

# Chief Constable for Northumbria

Statement of Accounts  
2013/14



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# Part 1: Explanatory Foreword

## Introduction

These accounts set out the overall financial performance of the Chief Constable for Northumbria, who is responsible for the Northumbria Police Force, for the year ended 31 March 2014.

Northumbria Police serves a population of 1.5 million people and covers an area of more than 2,000 square miles in the North East of England, from the Scottish border down to County Durham and from the Pennines across to the North East coast. It is one of the largest forces in the country and is recognised as one of the top performing in England and Wales<sup>1</sup>.

At 31 March 2014, the Force had 3,609 police officers, 1,524 police staff, 308 Special Constables and 225 Police Community Support Officers (PCSOs), who work together to prevent, detect and reduce crime in the Northumbria area.

The Police Reform and Social Responsibility Act 2011 (the Act) changed the way policing in England and Wales was governed and held accountable. On the 22 November 2012, Northumbria Police Authority was replaced by the Police and Crime Commissioner for Northumbria (the Commissioner). At the same time, the Chief Constable for Northumbria, who has responsibility for direction and control over Northumbria Police Force's officers and staff, was established as a separate legal entity. The primary statutory duty and electoral mandate of the Commissioner is to ensure an efficient and effective police force in Northumbria, and to hold the Chief Constable to account on behalf of the public for the exercise of operational policing duties under the Police Act 1996.

These are the second statutory accounts to be prepared under the new arrangements. The statements have been prepared in accordance with the International Financial Reporting Standards (IFRS)-Based Code of Practice on Local Authority Accounting in the United Kingdom (the Code), developed by the CIPFA/LASAAC<sup>2</sup> Board and approved by FRAB<sup>3</sup>.

Under the provisions of the Act, the Commissioner and Chief Constable are created as two separate corporations sole. For financial reporting purposes, the Chief Constable is a subsidiary of the Commissioner by virtue of the powers the Commissioner has to govern the financial and operating policies of the Chief Constable. A separate set of statutory accounts has been prepared for the Commissioner's Group (the Commissioner and the Chief Constable) including the Commissioner's single-entity accounts for the year ended 31 March 2014, which can be found on the Commissioner's website<sup>4</sup>.

The foreword and financial summary, which follows, provides an overview of the accounting arrangements and a guide to the most significant matters in the financial statements.

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<sup>1</sup> HMIC Policing in Austerity: Rising to the Challenge July 2013

<sup>2</sup> CIPFA's Local Authority (Scotland) Accounts Advisory Committee

<sup>3</sup> Financial Reporting Advisory Board, an independent board within HM Treasury

<sup>4</sup> <http://www.northumbria-pcc.gov.uk>

## **Relationship between the Police and Crime Commissioner and the Chief Constable**

Each has specific roles and responsibilities. For the year ended 31<sup>st</sup> March 2014 these roles and responsibilities can be summarised as follows:

### **The Police and Crime Commissioner:**

- Providing a link between the police and the community.
- Setting out the strategic policing and crime priorities and objectives through the publication of a Police and Crime Plan.
- Preparing and publishing an annual report on progress in the delivery of the Police and Crime Plan.
- Setting out the Force's budget and community safety grants.
- Setting the policing and crime precept.
- Overseeing community safety, the reduction of crime and value for money in policing.
- Commissioning victims' and witness services, including restorative justice.
- Appoints the Chief Constable (and dismissing her when necessary).
- Holding the Chief Constable to account for the performance of the Force, including that of police officers and civilian staff under her direction and control.
- Receives all income from grants, precept and charges.
- Has the responsibility for all borrowing.

### **The Chief Constable:**

- Responsible for maintaining the Queen's peace and for the direction and control of the Force.
- Accountable to the law for the exercise of police powers.
- Accountable to the Commissioner for the delivery of efficient and effective policing, and the management of resources and expenditure by the police force.
- Operationally independent of the Commissioner but must have regard to the Commissioner's Police and Crime Plan.
- May not borrow money.

## **The Statement of Accounts**

The accounts reflect the current legislative framework as well as the local arrangements operating in practice. Key elements of this framework include:

- The Police Reform and Social Responsibility Act 2011 (the Act)<sup>5</sup>.
- The Home Office Financial Management Code of Practice for the Police Service of England and Wales 2013<sup>6</sup>.
- The Commissioner's Governance Arrangements including Financial and Contract Regulations<sup>7</sup>.
- Legislative changes have now been applied which means that from 2013/14 onwards part of the Local Government Act 2003 now applies to the Chief Constable's Accounts in terms of style and content. These changes have been applied to the 2012/13 comparison figures to make them comparable. Details of these changes are given in the section of the Notes to the Accounts dealing with prior year adjustments (Note 7).

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<sup>5</sup> Available at <http://www.legislation.gov.uk/ukpga/2011/13/contents/enacted>

<sup>6</sup> Available at : <https://www.gov.uk/government/publications/financial-management-code-of-practice>

<sup>7</sup> Available at: <http://www.northumbria-pcc.gov.uk/transparency/decisions>

The Statement of Accounts reflects the Government's intention to phase the reforms over more than one year. The first phase of transition, Stage 1, began on 22 November 2012, when all assets, liabilities, reserves, contracts and staff transferred from Northumbria Police Authority to the Commissioner. The Commissioner is responsible for the finances of the whole Group; she receives all income and funding, including all government grants and council tax precept, into the Police Fund and makes all the payments for the Group from the Police Fund. In turn, the Chief Constable fulfils her function under the Act within an annual budget set by the Commissioner in consultation with the Chief Constable. A scheme of delegation<sup>8</sup> is in operation between the two bodies determining their respective responsibilities during the first phase. The accounting arrangements between the Commissioner and Chief Constable during the first phase of the transition are detailed in Note 6 to the accounts.

The second phase, Stage 2, which took place on 1<sup>st</sup> April 2014, resulted in certain legal transfers from the Commissioner to the Chief Constable. In light of this change and following clarification from CIPFA, the 2013/14 accounts have been produced on the basis that the liabilities associated with the staff costs shown in the Police and Crime Commissioner Group Accounts are also recorded in the Chief Constable's Accounts. This change in presentation has been reflected in the comparative figures for 2012/13 and is detailed in the Prior Year Adjustment Note (Note 7) in the Notes to the Accounts.

### **Explanatory Foreword (Page 2)**

The purpose of the foreword is to offer interested parties an easily understandable guide to the most significant matters reported in the accounts. It provides an explanation in overall terms of the Chief Constable's financial position, and assists in the interpretation of the accounting statements. It also contains a commentary on the major influences affecting the Chief Constable's financial position going forwards.

### **Statement of Responsibilities (Page 11)**

This explains the respective responsibilities of both the Chief Constable and the Director of Finance in respect of the Statement of Accounts.

The Statement of Accounts is set out on pages 12 to 44. It consists of the following financial statements that are required to be prepared under the Code.

### **Core Financial Statements:**

#### **Movement in Reserves Statement for the Chief Constable (Page 13)**

Following the receipt of guidance from CIPFA, the Chief Constable holds reserves associated with future pension's liability.

#### **Comprehensive Income and Expenditure Statement for the Chief Constable (Page 15)**

The purpose of this statement is to report expenditure relating to services under the direction and control of the Chief Constable in accordance with generally accepted accounting practices. The Comprehensive Income and Expenditure Statement is presented using the service expenditure analysis set out in CIPFA's Service Reporting Code of Practice (SeRCOP).

#### **Balance Sheet for the Chief Constable (Page 16)**

This shows the Chief Constable's financial position and net assets at the financial year-end. The accounts are prepared on an accruals basis and reflect the substance of transactions as opposed to their legal form. As such, the Balance Sheet reflects current

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<sup>8</sup> Available at: <http://www.northumbria-pcc.gov.uk/transparency/decisions>

liabilities and current assets that are in substance the Chief Constable's at the Balance Sheet date, offset by a corresponding debtor from the Commissioner to reflect the fact that all payments are made in the name of the Commissioner.

### **Cash Flow Statement for the Chief Constable (Page 17)**

The Chief Constable does not hold any cash but to reflect creditors and debtors movement within the Chief Constable's Balance Sheet, the necessary adjustments are shown within a Cash Flow Statement.

### **Notes to the Core Financial Statements (Page 18)**

The notes provide additional information to support the core statements above including a statement of accounting policies, which explains the basis for the recognition, measurement and disclosure of transactions in the accounts. The accounts can only be properly appreciated if the policies, which have been followed in dealing with material items, are explained.

### **Supplementary Financial Statements:**

**Police Officer Pension Fund Statements (Page 46)** - This shows the Police Pension Fund Account for the year as the Chief Constable is the police pensions' authority in accordance with the amended Police Pensions Act 1976.

### **Documents Supporting the Statement of Accounts:**

**Annual Governance Statement (Page 48)** - This statement, required by regulations<sup>9</sup> to accompany the Statement of Accounts, outlines the Chief Constable's approach to corporate governance and internal control.<sup>10</sup>

**Independent Auditor's Report to the Police and Crime Commissioner (Page 53)** - This report details the basis of the external auditor's opinion on the Statement of Accounts.

**Glossary of Terms (Page 56)** - This section includes a description of the key terms used in the Statement of Accounts, along with explanations of any technical terminology.

### **Financial Performance**

The financial year ending 31 March 2014 was the third year of the Government's 2010 Spending Review.

The Programme of Change initiated by the Chief Constable in 2011/12 in response to the economic challenges, to ensure that the high quality service expected of the organisation continued to be provided, was continued and built upon during 2013/14.

### **Revenue Expenditure and Income Summary**

Revenue expenditure is the day-to-day running costs of providing policing services and includes expenses such as salaries and wages, premises-related expenditure and the costs of borrowing. Revenue expenditure for the Chief Constable is fully funded by income from the Police and Crime Commissioner.

Budget monitoring is carried out regularly throughout the year. Each quarter, budget monitoring reports were considered by the Commissioner. The revenue budget has been

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<sup>9</sup> Paragraph 4(4)(a) of Accounts and Audit (England) Regulations 2011 (available from [www.legislation.gov.uk](http://www.legislation.gov.uk))

<sup>10</sup> In line with Regulation 4 of the Accounts and Audit (England) Regulations 2011

managed as a Group with the Chief Constable's Chief Officer Team considering revenue monitoring reports on a monthly basis.

### Chief Constable's performance

The management of an element of the Commissioner's Group's budget is delegated to the Chief Constable for activities under her direction and control; in 2013/14, this totalled £276.732m (2012/13 £277.141m). The final outturn position is £271.784m, an under spend of £4.947m (£4.445m underspend 2012/13). Details are set out in the table below:

<b>Revenue Outturn 2013/14</b>			
	<b>Revised Estimate 2013/14 £000</b>	<b>Final Outturn 2013/14 £000</b>	<b>Variance 2013/14 £000</b>
Employees	205,487	204,072	(1,415)
Pensions	44,211	44,663	452
Premises	11,583	11,209	(374)
Supplies & Services	7,780	7,103	(677)
Transport	4,540	4,756	217
Establishment Expenses	1,342	1,247	(95)
Agency Services	5,306	4,980	(326)
Miscellaneous Expenses	6,812	7,984	1,172
<b>Total Expenditure</b>	<b>287,061</b>	<b>286,014</b>	<b>(1,046)</b>
Income	(10,329)	(14,230)	(3,901)
<b>Net Expenditure</b>	<b>276,732</b>	<b>271,784</b>	<b>(4,947)</b>

All income is the Commissioner's; that shown in the table above is the element managed and monitored throughout the year by the Chief Constable on behalf of the Commissioner.

Close monitoring and management of the budget and the continuous challenge of all non-pay expenditure has contributed to the underspend, whilst the Chief Constable's Programme of Change has enabled earlier than planned delivery of future-year savings. The main areas contributing to this position are on-going underspends including the forensic science service, ICT / communications and other supplies and services, together with additional income from partnership funding, special services and fees for services to external organisations; rate rebates following a review of rateable values of the Commissioner's estate; and funding received from providing assistance to other forces.

The over spend on miscellaneous expenses relates to the accounting treatment of the North East Regional Special Operations Unit (NERSOU). The cost of officers and staff under NERSOU has been charged to the Regional budget, funded by a Home Office Grant and contributions from Durham, Cleveland and Northumbria. This is a new arrangement for 2013/14. Northumbria's contribution to the overall cost of NERSOU is shown as £1.249m under miscellaneous expenses, offset by an underspend on Employee and Pension costs and the relevant share of Home Office Grant of £0.496m is included within income. Further information is included under Note 11 to the accounts.

The Comprehensive Income and Expenditure Statement, shown on page 15, is a statutory account reflecting proper accounting practice and the accounting policies adopted by the Chief Constable, which differs from the revenue outturn position reported internally to management, shown above. All income is recognised in the Commissioner's Comprehensive Income and Expenditure Statement. Note 8 to the Core Financial Statements sets out the additional accounting charges not reported to management but included in the Chief Constable's Comprehensive Income and Expenditure Statement.

## **Performance Information**

Overall, a high level of performance has been maintained during 2013/14, with many of the targets set within the Police and Crime Plan met and/or exceeded.

### **Putting Victims First**

There was a considerable emphasis on putting victims first. A new definition of vulnerability was introduced, with improvements to systems and processes to support staff and officers in identifying repeat and vulnerable victims at the first point of contact. In addition, local processes and procedures have been put into place in area commands to ensure that vulnerable victims are provided with tailored and personal support. Victim satisfaction continues to be one of the highest in England and Wales, with the Force placed 2<sup>nd</sup> nationally for overall service and follow-up, and 6<sup>th</sup> nationally for action taken. To maintain this level of performance, a victim-led training approach has been adopted with training developed following engagement with victims, victim groups and community representatives.

### **Dealing with Anti-Social Behaviour (ASB)**

The number of ASB incidents has reduced by 13% (11,162 fewer incidents) compared to last year. Youth ASB has reduced by 24% and non-youth ASB has reduced by 8%. From April to 9<sup>th</sup> December 2013, 92.9% of vulnerable victims were attended within one hour. Further revisions to the definition of vulnerability were introduced in December. Since then 100% of incidents were attended within one hour. Targets for the percentage of ASB victims satisfied with being kept informed of progress, action taken and overall service have all been achieved, with satisfaction levels higher than last year. These service standards for victims of ASB were reinforced through the implementation of an ASB Commitment.

### **Domestic and Sexual Abuse**

All targets set within the Police and Crime Plan regarding domestic and sexual abuse have been achieved. 100% of high risk victims were offered an Independent Domestic/Sexual Violence Adviser, with all high risk victims referred to partner agencies. The Force was one of eight forces nationally identified as providing a better service to victims of domestic abuse following the recent HMIC thematic inspection.

### **Reducing Crime**

Total recorded crime increased by 4.96% (3,311 more crimes), although the Force continues to have one of the lowest crime rates in the country, placed 10<sup>th</sup> nationally. Burglary dwelling offences increased by 2.9% (88 crimes) compared to the previous year.

Violent crime increased by 17.1% compared to last year; however, the Force continues to have a lower rate of violent crime compared to many forces in England and Wales. Northumbria is positioned 1<sup>st</sup> in its Most Similar Group (MSG) and 6<sup>th</sup> nationally.

The target to increase the positive outcome rate to at least 45% was achieved, with the positive outcome rate for total recorded crime at 45.3%; the Force continues to have one of the highest positive outcome rates for total recorded crime in England and Wales.

### **Community Confidence**

Public confidence remains high. During 2013/14, there was a significant increase in the percentage of people who believe the level of patrol in their area is about right. Likewise, the percentage of people who feel safe living in their local area also increased.

The Chief Constable chairs the Strategic Management Board. This board is held on a four-weekly basis. The purpose of the Strategic Management Board is to drive performance and organisational change in support of the strategic objectives within the Police and Crime Plan. Performance against the Police and Crime Plan is reported at every meeting.

Performance is considered in a number of ways, for example:

- Performance compared to previous years.
- Performance compared to agreed service standards or targets.
- Performance compared to peers (most similar family of forces or nationally).
- Direction of travel.

The Strategic Management Board also considers other business areas, including equality, the Strategic Policing Requirement, community consultation, risk management and progress against action plans to address recommendations from HMIC.

### **Significant Changes since 2012/13**

There has been no significant accounting change in the 2012/13 Code of Practice on Local Authority Accounting.

During the year clarification has been received from CIPFA regarding the accounting treatment to be applied for pension contributions and other employee related assets and liabilities. This has resulted in the prior year adjustments to the Comprehensive Income and Expenditure Statement (CIES) and Balance Sheet detailed in Note 7 to the Accounts.

In addition there has been a change in accounting policy for post-employment benefits as a result of the Code's adoption of the amendments to IAS 19, the standard governing retirement costs. This has resulted in an additional prior year adjustment to the CIES also detailed in Note 7 to the Accounts.

### **Accounting for Pensions**

Retirement benefits are offered to employees as part of the terms and conditions of employment.

Pensions are accounted for in accordance with International Accounting Standard 19 (IAS19). This standard is based on a principle that an organisation should account for its

retirement benefits when it is committed to giving them, even if the actual payment of those benefits will be many years into the future. The net overall impact of IAS19 accounting entries is neutral in the accounts. The pension liability, which is disclosed on the Chief Constable's Balance Sheet, (balanced by the Pension Reserve) shows the underlying commitments that the Chief Constable has in the long run to pay retirement benefits. Recognition of the total liability has a substantial impact on the net worth as recorded in the Balance Sheet.

Police officers are members of either the Police Pension Scheme or the New Police Pension Scheme, collectively known as the Police Pension Scheme, which is a wholly unfunded scheme administered by the Chief Constable<sup>11</sup>. The Chief Constable makes contributions to the Pension Fund based on a percentage of officers' pensionable salaries. The regulations<sup>12</sup> governing funding arrangements require that if the Pension Fund does not have sufficient funds to meet the cost of pensions in any year the amount required to meet the deficit must be transferred from the Chief Constable to the Pension Fund. 100% of this deficit is recouped by the Chief Constable via the Commissioner in the form of a top-up grant paid by the Home Office.

Police staff are members of the Local Government Pension Scheme, administered by South Tyneside Council. An explanation of the pensions' accounting arrangements can be found in the Notes to the Accounts. The Chief Constable makes employer contributions on the basis of an agreed percentage of employees' contributions to the Pension Fund, based on an independent actuarial revaluation of the fund every three years.

Under provisions within the Police Reform and Social Responsibility Act 2011, both the Commissioner and Chief Constable can be employers.

## **Outlook for 2014/15 and Beyond**

### **Revenue Budget 2014/15**

The Commissioner approved a net revenue budget for 2014/15 (before use of reserves) of £277.7m, of which £264.9m related to services under the direction and control of the Chief Constable.

### **Police Funding**

The Commissioner's statement sets out the assumptions for police funding over the medium term, which will impact on the resources available to the Chief Constable. The Chief Constable is fully committed to continue delivering savings as set out in the MTFS to help meet the challenge of future budget pressures whilst ensuring the continued delivery of high quality services and high performance.

## **Events after the reporting period**

### **Police Reform and Social Responsibility Act**

The Police Reform and Social Responsibility Act (the Act) which created Commissioners also sets out a second 'Stage 2' transfer which refers to the subsequent movement of certain staff, property, rights and liabilities from the Commissioner to the Chief Constable. The Stage 2 transfer is designed to allow elected Commissioners the freedom to make

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<sup>11</sup> Police Reform & Social Responsibility Act 2011 (Schedule 16 Part 3)

<sup>12</sup> Police Pension Fund Regulations 2007 (SI 2007/1932)

their own local arrangements about how their functions and those of the police force will be discharged in future. The Stage 2 transfer was completed on 1 April 2014.

A handwritten signature in black ink, appearing to read 'MJ Tait', with a long horizontal stroke extending to the right.

**Mike Tait BSc (Econ) CPFA**

**Director of Finance**

**Dated:** 18 September 2014

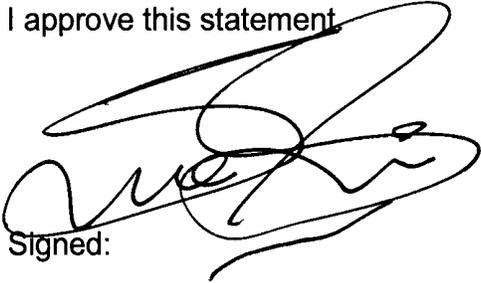
## Statement of Responsibilities

### The Chief Constable's Responsibilities

The Chief Constable is required to:

- appoint a person (Chief Finance Officer) to be responsible for the proper administration of her financial affairs;
- manage her affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- approve the Statement of Accounts

I approve this statement.



Signed:

Date: 18 September 2014

### The Chief Finance Officer's Responsibilities

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

In preparing this statement of accounts, the Chief Finance Officer has:

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

The Chief Finance Officer has also:

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

### Chief Finance Officer's Certificate

I hereby certify that the Statement of Accounts for the year ended 31 March 2014, required by the Accounts and Audit Regulations are set out in the following pages.

I further certify that the Statement of Accounts gives a true and fair view of the financial position of the Chief Constable at 31 March 2014 and of her income and expenditure for the year ended 31 March 2014.



Signed:

Date: 18 September 2014

**Mike Tait BSc (Econ) CPFA**  
**Director of Finance**

# Part 2: Core Financial Statements

## Comprising:

- Movement in Reserves Statement
- Comprehensive Income and Expenditure Statement
- Balance Sheet
- Cash Flow Statement
- Notes to the Core Financial Statements

## Movement in Reserves Statement 2013/14

	Note	General Fund £000	Total Useable Reserves £000	Pension Fund £000	Accumulated Absences Account £000	Total Unuseable Reserves £000	Total Reserves £000
<b>Balance as at 31 March 2013 (restated)</b>		<b>0</b>	<b>0</b>	<b>3,185,110</b>	<b>9,555</b>	<b>3,194,665</b>	<b>3,194,665</b>
(Surplus) or deficit on provision of services		174,751	174,751	0	0	0	174,751
Other Comprehensive Income and Expenditure	8(a)		0	(150,853)	0	(150,853)	<b>(150,853)</b>
Total Comprehensive Income and Expenditure		<b>174,751</b>	<b>174,751</b>	<b>(150,853)</b>	<b>0</b>	<b>(150,853)</b>	<b>23,898</b>
Adjustments between accounting basis & funding basis under regulations	8(b)	(174,751)	(174,751)	175,853	(1,102)	174,751	<b>0</b>
<b>Net (Increase) / Decrease before Transfers to Earmarked Reserves</b>		<b>0</b>	<b>0</b>	<b>25,000</b>	<b>(1,102)</b>	<b>23,898</b>	<b>23,898</b>
Transfers to / from Earmarked Reserves		0	0	0	0	0	0
<b>(Increase) or Decrease in Year</b>		<b>0</b>	<b>0</b>	<b>25,000</b>	<b>(1,102)</b>	<b>23,898</b>	<b>23,898</b>
<b>Balance as at 31 March 2014</b>		<b>0</b>	<b>0</b>	<b>3,210,110</b>	<b>8,453</b>	<b>3,218,563</b>	<b>3,218,563</b>

## Movement in Reserves Statement 2012/13

	Note	General Fund £000	Total Useable Reserves £000	Pension Fund £000	Accumulated Absences Account £000	Total Unuseable Reserves £000	Total Reserves £000
<b>Balance as at 1 April 2012 (restated)</b>		<b>0</b>	<b>0</b>	<b>2,781,493</b>	<b>8,304</b>	<b>2,789,797</b>	<b>2,789,797</b>
(Surplus) or deficit on provision of services		156,850	156,850	0	0	0	156,850
Other Comprehensive Income and Expenditure	8(a)	0	0	248,018	0	248,018	<b>248,018</b>
Total Comprehensive Income and Expenditure		<b>156,850</b>	<b>156,850</b>	<b>248,018</b>	<b>0</b>	<b>248,018</b>	<b>404,868</b>
Adjustments between accounting basis & funding basis under regulations	8(b)	(156,850)	(156,850)	155,599	1,251	156,850	<b>0</b>
<b>Net (Increase) / Decrease before Transfers to Earmarked Reserves</b>		<b>0</b>	<b>0</b>	<b>403,617</b>	<b>1,251</b>	<b>404,868</b>	<b>404,868</b>
Transfers to / from Earmarked Reserves		0	0	0	0	0	0
<b>(Increase) or Decrease in Year</b>		<b>0</b>	<b>0</b>	<b>403,617</b>	<b>1,251</b>	<b>404,868</b>	<b>404,868</b>
<b>Balance as at 31 March 2013 (restated)</b>		<b>0</b>	<b>0</b>	<b>3,185,110</b>	<b>9,555</b>	<b>3,194,665</b>	<b>3,194,665</b>

## Comprehensive Income and Expenditure Statement - Chief Constable

		Restated 2012/13			2013/14	
Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000	Police Objective Analysis Service Expenditure Analysis	Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000
193,122	0	193,122	Local Policing	200,010	0	200,010
18,256	0	18,256	Dealing with the Public	19,499	0	19,499
19,972	0	19,972	Criminal Justice Arrangements	19,850	0	19,850
12,045	0	12,045	Roads Policing	12,823	0	12,823
18,809	0	18,809	Specialist Operations	16,781	0	16,781
17,873	0	17,873	Intelligence	18,577	0	18,577
46,131	0	46,131	Specialists Investigations	45,040	0	45,040
5,466	0	5,466	Investigative Support	6,192	0	6,192
4,402	0	4,402	National Policing	4,356	0	4,356
25	0	25	Corporate & Democratic Core	25	0	25
			Non Distributed Costs: Past Service Cost /			
(730)	0	(730)	(Curtailed Gain)	120	0	120
0	(314,141)	(314,141)	PCC Financing of Police Services	0	(305,582)	(305,582)
<b>335,371</b>	<b>(314,141)</b>	<b>21,230</b>	<b>Net Cost of Services</b>	<b>343,273</b>	<b>(305,582)</b>	<b>37,691</b>
			Financing and Investment Income and Expenditure (Interest on the net defined pension benefit liability / (asset))			
		<u>135,620</u>				<u>137,060</u>
		<b>156,850</b>	<b>(Surplus) or Deficit on the Provision of Services</b>			<b>174,751</b>
		<u>248,018</u>	Re-measurements of the net defined pension benefit liability			<u>(150,853)</u>
		<b>248,018</b>	<b>Other Comprehensive Income &amp; Expenditure</b>			<b>(150,853)</b>
		<u><b>404,868</b></u>	<b>Total Comprehensive Income &amp; Expenditure</b>			<u><b>23,898</b></u>

# Balance Sheet

Restated 01/04/2012	Restated 31/03/2013		31/03/14	Notes
£000s	£000s		£000s	
13,297	15,946	Short-term debtors	16,188	12
<b>13,297</b>	<b>15,946</b>	<b>Current Assets</b>	<b>16,188</b>	
(21,601)	(25,501)	Short-term creditors	(24,641)	13
<b>(21,601)</b>	<b>(25,501)</b>	<b>Current Liabilities</b>	<b>(24,641)</b>	
(2,781,493)	(3,185,110)	Other long-term liabilities (pensions)	(3,210,110)	
<b>(2,781,493)</b>	<b>(3,185,110)</b>	<b>Long Term Liabilities</b>	<b>(3,210,110)</b>	
<b>(2,789,797)</b>	<b>(3,194,665)</b>	<b>Net Assets</b>	<b>(3,218,563)</b>	
		<b>Usable Reserve</b>		
0	0	General Reserve	0	
		<b>Unusable Reserve</b>		
8,304	9,555	Accumulated Absences Account	8,453	
2,781,493	3,185,110	Pensions Reserve	3,210,110	
<b>2,789,797</b>	<b>3,194,665</b>	<b>Total Reserves</b>	<b>3,218,563</b>	

# Cash Flow Statement

Restated 2012/13 £'000		2013/14 £'000
156,850	(Surplus) or Deficit on the provision of services	174,751
(156,850)	<b>Adjustments to surplus or deficit on the provision of service for non-cash movements:</b>	(174,751)
	<b>Accruals Adjustments:</b>	
2,649	Increase/(Decrease) in Debtors	242
<u>(2,649)</u>	(Increase)/Decrease in Creditors	<u>(242)</u>
<b>0</b>	<b>Net cash flows from Operating Activities</b>	<b>0</b>
<b>0</b>	<b>Net (increase)/decrease in cash and cash equivalents</b>	<b>0</b>
0	Cash and cash equivalents at the beginning of the period	0
0	Cash and cash equivalents at the end of the period	0

# Notes to the Core Financial Statements

## 1. Statement of Accounting Policies

### a) Introduction

The purpose of this Statement of Accounting Policies is to explain the basis for the recognition, measurement and disclosure of transactions and other events in the accounts.

Accounting policies are the principles, bases, conventions, rules and practices applied by an entity that specify how the effects of transactions and other events are to be reflected in its financial statements through recognising, selecting measurement bases for and presenting assets, liabilities, gains, losses and changes in reserves.

The financial statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14, issued by CIPFA, and are prepared in accordance with International Financial Reporting Standards (IFRS).

In line with CIPFA's best practice approach to accounting for best value, the accounts are presented in compliance with the service expenditure analysis set out in CIPFA's Service Reporting Code of Practice (SeRCOP).

Except where specified in the Code, estimation techniques that most closely reflect the economic reality of the transactions based on all known facts available have been used.

The Accounting concepts and policies which have a material impact on the accounts are as follows:

### b) Transfer of functions from Northumbria Police Authority

The Police Reform and Social Responsibility Act 2011 (the Act) abolished Northumbria Police Authority on 22 November 2012 replacing it with two corporations sole; the Police and Crime Commissioner for Northumbria and the Chief Constable for Northumbria. The Act provided for a statutory transfer of all assets, liabilities, contracts and reserves from the Police Authority to the Commissioner at 22 November 2012 (Stage 1). The reforms of the Act will be phased over a number of years in a two-stage transition process. At the Balance Sheet date of 31 March 2013, all assets, liabilities, contracts and reserves remain under the control of the Commissioner. The second stage (Stage 2) came into force on 1<sup>st</sup> April 2014 when the employment contracts of those staff and officers directly under the control of the Chief Constable were transferred to her from the Commissioner.

By virtue of the powers and responsibilities of the Commissioner as designated by the Act and the Home Office Financial Management Code of Practice, the Commissioner controls the Chief Constable for financial reporting purposes and as such is required to prepare consolidated financial statements for the Group (the Commissioner and the Chief Constable) as well as her own single-entity accounts. The Chief Constable, who is treated as a subsidiary of the Commissioner, has prepared her own single-entity accounts.

All expenditure for the Group is paid for by the Commissioner from the Police Fund. All income and funding is paid into the Police Fund and recognised in the Commissioner's accounts. The Group financial statements consolidate all income, expenditure, assets, liabilities, reserves and cash flows of the Group.

The Chief Constable manages expenditure in relation to policing within the budget set by the Commissioner. This Statement of Accounts presents expenditure on policing following appropriate accounting practice.

**c) Accruals of expenditure and income**

The financial statements, other than the cash flow, are prepared on an accruals basis. This means that activity is accounted for in the year that it takes place, not simply when cash payments are made or received. In particular where expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet.

**d) Charges to revenue for non-current assets**

The Commissioner owns and controls all non-current assets but makes them available to the Chief Constable to deliver her policing function. The Commissioner's accounts must be debited with the cost of holding non-current assets during the year. The Chief Constable's accounts include a proxy charge for the use of those assets equivalent to depreciation, impairment and amortisation of non-current assets.

**e) Employee Benefits**

**Benefits payable during employment**

Short-term employee benefits, such as wages and salaries, paid annual leave and non-monetary benefits for current employees are recognised as an expense in the year in which employees render service. An accrual is made for the cost of holiday entitlements and lieu time earned by employees but not taken before the year-end and which employees can carry forward into the next financial year.

**Termination Benefits**

Termination benefits are amounts payable as a result of a decision by the Commissioner to terminate a member of staff's employment before the normal retirement date or an employee's decision to accept voluntary redundancy and are charged on an accruals basis in the Comprehensive Income and Expenditure Statement when the Commissioner is demonstrably committed to terminating the employment of an employee or group of employees. When an offer to encourage voluntary redundancy is made to a group of employees, a provision or contingent liability will be included in the accounts.

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

**Post-employment benefits (pensions)**

As part of the terms and conditions of employment, the Commissioner offers retirement benefits by participating in pension schemes. These are the Police Pension Scheme (including the New Police Pension Scheme) and the Tyne and Wear Pension Scheme, all of which offer defined benefits related to pay and service:

**The Police Pension Schemes** are unfunded defined benefit schemes, for which contributions are paid into a Pension Fund and pensions paid from the Fund. The deficit each year on the Fund is balanced to nil at the end of each year by receipt of a pension top-up grant from the Home Office. There are no investment assets built up to meet the pension liabilities and cash has to be generated by the Home Office to meet actual pension payments as they eventually fall.

**The Local Government Pension Scheme (Tyne & Wear Pension Fund)** is administered by South Tyneside Council. It is classified as a funded defined benefit scheme, meaning that the Chief Constable and employees pay contributions into a fund, calculated at a level estimated to balance the pensions' liabilities with investment assets.

Although retirement benefits will not actually be payable until employees retire, the Chief Constable has a commitment to recognise liabilities at the point at which employees earn their future entitlement. The aim is to ensure that the true net asset / liability of a defined benefit pension scheme is recognised in the Balance Sheet, and the true costs of retirement benefits are reflected in the Comprehensive Income and Expenditure Statement.

Movements during the year in the net asset / liability of the pension scheme are reflected in the Comprehensive Income and Expenditure Account. Actuarial gains and losses on fund assets and liabilities are recognised in the Comprehensive Income and Expenditure Account.

As with capital charges, pension entries are reconciled back to cash amounts payable to ensure that there is no effect upon council tax precept.

Further information relating to pension costs is included in the Notes to the Accounts.

**f) Events after the Balance Sheet date**

Where an event occurs after the Balance Sheet date, favourable or unfavourable, which provides evidence of conditions that existed at the Balance Sheet date, an adjusting event occurs and the amounts recognised in the Statement of Accounts will be adjusted to take into account any new information about that adjusting event.

Where an event occurs after the Balance Sheet date that is indicative of conditions that arose after the Balance Sheet date, the amounts recognised in the Statement of Accounts are not adjusted but are disclosed as a separate note to the accounts.

Events after the Balance Sheet date are reflected up to the date when the Statement of Accounts is authorised for issue and published.

**g) Prior period adjustments**

The majority of prior period items arise from corrections and adjustments that are the natural result of estimates inherent in the accounting process. Such adjustments constitute normal transactions in the year in which they are identified, and are accounted for accordingly. Material adjustments applicable to prior years arising from changes on accounting policies and to ensure consistency of presentation, that would otherwise misrepresent the accounts to the reader, are accounted for by restating the comparative figures for the preceding period in the Statement of Accounts and notes and adjusting the opening balance of reserves for the cumulative effect.

Details of the prior period adjustments for 2012/13 balances are provided in Note 7 to the Accounts on page 24.

**h) Overheads**

The costs of overheads and support services, including those controlled by the Commissioner but in support of the Force, are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2013/14 (SeRCOP). The total absorption costing principle is used – the full cost of overheads and support services (with the exception of Corporate and Democratic Core) are shared between users in proportion to the benefits received.

**i) Provisions and contingent liabilities**

**Provisions**

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

**Contingent liabilities**

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

**j) Value Added Tax (VAT)**

VAT is included in the Comprehensive Income and Expenditure Statement only to the extent that it is irrecoverable from HM Revenue and Customs.

**k) Joint Arrangements**

A joint arrangement is an arrangement of which two or more parties have joint control.

Expenditure relating to the cost of Joint Arrangements is charged to the Comprehensive Income and Expenditure Statement (CIES) of the Chief Constable with any associated income being shown against the CIES for the Police and Crime Commissioner Single Entity. Any assets held jointly are accounted for on the Balance Sheet of the Police and Crime Commissioner Single Entity and Group as the % share of assets attributable to the Police and Crime Commissioner for Northumbria.

The Force currently has a Joint Arrangement with Durham and Cleveland, the North East Regional Special Operations Unit (NERSOU). Further detail of the arrangements in place and the outturn for 2013/14 is shown in Accounting Note 11.

**2. Critical judgements in applying accounting policies**

In applying its accounting policies, certain judgements have been made about the complex transactions or those involving uncertainty about future events. The most significant area where judgements have been necessary is in the accounting recognition of assets, liabilities, reserves, revenue and expenditure in the two entities' accounts following the introduction of new governance arrangements under the Police Reform and Social Responsibility Act, see Note 6.

**3. Impact of changes in accounting policies and prior period adjustments**

Changes in accounting policies are only made when required by proper accounting practices or the change provides more reliable or relevant information about the effect of transactions, other events and conditions on the Chief Constable's financial position or financial performance. When a change is made, it is applied retrospectively by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied. Details of the prior period adjustments for 2012/13 comparative amounts are provided in Note 7 to the Accounts on page 24.

Changes in accounting estimates are accounted for prospectively i.e. in the current and future years affected by the change. Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

**4. Accounting standards that have been issued but have not yet been adopted**

A number of amendments to accounting standards have been issued that are applicable to periods commencing after 31<sup>st</sup> March 2014:

- IFRS 13 Fair Value Measurement (May 2011)
- IFRS 10 Consolidated Financial Statements
- IFRS 11 Joint Arrangements
- IFRS 12 Disclosure of Interests in Other Entities
- IAS 27 Separate Financial Statements (as amended in 2011)
- IAS 28 Investments in Associates and Joint Ventures (as amended in 2011)
- Financial Instruments: Presentation
- Annual Improvements to IFRS 2009 – 2011 Cycle

It is not anticipated that any of these amendments will have a material effect on the Financial Statements and require retrospective application.

**5. Assumptions made about the future and other major sources of estimation uncertainty**

The financial statements contain estimated figures that are based on assumptions made about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates. The item in the Chief Constable's Balance Sheets as at 31 March 2014 for which there is significant risk of material adjustment in the forthcoming financial year is as follows:

**Pension Liabilities**

Pensions liabilities included in the Balance Sheet have been assessed on an actuarial basis using the projected unit credit method which results in an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, rates of inflation and discount rates. The pension fund liabilities for the Police Pension Scheme have been assessed by GAD, the Government's Actuary Department, based on the membership data provided at 31 March 2012 for the latest funding valuation. Further details are included within Note 15b).

The assessment of pension liabilities for the Tyne and Wear Pension Scheme has been assessed by AON Hewitt Limited, an independent firm of actuaries, which is based on their last full valuation of the scheme carried out as at 31 March 2013. The Actuary also estimates the Tyne and Wear Pension Fund position as at 31 March 2014 including their assessment of future movements in the return on pension assets which is subject to fluctuations in investment markets and discount rate volatility. Further details are included within Note 15a).

**6. Effects of the Police Reform and Social Responsibility Act**

The Police Reform and Social Responsibility Act 2011 (the Act) abolished Northumbria Police Authority on 22 November 2012 replacing it with two corporations sole; the Police and Crime Commissioner for Northumbria and the Chief Constable for Northumbria. The reforms of the Act were to be phased over a number of years in a two stage transition process, the first of which provided for a statutory transfer of all income, expenditure, assets, liabilities and reserves of the Police Authority to the Commissioner at 22 November 2012.

The requirement to prepare consolidated financial statements for the Group as well as single-entity accounts for the Commissioner and Chief Constable required a judgement as to what to recognise in each set of financial statements.

Under the second phase of the transition process, the Commissioners Stage 2 Scheme transfers staff from the employment of the Police and Crime Commissioner to that of the Chief Constable.

The **Northumbria Police Staff Transfer Scheme 2013** came into force on 1<sup>st</sup> April 2014 transferring all Police warranted and non-warranted staff in the employment of the Police and Crime Commissioner for Northumbria at that date, to the employment of the Chief Constable of Northumbria Police. This involved the transfer of 1,847 posts in total with the Commissioner only retaining core staff in order to fulfil the statutory role.

### **Accounting recognition**

At 31 March 2014, all assets, liabilities and reserves were the responsibility of the Commissioner. The Commissioner owns and controls all non-current assets, loans, investments and borrowing. All contracts are in her name. She holds the bank account, is responsible for all liabilities, and she holds all useable reserves. The Commissioner is the recipient of all income including government grants, precepts and other sources of income which is paid into the Police Fund and all expenditure of the Chief Constable is funded by the Commissioner from the Police Fund. There are no cash transactions between the two bodies.

However, the recognition of expenditure in the single-entity accounts of the Chief Constable and the Police and Crime Commissioner is based on economic benefit and service potential derived by each. Under the provisions of the Act, the Chief Constable is responsible to the Commissioner for the day to day provision of the policing function. In so doing, the Chief Constable consumes the Commissioner's resources in fulfilling her statutory functions. Local governance arrangements, give day to day responsibility for financial management of the Force to the Chief Constable within the framework of the agreed budget allocation and levels of authorisation issued by the Commissioner. Consequently, expenditure in relation to policing is recognised in the financial statements of the Chief Constable funded by an equal and opposite credit from the Commissioner for resources consumed. Similarly, following guidance on best practice, the liabilities associated with the employees costs disclosed in the Chief Constable's Accounts are also shown in her Balance Sheet rather than that of the Commissioner. To aid comparability, the disclosure of the comparable liabilities for 2012/13 have been restated to show them in the Chief Constable's Accounts. Details of these restatements are given in the Notes to the Accounts (Note 7).

All income, as well as expenditure directly controlled by the Commissioner, in relation to her Office and Community Safety Funding, is recognised in the financial statements of the Commissioner.

In order to show the total economic cost of policing in the Chief Constable's accounts the following charges, under the control of the Commissioner, are included as a proxy in the Chief Constable's Comprehensive Income and Expenditure Statement:

- the use of non-current assets equivalent to the depreciation, impairment, amortisation and revaluation of the assets charged to the Commissioner £17.26m;
- the current service cost of providing retirement benefits to employees £82.97m; and
- the cost of insurance and support services expended by the Commissioner but provided to support the Chief Constable in her provision of policing £2.2m.

The following intra-group transactions are included in the single-entity accounts but eliminated from the Group accounts:

- a debit for the resources consumed by the Chief Constable is included in the Comprehensive Income and Expenditure Account of the Chief Constable with a corresponding credit in the Comprehensive Income and Expenditure Statement of the Commissioner.
- the Chief Constable's Balance Sheet includes any creditors and debtors in relation to the cost of policing, offset by a balancing net debtor of 'resources consumed by the Chief Constable but no cash payment made by the Commissioner, or payments made by the Commissioner in advance of services received by the Chief Constable at the Balance Sheet date' with a corresponding net creditor in the Commissioner's Balance Sheet.

## **7. Prior period adjustments**

Following clarification and guidance from CIPFA, the pension liabilities and other staff related assets and liabilities for the year ended 31 March 2014 are shown as part of the Chief Constable's Financial Statements in which the associated expenditure is recorded. In the financial statement produced last year, these balance sheet items were shown in the Financial Statements of the Police and Crime Commissioner. In order to facilitate comparison between the two years the Financial Statements for the year ended 31 March 2013 have been restated on the same basis as the Statements for 2014.

The full pension liability as at 31 March 2013 has been shown as relating to the Chief Constable on the basis that the pension scheme liabilities relating to the staff under the direct control of the Commissioner at that date are considered to be immaterial.

A further restatement is required in relation to the Code's adoption of the amendments to IAS 19 which is the standard governing retirement costs. There is a new measurement of the net defined benefit liability which now includes the return on plan assets. Additionally, the administrative expenses of the pension scheme are now charged to the net cost of services in the Comprehensive Income and Expenditure Statement (CIES). This change has required a restatement of the 2012/13 CIES.

The adjustments to both the CIES and the Balance Sheet arising from these restatements are shown in the following tables:

<b>Prior Period Adjustments</b>				
<b>(12/13 Comprehensive Income and Expenditure Statement)</b>				
	<b>Original</b>	Adjustment	Adjustment	<b>Restated</b>
	<b>2012/13</b>	(Employee	(IAS 19)	<b>2012/13</b>
	<b>£000s</b>	Liabilities)	(£000s)	<b>£000s</b>
		£000s	£000s	
Local Policing	192,922	0	200	193,122
Dealing with the Public	18,237	0	19	18,256
Criminal Justice Arrangements	19,951	0	21	19,972
Roads Policing	12,032	0	13	12,045
Specialist Operations	18,789	0	20	18,809
Intelligence	17,854	0	19	17,873
Specialist Investigations	46,084	0	47	46,131
Investigative Support	5,460	0	6	5,466
National Policing	4,397	0	5	4,402
	<b>335,726</b>	<b>0</b>	<b>350</b>	<b>336,076</b>
Corporate & Democratic Core	25	0	0	25
Non Distributed Costs: Curtailment gain from redundancies	0	(730)	0	(730)
PCC Financing of Police Services	(335,751)	21,610	0	(314,141)
<b>Net Cost of Services</b>	<b>0</b>	<b>20,880</b>	<b>350</b>	<b>21,230</b>
Financing & Investment Income and Expenditure	0	132,070	3,550	135,620
<b>(Surplus) or Deficit on the Provision of Services</b>	<b>0</b>	<b>152,950</b>	<b>3,900</b>	<b>156,850</b>
Remeasurement of the net defined pension benefit liability	0	251,918	(3,900)	248,018
<b>Other Comprehensive Income &amp; Expenditure</b>	<b>0</b>	<b>251,918</b>	<b>(3,900)</b>	<b>248,018</b>
<b>Total Comprehensive Income &amp; Expenditure</b>	<b>0</b>	<b>404,868</b>	<b>0</b>	<b>404,868</b>

<b>BALANCE SHEET AT 31 MARCH</b>	<b>Chief Constable</b>		
	<b>Original</b>	<b>Prior Year</b>	<b>Restated</b>
	<b>disclosure</b>	<b>adjustment</b>	<b>Balance</b>
	<b>in 2013</b>	<b>for 2013</b>	<b>for 2013</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Short Term - Debtors</b>			
Other public bodies	2	60	62
Bodies external to general government	217	55	272
Commissioner (intra-group adjustment)	20,377	(4,765)	15,612
	<u>20,596</u>	<u>(4,650)</u>	<u>15,946</u>
<b>Short Term - Creditors</b>			
Central government bodies	(812)	(4,343)	(5,155)
NHS bodies	(119)		(119)
Other local authorities	(811)	(550)	(1,361)
Public corporations and trading funds	(4)		(4)
Bodies external to central government	(18,850)	(12)	(18,862)
	<u>(20,596)</u>	<u>(4,905)</u>	<u>(25,501)</u>
<b>Long Term Liabilities</b>			
Other long-term liabilities (pensions)	0	(3,185,110)	(3,185,110)
<b>Total unusable reserves</b>			
Accumulated Absences Account	0	9,555	9,555
Pensions Reserve	0	3,185,110	3,185,110
<b>Total Reserves</b>	<u>0</u>	<u>3,194,665</u>	<u>3,194,665</u>

## 8. Movement in Reserves Statement

The Movement in Reserves Statement details all movements in the Chief Constable's reserves. The 'Surplus or deficit on the provision of services' line shows the true economic cost of providing the policing services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Reserve balance for council tax setting purposes. The 'Net (Increase)/Decrease before Transfers to Earmarked Reserves' line shows the statutory General Reserve balance before any discretionary transfers to or from earmarked reserves. The following tables provide further details of the amounts disclosed in the Movement in Reserves Statement.

- a) **Other Comprehensive Income and Expenditure** comprises items of expense and income that are not recognised in the surplus or deficit on the provision of services as required or permitted by the Code. The following tables detail the transactions during 2012/13 and 2013/14:

<b>Other Comprehensive Income &amp; Expenditure</b>		
<b>2012/13</b>		<b>2013/14</b>
<b>Unusable Reserves</b>		<b>Unusable Reserves</b>
<b>£000s</b>		<b>£000s</b>
248,018	Re-measurements of the net defined pension benefit liability	(150,853)
<b>248,018</b>	<b>Total Other Comprehensive Income and Expenditure</b>	<b>(150,853)</b>

- b) **Adjustments between accounting basis and funding under regulations** details the adjustments that are made to the total comprehensive income and expenditure recognised by the Chief Constable in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Chief Constable to meet future capital and revenue expenditure.

<b>Adjustments between accounting basis &amp; funding basis under regulations</b>				
<b>2012/13</b>			<b>2013/14</b>	
<b>Usable Reserves</b>	<b>Unusable Reserves</b>		<b>Usable Reserves</b>	<b>Unusable Reserves</b>
<b>General Fund</b>	<b>Pension Fund</b>		<b>General Fund</b>	<b>Pension Fund</b>
<b>£000s</b>	<b>£000s</b>		<b>£000s</b>	<b>£000s</b>
		Amount by which officer remuneration charged to the Comprehensive Income & Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	1,102	(1,102)
(1,251)	1,251			
(202,400)	202,400	Reversal of IAS 19 Pension Charges	(220,105)	220,105
		Contributions due under the pension scheme regulations	44,252	(44,252)
46,801	(46,801)			
<b>(156,850)</b>	<b>156,850</b>	<b>Total adjustments between accounting basis and funding basis under regulations</b>	<b>(174,751)</b>	<b>174,751</b>

- c) The Chief Constable maintains three reserves, which are classified as either usable (backed by cash) relating to the General Fund, or unusable (notional adjustment accounts not supported by cash) relating to the Accumulated Absences Account and the Pension fund.

The Usable Reserves are the responsibility of the Commissioner and the level of the reserve is determined by her. The Comprehensive Income and Expenditure Statements of the Chief Constable and the Commissioner show that the Commissioner has fully funded the expenditure of the Chief Constable so that the Chief Constable's general reserve balance is maintained at a nil balance.

#### **Unusable reserves:**

The **Accumulated Absences Account** absorbs the differences that would otherwise arise on the General Fund balance from accruing for compensated absences earned but not taken in the year e.g. annual leave entitlement carried forward at 31 March. Statutory arrangements require that the impact on the General Fund is neutralised by transfers to/from the Account.

The **Pensions Reserve** absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Chief Constable accounts for post-employment benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to

reflect inflation, changing assumptions and investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned to be financed as the Chief Constable makes employer's contributions to pension funds or eventually pays any pensions for which she is directly responsible. The debit balance on the reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

<b>Analysis of the transfers to / from reserves</b>					
<b>Restated Balance as at 31/03/13 £000s</b>		<b>Transfers to reserve £000s</b>	<b>Transfers from reserve £000s</b>	<b>Total movement on reserve £000s</b>	<b>Balance as at 31/03/14 £000s</b>
	<b>Useable Reserves</b>				
<b>0</b>	General Reserve	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
<b>0</b>	<b>Total usable reserves</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
	<b>Unusable Reserves</b>				
9,555	Accumulated Absences Account	(1,102)	0	(1,102)	8,453
3,185,110	Pensions Reserve	(150,853)	175,853	25,000	3,210,110
<b>3,194,665</b>	<b>Total unusable reserves</b>	<b>(151,955)</b>	<b>175,853</b>	<b>23,898</b>	<b>3,218,563</b>
<b>3,194,665</b>	<b>Total reserves</b>	<b>(151,955)</b>	<b>175,853</b>	<b>23,898</b>	<b>3,218,563</b>

## 9. Audit fees

The Chief Constable has incurred the following costs in relation to work carried out by the Group's external auditors, Mazars, in 2013/14.

<b>Auditor's Fees</b>	
<b>2012/13 £000s</b>	<b>2013/14 £000s</b>
25	25
<b>25</b>	<b>25</b>

## 10. Officer Remuneration

The following tables set out the remuneration for senior police staff and relevant police officers whose salary, including voluntary redundancy payments, is more than £50,000 per year in 2013/14 and the equivalent disclosure for 2012/13.

Remuneration Band	Number of Employees	
	2012/13	2013/14
£50,000 - £54,999	110	104
£55,000 - £59,999	85	69
£60,000 - £64,999	11	8
£65,000 - £69,999	2	1
£70,000 - £74,999	3	7
£75,000 - £79,999	9	15
£80,000 - £84,999	14	7
£85,000 - £89,999	6	4
£90,000 - £94,999	3	2
£95,000 - £99,999	0	0

Remuneration of the officers in the Chief Officer Team and in statutory roles are disclosed in the following tables.

<b>Remuneration of Senior Employees 2013/14</b>						
<b>Post holder information</b>	<b>Notes</b>	<b>Salary (Including fees &amp; allowances) £</b>	<b>Benefits in Kind £</b>	<b>Total remuneration excluding pension contributions £</b>	<b>Pension contributions £</b>	<b>Total Remuneration 2013/14 £</b>
Chief Constable - Sue Sim		160,483	4,058	<b>164,541</b>	38,260	<b>202,801</b>
Deputy Chief Constable - B		136,743	5,376	<b>142,119</b>	31,687	<b>173,806</b>
Assistant Chief Constable – B	<b>9</b>	74,837	5,721	<b>80,558</b>	0	<b>80,558</b>
Assistant Chief Constable – C	<b>10</b>	47,529	1,557	<b>49,086</b>	11,754	<b>60,840</b>
Assistant Chief Constable – D	<b>11</b>	81,334	5,886	<b>87,220</b>	17,641	<b>104,861</b>
Assistant Chief Constable – E	<b>12</b>	39,632	1,637	<b>41,269</b>	7,970	<b>49,239</b>
Assistant Chief Officer, Corporate Services		100,843	5,919	<b>106,762</b>	13,110	<b>119,872</b>
Director of Finance (Chief Finance Officer)		88,955	124	<b>89,079</b>	11,554	<b>100,633</b>
<b>Total</b>		<b>730,356</b>	<b>30,278</b>	<b>760,634</b>	<b>131,976</b>	<b>892,610</b>

Note 9: Assistant Chief Constable B left on 17 December 2013

Note 10: Assistant Chief Constable C left on 29 August 2013

Note 11: Assistant Chief Constable D started in post 19 June 2013

Note 12: Assistant Chief Constable E started in post 25 November 2013

<b>Remuneration of Senior Employees 2012/13</b>						
<b>Post holder information</b>	<b>Notes</b>	<b>Salary (Including fees &amp; allowances) £</b>	<b>Benefits in Kind £</b>	<b>Total remuneration excluding pension contributions £</b>	<b>Pension contributions £</b>	<b>Total Remuneration 2013/14 £</b>
Chief Constable - Sue Sim		159,514	4,762	<b>164,276</b>	37,935	<b>202,211</b>
Deputy Chief Constable - A	<b>1</b>	127,354	14,950	<b>142,304</b>	29,580	<b>171,884</b>
Deputy Chief Constable - B	<b>2</b>	8,300	524	<b>8,824</b>	1,964	<b>10,788</b>
Assistant Chief Constable - A	<b>3</b>	109,092	6,287	<b>115,379</b>	25,525	<b>140,904</b>
Assistant Chief Constable - B		108,523	8,089	<b>116,612</b>	0	<b>116,612</b>
Assistant Chief Constable - C		106,604	3,927	<b>110,531</b>	24,805	<b>135,336</b>
Assistant Chief Officer, Corporate Services		91,339	7,363	<b>98,702</b>	11,874	<b>110,576</b>
Assistant Chief Officer, Finance & Resources	<b>4</b>	48,430	4,749	<b>53,179</b>	125,991	<b>179,170</b>
Director of Finance	<b>5</b>	26,142	35	<b>26,177</b>	3,399	<b>29,576</b>
<b>Total</b>		785,298	50,686	<b>835,984</b>	261,073	<b>1,097,057</b>

Note 1: Deputy Chief Constable A left on 31 March 2013

Note 2: Deputy Chief Constable B started in post 25 March 2013

Note 3: Assistant Chief Constable was in post until 24 March 2013 when he filled the Deputy Chief Constable's post

Note 4: Assistant Chief Officer, Finance & Resources took early retirement on 31 October 2012. The Pension contributions include £119,695 strain on fund payment to the Pension Fund.

Note 5: Director of Finance became the statutory post of Chief Finance Officer for the Chief Constable on 22 November 2012. He became Treasurer to the Police and Crime Commissioner on 29 March 2013 but received no remuneration for the role.

Note 6: Police and Crime Commissioner took office on 22 November 2012

Note 7 Deputy Police and Crime Commissioner started in post 22 November 2012

Note 8 Chief Executive & Monitoring Officer started in post 29 March 2013

<b>Exit packages 2013/14</b>				
	<b>Number of Other Departures</b>	<b>Number of Compulsory Redundancies</b>	<b>Total number of departures</b>	<b>Total cost of exit packages in each band £</b>
£ 0,000 - £20,000	1	5	6	52,112
£20,001 - £40,000	0	0	0	0
£40,001 - £60,000	0	1	1	55,161
£60,001 - £80,000	1	0	1	69,878
<b>Total</b>	<b>2</b>	<b>6</b>	<b>8</b>	<b>177,151</b>

The table above shows the total number and cost of exit packages during the year ending 31 March 2014.

In 2010/11, the former Police Authority agreed a voluntary redundancy programme and became demonstrably committed to a reduction of police staff posts. The 2012/13 Statement of Accounts noted 74 staff (67.13fte) leaving the Force with an exit package at a total cost of £1.191m.

## 11. Related Party Transactions

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

### Senior Officers

During 2013/14, no related party transaction was entered into with the Chief Constable or any senior officers within the Force or their close family members.

### Police and Crime Commissioner for Northumbria

The Commissioner has control over the general operations of the Chief Constable: she governs the financial and operational policy framework within which the Chief Constable operates; and she funds the expenditure on operational policing incurred by the Chief Constable, which is disclosed in the Comprehensive Income and Expenditure Statement.

### UK Government

Central government has control over the general operations of the Chief Constable – it is responsible for providing the statutory framework, within which the Chief Constable delivers operational policing.

### Joint Arrangements

The Chief Constable is involved with a number of entities to aid joint working between organisations. Any expenditure is accounted for within the Comprehensive Income and Expenditure Statement. The main joint arrangements identified during 2013/14 were:

- North East Regional Special Operations Unit

### North East Regional Special Operations Unit (NERSOU)

On 22 October 2013 the Chief Constables and Police and Crime Commissioners for Northumbria, Durham and Cleveland signed a Section 22a Collaboration Agreement for the North East Regional Special Operations Unit (NERSOU). The objective of the collaborative arrangement under NERSOU is to provide additional capacity and capability across the region to tackle serious and organised crime in line with the National Core Capabilities Programme. Funding for NERSOU is provided between the three forces under a fully immersed budget model, with the application of a Home Office Grant and the net cost to the region being apportioned on the basis of central grant funding. For 2013/14 the contributions were as set out below:

Northumbria	57.0%
Durham	20.9%
Cleveland	22.1%

The final outturn position for NERSOU was £1.319m as set out in the following table with Northumbria's share of the net cost being £0.753m.

	<b>NERSOU Outturn 2013/14 £000</b>	<b>Northumbria 2013/14 £000</b>
Employees	1,438	820
Pensions	248	141
Premises	233	133
Supplies and Services	73	42
Transport	139	79
Establishment Expenses	54	31
Miscellaneous Expenses	5	3
<b>Total Expenditure</b>	<b>2,190</b>	<b>1,249</b>
Income	871	496
<b>Net Expenditure</b>	<b>1,319</b>	<b>753</b>

The cost of NERSOU in the Revenue Outturn Report for the Chief Constable is shown as £1.249m within Miscellaneous Expenditure and £0.496m under income.

The accounting treatment for NERSOU in the Comprehensive Income and Expenditure Statement is that expenditure is shown as £1.249m in the Chief Constable's accounts with income being accounted for in the Police and Crime Commissioners single entity accounts. As all costs of the Chief Constable are met by the Commissioner the net cost to the Commissioner and the Group is £0.753m.

In addition to revenue expenditure NERSOU received a capital grant of £0.200m in 2013/14 which was used to purchase vehicles and equipment for the region. The share of NERSOU assets attributable to Northumbria is 57% and is held on the balance sheet of the Police and Crime Commissioner Single Entity and Group accounts.

**12. Debtors**

These amounts represent payments in advance, such as invoices spanning financial periods and the amount due from the Commissioner for resources consumed by the Chief Constable for which cash payments were not made by the 31 March 2014.

<b>Short-term Debtors</b>	
<b>31 March 2013</b>	<b>31 March 2014</b>
<b>£000s</b>	<b>£000s</b>
0	85
62	102
271	1,677
15,612	14,324
<b>15,946</b>	<b>16,188</b>

**13. Creditors**

These amounts represent sums owed to a number of sources, such as other local authorities and government departments, in relation to policing expenditure.

<b>Short-term Creditors</b>	
<b>31 March 2013</b>	<b>31 March 2014</b>
<b>£000s</b>	<b>£000s</b>
(5,155)	(4,741)
(119)	(393)
(1,361)	(90)
(4)	(1,092)
(18,862)	(18,326)
<b>(25,501)</b>	<b>(24,641)</b>

Under IAS19 Employee Benefits, the Chief Constable has a long-term liability in relation to future pension commitments.

**14. Provisions and contingent liabilities****Provisions**

As at the 31<sup>st</sup> March 2014 the Chief Constable has no provisions.

**Contingent liabilities**

At 31 March 2014, the Chief Constable has a contingent liability in relation to injury pensions, which has arisen following a judicial review ruling in which it was deemed unlawful to review the injury pension of an officer downwards at age 65. A liability will arise if injury pensions are reinstated to their original levels. An estimate has not been disclosed as there is uncertainty around the number of likely further claimants and the value of them.

At 31 March 2014, the Chief Constable has a contingent liability in relation to an Employment Tribunal. The Employment Tribunal concluded in June 2014 when an award was made by the Courts. However, the value of this award is subject to an appeal by the Force which is not expected to conclude until 2015; therefore no provision has been made. The liability is estimated at £15,500.

At 31 March 2014, the Chief Constable has a contingent liability in relation to a second Employment Tribunal. An estimate has not been disclosed due to the uncertainty around the possible outcome of the proceedings. This is currently in very early stages, the Force is not

accepting liability and the case is unlikely to be concluded till January 2015; therefore no provision has been made.

## 15. Employee Benefits

### Benefits payable during employment

The following table shows the cost of holiday entitlements and lieu time earned by police officers and police staff under the direction and control of the Chief Constable but not taken by the year-end. The cost of employee benefits are charged to the Chief Constable's accounts under Net Cost of Services in the CIES and the reserve associated with the short term liability is shown under the Chief Constable's Unusable Reserves.

<b>Benefits payable during employment</b>		
<b>2012/13</b>		<b>2013/14</b>
<b>£000s</b>		<b>£000s</b>
5,744	Local Policing	5,014
428	Dealing with the Public	504
465	Criminal Justice Arrangements	451
341	Roads Policing	313
498	Specialist Operations	382
522	Intelligence	453
1,385	Specialist Investigations	1,134
61	Investigative Support	98
111	National Policing	104
<b>9,555</b>	<b>Total employee benefits accrued at the Balance Sheet date</b>	<b>8,453</b>

### Post-employment benefits (pensions)

Post-employment benefits are pensions offered as part of the terms and conditions of police officers and police staff. They are accounted for in accordance with IAS19 in which pension liabilities are recognised at the point at which employees earn their future entitlement. The pension liability which is recognised in the Chief Constable's Balance Sheet and the in-year movement in the liability recognised in her Comprehensive Income and Expenditure Statement.

#### a) Defined Benefit Plan: Tyne and Wear Pension Fund

The Tyne and Wear Pension Fund is a Local Government Pension Scheme administered by South Tyneside Council. This is a funded scheme, meaning that the Chief Constable and employees pay contributions into the fund calculated at a level estimated to balance the pension liabilities with investment assets.

In 2013/14, the Chief Constable paid £6.8m (£7.4m in 2012/13) to the Pension Fund in respect of pension contributions, representing 13% of pensionable pay (13% in 2012/13).

The scheme is classified as a defined benefit scheme, and is accrued in accordance with the requirements of International Accounting Standard 19 Employee Benefits (IAS 19). IAS 19 accounts for retirement benefits when they are committed to be given, even if the actual giving is many years into the future. IAS 19 also includes the Chief Constable's attributable share of the fund's assets and liabilities. Further information on the Tyne and Wear Pension Fund can be found in their Annual Report. This is available from South Tyneside Council's website.

### Transactions relating to retirement benefits

The Chief Constable recognises the cost of retirement benefits in the Cost of Services when they are earned by employees, rather than when the benefit is paid as pensions. However, the charge

which is made against council tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out of the Comprehensive Income and Expenditure Statement as an appropriation. The following transactions have been made in the Comprehensive Income and Expenditure Statement during the year:

<b>Charges to Comprehensive Income and Expenditure Statement</b>				
	Funded Liabilities as at 31 March		Unfunded Liabilities as at 31 March	
	2013 £m	2014 £m	2013 £m	2014 £m
<b>Operating Cost</b>				
Current Service Cost	7.74	8.50	0	0
Past service cost (incl. curtailments)	(0.73)	0.12	0	0
<b>Financing Cost</b>				
Interest on net defined benefit liability / (asset)	4.35	4.38	0.17	0.16
<b>Pension expense recognised in profit and loss</b>	<b>11.36</b>	<b>13.00</b>	<b>0.17</b>	<b>0.16</b>
<b>Remeasurements in OCI</b>				
Return on plan assets (in excess of) / below that recognised in net interest	(12.41)	(2.68)	0	0
Actuarial (gains) / losses due to change in financial assumptions	11.21	(17.91)	0.32	(0.20)
Actuarial (gains) / losses due to change in demographic assumptions	0	(5.30)	0	0.12
Actuarial (gains) / losses due to liability experience	(0.32)	(6.02)	(0.01)	(0.21)
<b>Total Amount recognised in OCI</b>	<b>(1.52)</b>	<b>(31.91)</b>	<b>0.31</b>	<b>(0.29)</b>
<b>Total Amount recognised</b>	<b>9.84</b>	<b>(18.91)</b>	<b>0.48</b>	<b>(0.13)</b>

## Assets and Liabilities in Relation to Retirement Benefits

<b>Changes to the present value of the defined benefit obligation</b>				
	Funded Liabilities as at		Unfunded Liabilities	
	31 March		as at 31 March	
	2013	2014	2013	2014
	£m	£m	£m	£m
<b>Opening defined benefit obligation</b>	<b>265.94</b>	<b>291.52</b>	<b>3.75</b>	<b>3.98</b>
Current service cost	7.74	8.50	0	0
Interest expense on defined benefit obligation	12.59	13.29	0.17	0.16
Contributions by participants	2.31	2.23	0	0
Actuarial (gains) / losses on liabilities	11.21	(17.91)	0.32	(0.20)
- financial assumptions				
Actuarial (gains) / losses on liabilities	0	(5.30)	0	0.12
- demographic assumptions				
Actuarial (gains) / losses on liabilities	(0.32)	(6.02)	(0.01)	(0.21)
- experience				
Net benefits paid out	(7.22)	(7.73)	(0.25)	(0.23)
Past service cost (incl. curtailments)	(0.73)	0.12	0	0
<b>Closing defined benefit obligation</b>	<b>291.52</b>	<b>278.70</b>	<b>3.98</b>	<b>3.62</b>

<b>Changes to the fair value of assets during the period</b>				
	Funded Liabilities as at		Unfunded Liabilities	
	31 March		as at 31 March	
	2013	2014	2013	2014
	£m	£m	£m	£m
<b>Opening fair value of assets</b>	<b>170.81</b>	<b>193.35</b>	<b>0</b>	<b>0</b>
Interest income on assets	8.24	8.91	0	0
Remeasurement gains / (losses) on assets	12.41	2.68	0	0
Contributions by the employer	6.80	6.21	0.25	0.23
Contributions by participants	2.31	2.23	0	0
Net benefits paid out	(7.22)	(7.73)	(0.25)	(0.23)
<b>Closing fair value of assets</b>	<b>193.35</b>	<b>205.65</b>	<b>0</b>	<b>0</b>

<b>Reconciliation of the present value of the defined benefit obligation and the fair value of fund assets to the assets and liabilities recognised in the balance sheet</b>		
	31 March	31 March
	2013	2014
	£m	£m
Present value of defined benefit obligation (funded)	291.52	278.70
Present value of defined benefit obligation (unfunded)	3.98	3.62
Asset / (liability) recognised on the balance sheet (funded)	(98.17)	(73.05)
Asset / (liability) recognised on the balance sheet (unfunded)	(3.98)	(3.62)
<b>Fair value of assets</b>	<b>193.35</b>	<b>205.65</b>

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date. Expected returns on equity investments reflect long-term real rate of return experienced on the respective markets. The actual return on scheme assets in the year was a gain of £11.59m (£20.65 m gain in 2012/13).

<b>Analysis of Scheme Assets</b>				
Asset	Asset split at 31 March 2014			Asset split at 31 March 2013
	(%)			(%)
	Quoted	Unquoted	Total	Total
Equities	58.1	8.7	<b>66.8</b>	68.0
Property	0.0	8.5	<b>8.5</b>	9.0
Government bonds	3.5	0.0	<b>3.5</b>	7.0
Corporate bonds	11.5	0.0	<b>11.5</b>	11.0
Cash	2.9	0.0	<b>2.9</b>	1.6
Other*	5.0	1.8	<b>6.8</b>	3.4
	<b>81.0</b>	<b>19.0</b>	<b>100.0</b>	<b>100.0</b>

\* Other holdings may include hedge funds, currency holdings, asset allocation futures and other financial instruments. It is assumed that these will get a return in line with equities.

### Scheme History Gains and Losses

The liabilities below show the underlying commitment that the Commissioner has to pay retirement benefits. The total liability has a substantial impact on the net worth of the Commissioner as recorded in the Balance Sheet, reducing the overall balance by £76.80m. However, statutory regulations for funding the deficit mean that the financial position of the Commissioner remains healthy, as the deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary:

<b>History of asset values, defined benefit obligation and surplus / (deficit)</b>					
	2009/10	2010/11	2011/12	2012/13	2013/14
	£m	£m	£m	£m	£m
Present value of the defined benefit obligation					
- Funded liabilities	(247.91)	(232.82)	(265.94)	(291.52)	(278.70)
- Unfunded liabilities	(3.85)	(3.47)	(3.75)	(3.98)	(3.62)
Fair value of fund assets	151.65	167.44	170.81	193.35	205.65
<b>Surplus / (deficit) in the scheme</b>	<b>(100.11)</b>	<b>(68.85)</b>	<b>(98.88)</b>	<b>(102.15)</b>	<b>(76.67)</b>

The split of the defined benefit obligation at the last valuation date between the various categories of members was as follows:

<b>Members</b>	<b>%</b>
Actives	44
Deferred Pensioners	16
Pensioners	40

### **Actuarial Assumptions**

Liabilities have been assessed on an actuarial basis using the Projection Unit Credit Method (PUCM), an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels and discount rates. AON Hewitt Limited, an independent firm of actuaries, has valued the Tyne and Wear Pension Fund's assets and liabilities in accordance with IAS 19 by using the latest actuarial valuation of the Fund as at 31 March 2013. The liabilities for unfunded benefits are based on an actuarial valuation which took place on 31 March 2014.

A building block approach is employed in determining the rate of return on fund assets. Historic markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed rate of return on each asset class is set out in the assumption table below. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation for the fund at 31 March 2014.

<b>Principal financial and actuarial assumptions</b>				
	<b>Funded Liabilities</b>		<b>Unfunded Liabilities</b>	
	2012/13	2013/14	2012/13	2013/14
<b>Financial assumptions (% per annum)</b>				
Discount Rate	4.6	4.3	4.1	4.2
Rate of Inflation (CPI)	2.8	2.4	2.6	2.2
Rate of Inflation (RPI)	3.7	3.4	3.5	3.2
Rate of increase in salaries	4.7	3.9	n/a	n/a
Rate of increase to pensions in payment	2.8	2.4	2.6	2.2
Rate of increase to deferred pensions	2.8	2.4	n/a	n/a
<b>Mortality assumptions</b>				
Future lifetime from age 65 (aged 65 at accounting date)				
Men	21.7	23.0	21.7	23.0
Women	23.9	24.6	23.9	24.6
Future lifetime from age 65 (aged 45 at accounting date)				
Men	23.5	25.0	n/a	n/a
Women	25.8	26.9	n/a	n/a

<b>Commutations</b>	
Year ended 31 March 2014	Each member was assumed to surrender pension on retirement, such that the total cash received (including any accrued lump sum from pre 2008 service) is 75% of the maximum permitted.
Year ended 31 March 2013	Each member assumed to exchange 50% of the maximum amount permitted of their pre 1 April 2010 pension entitlements, for additional lump sum.  Each member assumed to exchange 75% of the maximum amount permitted of their post 31 March 2010 pension entitlements, for additional lump sum.

The mortality assumptions are based on the actual mortality experience of members in the fund as identified in the actuary's disclosure report.

The approximate impact of changing the key assumptions on the present value of the funded benefit obligations as at 31 March 2014 and the projected service cost for the year ending 31 March 2015. In each case, the only assumption mentioned is altered; all other assumptions remain the same and are summarised in the following table:

<b>Sensitivity to main assumptions</b>		
<b>Discount rate assumption</b>	<b>Adjustment to Rate</b>	
Adjustment to discount rate	<b>+0.1% p.a</b>	<b>-0.1% p.a</b>
Present value of total obligation (£M's)	272.83	284.71
% change in present value of total obligation	-2.10%	2.20%
Projected service costs (£M's)	6.56	7.06
Approximate % change in projected service costs	-3.70%	3.70%
<b>Rate of general increases in salaries</b>	<b>Adjustment to Rate</b>	
Adjustment to salary increase rate	<b>+0.1% p.a</b>	<b>-0.1% p.a</b>
Present value of total obligation (£M's)	280.63	276.80
% change in present value of total obligation	0.70%	-0.70%
Projected service costs (£M's)	6.81	6.81
Approximate % change in projected service costs	0.00%	0.00%
<b>Rate of increase to pensions in payment and deferred pensions assumptions, and rate of revaluation of pension account assumption</b>	<b>Adjustment to Rate</b>	
Adjustment to pension increase rate	<b>+0.1% p.a</b>	<b>-0.1% p.a</b>
Present value of total obligation (£M's)	282.73	274.75
% change in present value of total obligation	1.40%	-1.40%
Projected service costs (£M's)	7.07	6.55
Approximate % change in projected service costs	3.80%	-3.80%
<b>Post retirement mortality assumption</b>	<b>Adjustment to Rate</b>	
Adjustment to mortality age rating assumption	<b>- 1 year</b>	<b>+ 1 year</b>
Present value of total obligation (£M's)	284.79	272.57
% change in present value of total obligation	2.20%	-2.20%
Projected service costs (£M's)	7.02	6.59
Approximate % change in projected service costs	3.10%	-3.20%

### **Expected Future Contributions**

The expected contributions to be made to the Tyne and Wear Pension Fund by the Chief Constable for the accounting period to 31 March 2015 are estimated to be £6.38m. In addition, strain on the fund contributions may be required as a result of voluntary redundancies and early retirements.

### **b) Defined Benefit Plan: Police Pension Schemes**

The Police Pension Schemes are wholly unfunded final salary defined benefits schemes. Contributions and pensions are made to and paid from the Police Pension Fund, which is balanced to nil at the end of each financial year by receipt of a top-up pension grant from the Home Office. There are no investment assets built up to meet the pensions' liabilities and cash has to be generated by the Home Office to meet the actual pension payments as they eventually fall due. The results have been calculated by carrying out a detailed valuation of the data provided as at 31 March 2012, for the latest funding valuation. This has then been rolled forward to reflect the position as at March 2014, allowing for additional service accrued and known pension and salary increases that would have applied. The transactions shown below have been made during the year:

<b>Charges to Comprehensive Income and Expenditure Statement</b>		
	31 March 2013 £m	31 March 2014 £m
<b>Net cost of services</b>		
Current service cost	59.77	74.43
Past service cost	0	0
<b>Financing and investment income and expenditure</b>		
Pension interest cost	131.10	132.52
<b>Total charge to Provision of Services</b>	<b>190.87</b>	<b>206.95</b>
Remeasurement of the net defined liability / (asset)	249.23	(118.65)
<b>Total IAS 19 charge to Comprehensive Income and Expenditure</b>	<b>440.10</b>	<b>88.30</b>

### Present value of the defined benefit obligation

The present values of the scheme's liabilities are shown in the following table:

<b>History of scheme liability</b>					
	2009/10 £m	2010/11 £m	2011/12 £m	2012/13 £m	2013/14 £m
Present value of the defined benefit obligation	(2,725.65)	(2,549.82)	(2,682.62)	(3,082.96)	(3,133.44)
Surplus / (Deficit) in the Scheme	<b>(2,725.65)</b>	<b>(2,549.82)</b>	<b>(2,682.62)</b>	<b>(3,082.96)</b>	<b>(3,133.44)</b>

The weighted average duration of the defined benefit obligation for the New Police Pension Scheme 2006 is around 39 year, and for the Police Pension Scheme 1987 it is around 22 years.

The Police Pension Scheme has no investment assets to cover its liabilities; these are met as they fall due. The means of funding the benefits paid out are detailed below:

<b>Reconciliation of the fair value of scheme assets</b>		
	31 March 2013 £m	31 March 2014 £m
<b>Opening fair value of assets</b>	<b>0</b>	<b>0</b>
Actuarial gains and (losses) on assets	35.12	39.02
Contributions by employer	39.76	37.82
Contributions by participants	16.67	17.45
Transfers in	0.49	1.43
Net benefits paid	(92.04)	(95.72)
<b>Closing fair value of assets</b>	<b>0</b>	<b>0</b>

## Analysis of movement in scheme liability

<b>Analysis of the movement in scheme liability</b>		
	<b>31 March 2013 £m</b>	<b>31 March 2014 £m</b>
Net surplus / (deficit) at the beginning of year	(2,682.62)	(3,082.96)
Current service cost	(59.77)	(74.43)
Cost covered by employee contributions	(16.67)	(17.45)
Past service cost	0	0
Pension transfers in	(0.49)	(1.43)
Net interest on the net defined benefit liability / (asset)	(131.10)	(132.52)
Net benefits paid	92.04	95.72
Remeasurements of the net defined liability / (asset)	(284.35)	79.63
Net surplus / (deficit) at the end of year	<b>(3,082.96)</b>	<b>(3,133.44)</b>

**Expected Future Contributions**

The expected contributions to be made to the Police Pension Schemes by the Chief Constable for the accounting period to 31 March 2015 are estimated to be £36.486m compared to £37.817m paid in 2013/14.

**Actuarial Assumptions**

Liabilities have been assessed on an actuarial basis using the Projected Unit Credit Method (PUCM), an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc.

<b>Principal Financial and Actuarial Assumptions</b>		
	<b>2012/13</b>	<b>2013/14</b>
Discount rate (Rate of Return)	4.30%	4.40%
Rate of inflation (CPI)	2.50%	2.50%
Rate of inflation (RPI)	3.65%	3.65%
Rate of increase in salaries	4.75%	4.50%
Rate of return in excess of:		
Earnings increases	-0.43%	-0.10%
Pension increases	1.76%	1.85%

<b>Mortality Assumptions</b>		
	<b>2012/13 (years)</b>	<b>2013/14 (years)</b>
Future Lifetime at 65 for current pensioners:		
Men	23.4	23.4
Women	25.8	25.9
Future Lifetime at 65 for future pensioners (currently aged 45):		
Men	25.7	25.6
Women	27.9	28.0

The results of any actuarial calculations are inherently uncertain because of the assumptions which must be made under IAS19 to reflect market conditions at the valuation date. The actuarial gain this year is primarily caused by the change in the discount rate assumption from 4.3% last year to 4.4% this year. The table below sets out the sensitivity to the main assumptions.

Sensitivity to main assumptions		
Change in assumptions*		Approximate effect on total liability
<b>Rate of Return</b>		
(i) in excess of earnings	- 0.5% a year	+ 2.5%
(ii) in excess of pensions	- 0.5% a year	+ 7.5%
<b>Pensioner mortality</b>		
(iii) pensioner living (on average) 2 years longer		+ 4.0%

\* Opposite changes in the assumptions will produce approximately equal and opposite changes in the liability.

#### 16. Events after the Balance Sheet date

The Police Reform and Social Responsibility Act (the Act) which created Commissioners also sets out a second 'Stage 2' transfer which refers to the subsequent movement of certain staff, property, rights and liabilities from the Commissioner to the Chief Constable. The Stage 2 transfer scheme is designed to allow elected Commissioners the freedom to make their own local arrangements about how their functions and those of the police force will be discharged in future.

The **Northumbria Police Staff Transfer Scheme 2013** came into force on 1<sup>st</sup> April 2014 transferring all Police warranted and non-warranted staff in the employment of the Police and Crime Commissioner for Northumbria at that date, to the employment of the Chief Constable of Northumbria Police. This involved the transfer of 1,847 posts in total with the Commissioner only retaining core staff in order to fulfil the statutory role.

#### 17. Segmental analysis

There is a requirement within the Code to present income and expenditure in segments as reported for internal management purposes and provide reconciliation with the Comprehensive Income and Expenditure Statement. As segments are not used for internal management reporting, no segmental analysis is disclosed.

#### 18. Authorisation of accounts for issue

The Chief Constable's Statement of Accounts for the financial year ended 31 March 2014 was approved by the Chief Constable and authorised for issue on 18<sup>th</sup> September 2014.

# Part 3: Supplementary Financial Statements

## Comprising:

- Police Pension Fund

## Police Pension Fund

This statement shows the details of the Pension Fund Account for the Police Pension Scheme for 2013/14 and shows comparative figures for 2012/13

2012/13 £000s	FUND ACCOUNT	2013/14 £000s
(33,803)	Normal	(31,965)
(1,465)	Other (Ill Health Retirements)	(1,112)
<b>(35,268)</b>	<b>Contribution Receivable from Employer</b>	<b>(33,077)</b>
(16,670)	Contribution Receivable from Members	(17,453)
<b>(16,670)</b>	<b>Contribution Receivable from Members</b>	<b>(17,453)</b>
<b>(51,938)</b>	<b>Contributions Receivable</b>	<b>(50,530)</b>
(493)	Individual Transfers in from other schemes	(1,436)
<b>(493)</b>	<b>Transfers in</b>	<b>(1,436)</b>
65,103	Pensions	69,141
21,414	Commutations and Lump Sum Retirement Benefits	20,979
146	Lump Sum Death Benefits	150
243	Other (Inter Authority Adjustments / LTA Payments)	280
<b>86,906</b>	<b>Benefits Payable</b>	<b>90,550</b>
8	Refunds of Contributions	-
884	Individual Transfers Out To Other Schemes	538
<b>892</b>	<b>Payments To and On Account of Leavers</b>	<b>538</b>
<b>87,798</b>	<b>Total Benefits Payable</b>	<b>91,088</b>
<b>35,367</b>	<b>Net amount payable for the year before contribution from the Police Fund</b>	<b>39,122</b>
<b>(35,367)</b>	<b>Contributions from Police Fund Income and Expenditure Account in respect of Deficit on the Police Pension Fund Account</b>	<b>(39,122)</b>
<b>0</b>	<b>Net Amount (Receivable) / Payable In Year</b>	<b>0</b>

There were no assets or liabilities in 2012/13 or 2013/14.

## Notes to the Supplementary Financial Statements

### 1. Scheme description

The Police Pension Fund is a final salary defined benefits scheme, the rules of which are set out in The Police Pension Regulations 1987, The Police Pension Regulations 2006 and The Police (Injury Benefit) Regulations 2006, and subsequent amendments. The scheme is wholly unfunded and balanced to nil at the end of each financial year by receipt of a top-up pension grant by the Commissioner from the Home Office or by paying the surplus over to the Home Office. There are no investment assets built up to meet the pensions' liabilities and cash has to be generated by the Home Office to meet the actual pension payments as they eventually fall.

The scheme is for police officers and comprises the Police Pension Scheme, the Police Injury Benefit Scheme and the New Police Pension Scheme.

Employees' and employers' contribution levels are based on percentages of pensionable pay set nationally by the Home Office and subject to triennial revaluation by the Government Actuary's Department.

### 2. Administration of the Fund

The Police Officer Pension Fund is managed by the Chief Constable.

### 3. Accounting Policies

The accounting policies detailed in this Statement of Accounts have been followed in dealing with items which are judged material in accounting for, or reporting on, the transactions and net assets of the fund. No significant estimation techniques have been adopted.

### 4. Future liabilities

The Funds' financial statements do not take account of liabilities to pay pensions and other benefits after the period end, which are the responsibility of the Chief Constable. Details of the long-term pension obligations can be found in the Notes to the Core Financial Statements, Employee benefits (Note 15 (b)).

# Annual Governance Statement

## Scope of Responsibility

1. The Chief Constable of Northumbria Police Force is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Chief Constable also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
2. In discharging this overall responsibility, the Chief Constable is responsible for putting in place proper arrangements for the governance of the Force's affairs facilitating the effective 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.
3. The Chief Constable has carried out an annual review of her governance arrangements which is consistent with the principles of the CIPFA *Framework Delivering Good Governance in Local Government – Guidance Note for Police Authorities (2012)*.
4. This statement explains how the Chief Constable has complied with these principles and meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2011.

## The Purpose of the Governance Framework

5. The governance framework comprises the systems and processes, and culture and values, by which the Force is directed and controlled and its activities through which it accounts to, engages with and responds to the needs of local communities. It enables the Chief Constable to monitor the achievement of strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services, including achieving value for money.
6. The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of Northumbria Police's policies, aims and objectives, to evaluate the likelihood and impact of those risks being realised and to manage them efficiently, effectively and economically.
7. The governance framework has been in place at the Force for the year ended 31 March 2014 and up to the date of approval of the statement of accounts.

## The Governance Framework

8. The Chief Constable is responsible for operational policing matters, the direction and control of police personnel, and for putting in place proper arrangements for the governance of the Force. Since November 2012 the Chief Constable has been a legal entity in her own right.
9. Public opinion, national priorities, force performance and information on crime and future trends are reviewed to develop the Police and Crime Plan 2013-18. This was developed

and agreed with the Police and Crime Panel and includes the Chief Constable's Delivery Plan which sets out how the Force will achieve and measure performance against the PCC's five local Police and Crime Objectives, as well as supporting national priorities as outlined in the Strategic Policing Requirement. Performance is monitored through a robust framework and discussed at the Force's Strategic Management Board which is also attended by the PCC.

10. The behaviour of Police Officers is governed through a range of Human Resources' policies including the Standards of Professional Behaviour for Police Staff.
11. In support of openness and transparency the Chief Constable operates a complaints policy in accordance with the provisions of the Police (Complaints and Misconduct) Regulations 2012. Northumbria Police also provides a facility where police officers and police staff can confidentially report suspected wrongdoing through a Professional Standards Reporting Policy to ensure issues of integrity are fully investigated and to uphold public confidence in the Force.
12. The Chief Constable has a range of policies in place to mitigate against the risks of fraud and corruption. This includes guidance on Inappropriate Associations, Unmanageable Debt, Business Interests and Gifts and Hospitality.
13. A policy and decision framework, including the Commissioner's Delegations to Officers, Financial and Contract Regulations, Consents and Governance Structures and Procedures has been formally adopted by the Chief Constable.
14. Strategic risk management is addressed from the perspective of both the PCC and Chief Constable, with an emphasis on shared objectives, risks and an integrated approach across the Police Service. There is a joint strategic risk register with risks assigned to OPCC and Chief Officer Owners and this is reviewed both by management and the Joint Independent Audit Committee on a quarterly basis. Operational risk management is embedded into the culture of the Force through a Corporate Risk Management Policy which aims to ensure foreseeable risks to the business of the force are identified, planned for and mitigated effectively
15. The Director of Finance to the Chief Constable is designated as the responsible officer for the administration of the Authority's financial affairs under section 151 of the Local Government Act 1972. This includes ensuring the lawfulness and financial prudence of decision-making; providing advice, particularly on financial impropriety, publicity and budget issues and giving financial information. It also extends to ensuring the financial arrangements in place conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer of the Police and Crime Commissioner and the Chief Finance Officer of the Chief Constable (2012).
16. The Joint Independent Audit Committee of the PCC and Chief Constable was established during 2012/13 in line with the requirements of the Home Office's Financial Management Code of Practice and monitors internal control, risk and governance issues relating to both the PCC and Force.
17. The Internal Audit Service, provided under an agreement with Gateshead Council, is required to objectively examine, evaluate and report upon the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of the PCC and Chief Constable's resources. This is achieved through the delivery of a risk based annual audit plan which is monitored by the Joint Independent Audit Committee on a quarterly basis. The Chief Internal Auditor also prepares an annual report based on the work of the Internal Audit Service which provides an independent and objective opinion on

the control environment of the Authority, PCC and Chief Constable based on the work undertaken by the Internal Audit Service throughout 2013/14.

18. The Chief Constable is pro-active in her approach to community engagement with all stakeholders. The aim is to ensure all local people are well informed, actively involved in influencing what happens in their local area and ensuring delivery of the policing services that meet the needs of local people. The Force continues to consult the public regularly through User Satisfaction Surveys, Neighbourhood Meetings and a residents' Safer Communities Survey. The Force is one of the 'responsible authorities' on the six Community Safety Partnerships across Northumbria.

### Review of Effectiveness

19. The Chief Constable has responsibility for conducting, at least annually, a review of the effectiveness of the governance framework, including the system of internal control. The review for 2013/14 was undertaken by the Joint PCC and Chief Constable Monitoring Group meeting on 3<sup>rd</sup> June 2014.
20. The review has been primarily completed and informed by the work of the Chief Executive to the PCC, the Chief Constable, the Treasurer & Director of Finance and the Chief Internal Auditor and senior managers within the Force who have the responsibility for the development and maintenance of the governance environment. In addition comments made by external auditors and other review agencies and inspectorates have informed this review.
21. The review of the effectiveness of governance arrangements will be informed by:
- the work of Senior Managers;
  - the effectiveness and work of Internal Audit, incorporating the Internal Audit Provider and the Joint Independent Audit Committee.
  - corporate Risk Management arrangements;
  - performance Management and Data Quality information;
  - the external auditors and their formal reporting;
  - assurance from the Head of Legal Services on the operation of the Chief Constable's Legal and Regulatory Framework;
  - assurance from the Director of Finance on the operation of the Chief Constable's financial controls, and
  - partnerships arrangements with third party organisations.
22. The Chief Internal Auditor reports on an operational basis to the Chief Constable's Director of Finance, but in order to ensure independence has direct access to the Chief Constable, Chair of Joint Independent Committee and Head of Legal Services. A review of the effectiveness of Internal Audit, incorporating the Internal Audit provider and the Joint Independent Audit Committee, has been undertaken and was reported to the Joint Independent Audit Committee of 16th June 2014. This review included ensuring compliance with the CIPFA Statement on the Role of the Head of Internal Audit. This concluded that the Chief Constable's system of internal audit is considered to be effective, which in turn allows the opinion of the Chief Internal Auditor to be relied upon.
23. The Chief Internal Auditor provides an independent opinion on the adequacy and effectiveness of the system of internal control and governance arrangements, which is incorporated in the Annual Internal Audit Report to the Joint Independent Audit Committee. The Annual Internal Audit Report for 2013/2014, which was presented to the Committee on 16th June 2014 concluded that, based on the work undertaken, the PCC's

internal control systems, risk management and governance arrangements are effective but with two actions for improvement as set out below.

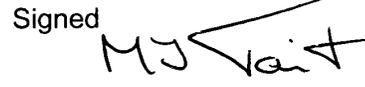
24. The Annual Corporate Risk Management Report was presented to the Joint Independent Audit Committee on 16th June 2014, in which it was concluded that risk management arrangements are effective.
25. Area Commanders and Heads of Departments have carried out self-assessments of the processes and controls they have in place to allow them to achieve their service objectives. A report was submitted to the Joint Independent Audit Committee on 16th June 2014, which concluded that based on their self-assessments Area Commanders and Heads of Department, agreed that effective controls and governance arrangements were in place.
26. Regular reports on performance management information and data quality have been considered by the Scrutiny Committee over the course of the year and have been subsequently monitored by the Chief Constable's Strategic Management Board.
27. Assurance on the lawfulness and fairness of decision-making has been provided by the Chief Constable's Head of Legal Department which has highlighted no areas of non-compliance in 2013/14.
28. Assurance on the effectiveness of the Chief Constable's financial controls has been provided by the Director of Finance who is designated as the responsible officer for the administration of financial affairs under section 151 of the Local Government Act 1972. Systems are in place to ensure the lawfulness and financial prudence of decision-making and to fully discharge the responsibilities of the role. The financial arrangements in place conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).
29. Area Commanders and Heads of Department have reviewed key partnerships following an exercise carried out by the Chief Constable. Area Commanders and Heads of Departments have also been required to provide assurance on partnership governance arrangements through self-assessments. All Community Safety Partnerships carry out regular self assessments against the Home Office 'Hallmarks of Effective Practice' guidance which includes governance, communications and strategic planning. From this work it was concluded that governance arrangements for partnerships were operating effectively.
30. The results of the review of the Chief Constable's governance arrangements, including the internal control environment, have concluded that arrangements operated effectively throughout 2013/14.
31. We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Joint Independent Audit Committee and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework. The areas already addressed are outlined below:

Action for Improvement	Current Position
2012/13 - Continue to review the current Financial and Contract Regulations to ensure they remain appropriate and fully reflective of the different governance regimes that are in place.	Ongoing
2012/13 - Finalise the Joint Strategic Risk Register covering both the PCC and Chief Constable and arrangements for its reporting to both senior officers and the Joint Independent Audit Committee.	Register now reported to Joint Independent Audit Committee on a quarterly basis.
2012/13 - Identify the training and development requirements of members of the Joint Independent Audit Committee and arrange an appropriate programme to be delivered during 2013/14.	Training delivered in April 2014.
2013/14 - The Chief Constable should review the requirement for a joint Code of Local Governance in line with CIPFA best practice guidance.	Draft code with PCC and Chief Constable for approval.
2013/14 - The PCC and Chief Constable's Joint Governance Monitoring Group should meet on a more regular basis during 2014/15.	Quarterly meetings have now been agreed.

32. We have immediately taken steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed   
Chief Constable

Signed   
Assistant Chief Officer

Signed   
Director of Finance

Dated 30/06/14

Dated 30/6/14

Dated 30/6/2014

# Independent Auditor's Report

## **INDEPENDENT AUDITOR'S REPORT TO THE CHIEF CONSTABLE FOR NORTHUMBRIA**

### **Opinion on the Chief Constable financial statements**

We have audited the financial statements of the Chief Constable for Northumbria for the year ended 31 March 2014 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, and the related notes. 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 2013/14.

This report is made solely to the Chief Constable for Northumbria in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

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

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

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

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

### **Opinion on the financial statements**

In our opinion the financial statements:

- give a true and fair view of the financial position of the Chief Constable for Northumbria as at 31 March 2014 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

### **Opinion on other matters**

In our opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which we report by exception**

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007 and the December 2012 addendum;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Chief Constable to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

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

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

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

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Chief Constable has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

We report if significant matters have come to our attention which prevent us from concluding that the Chief Constable has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Chief Constable's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

**Scope of the review of arrangements for securing economy, efficiency and effectiveness in the use of resources**

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission, as to whether the Chief Constable has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

The Audit Commission has determined these two criteria as those necessary for us to consider under the Code of Audit Practice in satisfying ourselves whether the Chief Constable put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

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

**Conclusion**

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission, we are satisfied that, in all significant respects, the Chief Constable for Northumbria put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

**Certificate**

We certify that we have completed the audit in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Gareth Davies  
For and on behalf of Mazars LLP, Appointed Auditors  
The Rivergreen Centre  
Aykley Heads  
Durham, DH1 5TS

18 September 2014

# Glossary of Terms

**Accounting policies** are those principles, bases, conventions, rules and practices applied by an entity that specify how the effects of transactions and other events are to be reflected in its financial statements through

- (i) recognising;
- (ii) selecting measurement bases for; and
- (iii) presenting assets, liabilities, gains, losses and changes to reserves.

Accounting policies do not include estimation techniques.

Accounting policies define the process whereby transactions and other events are reflected in financial statements.

**Accruals:** the accruals basis of accounting requires that the non-cash effects of transactions be recognised in the period that they affect, rather than when cash is paid or received. An accrual is a sum included in the final accounts to cover income or expenditure attributable to an accounting period for goods supplied and received or works done, but for which payment has not been made / received by the end of the period.

**Assets:** an asset is “a resource controlled by the entity as a result of past events and from which future economic benefits are expected to flow to the entity” (IASB definition). Current assets change in value on a day-to-day basis (e.g. cash, stocks, and work in progress). Non-current assets yield benefit to an entity and the services it provides for a period of more than one year (e.g. land and buildings).

**Best Value** provides a framework for the planning, delivery and continuous improvement of the Chief Constable’s services. The overriding purpose is to establish a culture of good management for the delivery of efficient, effective and economic services that meet the users’ needs.

**Budgets:** A statement of forecast of net revenue and capital expenditure over a period of time, i.e. a financial year.

**Capital charges** are charges to the Comprehensive Income & Expenditure to reflect the cost of using assets. They are based upon depreciation, which represents the cost of using the asset.

**Cash** comprises cash in hand and demand deposits.

**CIPFA** (the Chartered Institute of Public Finance and Accountancy) provides guidance in the interest of public services. It is the professional body for accountants working in the UK public sector. It provides financial and statistical information for local authorities and other public sector bodies, and advises central government and other bodies on public finance.

**Contingencies** are funds set aside as a reserve to meet the cost of unforeseen items of expenditure, or shortfalls in income and to provide for inflation. This is not included in individual budgets because their precise value cannot be determined in advance.

**Contingent assets** are possible assets arising from past events, whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Chief Constable's control.

**Contingent liabilities** are either:

- possible obligations arising from past events whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Chief Constable's control, or
- present obligations arising from past events where it is not probable that a transfer of economic benefits will be required or the amount of the obligation cannot be measured with sufficient reliability.

**Corporate & Democratic Core** comprises those activities and costs that provide the infrastructure that allows the information that is required for public accountability of the Chief Constable, for example, freedom of information and external audit.

**Corporate governance** is the system by which an organisation directs and controls its functions and relates them to its communities.

**Creditors** are amounts owed for goods and services received but where payment has not been made at the end of the financial year (i.e. 31 March).

**Current assets** are items that can readily be converted into cash. These include items such as cash, debtors (net of bad debt provisions), investments, stock and work in progress.

**Current liabilities** are amounts owed to individuals or organisations that will be paid within twelve months of the Balance Sheet date.

**Current service cost (pensions)** is the increase in the present value of a defined benefit scheme's liabilities expected to arise from employee service in the current period.

**Debtors** are amounts owed to an entity for goods and services supplied but where payment has not been received at the end of the financial year.

**Defined benefit scheme** is a pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the contributions payable, and the benefits not directly related to the investments of the scheme. The scheme may be funded or unfunded.

**Defined contribution scheme** is a pension or other retirement benefit scheme into which an employer pays regular contributions fixed as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

**Discretionary benefits** are retirement benefits, which the employer has no legal, contractual or constructive obligation to award and are awarded under the Commissioner's discretionary powers, such as the Local Government (Discretionary Payments) Regulations 1996.

**Estimates** are amounts that the Chief Constable expects to spend or receive as income during an accounting period:

- **Original Estimates** are the estimates for a financial year approved by the Commissioner before the start of the financial year.

- **Revised Estimates** are an updated revision of the estimates for a financial year prepared within the financial year.

**Estimation techniques** are methods adopted by an entity to arrive at estimated monetary amounts, corresponding to the measurement bases selected, for assets, liabilities, gains, losses and changes to reserves.

Estimation techniques implement the measurement aspects of accounting policies. A policy will specify the basis on which an item is to be measured; where there is uncertainty over the monetary amount corresponding to that basis, the amount will be arrived at by using an estimation technique. They include, for example:

(a) methods of depreciation, such as straight-line and reducing balance, applied in the context of a particular measurement basis, used to estimate the proportion of the economic benefits of a non-current asset consumed in a period; and

(b) different methods used to estimate the proportion of debts that will not be recovered, particularly where such methods consider a population as a whole rather than individual balances.

**Events after the Balance Sheet date** are those events, favourable and unfavourable, that occur between the Balance Sheet date and the date when the Statement of Accounts are authorised for issue.

**Exceptional items** are material items which derive from events or transactions that fall within the ordinary activities of the Chief Constable and which need to be disclosed separately by virtue of their size or incidence to give fair presentation of the accounts.

**Exit packages** are the cost of the termination of employment and include compulsory and voluntary redundancy costs, pension contributions in respect of added years, ex-gratia payments and other departure costs.

**Formula grant** is the general grant given to spending on services. It comprises revenue support grant and national non-domestic rates.

**General Reserve** is the main fund into which council tax precept, government grant and other income is paid into and from which meets the day-to-day cost of providing services.

**Government grant** is assistance by government, inter-government agencies and similar bodies, whether local, national or international, in the form of cash or transfers of assets to an entity in return for past or future compliance with certain conditions relating to the activities of the entity.

**Gross expenditure** is the total cost of providing the Chief Constable's services before taking into account income.

**IAS (International Accounting Standards)** are accounting pronouncements issued by the International Accounting Standards Board. They have been adopted by the UK public sector in a move to make it more comparable with both the private sector and the international community as a whole.

**IFRSs (International Financial Reporting Standards)** are accounting pronouncements issued by the IASB. They have been adopted (or, in some cases, interpreted or adapted) by the UK public sector in an attempt to make it more comparable with both the private sector and the international community as a whole.

**Liabilities:** Money owed or the obligation to transfer economic benefit at some point in the future.

**Local Government Pension Scheme** is a nationwide public sector pension scheme for employees working in local government. It is administered locally for participating employers through many regional pension funds. The Tyne and Wear Pension Fund manages the Council's pension assets and liabilities.

**Materiality:** an item of information is material if its omission or misstatement from the accounts might reasonably affect the assessment of the Chief Constable's stewardship, economic decisions or comparison with other entities. Materiality is dependent on the size and nature of the item in question.

**Non-current assets** are those that yield benefits for a period of more than one year.

**Pension fund:** an employees' pension fund which is maintained by an entity (Chief Constable / local authority), or group of authorities, in order to make pension payments on retirement of participants. It is financed from contributions from the employing body, the employee and investment income.

**Police and Crime Commissioner (Commissioner / PCC):** A person elected who is accountable to the public for ensuring an effective and efficient police force. Commissioners were elected for the first time on 15 November 2012 and took on their roles from 22 November 2012 in 41 force areas across England and Wales. They replaced the former police authorities.

**Police Fund** is a fund into which all receipts of a Commissioner must be paid into and from which all expenditure must be paid out of.

**Police Pension Scheme** is the collective term used for pension schemes available to police officers which includes the Police Pension Scheme (PPS), the New Police Pension Scheme (NPPS) and the Police Injury Benefit Scheme. The schemes are final salary defined benefit schemes, the rules of which are set out in The Police Pension Regulations 1987, The Police Pension Regulations 2006 and The Police (Injury Benefit) Regulations 2006, and subsequent amendments.

**Police staff** include staff employed in the Commissioner's office and those under the direction and control of the Chief Constable.

**Police Grant** is grant paid by the Home Office to police and crime commissioners as part of the Local Government Finance Settlement.

**Precepts** are the demands made by the Commissioner on councils to finance her expenditure.

**Prior period adjustments** are material adjustments applicable to prior years arising from changes in accounting policies or from the correction of material errors. They do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

**Provisions** are amounts set aside in the accounts for liabilities that are likely to be incurred or assets that are likely to be received but where the amounts or the dates on which they will arise are uncertain.

**Related parties:** A related party is a person or entity that is related to the entity that is preparing its financial statements.

- (a) A person or a close member of that person's family is related to a reporting entity if that person:
  - (i) has control or joint control over the reporting entity;
  - (ii) has significant influence over the reporting entity; or
  - (iii) is a member of the key management personnel of the reporting entity or of a parent of the reporting entity.
- (b) An entity is related to a reporting entity if any of the following conditions apply:
  - (i) the entity and the reporting entity are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - (ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - (iii) both entities are joint ventures of the same third party
  - (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - (v) the entity is a post-employment benefit plan for the benefit of employees of either the reporting entity or an entity related to the reporting entity. If the reporting entity is itself such a plan, the sponsoring employers are also related to the reporting entity.
  - (vi) the entity is controlled or jointly controlled by a person identified in (a).
    - (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Examples of related parties of a Chief Constable could include:

- (i) central government
- (ii) the Police and Crime Commissioner
- (iii) her chief officers, and
- (iv) her pension fund.

**Related party transaction** is a transfer of resources or obligations between a reporting entity and a related party, regardless of whether a price is charged. Related party transactions exclude transactions with any other entity that is a related party solely because of its economic dependence on the entity or the government of which it forms part.

**Remuneration** is defined as sums paid to or receivable by an employee and sums due by way of expenses allowances (as far as those sums are chargeable to UK income tax) and the money value of any other benefits received other than in cash. Pension contributions payable by the employer are excluded.

**Reserves** are monies set aside by the Commissioner for future policy purposes or to cover contingencies.

**Retirement benefits** are all forms of consideration given in exchange for services rendered by employees that are payable after the completion of employment. Retirement benefits do not include termination benefits payable as a result of either:

- (i) an employer's decision to terminate an employee's employment before the normal retirement date; or
- (ii) an employee's decision to accept voluntary redundancy in exchange for those benefits, because these are not given in exchange for services rendered by employees.

**Revenue expenditure** is incurred on the day-to-day running of the Chief Constable's activities; the costs principally include employee expenses, premises costs, supplies and transport.

**Service Reporting Code of Practice (SeRCOP)** provides guidance on financial reporting to ensure data consistency and comparability between authorities. It was introduced by CIPFA in

response to the demand placed upon authorities to secure and demonstrate best value in the provision of services to the community.

**Strain on the Fund:** when a member of the Local Government Pension Fund is allowed to retire early (for example, efficiency or redundancy) employee and employer pension contributions stop but benefits become payable earlier than assumed and will be paid for a longer period. To meet the additional cost to the fund, the employer must make additional payments called strain costs.

**Support services,** or overheads, are those services that support the delivery of front line services. Support services include finance, administration, ICT, legal and other central services.

# Contacts

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**Alternative formats of this Statement (including large print, easy read and translations into other languages) are available upon request.**

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