offset against reduced vehicle hire costs, following an effort to maximise the use of fleet vehicles;

- Supplies and services underspent by £1.971m and covers a range of areas of expenditure. However, a significant proportion of this underspend relates to ICT related costs, including reduced expenditure on software, network infrastructure costs and hardware support and maintenance costs on various contracts. Digital forensics costs are also lower than budgeted, due to specific difficulties with external suppliers and the timely processing of submissions. Other areas of underspending include the interpreters and translation budget due to a new contract being in place, and savings on insurance excess payments;

- Payments to third parties for services has a total net underspend of £0.380m. This relates primarily to lower expenditure on key areas of spend relating to the change programmes, additionally some PCC grants have been returned and unspent, which will be contributed to an earmarked reserve to fund spend in future years. Some additional costs in respect of ROCU have offset this underspending in 2017/18;

- A decision was taken in 2017/18 to amend the minimum revenue provision policy which sets out the sum to be set aside from the annual budget to pay for the costs of borrowing. This has created a more equitable method of spreading asset costs over a suitable time period, and has resulted in an underspend of £0.443m;

- There was an underachievement of the income budget in 2017/18 of £0.792m. It is openly acknowledged that there is often volatility with income, often due to the impact of a number of external factors. As a result, an earmarked reserve has been set up to smooth the in-year effect of this volatility risk in future years. The main variations in 2017/18 are attributable to reduced income from sales, fees and charges of £0.376m particularly on speed awareness and driver improvement courses, which reflects the reduction in volume and changes in legislation. Recoverable income in respect of police officers working on behalf of other forces or on national incidents is £0.896m below budget, but this will be matched by the costs incurred by the force in expenditure. A one-off payment of £0.457m has been received from Warwickshire County Council in respect of money they were holding on behalf of the Warwickshire Safer Roads Partnership which has now been contributed to the safer roads reserve, and will be used in future years.

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

Table 4. The PCC and Chief Constable Outturn for year ended 31 March 2018

West Mercia Police	Budget £m	Budget Adjustments £m	Revised Budget £m	Actual £m	Variance £m
Police officers' pay	104.665	(0.926)	103.739	101.892	1.847
Police officers' overtime	2.865	0.102	2.967	3.901	(0.934)
Police staff pay	52.448	2.690	55.138	53.820	1.318
Police staff overtime	0.637	(0.001)	0.636	0.673	(0.037)
PCSO pay	7.422	0.042	7.464	7.153	0.311
Police pensions	3.685	(0.150)	3.535	3.087	0.448
Other Employee Expenses	1.335	(0.298)	1.037	2.551	(1.514)
Premises	8.844	0.056	8.900	8.812	0.088
Transport	4.294	(0.146)	4.148	4.351	(0.203)
Supplies & Services	21.530	0.964	22.494	21.373	1.121

Third Party Payments	9.695	(0.789)	8.906	8.733	0.173
Capital Financing	1.698	0.230	1.928	1.974	(0.046)
Expenditure	**219.118**	**1.774**	**220.892**	**218.320**	**2.572**
Income	(10.612)	(0.849)	(11.461)	(11.091)	(0.370)
Net Force	**208.506**	**0.925**	**209.431**	**207.229**	**2.202**
Office of the PCC	1.416	0.063	1.479	1.385	0.094
PCC – Youth Offending Service (YOS)	0.000	0.000	0.000	0.111	(0.111)
Victims & Commissioning	0.000	0.613	0.613	0.638	(0.025)
PCC Grant Scheme	2.495	(0.156)	2.339	2.009	0.330
PCC – Business, Rural & Cyber Crime	1.000	(1.000)	0.000	0.000	0.000
PCC Crime Reduction Fund	0.000	0.000	0.000	0.000	0.000
Total PCC	**4.911**	**(0.480)**	**4.431**	**4.143**	**0.288**
Net Force	**213.417**	**0.445**	**213.862**	**211.372**	**2.490**
Total Use of Reserves	**(10.963)**	**(0.445)**	**(11.408)**	**(8.918)**	**(2.490)**
Net Force Budget Including Use of Reserves	**202.454**	**0.000**	**202.454**	**202.454**	**0.000**

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. This type of spend is known as capital expenditure.

Table 5 shows an analysis of capital expenditure and how this has been funded. The Alliance capital expenditure of £26.504m is significant, however, this was £13.533m less than the budget including slippage from previous years. The reasons for the expenditure being below budget is due to projects that have been delayed or re-phased spreading expenditure over the next few years. The main areas of spend that have slipped include various ICT projects (including Saab system - £2.8m; ANPR - £1m; and Telephony - £0.9m), and others that have not yet commenced totalling £3m. Additionally there is slippage on the Telford Malinsgate (£0.7m), Stratford Roof (£0.4m) and Central Forensics (£1.4m) estates projects that are due to complete by the end of the 2018 calendar year. Slippage on the Body Armour Replacement project (£1.2m) also occurred due to delays on the national procurement exercise.

Table 5. Capital Programme Outturn 2017/18

Programme Capital Expenditure for the year	Revised Approved Budget £m	Actual £m	Variance £m
Estates	14.106	11.506	2.600
ICT	20.349	11.947	8.402
Transport	2.642	2.494	0.148
Other eg plant and equipment	2.940	0.557	2.383
Total Expenditure	**40.037**	**26.504**	**13.533**

Programme Capital Funding for the year			
Capital Receipts	1.033	0.707	0.326
Capital Grants	1.155	1.321	(0.166)
Revenue Contribution to Capital Expenditure	0.459	0.781	(0.322)
Infrastructure reserve	14.251	9.684	4.567
Borrowing	23.139	14.011	9.128
Total Funding	**40.037**	**26.504**	**13.533**

2017/18 saw the continued delivery of a significant capital investment programme. Most notably 2017/18 saw the completion of the construction phase of the new unified Operational Command and Control (OCC) centres across the alliance at Southwell House at the Hindlip Site and Stuart Ross House in Warwick. Although the buildings will not be used as OCC centres until 2019, they were available for use as operational assets as at 31 March 2018 and have been classified as such on the Balance Sheet.

The OCC is part of the overall investment in systems and infrastructure which will ensure our services are capable of meeting the requirements of 21st Century policing and collaborative working across the emergency services. The two OCC buildings will incorporate Saab's, (defence and security company), SAFE platform (SAFE), which is the ICT system that will allow effective contact with the public, (through calls, email and webchat), incident management, radio communications and resource deployment.

SAFE will replace multiple legacy systems across the alliance and also puts SAFE's mobile client in the hands of police officers thereby extending the capabilities of SAFE in the control room out to the field. SAFE empowers users to make more informed decisions, faster. It increases resolution at first contact, improves customer satisfaction and enables officers to operate more efficiently whilst better protecting the public from harm. By using SAFE, Warwickshire Police and West Mercia Police will be ideally positioned to transition from Airwave to the new Emergency Services Network (ESN). Work on implementing the SAAB safe platforms and migrating to fully operational OCC's at both sites will continue into 2018/19.

The capital programme investment has also supported other strands of the transformation programme, notably a move to mobile working which will enhance police visibility in our communities, but also the upgrade of telephony and the wider ICT infrastructure to replace an ageing data network, replacement servers and software upgrades.

A further £1.6m was spent on systems to directly deliver policing services, including Automatic Number Plate Recognition (ANPR) equipment, replacing equipment at existing sites and adding new equipment in cars. ANPR technology is used to help detect, deter and disrupt criminality at a local, force, regional and national level, including tackling travelling criminals, Organised Crime Groups and terrorists.

Other capital project spending in 2017/18 included the Athena system which is a one-stop-shop to manage intelligence, investigation, case preparation and custody management, which will eventually cover 70% of the alliance's operational process and practice and enable the force to work smarter and improve critical real time decisions as well as streamline the processes around them. The investment in body worn video for all front-line officers was rolled out fully in 2017/18, which is now helping to give victims the best possible service and

the highest chance of getting a conviction in court. The use of body worn video also encourages public confidence in the police by providing greater transparency.
Capital expenditure has been funded through a range of sources set out in Table 5. Notably, £9.684m was funded through the infrastructure reserve set aside in previous years and its use forms part of the PCC's reserve and investment strategy, £1.321m was financed from specific grants and £0.707m was funded through capital receipts. These are all one off sources of funding and once spent they are not available to finance further capital expenditure. More significantly £14.011m of capital investment was financed through borrowing. Borrowing levels are governed by the prudential code which determines whether borrowing is affordable. The £14.011m of borrowing has been financed "internally" initially, using surplus cash balances, but this is a short term solution and external borrowing with the Public Works Loans Board (PWLB) by West Mercia will occur in 2018/19.

The Alliance reserves at the 31 March 2018 stand at £55.548m, of which £36.373m is attributable to West Mercia PCC. Reserves are an important part of the PCC strategy to deliver the objectives set out in the Police and Crime Plan and the Medium Term Financial Plan (MTFP). Note 8 in the Accounts provides an analysis of the reserves at the 31 March 2018 and shows the movement since the 31 March 2017, whilst table 6 below shows how West Mercia PCC's reserves are planned to be used during the period up to 31 March 2022.

Table 6. West Mercia Reserves

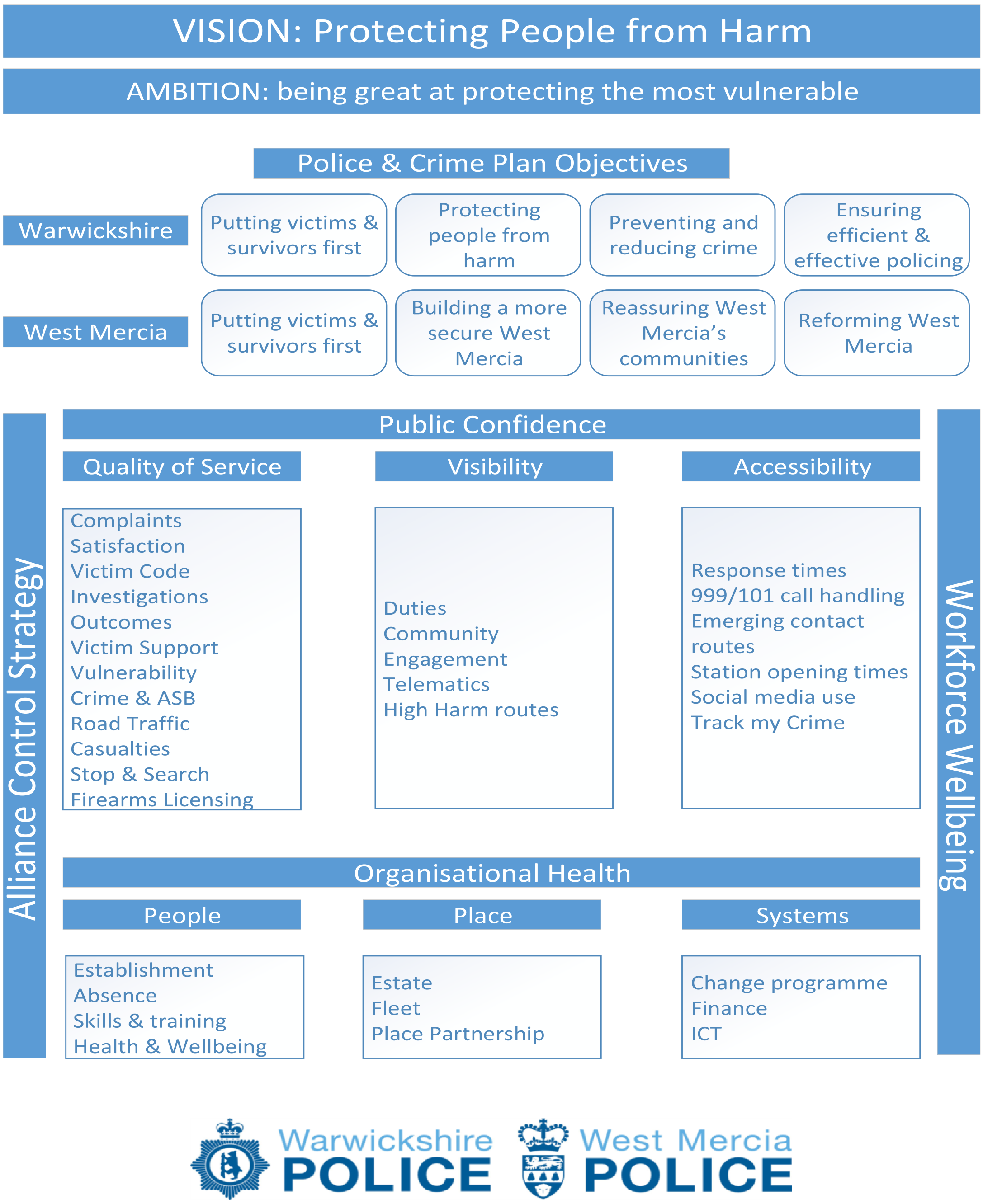
Reserve	Opening Balance 31/03/2018 £m	Transfers from Reserves				Closing Balance 31/3/2022
		2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	
General reserve	10.587	0.000	0.000	0.000	0.000	10.587
Budget reserve	5.444	4.271	0.000	0.000	0.000	1.173
Transformation reserve	2.002	0.828	0.690	0.196	0.288	0.000
Infrastructure reserve	13.315	7.315	6.000	0.000	0.000	0.000
Safer roads	0.956	0.000	0.000	0.000	0.000	0.956
Collaboration	0.300	0.150	0.150	0.000	0.000	0.000
YOS	0.389	0.000	0.000	0.000	0.000	0.389
CCTV and other PCC initiatives	0.880	0.480	0.400	0.000	0.000	0.000
Redundancy costs reserve	0.800	0.400	0.400	0.000	0.000	0.000
Legal and insurance claims reserve	0.300	0.300	0.000	0.000	0.000	0.000
Asbestos reserve	0.400	0.400	0.000	0.000	0.000	0.000
Income risk reserve	0.500	0.500	0.000	0.000	0.000	0.000
Demand management reserve	0.500	0.500	0.000	0.000	0.000	0.000
Total	**36.373**	**15.144**	**7.640**	**0.196**	**0.288**	**13.105**

The MTFP contains the Treasurer's annual review of the adequacy of reserves and a more detailed reserves strategy over the MTFP period. Cash balances are invested in line with the Treasury Management Strategy, the priority being to protect our investments ahead of making a return. £8.918m of reserves were utilised in 2017/18, reducing West Mercia reserve balances as at 31st March 2018 to £36.373m. Due to the high level of internal borrowing (an increase of £8m to £38.6m), as at 31 March 2018 the PCC had only £0.5m invested short-term and during 2017/18 achieved an average return of 0.21%. It is anticipated that interest rates will remain low into 2019 according to the latest Treasury forecasts.

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 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.

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. The PCC and his office also hold the Force to account and any arising issues may also be investigated and reported through these channels.

Table 7 is a summary of our performance for 2017/18 against the various categories of crime. As at the 31 March 2018 user satisfaction rating stood at 82.6%, which is an improvement from 31 March 2017 when it stood at 81.9% and remains generally high based on the 'whole experience' service. In terms of safety on our roads 2017/18 saw a 6% increase in the number of fatalities, rising to 50 compared to 47 in 2016/17. 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. Total recorded crime in 2017/18 was 84,597, an increase of 24% compared to the four year trend and an increase of 5% compared to 2016/17. The main categories are shown in Table 7 below:

Table 7. Policing performance 2017/18

	Volume	Compared to 4 Year Trend	Compared to 2016/17
Violent Against the Person with Injury	10,157	+22%	-1%
Violent Against the Person without Injury	18,158	+74%	+10%
Rape	1,198	+55%	+10%
Other Sexual Offences	2,300	+51%	+11%
Robbery	552	+22%	-5%
Domestic Burglary	3,261	+16%	+6%
Anti Social Behaviour	46,374	0%	+2%

Value for Money

Both the PCC and Chief Constable have a duty to provide efficient and effective policing at an affordable cost. Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services (HMICFRS) provides an annual independent thematic inspection and assessment of the force's performance in terms of its effectiveness, efficiency and legitimacy. Assessments were conducted during 2017, and covered the 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.

Full details of the HMICFRS inspection reports for West Mercia can be found at: - www.justiceinspectorates.gov.uk/hmicfrs/peel-assessments/peel-2017/west-mercia/

The assessments were unfortunately less positive in 2017 than the previous year, with the force rated as follows:

- Effectiveness – Requires Improvement
- Efficiency – Good
- Legitimacy – Requires Improvement

The inspectors highlighted a number of key areas where the force needs to do more to better protect the public and provide a more effective service, however there was also recognition of the many aspects where the force has improved and of the hard work and dedication of the workforce. In the majority of cases the inspection reports identify a number of areas for improvement. In response, the force has developed an action plan to deliver the required improvements, achieved through core groups of senior officers, police staff, and with PCC representation which is overseen by chief officers.

The Alliance has already implemented some structural change to release savings, particularly across back-office functions and also developed a single policing model to ensure greater levels of protection from harm. Work on developing the local policing model continued throughout 2017/18 to ensure the force remains efficient and to match demand peaks more closely to the resources available. The new policing model went live in April 2018 and represents just one theme of the transformation programme. The other main areas of transformation are in services to policing and technology enabled change. Technology enabled change will deliver a modern flexible infrastructure to support new information and communication technologies, it includes a number of ongoing ICT projects including the continued development of Athena, the implementation of Saab safe in our new OCC's, in addition to other ICT related projects including in car media, telematics, mobile working initiatives and ANPR technology. The services to policing element of the transformation programme aims to ensure that the force has "the right people, in the right place at the right time with the right skill and attitude to deliver." It must therefore ensure that it has supporting and enabling Services designed to provide an efficient, effective, professional and business focused approach to service delivery.

The Transformation Board, chaired by the Transformation Director and attended by Chief Officers, programme managers and representatives from across the force and PCC's meets monthly to review progress and agree priorities and actions on the key project areas. It oversees the delivery of appropriate outcomes to achieve strategic objectives and to monitor the benefits realisation. The realised benefits from the transformation programme in terms of efficiency and the generation of savings are being closely monitored as the work develops, as they form a significant proportion of the financial savings targets within the Medium Term Financial Plan and are critical to the future financial sustainability and efficiency of the force.

During 2017/18 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). The PCC is responsible for setting the estates strategy for West Mercia police, but this is managed on a daily basis by PPL a public sector company, with the aim of providing economic and regeneration benefits. The PCC is committed to identifying options and opportunities for sharing, investing and updating the remaining estate especially where it can deliver more effective policing and enhance the collaboration between emergency services. This will be part of a longer term strategy to ensure the force remain efficient and effective in protecting people from harm and creating a safer West Mercia.

During 2017/18, Athena, which is a police collaboration ICT system went live across the Alliance. The system will help to identify criminals more quickly, reduce crime and save time and money. The use of the system will continue to embed throughout the Alliance in 2018/19. The construction and refurbishment of the two new OCC buildings that will service the Alliance were completed in 2017/18 – Southwell House at Hindlip and Stuart Ross House in Warwick. 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. Both sites are due to be fully operational later in 2018/19, which should realise further savings, delivering on one of the key parts of the transformation programme for the Alliance.

Our workforce is essential in delivering the Alliance's vision, and in recognition of this, and to address some of the issues raised in recent staff surveys, the Health and Wellbeing Board meets regularly. It ensures the actions identified through the survey are implemented and improvements are made. Sickness absence and managing staff health and wellbeing remains a priority, and is a recognised risk to the Alliance. Some improvements have been made in terms of attendance during 2017/18, and work is continuing 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 2018/19 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 2018/19;
- 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, and more specifically in accordance with the final financial settlement for 2018/19, received in January 2018, which also covers the period 2019/20;
- 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 the Warwickshire PCC and the delivery of existing savings plans.

The PCC agreed a 2018/19 net revenue budget of £211.494m which includes the use of £4.721m of reserves resulting in a budget requirement of £206.773m. The budget is funded by £120.177m of government funding, which has remained the same as the amount received in 2017/18. The remaining funding, £85.596m, comes from the council tax through the precept, which was increased by 3.94% in 2018/19.

The Commissioner has driven reform within West Mercia. He has prioritised the best use of the funds available to him and focused on implementing efficiency programmes and productivity gains. The force has implemented these changes and has achieved additional efficiencies across the Alliance.

It should be noted that during the period of the previous and current Comprehensive Spending Reviews, West Mercia has implemented efficiencies of £66.6m, in addition to a further savings target of £14.2m in 2017/18, which was exceeded in year. During that period, the nature of crime and its consequential demands have changed significantly, and a series of unavoidable and increased inflationary pressures have also emerged, notably pay and price inflation.

In setting the 2018/19 budget, the Commissioner recognised the unavoidable pressures policing faces. These included pay and price increases at 2%, in addition to other general inflationary pressures, but with no additional central funding made available to finance the increased costs in the final settlement. Other unavoidable cost pressures have also arisen due to statutory changes and those from changes in legislation, including the Policing and Crime Act 2017. These unavoidable spend pressures are significant and may prove even more challenging to address in future, given the further pressure of both changing and growing demand for police services.

The final funding settlement received in January 2018, covered the years 2018/19 and 2019/20 and included increased flexibility for PCC's around precept setting of up to £12 on a band D property. Additionally, the central government grant was confirmed at the same levels as in 2017/18, meaning no actual cash reduction in funding for 2018/19.

The 2018/19 budget, the Medium Term Capital Programme and the Medium Term Financial Plan address these challenges whilst keeping council tax increases in West Mercia to a minimum. With the new flexibility, the police precept for West Mercia was increased by 3.94% in 2018/19 which is equivalent to £7.47 per band D property.

The Commissioner has set his vision to use the police estate to improve collaboration and drive efficiency. A programme of investment is in place to deliver a fit for purpose estate that fully supports modern operational and local policing. The Estates Strategy supported by the Estates Delivery Plan will detail the approach to this up to 2020 and beyond. This work will start generating both revenue savings and capital receipts within 2018/19. Given the Commissioner's priorities, the increasing pressures and the opportunities for reform, West Mercia faces a savings target of £16.365m in the medium term, whilst at the same time the Commissioner needs to ensure that policing arrangements continue to be fit for purpose. Policing therefore must continue to be both efficient and effective, address changes in demand and meet public expectations. He therefore intends to:

- Ensure the new policing model is fully implemented to ensure that policing services meet demand as efficiently and effectively as possible;
- Invest significantly in the estate with new facilities such as the OCC and modern police stations in Hereford and Shrewsbury being delivered, in collaboration with partner agencies to ensure best service and use of resources;
- Commission One Place reviews with key partners such as the Fire and Rescue Services and Local Authorities to promote shared use of facilities;
- Review the property assets he holds to ensure that buildings are fit for purpose and that the estate is managed as efficiently as possible;
- Improve the ICT infrastructure including a new telephony and communications system, and the implementation of the SAAB Safe system leading to further efficiency savings;
- Complete the reviews of ICT services, and other services which support policing;
- Work with policing partners to further develop specialist policing capabilities where they are needed to better protect the public;

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 and budget report which includes the reserve strategy are all available on the PCC's website.

Environmental Scanning

A review of challenges the force and wider public services are likely to face over the next five years has been undertaken. The force will remain mindful of these in setting its strategy to ensure it is able to provide effective policing services in the medium term. The detail is shown below and the challenges have been prioritised, in terms of the impact and uncertainty:

Social Challenges		Impact	Uncertainty
1	Increasing demand for high-tech investigative capacity and capability in an increasingly connected society	High	Low
2	Increasing demand from reducing social and personal financial means, including support to the most vulnerable members of society	High	Low
3	Increasing demand to meet expectations for greater automation and public access through fit for purpose ICT solutions	High	High
Partner Challenges			
4	Increasing demand on policing as a first resort as funding cuts deepen across partners	High	Medium
5	Increasing demand to exploit opportunities to share assets and provide single operating models with partners (blue light and public sector)	High	Medium
6	Increasing demand from changes in partners' working practices and strategies	High	Medium
Policing Challenges			
7	Increasing demand from increasing and more sophisticated crime and disorder	High	Low
8	Increasing demand to collect, manage and exploit often extensive volumes of data for both business and crime management purposes in ways that are legal, ethical and proven to work	High	High
9	Increasing demand to respond to societal and cultural change to review and transform our business to continue to protect people from harm	High	High

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.

The Statement of Accounts

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

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 Group and the PCC 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 PCC and the responsible Chief Finance Officer for the preparation of the Accounts;

- **Independent 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 and Expenditure Statement** 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 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 managed;

- The **Movement in Reserves Statement (MIRS)** shows the movement in the year on the different reserves held by the Group and the PCC. 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 Group'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 7 provides detailed analysis of the adjustments contained in the MIRS;

- The **Balance Sheet**, which shows the value as at the 31 March 2018 of the assets and liabilities recognised by the Group and PCC. The net assets (assets less liabilities) are matched by the usable and unusable reserves, which hold the transfers from the CIES, which have moved through the MIRS;

- The **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 Expenditure and Funding Analysis (Note 1);

- **Police Pension Fund Account** - This identifies the payments in and out of the Police Officers Pension Fund Account for the year;

- The **Annual Governance Statement** – This section describes how the PCC conducts business in accordance with proper standards and presents the findings from the annual review of the effectiveness of systems of internal control. The Annual Governance Statement does not form part of the Accounts but is included here for reporting purposes.

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

https://www.westmercia.police.uk/article/2065/What-we-spend-and-how-we-spend-it
https://www.warwickshire-pcc.gov.uk/key-information/financial-information/
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 £81.1m. The deficit is arrived at after accounting for costs and income in line with the Group's accounting policies and recognised accounting conventions, which is different to the statutory basis used to identify the net expenditure to be funded from local taxation in the form of the Council Tax. For example, proper accounting practice requires the full cost of future pension liabilities to be recognised in the Accounts and is a significant part of the deficit on the Group's CIES.

The financial standing of the Group 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 Group's Accounts. The Group 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 2018 is £2,509.7m (PCC element of £2.9m). However, in considering the impact that this has on the financial position of the PCC it must be remembered that:

- Police Staff (including YOS employees) 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 both are now career average (CARE) schemes. 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 35, and information about the Police Pensions Fund Account can be found on page 104.

Statement of Accounting Policies for the Group and the PCC

i. General Principles

The Statement of Accounts summarises the Group's and the PCC's transactions for the 2017/18 financial year and its position at the year-end. The accounting policies are the specific principles, bases, conventions, rules and practices applied by the Group and the PCC when preparing and presenting the financial statements. The Group and the PCC are required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015, which must be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 and the Service Reporting Code of Practice 2017/18 supported by International Financial Reporting Standards (IFRS).

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

ii. Changes in Accounting Policies

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effects of transactions, other events and conditions in the Group's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied. Apart from minor amendments to the wording of the Segmental Analysis Policy xvi, no Accounting Policies have changed in 2017/18.

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 and Council Tax as well as income from charges and from which all costs are met. The Police Fund is held in a single bank account: the Chief Constable does not have a separate bank account into which money can be received or from which payments can be made.

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

- Revenue from the sale of goods is recognised when the Group transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Group.
- Revenue from the provision of services is recognised when the Group can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Group.
- Supplies are recorded as expenditure when they are consumed. Where there is a gap between the date supplies are received and their consumption they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by police officers, police staff and PCSOs) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
- Manual accruals of revenue or expenditure are not made where the value of the item is less than £1,000.

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.

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

vi. Charges to Revenue for Non-Current Assets

Services are debited with the following amounts to record the cost of holding non-current assets during the year:

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

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

vii. Employee Benefits

Benefits Payable during Employment

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

Termination Benefits

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

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

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

Post-Employment Benefits

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

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

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

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

- the liabilities of the pension fund attributable to the Group are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and projections of anticipated earnings for current employees.

- International Accounting Standard (IAS) 19 requires the nominal discount rate to be set by reference to market yields on high quality corporate bonds or where there is no deep market in such bonds then by reference to government bonds.

- the PPS liabilities are discounted using the nominal discount rate based on government bond yield of appropriate duration plus an additional margin and the LGPS liabilities are discounted to their value at current prices, using a discount rate based on corporate bond yields at 31 March 2018.

- the discount rates used by the actuaries and other principal assumptions are set out in Note 35.

- the assets of the LGPS fund attributable to the Group are included in the Balance Sheet at their fair value:
    - quoted securities – current bid price
    - unquoted securities – professional estimate
    - unitised securities – current bid price
    - property – market value

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

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

- **Past service cost** – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the CIES as part of Non Distributed Costs.

- **Net interest on the net defined benefit liability** i.e. net interest expense for the Group – the change during the period in the net defined benefit liability that arises from the passage of time charged to the Financing and Investment Income and Expenditure line of the CIES – this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period to the net defined benefit liability at the end of the period – taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments.

- **Re-measurements comprising:**
  - the return on plan assets – excluding amounts included in net interest on the net defined benefit liability – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure

  - actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve as Other Comprehensive Income and Expenditure

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

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

A difference between the two schemes is that the PPS is an unfunded, defined benefit, final salary scheme, whereas the LGPS is a funded, defined benefit scheme. As the PPS is unfunded there are no investment assets built up to meet the pensions liabilities and cash has to be generated to meet the actual pensions payments as they eventually fall due. This is further explained in the notes to the Police Pension Fund Account on page 102.

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

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

viii. Fair Value Measurement

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

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

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

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

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

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

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

ix. Financial Instruments

Financial Liabilities

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

For the straightforward borrowings that the Group has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the CIES is the amount payable for the year according to the loan agreement.
The Group has not entered into the repurchase or early settlement of borrowing.

Financial Assets

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

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

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

x. Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Group when there is reasonable assurance that:
- the Group will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

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

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

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

xi. Intangible Assets

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

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

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

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

xii. Inventories and Long-Term Contracts

Inventories are required to be included in the Balance Sheet at the lower of cost or current replacement value. Inventories are valued at actual cost price. They are included on the Balance Sheet as part of Debtors and other current assets as the amount is immaterial.

xiii. Investment Property

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. The definition is not met if the property is used in any way to facilitate the delivery of services or production of goods or is held for sale.
Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's length, that is the significant observable inputs (Level 2 in the fair value hierarchy). Properties are not depreciated but are re-valued annually according to market conditions at the year-end. Gains and losses on revaluation are posted to the Financing and Investment

Income and Expenditure line in the CIES. The same treatment is applied to gains and losses on disposal.

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

xiv. Jointly Controlled Operations and Jointly Controlled Assets

Jointly controlled operations are activities undertaken by the PCC and / or Chief Constable in conjunction with other ventures or organisations that involve the use of the assets and resources of the ventures rather than the establishment of a separate entity. The Group recognises on its Balance Sheet the assets (Property, ICT and Vehicles) that it controls or its share thereof. Joint assets give rise to benefits of the joint ventures. The Group also recognises the liabilities that it incurs. The CIES is debited and credited with the expenditure it incurs and the share of costs incurred or income earned through the joint operation.

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

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

xv. Leases

Leases are classified as finance leases where the terms of the lease transfer substantially all of the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. The Group has reviewed its contracts register and has determined that it has no other finance leasing arrangements apart from the joint facility in Bromsgrove (Note 19(i) to the Accounts). All other leases are classified as operating leases.

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

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

The Group as Lessee (Operating Lease)

Rentals paid under operating leases are charged to the CIES as an expense of the services benefiting from use of the leased property, plant or equipment. Charges are made on a straight-line basis from the commencement of the lease term over the life of the lease;

even if this does not match the pattern of payments (e.g. there is a rent free period at the inception of the lease).

The Group as Lessor (Operating Lease)

Where the Group grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the CIES. Credits are made on a straight-line basis from the commencement of the lease term over the life of the lease, even if this does not match the pattern of payments (e.g., there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

The Group as Lessor (Finance Lease)

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

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

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

xvi. Segmental Analysis

Income and Expenditure is reported in the CIES on the basis of the Group's organisational structure. This requirement arose from CIPFA's "Telling the Story" review that revised the presentation of Public Sector financial statements so that the CIES reflects the way that organisation's operate and manage services. The Group monitors and manages its financial performance on the basis of three segments to reflect its distinct service areas. These three segments are: Policing Services, Police and Crime Commissioner and Youth

Offending Service. The costs of overheads and support services are charged to each 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 Expenditure and Funding Analysis (EFA) emanated from the Telling the Story review and 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 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.

xvii. Prior Year Adjustments

Prior year adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes are applied retrospectively (unless otherwise stated) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied. 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.

xviii.Property, Plant and Equipment

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

Recognition

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

Measurement

Assets are initially measured at cost, comprising:

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

The cost of assets acquired other than by purchase is deemed to be its fair value; the Group has not acquired any asset via an exchange. The Group received donated assets amounting to £0.241m from the PCC for Warwickshire during the year, as explained in Note 20.

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

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

Assets included in the Balance Sheet at fair value are re-valued sufficiently regularly to ensure that their carrying amount is not materially different from their fair value at the year end, but as a minimum every five years. Desktop reviews of certain properties not formally valued during the current year are carried out annually to ensure that this holds true as at the Balance Sheet date; following this review, management determined that the carrying amounts of Operational Assets were not materially different from their fair value. Valuations are carried out by qualified valuers, Place Partnership Limited, the most recent being carried out as at 31 January 2018. The valuers provided the PCC with assurance that there had been no material changes in the valuations between the valuation date and 31 March 2018. The basis of valuation used is set out below as recommended by CIPFA and in line with the Statements of Asset Valuation Practice and guidance notes of the Royal Institute of Chartered Surveyors (RICS). Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the CIES where they arise from the reversal of a loss previously charged to the Cost of Services.

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

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

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

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

Componentisation

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

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

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

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

Components of buildings and the life of each component are:

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

Impairment

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

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

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

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

Depreciation

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

Depreciation is calculated on the straight-line method over:

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

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

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

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

Disposals and Non-Current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is re-valued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the CIES. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

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

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

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

De Minimis

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

xix. Provisions, Contingent Liabilities and Contingent Assets

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

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

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

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

A contingent liability or a contingent asset arises where an event has taken place that gives the Group a possible obligation or asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Group. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably. Contingent liabilities and contingent assets are not recognised in the Balance Sheet but disclosed in Note 29 to the Accounts.

xx. Reserves

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

xxi. Revenue Expenditure Funded from Capital Under Statute

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

xxii. Value Added Tax

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

Statement of Responsibilities

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

The PCC is required to:

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

I accept the above responsibilities and approve these Statement of Accounts for 2017/18.

John Campion
Police and Crime Commissioner for West Mercia **Date: 30 July 2018**

Responsibilities of the Treasurer to the Commissioner

The Treasurer to the Commissioner is responsible for the preparation of the Statement of Accounts for the Police and Crime Commissioner for West Mercia and Group in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 (the Code).

In preparing this Statement of Accounts, the Treasurer to the Commissioner has:

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

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

The Statement of Accounts for the Police and Crime Commissioner for West Mercia and Group is duly authorised for issue on 31 May 2018 by authority of the Treasurer to the Commissioner.

I certify that the Statement of Accounts represents a true and fair view of the financial position of the PCC and the Group at the accounting date and of the income and expenditure for the year ended 31 March 2018.

Elizabeth Hall
Treasurer to the Police and Crime Commissioner for West Mercia
Date: 30 July 2018

Independent auditor's report to the Police and Crime Commissioner for West Mercia Report on the Audit of the Financial Statements

Opinion

We have audited the financial statements of the Police and Crime Commissioner for West Mercia (the 'Police and Crime Commissioner') and its subsidiary the Chief Constable (the 'group') for the year ended 31 March 2018 which comprise the Comprehensive Income and Expenditure Statements, the Movement in Reserves Statements, the Balance Sheets, the Cash Flow Statements and notes to the financial statements, including a summary of significant accounting policies, and include the police pension fund financial statements of West Mercia comprising the Fund Account, and the notes to the financial statements. 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 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of the group and of the Police and Crime Commissioner as at 31 March 2018 and of the group's expenditure and income and the Police and Crime Commissioner's expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities for the audit of the financial statements section of our report. We are independent of the group and the Police and Crime Commissioner in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Who we are reporting to

This report is made solely to the Police and Crime Commissioner, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Police and Crime Commissioner those matters we are required to state to the Police and Crime Commissioner in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Police and Crime Commissioner as a body, for our audit work, for this report, or for the opinions we have formed.

Conclusions relating to going concern

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Treasurer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Treasurer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the Police and Crime Commissioner's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

Other information

The Treasurer is responsible for the other information. The other information comprises the information included in the Statement of Accounts set out on pages 43 to 105, the Narrative Report, the Annual Governance Statement and the PCC's Annual Report, other than the group and Police and Crime Commissioner financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge of the group and the Police and Crime Commissioner obtained in the course of our work including that gained through work in relation to the Police and Crime Commissioner's arrangements for securing value for money through economy, efficiency and effectiveness in the use of its resources or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Other information we are required to report on by exception under the Code of Audit Practice

Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Police and Crime Commissioner gained through our work in relation to the Police and Crime Commissioner's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, the Narrative Report, the Annual Governance Statement and the PCC's Annual Report for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice we are required to report to you if:

- we have reported a matter in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Police and Crime Commissioner under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

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

Responsibilities of the Police and Crime Commissioner and the Treasurer for the financial statements

As explained more fully in the Statement of Responsibilities set out on page 39, the Police and Crime Commissioner is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. That officer is the Treasurer. The Treasurer 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 2017/18, which give a true and fair view, and for such internal control as the Chief Financial Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Treasurer is responsible for assessing the group's and the Police and Crime Commissioner's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the group or the Police and Crime Commissioner lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the group or the Police and Crime Commissioner.

The Police and Crime Commissioner is Those Charged with Governance.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Report on other legal and regulatory requirements - Conclusion on the Police and Crime Commissioner's 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 criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that the Police and Crime Commissioner put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

Responsibilities of the Police and Crime Commissioner

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

Auditor's responsibilities for the review of the Police and Crime Commissioner's arrangements for securing economy, efficiency and effectiveness in its use of resources

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Police and Crime Commissioner has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Police and Crime Commissioner's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Police and Crime Commissioner 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 criterion as that necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Police and Crime Commissioner put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

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 be satisfied that the Police and Crime Commissioner has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

Report on other legal and regulatory requirements - Certificate

We certify that we have completed the audit of the financial statements of the Police and Crime Commissioner in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

Alex Walling

Alex Walling
for and on behalf of Grant Thornton UK LLP, Appointed Auditor
2 Glass Wharf, Bristol BS2 0EL
31 July 2018

Comprehensive Income and Expenditure Statement (CIES) for the Group

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

2016/17 Gross Expenditure £000	2016/17 Gross Income £000	2016/17 Net Expenditure £000		Notes	2017/18 Gross Expenditure £000	2017/18 Gross Income £000	2017/18 Net Expenditure £000
222,054	(8,860)	213,194	Policing Services		251,269	(10,824)	240,445
6,086	(1,625)	4,461	Police and Crime Commissioner		6,130	(1,648)	4,482
3,471	(3,994)	(523)	Youth Offending Service		2,888	(2,777)	111
231,611	**(14,479)**	**217,132**	**Net Cost of Policing Services**	**1**	**260,287**	**(15,249)**	**245,038**
		3,004	Other operating expenditure – Loss on disposal of non-current assets (*Note 25*)				3,258
		78,118	Financing and investment net expenditure *(Note 11)*				72,206
		(242,460)	Taxation and non-specific grant income *(Note 12)*				(239,421)
		55,794	**Deficit on Provision of Services**				**81,081**
		(1,525)	(Surplus) or deficit on revaluation of Property, Plant & Equipment Assets *(Note 9 (i))*				(366)
		432,493	Re-measurement of the net defined benefit liability *(Note 35)*				(43,151)
		430,968	**Other Comprehensive Income & Expenditure**				**(43,517)**
		486,762	**Total Comprehensive Income & Expenditure**				**37,564**

Comprehensive Income and Expenditure Statement (CIES) for the PCC

This Statement shows the accounting cost and funding in the year of providing services presented in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. The PCC raises taxation to cover expenditure in accordance with regulations; this is different from the accounting cost. The taxation position is shown in both the Expenditure and Funding Analysis and the MIRS. The CIES includes the intra-group transfer, whereby the PCC provides resources to meet the cost of day to day policing provided by the Chief Constable.

2016/17 Gross Expenditure £000	2016/17 Gross Income £000	2016/17 Net Expenditure £000		Notes	2017/18 Gross Expenditure £000	2017/18 Gross Income £000	2017/18 Net Expenditure £000
3,354	(14,946)	(11,592)	Policing Services		8,115	(18,212)	(10,097)
6,086	(1,625)	4,461	Police and Crime Commissioner		6,130	(1,648)	4,482
3,471	(3,994)	(523)	Youth Offending Service		2,888	(2,777)	111
12,911	**(20,565)**	**(7,654)**	**Cost of Policing Services**	**1**	**17,133**	**(22,637)**	**(5,504)**
215,048	0	215,048	Funding to the Chief Constable for financial resources consumed	10	223,736	0	223,736
227,959	**(20,565)**	**207,394**	**Net Cost of Policing Services**		**240,869**	**(22,637)**	**218,232**
		3,004	Other operating expenditure – Loss on disposal of non-current assets *(Note 25)*				3,258
		359	Financing and investment net expenditure *(Note 11)*				488
		(211,676)	Taxation and non-specific grant income *(Note 12)*				(206,366)
		(919)	**(Surplus) or Deficit on Provision of Services**				**15,612**
		(1,525)	(Surplus) or deficit on revaluation of Property, Plant & Equipment Assets *(Note 9 (i))*				(366)
		2,293	Re-measurement of the net defined benefit liability *(Note 35)*				(756)
		768	**Other Comprehensive Income & Expenditure**				**(1,122)**
		(151)	**Total Comprehensive Income & Expenditure**				**14,490**

Movement in Reserves Statement (MIRS) for the Group

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

	Notes	Police Fund Balance	Earmarked Police Fund Reserves	Total Police Fund Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Group Reserves
		£000	£000	£000	£000	£000	£000	£000	£000
Opening Balance at 1 April 2016		**0**	**60,121**	**60,121**	**4,600**	**1,004**	**65,725**	**(1,969,711)**	**(1,903,986)**
Movement in reserves during 2016/17									
Total Comprehensive Income and Expenditure	1	**(55,794)**	**0**	**(55,794)**	**0**	**0**	**(55,794)**	**(430,968)**	**(486,762)**
Adjustments between accounting basis and funding basis under regulations	7	48,804	0	48,804	(4,240)	(1,004)	43,560	(43,560)	0
Net Increase/(Decrease) before transfers to Earmarked Reserves		**(6,990)**	**0**	**(6,990)**	**(4,240)**	**(1,004)**	**(12,234)**	**(474,528)**	**(486,762)**
Transfers to/from Earmarked Reserves	8	6,990	(6,990)	0	0	0	0	0	0
Increase/(Decrease) in Year		**0**	**(6,990)**	**(6,990)**	**(4,240)**	**(1,004)**	**(12,234)**	**(474,528)**	**(486,762)**
Balance at 31 March 2017 Carried Forward		**0**	**53,131**	**53,131**	**360**	**0**	**53,491**	**(2,444,239)**	**(2,390,748)**
Movement in reserves during 2017/18									
Total Comprehensive Income and Expenditure	1	**(81,081)**	**0**	**(81,081)**	**0**	**0**	**(81,081)**	**43,517**	**(37,564)**
Adjustments between accounting basis and funding basis under regulations	7	64,323	0	64,323	(227)	0	64,096	(64,096)	0
Net Increase/(Decrease) before transfers to Earmarked Reserves		**(16,758)**	**0**	**(16,758)**	**(227)**	**0**	**(16,985)**	**(20,579)**	**(37,564)**
Transfers to/from Earmarked Reserves	8	16,758	(16,758)	0	0	0	0	0	0
Increase/(Decrease) in Year		**0**	**(16,758)**	**(16,758)**	**(227)**	**0**	**(16,985)**	**(20,579)**	**(37,564)**
Balance at 31 March 2018 Carried Forward		**0**	**36,373**	**36,373**	**133**	**0**	**36,506**	**(2,464,818)**	**(2,428,312)**

Movement in Reserves Statement (MIRS) for the PCC

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

	Notes	Police Fund Balance	Earmarked Police Fund Reserves	Total Police Fund Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Group Reserves
		£000	£000	£000	£000	£000	£000	£000	£000
Opening Balance at 1 April 2016		**0**	**60,121**	**60,121**	**4,600**	**1,004**	**65,725**	**30,627**	**96,352**
Movement in reserves during 2016/17									
Total Comprehensive Income and Expenditure	1	**919**	**0**	**919**	**0**	**0**	**919**	**(768)**	**151**
Adjustments between accounting basis and funding basis under regulations	7	(7,909)	0	(7,909)	(4,240)	(1,004)	(13,153)	13,153	0
Net Increase before transfers to Earmarked Reserves		**(6,990)**	**0**	**(6,990)**	**(4,240)**	**(1,004)**	**(12,234)**	**12,385**	**151**
Transfers to/from Earmarked Reserves	8	6,990	(6,990)	0	0	0	0	0	0
Increase/(Decrease) in Year		**0**	**(6,990)**	**(6,990)**	**(4,240)**	**(1,004)**	**(12,234)**	**12,385**	**151**
Balance at 31 March 2017 Carried Forward		**0**	**53,131**	**53,131**	**360**	**0**	**53,491**	**43,012**	**96,503**
Movement in reserves during 2017/18									
Total Comprehensive Income and Expenditure	1	**(15,612)**	**0**	**(15,612)**	**0**	**0**	**(15,612)**	**1,122**	**(14,490)**
Adjustments between accounting basis and funding basis under regulations	7	(1,146)	0	(1,146)	(227)	0	(1,373)	1,373	0
Net Increase before transfers to Earmarked Reserves		**(16,758)**	**0**	**(16,758)**	**(227)**	**0**	**(16,985)**	**2,495**	**(14,490)**
Transfers to/from Earmarked Reserves	8	16,758	(16,758)	0	0	0	0	0	0
Increase/(Decrease) in Year		**0**	**(16,758)**	**(16,758)**	**(227)**	**0**	**(16,985)**	**2,495**	**(14,490)**
Balance at 31 March 2018 Carried Forward		**0**	**36,373**	**36,373**	**133**	**0**	**36,506**	**45,507**	**82,013**

Balance Sheets for the Group and the PCC

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

The PCC as at 31 March 2017	The Group as at 31 March 2017		Notes	The PCC as at 31 March 2018	The Group as at 31 March 2018
£000	£000			£000	£000
68,609	68,609	Property, Plant & Equipment	20	79,422	79,422
370	370	Investment Property	22	370	370
1,759	1,759	Intangible Assets	23	2,181	2,181
3,954	3,954	Long Term Debtors	24	4,117	4,117
74,692	**74,692**	**Long Term Assets**		**86,090**	**86,090**
342	342	Assets Held for Sale	25	0	0
21,527	33,220	Short Term Debtors and other current assets	26	13,679	30,312
20,409	20,409	Cash and Cash Equivalents	27	949	949
9,188	0	Intra-Group Debtor	10	12,666	0
51,466	**53,971**	**Current Assets**		**27,294**	**31,261**
(62)	(62)	Short Term Borrowing	30	(62)	(62)
(15,759)	(21,573)	Short Term Creditors	28	(17,513)	(24,825)
0	0	Intra-Group Creditor	10	0	0
0	(12)	Provisions	29	0	(105)
(15,821)	**(21,647)**	**Current Liabilities**		**(17,575)**	**(24,992)**
(10,000)	(10,000)	Long Term Borrowing	30	(10,000)	(10,000)
(2,845)	(2,486,775)	Liability Relating to Defined Benefit Pension Schemes	35	(2,851)	(2,509,726)
(841)	(841)	Revenue Grants Receipts in Advance	13	(841)	(841)
(148)	(148)	Capital Grants Receipts in Advance	13	(104)	(104)
(13,834)	**(2,497,764)**	**Long Term Liabilities**		**(13,796)**	**(2,520,671)**
96,503	**(2,390,748)**	**Net Assets / (Liabilities)**		**82,013**	**(2,428,312)**
53,491	53,491	Usable Reserves	8	36,506	36,506
43,012	(2,444,239)	Unusable Reserves	9	45,507	(2,464,818)
96,503	**(2,390,748)**	**Total Reserves**		**82,013**	**(2,428,312)**

The unaudited accounts were authorised for issue on 31 May 2018 and the audited accounts were authorised for issue on the 30 July 2018.

Treasurer to the Police and Crime Commissioner for West Mercia

Cash Flow Statements for the Group and the PCC

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

The PCC 2016/17 £000	The Group 2016/17 £000		Notes	The PCC 2017/18 £000	The Group 2017/18 £000
(919)	**55,794**	**Net (surplus) or deficit on the provision of services**	**1**	**15,612**	**81,081**
2,836	(53,877)	Adjustments to net (surplus) or deficit on the provision of services for non-cash movements	33	(10,998)	(76,467)
9,272	9,272	Adjustments for items included in the net (surplus) or deficit on the provision of services that are investing and financing activities	33	4,393	4,393
11,189	**11,189**	**Net cash flows from Operating Activities**		**9,007**	**9,007**
14,982	14,982	Investing Activities	34	10,453	10,453
26,171	**26,171**	**Net increase or decrease in cash and cash equivalents**		**19,460**	**19,460**
(46,580)	**(46,580)**	Cash and cash equivalents at the beginning of the reporting period	27	**(20,409)**	**(20,409)**
(20,409)	**(20,409)**	**Cash and cash equivalents at the end of the reporting period**		**(949)**	**(949)**

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.

The Group

	2017/18 Net Expenditure Chargeable to the Police Fund Balances	2017/18 Adjustments between the Funding and Accounting Basis	2017/18 Net Expenditure in the CIES
	£000	£000	£000
Policing	215,069	25,376	240,445
Police and Crime Commissioner	4,032	450	4,482
Youth Offending Service	111	0	111
Net Cost of Policing Services	**219,212**	**25,826**	**245,038**
Other income and expenditure	(202,454)	38,497	(163,957)
(Surplus) or deficit on provision of Services	**16,758**	**64,323**	**81,081**

Opening Police Fund at 31 March 2017	(53,131)
Less Deficit on Police Fund in Year	16,758
Closing Police Fund at 31 March 2018	**(36,373)**

	2016/17 Net Expenditure Chargeable to the Police Fund Balances	2016/17 Adjustments between the Funding and Accounting Basis	2016/17 Net Expenditure in the CIES
	£000	£000	£000
Policing	206,194	7,000	213,194
Police and Crime Commissioner	4,205	256	4,461
Youth Offending Service	(523)	0	(523)
Net Cost of Policing Services	**209,876**	**7,256**	**217,132**
Other income and expenditure	(202,886)	41,548	(161,338)
(Surplus) or deficit on provision of Services	**6,990**	**48,804**	**55,794**

Opening Police Fund at 31 March 2016	(60,121)
Deficit on Police Fund in Year	6,990
Closing Police Fund at 31 March 2017	**(53,131)**

The PCC

	2017/18 Net Expenditure Chargeable to the Police Fund Balances	2017/18 Adjustments between the Funding and Accounting Basis	2017/18 Net Expenditure in the CIES
	£000	£000	£000
Policing Services	(11,091)	994	(10,097)
Police and Crime Commissioner	4,032	450	4,482
Youth Offending Service	111	0	111
Net Cost of Policing Services	**(6,948)**	**1,444**	**(5,504)**
Funding to the Chief Constable for financial resources consumed	226,160	(2,424)	223,736
Other income and expenditure	(202,454)	(166)	(202,620)
(Surplus) or deficit on provision of Services	**16,758**	**(1,146)**	**15,612**

Opening Police Fund at 31 March 2017	(53,131)
Less Deficit on Police Fund in Year	16,758
Closing Police Fund at 31 March 2018	**(36,373)**

	2016/17 Net Expenditure Chargeable to the Police Fund Balances	2016/17 Adjustments between the Funding and Accounting Basis	2016/17 Net Expenditure in the CIES
	£000	£000	£000
Policing Services	(9,240)	(2,352)	(11,592)
Police and Crime Commissioner	4,205	256	4,461
Youth Offending Service	(523)	0	(523)
Net Cost of Policing Services	**(5,558)**	**(2,096)**	**(7,654)**
Funding to the Chief Constable for financial resources consumed	215,434	(386)	215,048
Other income and expenditure	(202,886)	(5,427)	(208,313)
(Surplus) or deficit on provision of Services	**6,990**	**(7,909)**	**(919)**

Opening Police Fund at 31 March 2016	(60,121)
Less Deficit on Police Fund in Year	6,990
Closing Police Fund at 31 March 2017	**(53,131)**

1(a) Note to the EFA

Adjustments between Funding and Accounting Basis

The Group

2017/18					
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)	Total Adjustments
	£000	£000	£000	£000	£000
Policing Services	(1,254)	26,677	(176)	129	25,376
Police and Crime Commissioner	0	450	0	0	450
Youth Offending Service	0	0	0	0	0
Net Cost of Services	(1,254)	27,127	(176)	129	25,826
Other income and expenditure from the Funding Analysis	(1,046)	38,975	176	392	38,497
Difference between Police Fund surplus or deficit and CIES surplus or deficit	**(2,300)**	**66,102**	**0**	**521**	**64,323**

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)**	**Total Adjustments**
	£000	**£000**	**£000**	**£000**	**£000**
Policing Services	(2,676)	9,850	(63)	(111)	7,000
Police and Crime Commissioner	0	256	0	0	256
Youth Offending Service	0	0	0	0	0
Net Cost of Services	(2,676)	10,106	(63)	(111)	7,256
Other income and expenditure from the Funding Analysis	(6,093)	47,270	63	308	41,548
Difference between Police Fund surplus or deficit and CIES surplus or deficit	**(8,769)**	**57,376**	**0**	**197**	**48,804**

The PCC

2017/18					
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)**	**Total Adjustments**
	£000	**£000**	**£000**	**£000**	**£000**
Policing Services	726	0	268	0	994
Police and Crime Commissioner	0	450	0	0	450
Youth Offending Service	0	0	0	0	0
Net Cost of Services	726	450	268	0	1,444
Funding to the Chief Constable	(1,980)	0	(444)	0	(2,424)
Other income and expenditure from the Funding Analysis	(1,046)	312	176	392	(166)
Difference between Police Fund surplus or deficit and CIES surplus or deficit	**(2,300)**	**762**	**0**	**392**	**(1,146)**

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)**	**Total Adjustments**
	£000	**£000**	**£000**	**£000**	**£000**
Policing Services	(2,733)	0	381	0	(2,352)
Police and Crime Commissioner	0	256	0	0	256
Youth Offending Service	0	0	0	0	0
Net Cost of Services	(2,733)	256	381	0	(2,096)
Funding to the Chief Constable	58	0	(444)	0	(386)
Other income and expenditure from the Funding Analysis	(6,094)	296	63	308	(5,427)
Difference between Police Fund surplus or deficit and CIES surplus or deficit	**(8,769)**	**552**	**0**	**308**	**(7,909)**

Note (i) Adjustments for Capital Purposes

This column adds in depreciation and revaluation gains and losses in the services line. MRP and other revenue contributions to capital expenditure are deducted because they are not chargeable under generally accepted accounting practices.
Other income and expenditure is adjusted for capital disposals of assets with a transfer of the income on disposal and the amounts written off for those assets; an adjustment is also made to recognise capital grant income.

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 investment income and 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 variations in the amount chargeable for Council Tax under Statute and the Code; and timing differences relating to accruing for compensated absences earned but not taken in the year (absorbed by the Accumulated Absences Account).

1(b) Expenditure and Income Analysed by Nature

The Group

2016/17 £000		2017/18 £000
105,657	Police officers pay	105,795
61,522	Police staff pay	64,496
3,098	Police pensions	3,087
1,830	Other Employee Expenses	2,591
37,967	Pensions current cost of service	54,433
(29,381)	Cost of pensions based on cash flows	(29,896)
(111)	Accumulated absences	129
46,155	Other service expenditure	48,947
1,519	Non distributed costs	2,590
3,355	Depreciation, Amortisation, Revaluation Loss and REFCUS	8,115
444	Interest payable	444
78,055	Net interest on the net defined benefit liability	72,030
3,004	Loss on disposal of non-current assets	3,258
313,114	**Total Expenditure**	**336,019**
(8,856)	Fees, charges and other service income	(10,109)
(152)	Investment property income	(42)
(42)	Interest and investment income	(43)
(187)	Finance Lease income	(183)
(80,867)	Income from council tax	(81,886)
(167,216)	Government grants and contributions	(162,675)
(257,320)	**Total Income**	**(254,938)**
55,794	**Deficit on the Provision of services**	**81,081**

The PCC

2016/17 £000		2017/18 £000
2,862	Police staff pay	2,851
541	Other Employee Expenses	40
447	Pensions current cost of service	740
(445)	Cost of pensions based on cash flows	(399)
5,898	Other service expenditure	5,677
254	Non distributed costs	109
444	Interest payable	444
296	Net interest on the net defined benefit liability	312
3,004	Loss on disposal of non-current assets	3,258
215,048	Funding to the Chief Constable for financial resources consumed	223,736
228,349	**Total Expenditure**	**236,768**
(8,856)	Fees, charges and other service income	(10,109)
(42)	Investment property income	(42)
(152)	Interest and investment income	(43)
(187)	Finance Lease Income	(183)
(80,867)	Income from council tax	(81,886)
(136,431)	Government grants and contributions	(129,620)
(2,733)	Capital Charge between PCC and Chief Constable - net	727
(229,268)	**Total Income**	**(221,156)**
(919)	**Deficit on the Provision of services**	**15,612**

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

The Code requires the Group 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 impact of the following standards that have not yet been adopted that will be introduced in the 2018/19 Code are shown below:

- IFRS 9 *Financial Instruments* – no impact for the Group. Impacts on authorities that have a more diverse range of investments;

- IFRS 15 *Revenue from Contracts with Customers* – it is anticipated that there will be minimal impact on the Group from this standard due to the nature of its revenue streams; any impact will certainly be immaterial. Some additional disclosure may be required in 2018/19;

- amendments to IAS 12 *Income Taxes*: Recognition of Deferred Tax Assets for Unrealised Losses – not relevant;

- amendments to IAS 7 *Statement of Cash Flows*: Disclosure Initiative –
  to "provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes". The changes will be to the disclosure notes to the cash flow statement and will not have a material impact.

3. Critical Judgements in Applying Accounting Policies

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

PCC and Chief Constable Group Relationship

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

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

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

Alliance

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

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

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

Post employment Benefits (Pension Liability)

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

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

Employee Benefits

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

Cost of Service – Comprehensive Income and Expenditure Statement

As explained in the Accounting Policies, income and expenditure is categorised into three segments: Policing Services, Police and Crime Commissioner and Youth Offending 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.

The Net Cost of Policing Services has increased by £28m compared to 2016/17, mainly due to fluctuations between years relating to the valuations of property assets and pensions costs, as well as reflecting the use of reserves to fund expenditure, as explained in the Narrative Statement.

The National Police Air Service (NPAS)

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

Funding

As explained in the Narrative Statement, there is a high degree of uncertainty around future funding from the Government received through the funding formula. This has been accommodated in the MTFP and is addressed through the requirement to make savings. At this time it is not perceived that this issue will impact further on the assets of the PCC; an asset rationalisation plan is being developed and assets that potentially could be disposed of have been identified, however, the plan is still at any early stage and no assets meet the criteria to be classified as assets held for sale in the Accounts as at 31 March 2018. Further to this an annual impairment review is also carried out.

Fair Value of Public Works Loan Board (PWLB) Loans

In previous years, the fair value of the PWLB Loans quoted in the Financial Instruments disclosure note (Note 31), has been the value provided by the PWLB, using redemption rates. However, under IFRS13 the methodology adopted by PWLB to calculate the fair value is not permissible. The Group have obtained a fair value calculation from its Treasury Advisers, Arlingclose using local authority bonds in issue as a basis for the calculation. The difference between the values is not material. Since Arlingclose's fair values have been calculated using observed market data, these have been classed by the Group as Level 2 of the fair value hierarchy.

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

The Accounts contain estimated figures that are based on judgements and assumptions made by the PCC about the future or that are otherwise uncertain. However, because balances cannot be determined with certainty, actual results could be materially different from those that have been estimated. The items in the Group's Balance Sheet at 31 March 2018 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Property, Plant and Equipment

The basis of estimating the value of assets is referred to in the previous section. Assets are depreciated over their Useful Economic Lives (UEL), which is determined by external valuers, based on judgements, which include assumptions about the level of repairs and maintenance that will be incurred on individual assets. These estimates are important for example, if the UEL is reduced, depreciation charged to the CIES would increase and the carrying value of the asset would fall. It is estimated that the annual depreciation charge for buildings would increase by £0.030m for every year that useful lives were reduced. The Net Book Value of Property, Plant and Equipment as at 31 March 2018 is £79.4m (£68.6m as at 31 March 2017), with the increase from 2016/17 mainly attributable to the new Operational Control Centre building at Hindlip.

Post Employment Benefits (Pension Liability)

The basis of estimating the net liability to pay pension benefits to police officers and police staff is referred to in the previous section. This estimate depends on a number of complex judgements and assumptions around the discount rates used to calculate the pension liabilities. Any changes could have a material impact on the total liability of the pension funds. The actuaries provide illustrations of variations in assumptions to help the PCC and Chief Constable understand the potential impact of changes in mortality rates, retirement ages and expected returns on fund assets etc. The actuaries provide the Group with advice and illustrations of the potential impact of the changes in assumptions and these are set out at the end of Note 35.

Provisions

The Group has only one provision remaining as at 31 March 2018 relating to the costs of voluntary redundancies and early retirements on the grounds of voluntary redundancy agreed during the 2017/18 financial year but falling into the following financial year: this is explained fully in Note 29. There is a high degree of certainty that the liabilities will materialise and that the amounts have been reliably estimated with a high degree of accuracy. The provision amounts to £0.105m and is held in the Chief Constable’s balance sheet as it relates to employment matters; any changes in the assumptions used to estimate these will only have a minor impact on the Accounts.

5. Material Items of Income and Expenditure

The re-measurement of the net defined benefit liability in the Other Comprehensive Income and Expenditure section of the CIES is a gain of £43.2m, compared to a loss of £432.5m in 2016/17. The gain is due to a minor change in the rates used by the actuaries for discounting scheme liabilities. Overall, the Pensions Liability held on the Balance Sheet, has increased slightly by £23.0m to £2,509.7m at 31 March 2018. Further information regarding the Pensions Liabilities can be found in Note 35.

6. Events After the Reporting Period

The Statement of Accounts were authorised for issue by the Treasurer to the PCC on 30 July 2018. Events taking place after this date are not reflected in the financial statements or notes. There were no events taking place before this date that provided information about conditions existing at 31 March 2018 and therefore no adjustments have been made to the figures in the financial statements and notes.

7. Adjustments Between Accounting Basis and Funding Basis under Regulations

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

	Usable Reserves		
	Police Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied
2017/18	**£000**	**£000**	**£000**
Adjustments to the Revenue Resources			
Amounts by which income and expenditure included in the CIES are different from revenue for the year calculated in accordance with statutory requirements:			
Pensions Costs (transferred to or from Pensions Reserve)	(66,102)	0	0
Council tax (transfers to or from Collection Fund)	(392)	0	0
Holiday pay (transferred to the Accumulated Absences Reserve)	(129)	0	0
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items charged to the CAA)	(11,463)	0	0
Total Adjustments to Revenue Resources	(78,086)	0	0
Adjustments between Revenue and Capital Resources			
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	331	(331)	0
Statutory provision for the repayment of debt (transfer from the CAA)	1,286	0	0
Capital expenditure financed from revenue balances (transfer to the CAA)	8,084	0	0
Total Adjustments between Revenue and Capital Resources	9,701	(331)	0
Adjustments to Capital Resources			
Application of capital receipts to finance capital expenditure	0	625	0
Application of capital grants to finance capital expenditure	4,062	0	0
Cash payments in relation to deferred capital receipts	0	(67)	0
Total Adjustments to Capital Resources	4,062	558	0
Total Adjustments - Group	**(64,323)**	**227**	**0**
Less: Chief Constable only adjustments			
Pensions Costs	66,102	0	0
Holiday pay	129	0	0
Total Adjustments – PCC	**1,908**	**227**	**0**

2016/17	Usable Reserves		
	Police Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied
	£000	£000	£000
Adjustments to the Revenue Resources			
Amounts by which income and expenditure included in the CIES are different from revenue for the year calculated in accordance with statutory requirements:			
Pensions Costs (transferred to or from Pensions Reserve)	(57,376)	0	0
Council tax (transfers to or from Collection Fund)	(308)	0	0
Holiday pay (transferred to the Accumulated Absences Reserve)	111	0	0
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items charged to the CAA)	(6,532)	0	1,004
Total Adjustments to Revenue Resources	(64,105)	0	1,004
Adjustments between Revenue and Capital Resources			
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	305	(305)	0
Statutory provision for the repayment of debt (transfer from the CAA)	1,504	0	0
Capital expenditure financed from revenue balances (transfer to the CAA)	4,525	0	0
Total Adjustments between Revenue and Capital Resources	6,334	(305)	0
Adjustments to Capital Resources			
Application of capital receipts to finance capital expenditure	0	4,639	0
Application of capital grants to finance capital expenditure	8,967	0	0
Cash payments in relation to deferred capital receipts	0	(94)	0
Total Adjustments to Capital Resources	8,967	4,545	0
Total Adjustments - Group	**(48,804)**	**4,240**	**1,004**
Less: Chief Constable only adjustments			
Pensions Costs	56,824	0	0
Holiday pay	(111)	0	0
Total Adjustments - PCC	**7,909**	**4,240**	**1,004**

8. Reserves

The PCC holds all of the Group's reserves. This note sets out the amounts set aside from the Police Fund Balances into earmarked reserves to provide financing for future expenditure plans and the amounts used from earmarked reserves to meet Police Fund expenditure in 2017/18.

PCC and Group Earmarked Reserves	Balance at 1 April 2016	Transfers out 2016/17	Transfers in 2016/17	Balance at 31 March 2017	Transfers out 2017/18	Transfers in 2017/18	Balance at 31 March 2018
	£000	£000	£000	£000	£000	£000	£000
Budget Reserve	**(12,517)**	1,677	(373)	**(11,213)**	8,192	(2,423)	**(5,444)**
PCC Investment Priorities	**(4,115)**	523	0	**(3,592)**	3,592	0	**0**
Transformation	**(6,612)**	3,162	0	**(3,450)**	1,448	0	**(2,002)**
Investment in Infrastructure	**(23,377)**	3,787	0	**(19,590)**	7,590	(1,315)	**(13,315)**
CCTV Reserve and other PCC Initiatives	**0**	0	0	**0**	0	(880)	**(880)**
Asbestos	**0**	0	0	**0**	0	(400)	**(400)**
Collaboration	**0**	0	0	**0**	0	(300)	**(300)**
Demand Management	**0**	0	0	**0**	0	(500)	**(500)**
Income Risk	**0**	0	0	**0**	0	(500)	**(500)**
Legal & Insurance claims	**0**	0	0	**0**	0	(300)	**(300)**
Redundancy	**0**	0	0	**0**	0	(800)	**(800)**
Road Safety	**0**	464	(1,727)	**(1,263)**	307	0	**(956)**
YOS	**0**	0	(523)	**(523)**	134	0	**(389)**
General Reserve	**(13,500)**	0	0	**(13,500)**	2,913	0	**(10,587)**
Total Earmarked Reserves	**(60,121)**	**9,613**	**(2,623)**	**(53,131)**	**24,176**	**(7,418)**	**(36,373)**
Capital Receipts Reserve	**(4,600)**	4,600	(360)	**(360)**	626	(399)	**(133)**
Capital Grants Reserve	**(1,004)**	1,004	0	**0**	0	0	**0**
Total Usable Reserves	**(65,725)**	**15,217**	**(2,983)**	**(53,491)**	**24,802**	**(7,817)**	**(36,506)**

Capital receipts and capital grants have been used to fund capital expenditure in 2017/18.
The purposes of the Earmarked Reserves are as follows:

- **Budget Reserve** will support the budget up to 31 March 2020;
- **PCC Investment Priorities Reserve** has been re-directed to other Reserves below (mainly the Infrastructure Reserve);
- **Transformation Reserve** enables projects to be funded on a corporate basis focusing on service improvement and cost reductions;

- **Investment in Infrastructure Reserve** is held to support delivery of the Capital Programme;
- **CCTV Reserve and other PCC Initiatives Reserve** is held to support the delivery of certain PCC initiatives;
- **Asbestos, Collaboration, Demand Management, Income, Legal & Insurance and Redundancy Reserves** have been created to address specific risks identified during the year;
- **Road Safety Reserve** is the reserves held by the Safer Roads Partnership to be invested into road safety;
- **YOS** is the balance of the income and expenditure relating to the Youth Offending Service;
- **General Reserve** has been created to meet unexpected, unusual and one-off events.

9. Unusable Reserves

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

PCC 31 March 2017 £000	Group 31 March 2017 £000		PCC 31 March 2018 £000	Group 31 March 2018 £000
(8,820)	(8,820)	Revaluation Reserve	(8,962)	(8,962)
(31,555)	(31,555)	Capital Adjustment Account	(34,373)	(34,373)
(3,947)	(3,947)	Deferred Capital Receipts Reserve	(3,880)	(3,880)
(1,535)	(1,535)	Collection Fund Adjustment Account	(1,143)	(1,143)
2,845	2,486,775	Pension Reserve	2,851	2,509,726
0	3,321	Accumulated Absences Account	0	3,450
(43,012)	**2,444,239**	**Total Group Unusable Reserves**	**(45,507)**	**2,464,818**

(i) Revaluation Reserve

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

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

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

2016/17			2017/18	
£000	£000		£000	£000
	(7,448)	**Group and PCC Balance as at 1 April**		(8,820)
(2,195)		Upward revaluation of assets	(1,142)	
670		Downward revaluation of assets and impairment losses not charged to the Surplus or Deficit on the Provision of Services	776	
	(1,525)	**Surplus or deficit on revaluation of non-current assets not posted to the Surplus or Deficit on the Provision of Services** (Other Comprehensive Income and Expenditure)		(366)
58		Difference between fair value depreciation and historical cost depreciation	87	
95		Accumulated gains on assets sold or scrapped	137	
	153	Amount written off to the Capital Adjustment Account		224
	(8,820)	**Group and PCC Balance as at 31 March**		(8,962)

(ii) Capital Adjustment Account

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

2016/17			2017/18	
£000	£000		£000	£000
	(17,295)	**Group and PCC Balance as at 1 April**		(31,555)
		Reversal of items relating to capital expenditure debited or credited to the CIES:		
5,413		Charges for depreciation and impairment of non-current assets	6,591	
(2,862)		Revaluation losses (gains) on PPE	384	
615		Amortisation of intangible assets	710	
3,213		Amounts of non-current assets written off on disposal as part of the gain/loss on disposal to the CIES	3,452	
130		Revenue expenditure funded from capital under statute	343	
(130)		Donated Assets	(241)	
	6,379	**Net written out amount of the cost of non-current assets consumed in the year**		11,239

		Capital financing applied in the year:		
(4,639)		Use of the Capital Receipts Reserve to finance new capital expenditure	(625)	
(8,967)		Capital grants and contributions credited to the CIES that have been applied to capital financing	(4,062)	
(1,004)		Application of grants to capital financing from the Capital Grants Unapplied Account	0	
(1,504)		Statutory provision for the financing of capital investment charged against the General Fund	(1,286)	
(4,251)		Capital expenditure funded from Reserves	(7,840)	
(274)		Capital expenditure charged against the General Fund	(244)	
	(20,639)			**(14,057)**
	0	Movements in the market value of Investment Properties debited or credited to the CIES		0
	(31,555)	**Group and PCC Balance as at 31 March**		**(34,373)**

(iii) Pensions Reserve

Payments for the cost of post employment benefits and the associated liability are shown in the Chief Constable's Accounts, except for the element that relates specifically to the PCC's employees. 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 Group 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 Group 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 Group 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 Group can continue to meet the liability in the Chief Constable's Accounts. The liability is made up as follows:

PCC 2016/17 £000	Group 2016/17 £000		PCC 2017/18 £000	Group 2017/18 £000
0	**1,996,906**	**Balance as at 1 April**	**2,845**	**2,486,775**
2,293	432,493	Re-measurement of the net defined benefit liability (Other Comprehensive Income and Expenditure)	(756)	(43,151)
997	117,541	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the CIES	1,161	129,053
(445)	(60,165)	Employer's pensions contributions and direct payments to pensioners payable in the year	(399)	(62,951)
2,845	**2,486,775**	**Balance as at 31 March**	**2,851**	**2,509,726**

(iv) Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax income in the CIES as it falls due from council tax payers compared with the statutory arrangements for paying across amounts to the Police Fund from the Collection Fund.

2016/17 £000		2017/18 £000
(1,843)	**Group and PCC Balance as at 1 April**	**(1,535)**
308	Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	392
(1,535)	**Group and PCC Balance as at 31 March**	**(1,143)**

(v) Accumulated Absences Account

The cost of employment benefits and the associated Accumulated Absences liability is shown in the Chief Constable's Accounts. The Accumulated Absences Account absorbs the differences that would otherwise arise on the Police Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. time off in lieu carried forward at 31 March 2018. Statutory arrangements require that the impact on the Police Fund Balance is neutralised by transfers to or from the Account.

2016/17			2017/18	
£000	**£000**		**£000**	**£000**
	3,432	**Group and Chief Constable Balance as at 1 April**		**3,321**
(3,432)		Cancellation of accrual made at the end of the preceding year	(3,321)	
3,321		Amount accrued at the end of the current year	3,450	
	(111)	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		129
	3,321	**Group and PCC Balance as at 31 March**		**3,450**

(vi) Deferred Capital Receipts Reserve

The Deferred Capital Receipts Reserve holds the gains recognised on the disposal of non-current assets but for which cash settlement has yet to take place. Under statutory arrangements, the Group does not treat these gains as usable for financing new capital expenditure until they are backed by cash receipts. When the deferred cash settlement eventually takes place, amounts are transferred to the Capital Receipts Reserve. The balance relates to the Finance Lease arrangement with Hereford & Worcester Fire Authority amounting to £3.505m (see Note 19 (i)) and to the disposal of the West Mercia Police share of the Central Counties' Air Operations Unit helicopter in the sum of £0.375m (Note 14).

2016/17 £000		2017/18 £000
(4,041)	**Balance as at 1 April**	**(3,947)**
94	Transfer to the Capital Receipts Reserve upon receipt of cash	67
(3,947)	**Balance as at 31 March**	**(3,880)**

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 2017/18 amounts to £223.7m (£215.0m in 2016/17). This has been re-presented in the CIES and is now included within the Net Cost of Policing Services, in line with current best practice for the preparation of Police Accounts.

The PCC's Balance Sheet includes an Intra-Group Creditor of £12.666m (£9.188m in 2016/17) being the net balance of funding not settled between the PCC and Chief 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:

2016/17 £000		2017/18 £000
224,786	Chief Constable's Cost of Services	250,542
77,759	Interest on the net defined benefit liability	71,718
(30,784)	Home Office grant towards the cost of retirement	(33,055)
430,200	Re-measurement of the net defined benefit liability	(42,395)
701,961	**Resources consumed**	**246,810**
	Items removed through the MIRS	
(487,024)	Movement in pensions liability	(22,945)
111	Movement in accumulated absences liability	(129)
215,048	**Total resources consumed for the year by the Chief Constable and funded by the PCC**	**223,736**

11. Financing and Investment Income and Expenditure

PCC 2016/17 £000	Group 2016/17 £000		PCC 2017/18 £000	Group 2017/18 £000
444	444	Interest payable	444	444
(152)	(152)	Interest receivable	(43)	(43)
(187)	(187)	Other interest receivable – Finance Lease income	(183)	(183)
(42)	(42)	Income and expenditure in relation to investment properties and changes in their fair value	(42)	(42)
63	**63**	**Total**	**176**	**176**
296	78,055	Net interest on the net defined benefit liability	312	72,030
359	**78,118**	**Total for the Group**	**488**	**72,206**

12. Taxation and Non-Specific Grant Income

2016/17 £000	2016/17 £000		2017/18 £000	2017/18 £000
	(80,867)	Council tax precepts		**(81,886)**
(66,349)		Police Grant	(65,422)	
(43,388)		Ex-DCLG Formula Funding	(42,780)	
(9,200)		Local Council Tax Support Grant	(9,200)	
(2,775)		Council Tax Freeze Grant	(2,775)	
(861)		Capital Grants	(730)	
(8,236)		Capital Contributions	(3,573)	
	(130,809)	Total Non-specific Grant Income		**(124,480)**
	(211,676)	**Taxation and Non-Specific Grant Income - PCC**		**(206,366)**
	(30,784)	Home Office grant towards the cost of retirement benefits		(33,055)
	(242,460)	**Taxation and Non-Specific Grant Income – The Group**		**(239,421)**

13. Grant Income

The PCC and Group credited the following grants, contributions and donations to the CIES in 2017/18:

2016/17 £000		2017/18 £000
(130,808)	**Credited to Taxation and Non Specific Grant Income - PCC, as per Note 12**	**(124,480)**
(30,785)	Home Office Grant towards the cost of retirement benefits in Chief Constable Accounts	(33,055)
(161,593)	**Credited to Taxation and Non Specific Grant Income - Group**	**(157,535)**
	Credited to Services	
(1,772)	Speed Awareness Contributions	(1,500)
(1,468)	Victim Support Services	(1,464)
(1,141)	Youth Justice Board – Effective Practice Grant	(1,196)
(455)	DBS Vetting Service Fees	(423)
(246)	Proceeds of Crime Contributions	(224)
(152)	Ministry of Defence Covenant Fund	(147)
(43)	Communications Capabilities Development Programme	(42)
(133)	AUP Armed Uplift	(40)
0	ESC Grant	(35)
(194)	Innovation Grant	0
(19)	National Security Grant: Ports	0
(5,623)	**Total Credited to Services – PCC and Group**	**(5,071)**

The Group has received a revenue grant related to the introduction of the Emergency Services Network, the replacement of the national airwave radio system amounting to £0.841m. Although the grant initially related to the 2017/18 financial year, as there has been no relevant spend relating to the Emergency Services Network in 2017/18, it is still being recognised as a receipt in advance.

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

31 March 2017 £000		31 March 2018 £000
(12)	Home Office Grant for Custody and Case Preparation	0
(32)	National Police Improvement Agency for Mobile Data	0
(104)	Telford & Wrekin Council for Safety Cameras	(104)
(148)	**Total**	**(104)**

14. Pooled Budgets and Joint Operations

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.

2016/17 £000		2017/18 £000
(83,063)	Contribution from Warwickshire	(84,543)
(184,880)	Contribution from West Mercia	(188,177)
(267,943)	**Total Funding provided to the Alliance**	**(272,720)**
228,087	Pay and allowances	229,191
6,241	Transport costs	5,687
27,615	Supplies and Services	29,329
5,762	Third Party Payments	8,513
238	Revenue Contribution to Capital	0
267,943	**Total Expenditure (pooled)**	**272,720**

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 2017/18, the operating costs for West Mercia Police were £8.245m (£7.493m in 2016/17) 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 2018 have been incorporated into the Accounts and are shown separately in the tables in Note 35. The actuaries assessed both the total assets and total liabilities relating to PPL as £30.525m as at 31 March 2018 (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.

Central Motorway Police Group

The PCC for West Mercia and the PCCs for Staffordshire and the West Midlands were 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). With effect from 8 April 2018, the PCC for West Mercia has withdrawn from CMPG and this service will now be delivered within the alliance.

The PCC for West Midlands has provided 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 had an agreement in place for funding this unit with contributions to the agreed budget of 50.7% from West Midlands, 25.4% from West Mercia and 23.9% from Staffordshire. The same proportions are used to meet any deficit or share any surplus arising on the pooled budget at the end of each financial year. The revenue account for CMPG covers all operating costs. The details for 2017/18 are as follows:

2016/17		2017/18
£000		£000
(3,907)	Contribution from West Midlands	(3,911)
(1,959)	Contribution from West Mercia	(1,961)
(1,845)	Contribution from Staffordshire	(1,847)
(7,711)	**Total funding provided to the CMPG**	**(7,719)**
7,049	Pay and allowances	7,195
68	Premises costs	52
429	Transport costs	402
168	Supplies and Services	155
7,714	**Total Expenditure**	**7,804**
(3)	External Funding and other Income	(85)
7,711	**Total Net Expenditure**	**7,719**

West Midlands Regional Organised Crime Unit

The West Midlands Regional Organised Crime Unit (WMROCU) is a collaboration between the police forces of Staffordshire, Warwickshire, West Midlands and West Mercia to fight organised crime across the region.

The aim of WMROCU is to reduce the impact and increase the disruption of serious and organised crime within the region and beyond. West Midlands Police acts as the lead force for this joint arrangement and provides the financial management service for this unit.

The unit is funded in part by force contributions and also by grants from the Home Office and the National Cyber Security Programme (NCSP). The revenue account for this unit covers all operating costs. The details are as follows:

2016/17		2017/18
£000		£000
(4,858)	Contribution from West Midlands Police	(11,787)
(1,426)	Contribution from West Mercia Police	(3,619)
(1,587)	Contribution from Staffordshire Police	(3,515)
(733)	Contribution from Warwickshire Police	(1,758)
(2,413)	WMROCU Grant	(2,399)
(358)	National Cyber Security Programme funding	(270)
(168)	Regional Asset Recovery Team grant	(155)
0	ROCU Reserves	(135)
0	Additional Home Office funding (grant provided End-year in 2017-18) *	(1,000)
(11,543)	**Total funding provided to the WMROCU**	**(24,638)**
997	Regional Asset Recovery Team (RART)	1,138
168	RART – ACE team	155
789	Regional Cyber Crime Unit	678
196	Regional Fraud Team	248
784	Regional Intelligence Unit (inc in Regional Confidential Unit)	0
879	Regional Prisons Intelligence Unit	999
893	UKPPS (protected Persons)	968
82	Project Management	0
76	Operational Security (OPSY)	18
49	Regional Government Agency Intelligence Network (GAIN)	34
948	Command Team	1,378
3,984	Regional Confidential Unit	4,903
741	TIDU – Technical Intelligence	813
0	Enabling Services	108
0	SOCU	3,954
0	Regional Surveillance Unit (FSU)	6,970
957	Other Regional Operations	1,274
0	Additional Contribution to Reserves *	1,000
11,543	**Total Expenditure**	**24,638**
0	**Total Net Expenditure**	**0**

*The additional £1m Home Office grant was provided in March 2018 to be used in 2018-19. Therefore the grant has been shown as income in 2017-18 and then contributed to reserves. In 2018-19 the grant will be released to ROCU for the provision of services.

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 £0.422m in 2017/18, (£0.576m in 2016/17) 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 2018/19 and subsequent years. Future payments from NPAS will be offset against these debtors and an annual interest amount credited to the CIES.

15. 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 2017/18.

Exit packages include charges by the LGPS in respect of benefits paid before normal retirement age. There were no compromise agreements covering the 2017/18 exit packages. Three of the employees will not leave the organisation until after 1 April 2018 and a provision of £0.105m has set aside to meet these costs (see Note 30 below). 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	
	2016/17	2017/18	2016/17 £000	2017/18 £000
£0 - £20,000	8	15	75	105
£20,001 - £40,000	8	8	219	216
£40,001 - £60,000	2	5	103	249
£60,001 - £80,000	0	3	0	197
£80,001 - £100,000	0	1	0	92
£100,001 - £150,000	3	2	351	246
£150,001 +	0	2	0	532
Total	**21**	**36**	**748**	**1,637**

16. Officers' Remuneration

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

The relevant remuneration information is as follows:

Senior Officer and Relevant Police Officer Emoluments:

		Salary, Fees & Allowances	Bonuses	Expenses Allowances	Benefits in Kind (e.g. car allowance)	Other Payments (Police Officers only)	Exit Packages	Pension Contributions	Total
		£	£	£	£	£	£	£	£
Chief Constable 1 - Mr A Bangham – Note 1	2017/18	145,613	0	0	6,975	4,281	0	35,238	192,107
	2016/17	135,809	0	0	5,615	4,281	0	32,661	178,366
Chief Constable 2 - Mr D Shaw – Note 1	2017/18	0	0	0	0	0	0	0	0
	2016/17	47,778	0	0	930	1,652	0	0	50,360
Deputy Chief Constable 1 – Note 2	2017/18	120,126	0	0	5,728	3,685	0	29,071	158,610
	2016/17	96,293	0	0	2,244	3,685	0	25,050	127,272
Deputy Chief Constable 2 – Note 3	2017/18	0	0	0	0	0	0	0	0
	2016/17	97,161	0	0	0	0	0	15,643	112,804
Asst Chief Constable 1 – Note 4	2017/18	85,018	0	0	2,811	2,267	0	20,574	110,670
	2016/17	0	0	0	0	0	0	0	0
Asst Chief Constable 2 – Note 5	2017/18	0	0	0	0	0	0	0	0
	2016/17	90,688	0	1,367	0	3,685	0	20,114	115,854
Director of Finance – Note 6	2017/18	87,804	0	0	5,317	0	88,576	12,468	194,165
	2016/17	106,563	0	0	5,354	0	0	11,152	123,069

Police & Crime Commissioner 1 – Note 7	**2017/18**	75,000	0	0	0	0	0	10,650	85,650
	2016/17	66,532	0	0	0	0	0	8,050	74,582
Police & Crime Commissioner 2 – Note 7	**2017/18**	0	0	0	0	0	0	0	0
	2016/17	8,468	0	0	0	0	0	0	8,468
Deputy PCC – Note 8	**2017/18**	40,000	0	0	0	0	0	5,680	45,680
	2016/17	25,914	0	3,135	0	0	0	0	29,049
Chief Executive to the PCC	**2017/18**	99,900	0	1,508	0	0	0	14,186	115,594
	2016/17	99,349	0	1,368	0	0	0	12,021	112,738
Treasurer to the PCC – Note 9	**2017/18**	54,375	0	0	0	0	0	7,721	62,096
	2016/17	57,940	0	0	720	0	0	7,011	65,671

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	Commenced in post on 20 May 2017.
5	Assistant Chief Constable 2 temporarily acting up into this role from 7 January 2016 until 15 May 2016 and from 1 August 2016 until 2 April 2017.
6	Director of Finance post removed on 28 February 2018 and the post holder made redundant. The Acting Chief Finance Officer (section 151 Officer) commenced in this new post on 1 March 2017 and is employed by Warwickshire, with the costs shown in the Warwickshire Group and Chief Constable Accounts.
7	Following the PCC elections on 7 May 2016, the former PCC left on 11 May 2016 and the new PCC commenced in post on 12 May 2016.
8	Deputy PCC commenced in post on 8 August 2016.
9	The post of Treasurer to the Commissioner in the PCC office is shared 50/50 between the West Mercia and Warwickshire PCCs. The Treasurer commenced in post on 17 August 2015 and is employed by West Mercia PCC: the whole salary for this post is shown in the table above.
*	Under the Alliance agreement the costs of Assistant Chief Officers from West Mercia Police (including Director of Finance) and the costs of Assistant Chief Officers from Warwickshire Police are pooled and the expenditure is shared between the two forces on the basis of 69% West Mercia 31% Warwickshire. The Chief Constable and Deputy Chief Constable costs are not shared.

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

Number of Employees			Number of Employees	
Group 2016/17	PCC 2016/17	Remuneration Band	Group 2017/18	PCC 2017/18
116	0	£50,000 - £54,999	111	2
71	1	£55,000 - £59,999	69	2
28	1	£60,000 - £64,999	23	0
7	1	£65,000 - £69,999	5	0
6	0	£70,000 - £74,999	3	0
4	0	£75,000 - £79,999	5	1
4	0	£80,000 - £84,999	5	0
2	0	£85,000 - £89,999	2	0
0	0	£90,000 - £94,999	3	0
2	0	£95,000 - £99,999	0	0
1	1	£100,000 - £104,999	1	1
1	0	£105,000 - £109,999	0	0
0	0	£125,000 - £129,999	1	0
1	0	£145,000 - £149,999	0	0
0	0	£150,000 - £154,999	0	0
0	0	£155,000 - £159,999	1	0
243	**4**	**Total**	**229**	**6**

17. External Audit Costs

The Group has incurred £53,010 (£53,010 in 2016/17) in relation to the Statement of Accounts statutory audit provided by the Group's external auditors, Grant Thornton. The PCC's share of the audit fees is £34,260 (£34,260 in 2016/17) and the Chief Constable's share is £18,750 (£18,750 in 2016/17).

The Group has received a rebate of £7,880 in 2017/18 from Public Sector Audit Appointments Limited (PSAA), the body responsible for appointing auditors and setting audit fees, resulting in a net audit fee for the year of £45,130. The PCC received a rebate of £5,090, resulting in net audit fees of £29,170, with the Chief Constable receiving a rebate of £2,790 (net audit fees of £15,960).

Grant Thornton provided no non-audit services during the year (nil in 2016/17).

18. Related Parties

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

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

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

The PCC has direct control over the Group's finances, including making crime and disorder reduction grants and is responsible for setting the Police and Crime Plan. The Chief Constable retains operational independence and operates within the budget set by the PCC, to deliver the aims and objectives set out in the Police and Crime Plan. Section 28 of the Police Reform and Social Responsibility Act 2011 requires that the local authorities covered by the police area must establish a Police and Crime Panel (PCP) for that area. The PCP scrutinises the decisions of the PCC, reviews the Police and Crime Plan and has a right of veto over the precept.

Worcestershire County Council administers the LGPS and provides payroll services to the Group. 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 15 to the Accounts. The Alliance with Warwickshire Police involves a cross-charge in and cross-charge out in 2017/18 of £35.8m (£35.9m in 2016/17) and £46.1m (£46.7m in 2016/17) respectively as shown in the table below.

As explained in Note 15, Place Partnership Limited (PPL) is a single asset management company co-owned by West Mercia Police, Warwickshire Police, Worcestershire County Council, Hereford & Worcester Fire Authority, Redditch Borough Council and Worcester City Council that commenced business on 1 September 2015. Each party holds two shares of £1 each; the PCC and the Chief Constable each hold one share of West Mercia Police's shares. The PCC and Chief Constable receive no remuneration from PPL. The PCC's Chief Executive is a Director and Company Secretary of PPL and also receives no benefit or remuneration.

The PCC is a County Councillor for Worcestershire and a District Councillor in Wyre Forest, and the Deputy PCC and the PCC's sister are also District Councillors in Wyre Forest. No personal benefit is obtained by them from these positions. In 2017/18, the Group incurred spend of £0.369m with Worcestershire County Council (rental, room hire, grants and other items of general expenditure) and £0.122m with Wyre Forest District Council (mainly business rates).

During 2017/18, the PCC submitted a business case to the Home Office proposing that the PCC would assume responsibility, under the governance model for the functions of the Fire and Rescue Authority. The Home Secretary notified the PCC of the Home Office's decision to accept the proposal on 26th March 2018. The decision of the Home Secretary may be subject to Judicial Review. The new model should be implemented later in 2018/19 and will see the commencement of work to deliver on the business plan aims and the commitment to establish a fire alliance between Hereford and Worcester Fire and Rescue Services (HWFRS) and Shropshire Fire and Rescue Services (SFRS) to enable more effective collaboration with West Mercia Police and other partners, whilst retaining the separate identifies of the three services.

The former PCC, William Longmore, established Inside Products Ltd, a non-profit making enterprise, in partnership between the OPCC and four HM Prison establishments. The company was dissolved on 1 August 2017. The PCC's Chief Executive was Company Secretary of Inside Products Ltd and the alliance's Strategic Equality and Diversity Advisor was a director; neither received any benefit or remuneration. No grants were made by the PCC to Inside Products during the 2017/18 financial year (nil in 2016/17).

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

	Expenditure £000	Income £000
Warwickshire Police Strategic Alliance S23 Agreement cross-charges	35,770	(46,055)
Local Authorities in the Policing Area	3,596	(1,520)
Other Local Authorities	165	(36)
Seconded Police Officers	0	(4,131)
Other Police Forces	3,559	(2,187)
Place Partnership Limited	8,245	0
Total	**51,335**	**(53,929)**

There are no other related party transactions for the PCC and Chief Constable other than those set out above, which require adjustment of or disclosure in the financial statements or the accompanying notes. All contracts have been entered into in compliance with the Scheme of Delegation and Financial and Contract Regulations 2017/18. The following table shows the five suppliers with which the Group incurred the greatest expenditure in 2017/18 (excluding PPL):

	Expenditure £000
Willmott Dixon Construction Limited	7,398
Computacenter (UK) Limited	3,041
Specialist Computer Centres PLC	2,808
Virgin Media Business Limited	2,697
Noonan Services Group	2,141

19. Leases

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

The Group as Lessee

The PCC occupies 26 premises on an operating lease basis. The lease payments due in future years are:

Restated 31 March 2017 £000		31 March 2018 £000
677	Not later than one year	668
1,938	Later than one year and not later than five years	1,838
3,418	Later than five years	3,090
6,033	**Total PCC and Group**	**5,596**

The amount paid in 2017/18 was £0.7m (£0.8m in 2016/17).

The Group as Lessor

(i) Finance Lease

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

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

31 March 2017 £000		31 March 2018 £000
	Finance Lease debtor (net present value of minimum lease payments):	
45	Current	60
2,484	Non-current	3,061
4,348	Unearned finance income	3,119
385	Unguaranteed residual value of property	385
7,262	**Gross investment in the lease**	**6,625**

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

Gross Investment in the Lease	Minimum Lease Payments		Gross Investment in the Lease	Minimum Lease Payments
31 March 2017 £000	31 March 2017 £000		31 March 2018 £000	31 March 2018 £000
231	231	Not later than one year	240	240
922	922	Later than one year and not later than five years	960	960
6,109	5,071	Later than five years	5,425	5,040
7,262	**6,224**	**Total PCC and Group**	**6,625**	**6,240**

(ii) Operating Leases

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

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

The lease payments receivable in future years are:

31 March 2017 £000		31 March 2018 £000
100	Not later than one year	101
0	Later than one year and not later than five years	0
0	Later than five years	0
100	**Total PCC and Group**	**101**

The amount received in 2017/18 was £0.1m (£0.1m in 2016/17).

20. Property, Plant and Equipment (PPE)

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

Assets created under the alliance with the PCC for Warwickshire are jointly controlled and only the PCC's share is held in the Balance Sheet. Where the PCC's share of these assets was originally purchased by the PCC for Warwickshire, they have been donated by the latter to the PCC. The PCC has then made a REFCUS payment to the PCC for Warwickshire equivalent to the expenditure incurred. ICT Equipment Assets amounting to £0.112m (£0.125m in 2016/17) and no ICT Assets Under Construction (£0.005m in 2016/17) have been treated in this manner. Conversely, where the PCC for Warwickshire's share of these assets was originally purchased by the PCC for West Mercia, they have been donated to the PCC for Warwickshire. The PCC for Warwickshire has then made a grant payment to the PCC equivalent to the expenditure incurred. ICT Equipment Assets amounting to £2.253m (£1.893m in 2016/17) and ICT Assets Under Construction amounting to £0.690m (£0.956m in 2016/17) have been treated in this manner.

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

PCC and Group Movements in 2017/18	Land & Buildings	Vehicles	Plant, Furniture & Equipment	Surplus Assets	Assets Under Construction	Total PPE
	£000	£000	£000	£000	£000	£000
Cost or valuation at 1 April 2017	**58,595**	**11,959**	**16,213**	**1,786**	**11,309**	**99,862**
Additions	7,588	1,824	7,314	0	3,974	20,700
Transfer from Assets under Construction	7,313	0	895	0	(8,753)	(545)
Transfer from Surplus Assets	0	0	0	220	0	220
Donated Assets	0	0	112	0	0	112
Revaluation increases / (decreases) recognised in the Revaluation Reserve	(3,449)	0	0	(103)	0	(3,552)
Revaluation increases / (decreases) recognised in the Surplus/Deficit on the Provision of Services	(336)	0	0	(48)	0	(384)
De-recognition – disposals	0	(1,424)	0	0	0	(1,424)
De-recognition – donated	0	(92)	(2,253)	0	(690)	(3,035)
De-recognition – other	0	0	(1,131)	0	0	(1,131)
Asset Reclassified (to)/from Held For Sale	0	0	0	0	0	0
At 31 March 2018	**69,711**	**12,267**	**21,150**	**1,855**	**5,840**	**110,823**
Less Accumulated Depreciation and Impairment						
At 1 April 2017	**(17,486)**	**(6,221)**	**(7,546)**	**0**	**0**	**(31,253)**
Depreciation charge						
Depreciation written out to the Revaluation Reserve	(86)	0	0	0	0	(86)
Depreciation written out to the Surplus/Deficit on the Provision of Services	(989)	(2,196)	(3,407)	0	0	(6,592)
Revaluation increases / (decreases) recognised in the Revaluation Reserve	3,916	0	0	0	0	3,916
De-recognition – disposals	0	1,390	0	0	0	1,390
De-recognition – donated	0	92	0	0	0	92
De-recognition – other	0	0	1,132	0	0	1,132
At 31 March 2018	**(14,645)**	**(6,935)**	**(9,821)**	**0**	**0**	**(31,401)**
Net book value at 31 March 2018	**55,066**	**5,332**	**11,329**	**1,855**	**5,840**	**79,422**
Net book value at 31 March 2017	**41,109**	**5,738**	**8,667**	**1,786**	**11,309**	**68,609**

The PCC for West Mercia donated five vehicles to charitable organisations – four vehicles to the Hope Initiatives, Shrewsbury and one to the Street Pastors, Shrewsbury. All vehicles had a nil net book value.

PCC and Group Movements in 2016/17	Land & Buildings	Vehicles	Plant, Furniture & Equipment	Surplus Assets	Assets Under Construction	Total PPE
	£000	£000	£000	£000	£000	£000
Cost or valuation at 1 April 2016	**55,435**	**11,609**	**12,678**	**1,886**	**2,369**	**83,977**
Additions	149	2,088	6,342	0	9,891	18,470
Transfer from Assets under Construction	0	0	0	0	0	0
Transfer to Surplus Assets	0	0	0	0	0	0
Donated Assets	0	0	125	0	5	130
Revaluation increases / (decreases) recognised in the Revaluation Reserve	149	0	0	(100)	0	49
Revaluation increases / (decreases) recognised in the Surplus/Deficit on the Provision of Services	2,862	0	0	0	0	2,862
De-recognition – disposals	0	(1,738)	0	0	0	(1,738)
De-recognition – donated	0	0	(1,893)	0	(956)	(2,849)
De-recognition – other	0	0	(1,039)	0	0	(1,039)
Asset Reclassified (to)/from Held For Sale	0	0	0	0	0	0
At 31 March 2017	**58,595**	**11,959**	**16,213**	**1,786**	**11,309**	**99,862**
Less Accumulated Depreciation and Impairment						
At 1 April 2016	**(18,088)**	**(6,025)**	**(5,913)**	0	0	**(30,026)**
Depreciation charge						
Depreciation written out to the Revaluation Reserve	(58)	0	0	0	0	(58)
Depreciation written out to the Surplus/Deficit on the Provision of Services	(817)	(1,925)	(2,672)	0	0	(5,414)
Revaluation increases / (decreases) recognised in the Revaluation Reserve	1,477	0	0	0	0	1,477
De-recognition – disposals	0	1,729	0	0	0	1,729
De-recognition – other	0	0	1,039	0	0	1,039
At 31 March 2017	**(17,486)**	**(6,221)**	**(7,546)**	**0**	**0**	**(31,253)**
Net book value at 31 March 2017	**41,109**	**5,738**	**8,667**	**1,786**	**11,309**	**68,609**
Net book value at 31 March 2016	**37,347**	**5,584**	**6,765**	**1,886**	**2,369**	**53,951**

Revaluations

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

2016/17 PCC and Group		Land and buildings	Vehicles, Plant, Furniture & Equipment	Assets Under Construction	Total 2017/18 PCC and Group
£000		£000	£000	£000	£000
13,396	Carried at historical cost	0	1,825	5,840	7,665
0	Carried at current value at 31 March 2018	29,160	14,836	0	43,996
38,659	Carried at current value at 31 March 2017	25,518	0	0	25,518
9,876	Carried at current value at 31 March 2016	388	0	0	388
4,544	Carried at current value at 31 March 2015	0	0	0	0
143	Carried at current value at 31 March 2014	0	0	0	0
205	Carried at current value at 31 March 2013	0	0	0	0
66,823	**Total Valuations**	**55,066**	**16,661**	**5,840**	**77,567**

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

2016/17 PCC and Group		2017/18 PCC and Group
£000		£000
0	Carried at current value at 31 March 2018	140
1,425	Carried at current value at 31 March 2017	1,425
290	Carried at current value at 31 March 2016	290
0	Carried at current value at 31 March 2015	0
71	Carried at current value at 31 March 2014	0
1,786	**Total Valuations**	**1,855**

21. Capital Expenditure and Capital Financing

The total amount of capital expenditure incurred in the year is shown in the table below together with the resources used to finance it. Where capital expenditure is to be financed in future years, by charges to revenue as assets are used by the Group, the expenditure results in an increase in the Capital Financing Requirement (CFR), a measure of the capital expenditure incurred historically by the Group that has yet to be financed.

2016/17 £000		2017/18 £000
32,209	**Opening Capital Financing Requirement – PCC and Group**	**30,705**
	Capital investment:	
18,471	Property, plant and equipment	20,700
533	Intangible assets	947
130	Revenue expenditure funded from capital under statute	343
	Sources of finance:	
(4,639)	Capital receipts	(625)
(9,970)	Government grants and other contributions	(4,062)
	Sums set aside from revenue:	
(274)	Direct revenue contributions	(244)
(4,251)	Contribution from Reserves	(7,840)
(1,504)	Minimum Revenue Provision	(1,286)
30,705	**Closing Capital Financing Requirement – PCC and Group**	**38,638**
	Explanation of movements in the year	
0	Increase in underlying need to borrow in respect of capital expenditure not financed by other means (and unsupported by government financial assistance)	9,219
(1,504)	Decrease in underlying need to borrow in respect of Minimum Revenue Provision for the year	(1,286)
(1,504)	**Increase/(Decrease) in Capital Financing Requirement**	**7,933**

Capital Commitments

As at 31 March 2018, the Group had capital commitments of £2.686m (£10.731m as at 31 March 2017), relating mainly to spend on ICT projects that had been ordered during 2017/18 but had not been delivered as at 31 March 2018.

22. Investment Properties

Rental income of £41,650 from Evesham Customer Contact Centre has been accounted for in 2017/18 (£41,650 in 2016/17) in the Financing and Investment Income and Expenditure line in the CIES. There are no restrictions on the PCC's ability to realise the value inherent in its investment property or on the PCC's right to the remittance of income and the proceeds of disposal. The PCC has no contractual obligations to purchase, construct or develop investment property or undertake repairs, maintenance or enhancement. The following table summarises the movement in the fair value of investment properties over the year, measured using significant observable inputs (Level 2 of the fair value hierarchy):

2016/17 £000		2017/18 £000
370	Balance at start of the year – PCC and Group	370
0	Net gains/losses from fair value adjustments	0
370	**Balance at end of the year – PCC and Group**	**370**

23. Intangible Assets

Software is accounted for as intangible assets, to the extent that the software is not an integral part of a particular ICT system and accounted for as part of the hardware item in PPE. All software is given a finite useful life of 5 years. The carrying amount of software assets is amortised on a straight-line basis. The amortisation charge to revenue expenditure is absorbed as an overhead across all divisions of service. It is not possible to quantify exactly how much of the amortisation is attributable to each service heading. Amortisation costs are charged to the Net Cost of Services in the CIES.

Intangible assets created under the Alliance with the PCC for Warwickshire are jointly controlled and only the PCC's share is held in the Balance Sheet. Where the PCC's share of these assets was originally purchased by the PCC for Warwickshire, they have been donated by the latter to the PCC. The PCC has then made a REFCUS payment to the PCC for Warwickshire equivalent to the expenditure incurred. Intangible Assets amounting to £0.128m (nil in 2016/17) have been treated in this manner. Conversely, where the PCC for Warwickshire's share of these assets was originally purchased by the PCC for West Mercia, they have been donated to the PCC for Warwickshire. The PCC for Warwickshire has then made a grant payment to the PCC equivalent to the expenditure incurred. Intangible Assets amounting to £0.289m (£0.165m in 2016/17) have been treated in this manner.

The PCC held a motor vehicle registration number (VRN), which had previously been re-valued every 5 years. This asset was assessed as having an indefinite useful life and was therefore not amortised. The licence plate was sold for £0.133m (£0.160m including VAT) during 2017/18. Restrictions (including an overage clause) were placed on the future sale of the VRN.

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

2016/17				2017/18		
Vehicle Licence £000	Software £000	Total £000		Vehicle Licence £000	Software £000	Total £000
			Balance at start of year – PCC and Group			
200	3,180	3,380	Gross carrying amounts	200	3,374	3,574
0	(1,375)	(1,375)	Accumulated amortisation	0	(1,815)	(1,815)
200	**1,805**	**2,005**	**Net carrying amount at start of year**	**200**	**1,559**	**1,759**
0	533	533	Additions - purchased	0	948	948
0	0	0	Additions – transfer from Assets Under Construction	0	545	545
0	0	0	Donated Assets from Warwickshire PCC	0	128	128
0	(165)	(165)	Donated Assets to Warwickshire PCC	0	(289)	(289)
0	0	0	Disposals	(200)	0	(200)
0	(174)	(174)	De-recognition – other	0	(235)	(235)
0	(614)	(614)	Amortisation for the period	0	(710)	(710)
0	174	174	De-recognition – other	0	235	235
200	**1,559**	**1,759**	**Net carrying amount at end of year**	**0**	**2,181**	**2,181**
			Comprising:			
200	3,374	3,574	Gross carrying amount	0	4,471	4,471
0	(1,815)	(1,815)	Accumulated amortisation	0	(2,290)	(2,290)
200	**1,559**	**1,759**	**Balance at end of the year – PCC and Group**	**0**	**2,181**	**2,181**

24. Long-Term Debtors

This note shows money owed to the Group and PCC for funding and services provided on or before 31 March 2018 where the money will be received in excess of one year from this date. The balance mainly relates to NPAS's liability to the PCC in respect of the disposal of the helicopter as explained in Note 14 (£0.375m) and the net investment in the Finance Lease in respect of the partnership with Hereford and Worcester Fire Authority (H&WFA) to build a joint facility in Bromsgrove (£3.506m), as explained in Note 19 (i). These two items are matched by balances held as Deferred Capital Receipts. A pre-payment of rental on leased premises at Pershore has been made and the balance relating to the 8 years following 2018/19 has now been shown as a long-term debtor.

2016/17 £000		2017/18 £000
4,055	**Balance at start of year**	**3,954**
0	Pre-payment of rent for Pershore Police Station	232
(70)	NPAS - Helicopter	0
(24)	Settlements relating to the Finance Lease	(66)
(7)	Other minor additions / (repayments)	(3)
3,954	**Total**	**4,117**

25. Assets Held for Sale

Through the Asset Rationalisation Programme the PCC is actively reducing the extent of land and buildings held for operational purposes. Where the characteristics of an asset matches those set of for asset held for sale in the Code, it is necessary to show assets held for sale separately and ensure the carrying value is estimated in accordance with accounting policy. Further details of the basis for valuation of these assets is set out in Accounting Policy xviii. There are no assets that meet the strict definition of Assets Held for Sale as at 31 March 2018 (2 as at 31 March 2017).

2016/17 £000		2017/18 £000
627	**Balance outstanding at start of year**	**342**
	Assets newly classified as held for sale:-	
0	Property, Plant and Equipment	0
0	Re-categorisation to Surplus Assets	(220)
(285)	Assets sold	(122)
342	**Total**	**0**

The loss of £3.258m on disposal of non-current assets shown in the CIES consists of the assets donated to West Mercia PCC of £3.232m and the sale of the Intangible Asset (VRN) (£0.067m), less the profit on disposal of vehicles and land and buildings (£0.041m).

26. Debtors and other current assets

This note shows money owed to the Group and PCC for funding and services provided on or before 31 March 2018 where the money has not been received by this date. Inventories amounting to £0.534m (£0.502m in 2016/17) are now shown as part of other entities and individuals.

31 March 2017 £000		31 March 2018 £000
13,896	Central Government bodies	14,203
9,184	Other Local Authorities	6,146
94	NHS bodies	2
2,771	Council taxpayers	2,775
7,275	Other entities and individuals	7,186
33,220	**Group Debtors**	**30,312**
(7,570)	**Less** Chief Constable Debtors: Central Government bodies	(12,226)
(35)	**Less** Chief Constable Debtors: Other Local Authorities	(16)
(4,088)	**Less** Chief Constable Debtors: Other entities and individuals	(4,391)
21,527	**PCC Debtors**	**13,679**

27. Cash and Cash Equivalents

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

31 March 2017 £000		31 March 2018 £000
21	Cash held by the Group	24
334	Bank current accounts	475
20,054	Short term deposits	450
20,409	**Total Group and PCC**	**949**

28. Creditors

This note shows money owed by the Group and PCC for goods and services purchased and received on or before 31 March 2018 where the money has not been paid by this date.

31 March 2017 £000		31 March 2018 £000
(4,221)	Central Government bodies	(5,410)
(3,810)	Other Local Authorities	(8,882)
(82)	NHS bodies	(38)
(1,684)	Council taxpayers	(1,665)
(11,776)	Other entities and individuals	(8,830)
(21,573)	**Group Creditors**	**(24,825)**
121	**Less** Chief Constable Creditors: Central Government bodies	429
760	**Less** Chief Constable Creditors: Other Local Authorities	1,904
4,933	**Less** Chief Constable Creditors: Other entities and individuals	4,979
(15,759)	**PCC Creditors**	**(17,513)**

29. Provisions and Contingent Liabilities

	Termination Benefits £000
Balance at 1 April 2017	**12**
Additional provisions made in 2017/18	93
Amounts used in 2017/18	0
Balance at 31 March 2018 for the Group and Chief Constable	**105**

The following provisions were charged to the CIES in 2017/18 in respect of events or decisions which are likely to give rise to payments in the future:

Termination Benefits

This provision has been established to meet the costs of voluntary redundancies and early retirements on the grounds of voluntary redundancy agreed during the 2017/18 financial year but falling into the following financial year; these payments are expected to amount to around £0.105m.

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 and in 2016/17 these claims were heard in the Employment Tribunal.

In 2017/18 the Judiciary and Firefighter claims were heard in the Appeal Tribunal. Subsequent to this the respondents are appealing against the Appeal Tribunal judgements. In the case of the Firefighters the claimants are also appealing against aspects of the judgement. The outcome of these further appeals may influence the outcome of the Police claims. The Tribunal has agreed to stay the Police hearing and the Home Office has requested that the stay is extended in light of the further appeals. In the event that the Police claims are successful it is unclear what remedy would be applied, whether this would require further legislation and who it would impact.

Given the fact that the Judiciary and Firefighter claims are subject to further appeal and the Police claims are yet to be heard, and the uncertainty regarding remedy and quantum at this point in time it is not possible to provide an estimate of the financial effect in the event that the claims are partially or fully successful. Therefore it has been assessed that the Chief Constable has no liability at the Balance Sheet date.

30. Financial Instruments

Categories of Financial Instruments

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

	Long Term		Current	
	31 March 2018	31 March 2017	31 March 2018	31 March 2017
	£000	£000	£000	£000
Investments - Loans and receivables	0	0	450	20,054
Debtors - Loans and receivables	4	7	19,517	21,112
Cash - Loans and receivables	0	0	499	355
Borrowings - Financial liabilities at amortised cost	10,000	10,000	62	62
Creditors - Financial liabilities at amortised cost	0	0	19,181	15,846

Debtors that are not financial instruments (taxes and payments in advance)	232	0	10,795	12,107
Creditors that are not financial instruments (taxes, National Insurance and prepayments)	0	0	5,644	5,727

Income, Expense, Gains and Losses

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

	Financial Liabilities – Measured at Amortised Cost	Financial Assets – Loans and Receivables	PCC and Group Total
	£000	£000	£000
2017/18			
Interest Expense Payable and Similar Charges	444	0	444
Interest Income	0	(43)	(43)
2016/17			
Interest Expense Payable and Similar Charges	444	0	444
Interest Income	0	(152)	(152)

Fair Value of Assets and Liabilities

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

- estimated interest rates at 31 March 2018 of 1.60% for loans from the Public Works Loans Board (PWLB);
- discount rates of 2.41% for Arlingclose's calculation of fair value of PWLB loans, based on local authority bonds in issue;
- no early repayment or impairment is recognised;
- where an instrument will mature in the next 12 months the carrying amount is assumed to approximate to fair value;
- the fair value of trade and other receivables is taken to be the invoiced or billed amount (equal to the carrying amount shown in the table above).

The fair values calculated are as follows:

PCC and Group	31 March 2018		31 March 2017	
	Carrying amount	Fair Value	Carrying amount	Fair Value
	£000	£000	£000	£000
Financial Liabilities	10,062	16,783	10,062	16,923

The fair value of the liabilities is higher than the carrying amount because the Group's portfolio of loans includes two fixed rate loans where the interest rate payable is higher than the prevailing rates at the Balance Sheet date. This shows a notional future gain (based on economic conditions at 31 March 2018) arising from a commitment to pay interest to lenders at a different rate from current market rates. The calculation of fair value amount is supplied by the PWLB, using redemption rates. However, IFRS13 requires a different basis to be used and the PCC's Treasury Advisers, Arlingclose have calculated the fair value amount, using the basis above, as £14.355m (£14.914m as at 31 March 2017).

31. Nature and Extent of Risks Arising From Financial Instruments

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

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

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

Credit Risk

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

The principal risks are minimised by the Annual Investment Strategy, which forms part of the overall Treasury Management Strategy. It is a requirement that cash balances are invested with banks and building societies with strong short-term credit rating, other local authorities and the UK Government Debt Management Office. However, in continuance of the caution, which was adopted following turbulent financial markets in 2008/09, the Group limited its list of borrowers to the Bank of England and other local authorities in 2017/18.

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

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

At 31 March 2018 the short- term investment balances were as follows:

2016/17 £000		2017/18 £000
4,451	- On call (available immediately) (variable rate)	450
14,603	- Repayable in 1 month (fixed rates)	0
1,000	- Repayable in 2 months (fixed rates)	0
20,054	**Total PCC and Group**	**450**

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

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

Receipts from customers for sales of services and recoupable costs from other public bodies are a relatively small part of the Group's income (£10.1m in 2017/18). A small number of old invoices amounting to £0.044m were written off in 2017/18.

The Group generally allows a 30 day standard credit term for customers such that £0.352m of the £1.873m balance outstanding from customers at 31 March 2018 was past the point of 30 days from the date of invoice; this has reduced significantly from 2016/17, due to proactive credit control. This past due amount can be analysed as follows:

31 March 2017 £000		31 March 2018 £000
210	Less than 3 months	299
20	3 to 6 months	10
43	6 to 12 months	1
155	Over 12 months	42
428		**352**

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

	%	£000
Balance of debtors ledger at 31 March 2018		1,873
Historical experience of default	0.5	
Historical experience adjusted for market conditions at 31 March 2018	0.5	
Estimated maximum exposure to default at 31 March 2018		27
Estimated maximum exposure to default at 31 March 2017		46

Liquidity Risk

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

Borrowing limits for the Group are set in the Prudential Indicators prepared as a requirement of the CIPFA Prudential Code. Maximum borrowing limits for 2017/18 were set at £60m, due to the high level of the capital programme in the Medium Term Financial Strategy. The last time the Group raised a loan was in 2007/08, however external borrowing will be required during 2018/19. The maturity analysis of its financial liabilities is:

31 March 2017 £000		31 March 2018 £000
10,000	More than 20 years	10,000

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

Market Risk

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

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

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

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

The approach to borrowing for capital projects is to delay borrowing and to temporarily use working capital balances. The present relative rates of interest for borrowing and lending mean that it is advantageous to delay long-term borrowing whilst the overall cash flow is positive. Capital expenditure temporarily funded from working capital up to 31 March 2018 was £38.638m (£20.705m at 31 March 2017).

As working capital balances as at 31 March 2018 have now fallen to their lowest possible level, some of this capital expenditure will require external borrowing in 2018/19. There is a risk that rates may be adverse when and if this borrowing takes place. Monitoring medium and long-term borrowing costs versus the opportunity costs of not investing working capital mitigates this risk. The Treasury Management team has an active strategy for assessing interest rates exposure that feeds into setting the Medium Term Financial Plan and annual budget and is used to update the budget quarterly during the year. The working capital position and the potential timing of external borrowing are being monitored closely by the Treasury Management team in consultation with the Treasurer and the external Treasury advisers, Arlingclose.

It is calculated that if interest rates had been 1% higher for 2017/18 with all other variables held constant, the financial effect would be:

	£000
Increase in interest payable on fixed rate borrowings	100
Increase in interest receivable on fixed rate short term investments	(201)
Impact on Surplus or Deficit on then Provision of Services	**(101)**

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

32. Proceeds of Crime

The Act gives powers to the Police and Customs to seize cash derived from, or intended for use in crime, and to secure its forfeiture in civil magistrates' court proceedings. The PCC is currently holding cash totalling £0.371m.

33. Cash Flow Statement – Operating Activities

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

2016/17 £000		2017/18 £000
176	Interest received	46
(444)	Interest paid	(444)
(268)	**Total – Group and PCC**	**(398)**

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

PCC 2016/17 £000	Group 2016/17 £000		PCC 2017/18 £000	Group 2017/18 £000
(5,471)	(5,471)	Depreciation	(6,678)	(6,678)
2,862	2,862	(Downward)/Upward valuations	(384)	(384)
(615)	(615)	Amortisation of intangible assets	(710)	(710)
(4,945)	(953)	(Increase)/decrease in revenue creditors	(1,650)	(3,148)
1,889	10,919	Increase/(decrease) in revenue debtors	(703)	4,205
0	17	Increase/(decrease) in inventories	0	32
12,976	0	Movement in Intra-Group Funding	3,478	0
(552)	(57,376)	Movement in pension liability	(762)	(66,102)
0	48	Movement in provisions	0	(93)
(3,308)	(3,308)	Carrying amount of non-current assets sold	(3,589)	(3,589)
2,836	**(53,877)**	**Total – Group and PCC**	**(10,998)**	**(76,467)**

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

2016/17 £000		2017/18 £000
305	Proceeds from the sale of property, plant and equipment	331
8,967	Capital Grants	4,062
9,272	**Total – Group and PCC**	**4,393**

34. Cash Flow Statement – Investing Activities

2016/17 £000		2017/18 £000
19,919	Purchase of property, plant and equipment and intangible assets	21,940
(305)	Proceeds from the sale of property, plant and equipment	(399)
(4,632)	Other receipts from investing activities	(11,088)
14,982	**Total – Group and PCC**	**10,453**

35. Defined Benefit Pension Schemes

The costs and liabilities associated with retirement benefits are primarily recorded in the Chief Constable's Accounts. However, with effect from 1 April 2016, the PCC became responsible for the Youth Offending Service (YOS) in the West Mercia area. Following the transfer of the YOS staff to the employment of the PCC, the net pensions liability for the PCC single entity became material and is now disclosed in the PCC's Financial Statements. The notes below show the PCC's element of the pensions assets and liabilities in a separate column.

Participation in Pension Schemes

As part of the terms and conditions of employment for police officers and other employees the Group makes contributions towards the cost of post-employment benefits (pensions). Although these benefits will not actually be payable until employees retire, the Group 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 Group 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 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 Pension Fund Account.

The pension schemes above provide members with index-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 14, West Mercia's 34.3% share of PPL's LGPS assets and liabilities as at 31 March 2018 have been incorporated into the Accounts and are shown separately in the tables below. The actuaries assessed both the total assets and total liabilities relating to PPL as £30.525m as at 31 March 2018 (£29.858m as at 31 March 2017): 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:

2017/18	LGPS (CC element) £000	LGPS (PCC element) £000	LGPS (PPL element) £000	Police Pension Schemes £000	Group Total £000
CIES					
Cost of Services:					
- current service costs	14,161	740	462	39,070	54,433
- past service costs and gain/loss from settlements	561	109	0	1,920	2,590
Financing and Investment Income and Expenditure					
- net interest expense	9,582	312	266	61,870	72,030
Total Post Employment Benefit charged to the surplus or deficit on the Provision of Services	**24,304**	**1,161**	**728**	**102,860**	**129,053**
Other Post-Employment Benefits charged to the CIES					
Re-measurement of the net defined benefit liability and return on plan assets	(26,934)	(756)	(552)	(14,909)	(43,151)
Total Post Employment Benefit charged to the CIES	**(2,630)**	**405**	**176**	**87,951**	**85,902**

MIRS					
Reversal of net charges made to the Surplus or Deficit on the Provision of Services for post-employment benefits in accordance with the Code.	(24,304)	(1,161)	(728)	(102,860)	(129,053)
Actual amount charged against the Police Fund Balance for pensions in the year					
– employers' contributions payable to the scheme	9,625	399	176	50,431	60,631
– benefits paid direct to beneficiaries				2,320	2,320

2016/17	LGPS (CC element) £000	LGPS (PCC element) £000	LGPS (PPL element) £000	Police Pension Schemes £000	Group Total £000
CIES					
Cost of Services:					
– current service costs	9,164	447	326	28,030	37,967
– past service costs and gain/loss from settlements	666	254	79	520	1,519
Financing and Investment Income and Expenditure					
– net interest expense	10,454	296	285	67,020	78,055
Total Post Employment Benefit charged to the surplus or deficit on the Provision of Services	**20,284**	**997**	**690**	**95,570**	**117,541**
Other Post-Employment Benefits charged to the CIES					
Re-measurement of the net defined benefit liability and return on plan assets	31,937	2,293	(463)	398,726	432,493
Total Post Employment Benefit charged to the CIES	**52,221**	**3,290**	**227**	**494,296**	**550,034**

MIRS					
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)	(997)	(690)	(95,570)	(117,541)
Actual amount charged against the Police Fund Balance for pensions in the year					
– employers' contributions payable to the scheme	7,998	445	227	49,276	57,946
– benefits paid direct to beneficiaries				2,220	2,220

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:

2017/18	LGPS (CC element) £000	LGPS (PCC element) £000	LGPS (PPL element) £000	Police Pension Schemes £000	Group Total £000
Present value of the defined benefit obligation	(373,150)	(12,963)	(10,470)	(2,376,430)	(2,773,013)
Fair value of plan assets	242,706	10,112	10,470	0	263,288
Net liabilities arising from the defined benefit obligation	**(130,444)**	**(2,851)**	**0**	**(2,376,430)**	**(2,509,725)**

2016/17	LGPS (CC element) £000	LGPS (PCC element) £000	LGPS (PPL element) £000	Police Pension Schemes £000	Group Total £000
Present value of the defined benefit obligation	(370,143)	(11,804)	(10,241)	(2,341,230)	(2,733,418)
Fair value of plan assets	227,444	8,959	10,241	0	246,644
Net liabilities arising from the defined benefit obligation	**(142,699)**	**(2,845)**	**0**	**(2,341,230)**	**(2,486,774)**

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

2017/18	LGPS (CC element) £000	LGPS (PCC element) £000	LGPS (PPL element) £000	Police Pension Schemes £000	Group Total £000
Opening balance at 1 April	**(370,143)**	**(11,804)**	**(10,241)**	**(2,341,230)**	**(2,733,418)**
Current service cost	(14,161)	(740)	(462)	(39,070)	(54,433)
Interest cost	(9,582)	(312)	(266)	(61,870)	(72,030)
Contributions by scheme participants	(2,834)	(148)	(100)	(9,750)	(12,832)
Re-measurement of liabilities	18,152	415	487	13,910	32,964
Benefits paid	5,979	(265)	112	63,500	69,326
Past service costs	(10)	0	0	(1,920)	(1,930)
Curtailments	(551)	(109)	0	0	(660)
Closing balance 31 March	**(373,150)**	**(12,963)**	**(10,470)**	**(2,376,430)**	**(2,773,013)**

2016/17	LGPS (CC element) £000	LGPS (PCC element) £000	LGPS (PPL element) £000	Police Pension Schemes £000	Group Total £000
Opening balance at 1 April	**(294,612)**	**0**	**(689)**	**(1,898,430)**	**(2,193,731)**
Current service cost	(9,164)	(447)	(326)	(28,030)	(37,967)
Interest cost	(10,454)	(296)	(285)	(67,020)	(78,055)
Contributions by scheme participants	(2,738)	(146)	(97)	(9,990)	(12,971)
Re-measurement of liabilities	(61,294)	(2,366)	(1,727)	(397,020)	(462,407)
Liabilities assumed on entity combinations	0	(5,330)	(7,289)	0	(12,619)
Reallocation to PCC from CC	2,398	(2,398)	0	0	0
Benefits paid	6,387	(567)	251	59,780	65,851
Past service costs	0	0	0	(520)	(520)
Curtailments	(666)	(254)	(79)	0	(999)
Closing balance 31 March	**(370,143)**	**(11,804)**	**(10,241)**	**(2,341,230)**	**(2,733,418)**

Reconciliation of the Movements in the Fair Value of the Scheme Assets for the PCC and the Group

Reconciliation of fair value of the scheme assets (LGPS)	CC element 2016/17 £000	PCC element 2016/17 £000	PPL element 2016/17 £000	Total 2016/17 £000	CC element 2017/18 £000	PCC element 2017/18 £000	PPL element 2017/18 £000	Group Total 2017/18 £000
Opening balance at 1 April	**196,136**	**0**	**689**	**196,825**	**227,444**	**8,959**	**10,241**	**246,644**
Interest income	7,136	225	288	7,649	6,038	244	268	6,550
Re-measurement gain/loss: The return on plan assets, excluding the amount included in the net interest expense	21,323	2,028	1,907	25,258	2,912	105	(198)	2,819
Administration expenses	(161)	(8)	(5)	(174)	(168)	(8)	(5)	(181)
Contributions by employer	7,998	445	227	8,670	9,625	399	176	10,200
Contributions from employees into the scheme	2,738	146	97	2,981	2,834	148	100	3,082
Business Combinations	0	4,217	7,289	11,506	0	0	0	0
Reallocation to PCC from CC	(1,339)	1,339	0	0	0	0	0	0
Benefits paid	(6,387)	567	(251)	(6,071)	(5,979)	265	(112)	(5,826)
Closing balance 31 March	**227,444**	**8,959**	**10,241**	**246,644**	**242,706**	**10,112**	**10,470**	**263,288**

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

The liabilities show the underlying commitments that the PCC, 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 PCC, 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 Group in the year to 31 March 2019 is £9.735m. Expected contributions for the Police Pension Schemes by the Chief Constable in the year to 31 March 2019 are £17.411m.

Reconciliation of the Re-measurement of the Net Defined Benefit Liabilities for the PCC and the Group

The analysis of the re-measurement of the net defined benefit liabilities for 2017/18 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.

2017/18	LGPS (CC element) 2017/18 £000	LGPS (PCC element) 2017/18 £000	LGPS (PPL element) 2017/18 £000	Police Pension Schemes £000	Group Total £000
Changes in financial assumptions	(18,152)	(415)	(487)	72,791	53,737
Changes in demographic assumptions	0	0	0	(78,510)	(78,510)
Return on plan assets	(6,038)	(244)	(268)	0	(6,550)
Re-measurement of assets	(2,744)	(97)	203	0	(2,638)
Experience gains and losses	0	0	0	(9,190)	(9,190)
Total re-measurement	**(26,934)**	**(756)**	**(552)**	**(14,909)**	**(43,151)**

2016/17	LGPS (CC element) 2016/17 £000	LGPS (PCC element) 2016/17 £000	LGPS (PPL element) 2016/17 £000	Police Pension Schemes £000	Group Total £000
Changes in financial assumptions	79,306	9,923	9,736	445,466	544,431
Changes in demographic assumptions	(4,534)	(52)	(118)	(41,060)	(45,764)
Return on plan assets	(7,136)	(225)	(288)	0	(7,649)
Re-measurement of assets	(22,221)	(7,576)	(9,191)	0	(38,988)
Experience gains and losses	(13,478)	223	(602)	(5,680)	(19,537)
Total re-measurement	**31,937**	**2,293**	**(463)**	**398,726**	**432,493**

LGPS Assets

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

Group

	Total 31 March 2017 £000	Split of Assets between Investment categories %	Total 31 March 2018 £000	Split of Assets between Investment categories %
Equities	210,460	85	227,478	86
Government Bonds	0	0	0	0
Other Bonds	13,418	6	12,638	5
Property	10,457	4	11,060	4
Alternatives–UK Infrastructure	6,659	3	8,952	4
Cash-Liquidity	5,650	2	3,160	1
Total Assets	**246,644**	**100**	**263,288**	**100**

PCC

	Total 31 March 2017 £000	Split of Assets between Investment categories %	Total 31 March 2018 £000	Split of Assets between Investment categories %
Equities	7,643	85	8,737	86
Government Bonds	0	0	0	0
Other Bonds	488	6	485	5
Property	380	4	425	4
Alternatives–UK Infrastructure	242	3	344	4
Cash-Liquidity	206	2	121	1
Total Assets	**8,959**	**100**	**10,112**	**100**

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 2017, projected forward to 31 March 2018. 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:

2016/17			2017/18	
LGPS	Police Pension Schemes		LGPS	Police Pension Schemes
		Mortality assumptions		
		Longevity at 65 for current pensioners:		
22.6 years	23.2 years	Men	22.7 years	22.6 years
25.6 years	25.2 years	Women	25.7 years	24.2 years
		Longevity at 65 for future pensioners:		
24.8 years	25.2 years	Men	24.9 years	24.5 years
27.9 years	27.3 years	Women	28.0 years	26.1 years
2.3%	2.35%	Rate of CPI inflation	2.1%	2.3%
3.8%	4.35%	Rate of increase in salaries (long-term)	3.6%	4.3%
n/a	1.0%	Rate of increase in salaries (short-term)	n/a	4.3%
2.3%	2.35%	Rate of increase in pensions	2.2%	2.3%
2.6%	2.65%	Rate for discounting scheme liabilities	2.7%	2.55%
50%	100%	Take-up of option to convert annual pension into retirement lump sum	50%	100%

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

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

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

Group

	Impact on the Defined Benefit Obligation in the Scheme	
	Increase in assumption £000	Decrease in assumption £000
Longevity (increase or decrease in 1 year)	198,802	(198,802)
Rate of inflation (increase or decrease by 1%) – Police staff only	141,583	(141,583)
Rate of increase in salaries (increase or decrease by 1%)	192,969	(192,969)
Rate of increase in pensions (increase or decrease by 1%) – PPS only	374,000	(374,000)
Rate for discounting scheme liabilities (increase or decrease by 1%)	(348,824)	348,824

PCC

	Impact on the Defined Benefit Obligation in the Scheme	
	Increase in assumption	Decrease in assumption
	£000	£000
Longevity (increase or decrease in 1 year)	3,086	(3,086)
Rate of inflation (increase or decrease by 1%) – Police staff only	3,151	(3,151)
Rate of increase in salaries (increase or decrease by 1%)	2,940	(2,940)
Rate for discounting scheme liabilities (increase or decrease by 1%)	2,557	(2,557)

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.

2016/17			2017/18	
£000	£000		£000	£000
		Contributions Receivable		
		From employer		
(15,582)		- Normal at 21.3% of pensionable pay (see below)	(15,349)	
(869)		- Ill Health Capital Sum Income	(776)	
(9,991)		From members (serving police officers)	(9,755)	
	(26,442)			**(25,880)**
	(462)	**Individual Transfers In from other schemes**		**(419)**
		Benefits Payable		
47,330		Pensions	49,067	
12,373		Commutations and Lump Sum retirement benefits	12,243	
10		Lump sum death benefits	77	
	59,713			**61,387**
		Payments to and on account of leavers		
52		Refunds of contributions	11	
44		Individual transfers out to other schemes	44	
	96			**55**
	32,905	**Sub-total for the year before transfer from the Group of amount equal to the deficit**		**35,143**
	(32,905)	**Additional funding payable by the Group to meet deficit for the year**		**(35,143)**
	0	**Net Amount Payable / Receivable for the year**		**0**
	2,120	**Adjustment of 2.9% to the cashflow due to a reduction in the employer contribution rate from 24.2% to 21.3% that is reflected in a reduction in the Home Office Pensions Top Up funding**		**2,088**
	(30,785)	**Actual Home Office Top Up funding**		**(33,055)**

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 35;

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.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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.

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

Police Fund Balance - The Police Fund Balance is the statutory fund into which all the receipts of the PCC are required to be paid and out of which all liabilities of the PCC are to be met, except to the extent that statutory rules might provide otherwise. The Police Fund Balance therefore summarises the resources that the PCC is statutorily empowered to spend on services or on capital investment.

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Scheme of Delegation and Consent, Financial and Contract Regulations – 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 CIES in accordance with IFRS as set out in the Code.

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

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

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

Police and Crime Commissioner for West Mercia Annual Governance Statement 2017/18