

# Chief Constable for Northumbria

Statement of Accounts  
2014/15



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# 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 2015.

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.



It is not formally part of the Statement of Accounts and the ‘True and Fair View’ and is not subject to the statutory requirements for an audit opinion or for certification by the Chief Financial Officer.

## Key Facts

Northumbria Police covers 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.

|                   |                              |  |
|-------------------|------------------------------|--|
| <b>Force Area</b> | <b>2,144 square miles</b>    |  |
| <b>Population</b> | 1.43m people                 | 2% local 10 year change                  |
| <b>Workforce</b>  | 77% frontline                | 78% national level                       |
|                   | 3.8 per 1000 population      | 3.7 national level                       |
|                   |                              | 20% change in local workforce since 2010 |
| <b>Cost</b>       | 53p per person per day local | 55p per person per day national          |

Source: Her Majesty’s Inspectorate of Constabulary PEEL assessment 2014

Northumbria Police operates over three area commands from April 2015 having reduced from six. Those can be seen in map images right and within the next two pages.



## Workforce - Numbers

The number of officers, staff and volunteered working for the Force as at 31 March each year are as follows:

| 2013/14 Number |  | 2014/15 Number |
|----------------|--|----------------|
| 3,609          | Police Officers                          | 3,495          |
| 1,524          | Police Staff                             | 1,510          |
| 225            | Police Community Support Officers (PCSO) | 204            |
| 308            | Special Constables                       | 250            |

The Force is also supported by cadets, community speed wardens and other volunteers not included in the table above.

## Workforce - per head of population comparison

| HMIC Data (VFM Profiles) | Officers | Staff | PCSOs | Total |
|--------------------------|----------|-------|-------|-------|
| England and Wales 2014   | 2.2      | 1.2   | 0.2   | 3.7   |
| <b>Northumbria</b>       |          |       |       |       |
| 2014                     | 2.6      | 1.1   | 0.2   | 3.8   |
| 2013                     | 2.6      | 1.0   | 0.3   | 3.9   |
| 2012                     | 2.7      | 1.1   | 0.3   | 4.1   |
| 2011                     | 2.9      | 1.4   | 0.3   | 4.6   |
| 2010                     | 2.9      | 1.5   | 0.3   | 4.7   |



## 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).
- The Home Office Financial Management Code of Practice for the Police Service of England and Wales 2013.
- The Police and Crime Commissioner for Northumbria's Governance Arrangements including Financial and Contract Regulations.

The Chief Constable's statement of accounts has reflected the Government's intention to phase the reforms over more than one year. The first phase of the transition, Stage 1, began on 22 November 2012 when all liabilities, reserves, contracts and staff transferred from Northumbria Police Authority to the Police and Crime Commissioner for Northumbria. The second phase, Stage 2, which came into force on 1st April 2014, resulted in the Northumbria Police Staff Transfer Scheme 2013. The Scheme, with the approval of the Secretary of State involved the transfer of Police warranted and non-warranted staff from the employment of the Police and Crime Commissioner to the Chief Constable. Only a small number of OPCC core staff remained under the employment of the Commissioner in order to fulfil the statutory role. From the transfer date, the rights, powers, duties and liabilities of the employer, under the contract of employment, for transferring employees transferred to the Chief Constable.

In light of the changes resulting from the Stage 2 transfer and following clarification from CIPFA in 2013/14, both the 2013/14 and 2014/15 accounts have been prepared on the basis that the liabilities associated with the staff costs of the Chief Constable are recorded in the Chief Constable's accounts and consolidated under the Police and Crime Commissioner Group accounts.

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>1</sup> is in operation between the two bodies determining their respective responsibilities. The accounting arrangements between the Commissioner and Chief Constable are detailed in Note 6 to the accounts.



<sup>1</sup> Available at: <https://www.northumbria-pcc.gov.uk/transparency/key-decisions/2014-2/>

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

Each has specific roles and responsibilities.

These roles and responsibilities can be summarised as follows:

### The Police and Crime Commissioner:

- Provides a link between the police and the community.
- Sets out the strategic policing and crime priorities and objectives through the publication of a Police and Crime Plan.
- Prepares and publishing an annual report on progress in the delivery of the Police and Crime Plan.
- Sets out the Force's budget and community safety grants.
- Sets the policing and crime precept.
- Oversees community safety, the reduction of crime and value for money in policing.
- Commissions victims' and witness services, including restorative justice.
- Appoints the Chief Constable (and dismissal when necessary).
- Holds the Chief Constable to account for the performance of the Force, including that of police officers and civilian staff under their 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.

### Police and crime plan priorities

Over 5000 local residents helped decide the Police & Crime Plan Priorities for Northumbria. These are –

- Putting Victims First
- Dealing with Anti Social Behaviour
- Domestic and Sexual Abuse
- Reducing Crime
- Community Confidence.

The Commissioner meets regularly with the Chief Constable to ensure these priorities are delivered by Northumbria Police.

## Explanation of the Key Statements

The Statement of Accounts consists of four main statements and various disclosure notes as follows:

- **The Movement in Reserves Statement (MiRS Page 16)** – Shows the changes in the Chief Constables financial resources over the year to help readers to understand how the balances have changed over the year. Information on the pension reserves can also be found in the Balance Sheet and related notes.
- **The Comprehensive Income and Expenditure Statement (CIES Page 18)** – Shows the gains and losses that contributed to these changes in resources. The CIES shows the economic cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation as shown in the MiRS above.
- **The Balance Sheet (Page 19)** – Shows the Chief Constable’s financial position and net assets at the financial year end. The Balance Sheet reflects current 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.
- **The Cash Flow Statement (Page 20)** – Shows how the movement in resources has been reflected in cash flows generated and used during the year.

### Supplementary Financial Statements:

- **Police Officer Pension Fund Statements (Page 50)** - 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 52)** - This statement, required by regulations<sup>2</sup> to accompany the Statement of Accounts, is an assessment of the Chief Constable’s corporate governance and internal control.<sup>3</sup>

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<sup>2</sup> Paragraph 4(4)(a) of Accounts and Audit (England) Regulations 2011 (available from [www.legislation.gov.uk](http://www.legislation.gov.uk))

<sup>3</sup> In line with Regulation 4 of the Accounts and Audit (England) Regulations 2011

## Financial Performance 2014/15

### Key Highlights

The budget reduced by £11.7 million to £264.939 million;

Budget reduction plans successfully delivered in 2014/15

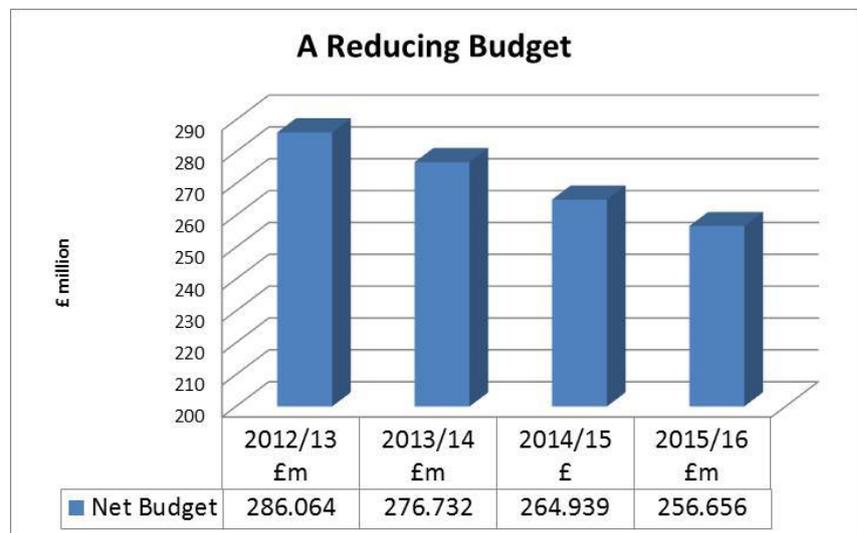
The net spending of the Chief Constable was £0.972 million under budget and that surplus was returned to the Commissioner;

Recruitment of 77 new officers to the Force during the year.

### Managing Austerity

The 2014/15 financial year was the final year of the Governments 2010 Spending Review period. The Police and Crime Commissioner for Northumbria faced a cash reduction to the Police Grant settlement of 4.8% representing a loss in funding of £11.5 million per annum.

Reductions in the Police Grant over the CSR period have represented a particularly difficult challenge for Northumbria. The force receives the highest percentage contribution from central government funding and has the lowest council tax precept of all forces in England and Wales. This means that there is a disproportionate effect on overall funding levels when central grants are cut.



Northumbria has been one of the hardest hit forces financially over the CSR period. It has suffered the highest percentage funding reduction in real terms out of all Forces in England and Wales, and reserves are amongst the lowest levels in the country (as a percentage of net revenue expenditure).

The requirement to deliver savings has therefore continued into 2014/15. As the Chief Constable receives all resources required to deliver services and meet the costs of policing from the Police and Crime Commissioner, the impact of central government cuts remains a significant challenge. The Chief Constable's budget for 2014/15 included savings of £16.9 million which were delivered successfully through extensive scrutiny of all non-pay budgets, robust budget management and planned workforce reductions.

### Revenue Expenditure and Income Summary

Revenue expenditure represents the day to day running costs of providing policing services and includes expenses such as employee pay, vehicle and premises running

costs, supplies and services, IT and communications. 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 managed as a Group with the Chief Constable's Chief Officer Team considering revenue monitoring reports on a monthly basis.

The Comprehensive Income and Expenditure Statement (CIES) shows the outturn on an accounting basis and that differs from how the Chief Constable actually monitors their budgets during the year. Charges for the use of assets, accumulated absences and pension accruals are not included within monitoring reports. In addition certain elements of income that are managed by the Chief Constable on behalf of the Commissioner are included in monitoring but not in the CIES.

### Revenue Outturn to Budget

The Police and Crime Commissioner delegated a budget of £264.939 million to the Chief Constable for 2014/15 to enable the discharge of the activities under their direction and control. Regular monitoring and management of the budget has ensured that the budget has been effectively managed and the provisional outturn subject to audit is £263.967 million, an under spend of £0.972 million.

Details of the provisional outturn position are set out in the table below:

| <b>Revenue Outturn 2014/15</b>                    |   |                                      |                                       |
|---|---|--------------------------------------|---------------------------------------|
|   | <b>Revised<br/>Estimate<br/>2014/15<br/>£000s</b> | <b>Outturn<br/>2014/15<br/>£000s</b> | <b>Variance<br/>2014/15<br/>£000s</b> |
| Employee Pay and Pensions                         | 240,074   | 239,745                              | (329)                                 |
| Contributions and Subscriptions                   | 1,697   | 1,502                                | (195)                                 |
| Corporate Communications                          | 256   | 319                                  | 64                                    |
| Crime   | 4,883   | 4,890                                | 7                                     |
| Custody   | 1,854   | 2,266                                | 412                                   |
| Estates   | 9,415   | 9,422                                | 7                                     |
| Fleet   | 4,011   | 3,811                                | (200)                                 |
| Force Resilience Unit                             | 478   | 404                                  | (74)                                  |
| Information & Communications Technology           | 8,244   | 8,350                                | 106                                   |
| Legal Services                                    | 316   | 139                                  | (177)                                 |
| Mutual Aid  | 73  | 101                                  | 28                                    |
| Occupational Health Unit                          | 797   | 739                                  | (58)                                  |
| Procurement                                       | 1,505   | 1,460                                | (44)                                  |
| Supplies and Services                             | 3,158   | 3,382                                | 224                                   |
| Training  | 307   | 306                                  | (2)                                   |
| Volunteers  | 38  | 25                                   | (14)                                  |
| <b>Total Expenditure</b>                          | <b>277,106</b>                                    | <b>276,861</b>                       | <b>(246)</b>                          |
| Income  | (12,168)  | (12,894)                             | (726)                                 |
| <b>Net Expenditure</b>                            | <b>264,938</b>                                    | <b>263,967</b>                       | <b>(972)</b>                          |
| <b>Redundancy and Strain on the Fund Payments</b> | <b>0</b>  | <b>532</b>                           | <b>532</b>                            |

## Employee Pay and Pensions

Police officer pay was under spent by £1.7 million due to changes in the recruitment profile during the year and lower pension costs as a result of officers opting out of the police pension scheme. The under spend on officer pay is partially offset by an over spend of £0.9 million on police staff pay. This relates to increased pension costs as a result of the auto enrolment of staff in the LGPS pension scheme following the Stage 2 transfer on 1 April 2014 and an increase in temporary staff costs to cover the transition to the new workforce structure. Also included in the overall variance is an over spend on overtime of £0.5m, however this is fully funded by additional income received in year through mutual aid and external funding schemes.

## Non pay

Budget variances include: £0.412 million over spend on Custody relating to an increase in FME attendance rates and associated charges; £0.200 million under spend on Fleet due to a reduction in fuel prices; £0.177 million under spend on Legal Services due to a reduction in costs associated with Employment Tribunals; £0.219 million over spend on Supplies and Services mainly relating to external funding schemes and therefore fully offset by additional income.

In respect of income, the outturn position is an over recovery against budget of £0.726m which relates to mutual aid income and other external funding schemes, and is fully offset by the over spend on overtime and supplies and services expenditure mentioned above.

In addition, the Chief Constable also incurred costs of £0.532 million in relation to redundancy (See Note 9 for summary of the exit packages) and strain on the pension fund payments which are being managed through the PCC Workforce Development Reserve. These costs relate to voluntary and compulsory redundancies in 2014/15 which were required to manage planned workforce reductions over the financial year.

## Performance Information

### Putting Victims First

Satisfaction levels increased this year compared to 2013/14; 89.3% of victims were satisfied with being kept informed of progress (compared to 87.3%) and 92.2% were satisfied with the overall service (compared to 90.3%). The Force has the highest satisfaction levels in England and Wales for overall satisfaction and follow-up. BME satisfaction is the second highest in the country.

These satisfaction levels reflect the focus on improving the service provided to victims. During the year, the Force implemented the Quality of Service Commitment, which pledged to show RESPECT, based on the principles of **R**espond, **E**xplain, **S**upport, **P**rofessional, **E**mpathise, **C**ommunicate and **T**imely.

Assessments of the service provided at the first point of contact has shown that Contact Handlers provide a courteous and professional service and collect sufficient information to make an initial decision about the caller's vulnerability. The standard of investigation plans and harm reduction plans has been consistently high throughout the year. Victim contracts were assessed as meeting the standard on 74% of occasions.

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

The number of ASB incidents increased by 1.7% (1,288 further incidents) compared to last year. Youth ASB has reduced by 10%, whilst non-youth ASB increased by 6%.

There were 32 ASB incidents identified where the caller was identified as vulnerable and required attendance within one hour, with 78% attended within the target time.

The percentage of ASB victims satisfied with the overall service has reduced compared to 2013/14 (from 91.0% to 89.1%).

### **Domestic and Sexual Abuse**

The number of sexual offences increased by 80% compared to 2013/14, and rape offence increased by 135%, equivalent to 491 further crimes. This increase follows the national trend and can be attributed to increased/encouraged reporting, improved recording practices and Operation Sanctuary. In 2014/15, 93% of rape offences were recorded within 24 hours, with 53 offences recorded outside of 24 hours. There have been four evidential no-crime decisions made for rape offences since August 2014. All decisions met the standards laid out within the Home Office Counting Rules.

### **Reducing Crime**

Total recorded crime increased by 4.2% (2,930 further crimes), although the Force continues to have one of the lowest crime rates in the country, placed 15<sup>th</sup> nationally. Increases in violence against the person, sexual offences and criminal damage had the greatest contribution to the increase in total recorded crime. Improvements in the crime recording standards also contributed to the increase in total recorded crime.

There were reductions in a number of offences, most notably:

- Burglary dwelling (-5.9%)
- Burglary OTD (other than dwelling) (-10.6%)
- Vehicle crime (-6.7%)
- Drug crime (-18.2%)
- Theft of a pedal cycle (-12.5%)

Violence against the person (VAP) increased by 25.8% compared to last year; however, the Force continues to have a lower rate of VAP compared to many forces in England and Wales. Northumbria is positioned 1<sup>st</sup> (lowest) in its Most Similar Group (MSG) and 6<sup>th</sup> (lowest) nationally.

The positive outcome rate for total recorded crime is 41.3%; the Force continues to have one of the highest positive outcome rates for total recorded crime in England and Wales.

Compliance with National Crime Recording Standards has improved during 2014/15 compared to the baseline set following Crime Data Integrity Inspection by Her Majesty's Inspectorate of Constabulary.

### **Community Confidence**

Public confidence remains high. The percentage of people who think that the police can be relied upon to do a good or excellent job in their neighbourhood was 87.4% compared to 83.5% in 2013/14. Likewise, the percentage of people who agree that the police can be relied upon to sort out problems in their neighbourhood is 91.9%, compared to 91.6% in 2013/14. The time spent by neighbourhood officers in their local area increased by 1% to 47% for 2014/15.

The number of new complaints recorded in 2014/15 was 1,016; an increase compared to 2013/14 (788). This increase is due to a combination of improved decision-making and an emphasis on encouraging the reporting of complaints as part of the focus in increasing community confidence. The percentage of cases appealed in 2014/15 was 19%, similar to 2013/14 (18%), however, the percentage of appeals which were subsequently upheld reduced to 24%, from 44% in 2013/14; reflecting improved levels of investigation to ensure the right outcome of complaints.

### **Governance**

The Police and Crime Commissioner attends the Force's Strategic Management Board. This board is held on a monthly 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 (geographic areas within Force, most similar group of forces or nationally).

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 2013/14**

There has been no significant accounting change in the 2014/15 Code of Practice on Local Authority Accounting.

### **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>4</sup>. The Chief Constable makes contributions to the Pension Fund based on a percentage of officers' pensionable

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<sup>4</sup> Police Reform & Social Responsibility Act 2011 (Schedule 16 Part 3)

salaries. The regulations<sup>5</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 2015/16 and Beyond**

The Chief Constable's budget is fully funded by the Police and Crime Commissioner for Northumbria. The Commissioner has faced a further cut to central government funding of 5.1% in cash terms equating to £11.8 million for 2015/16.

The Commissioner's statement sets out the assumptions for police funding over the medium term and the Commissioner's Medium Term Financial Strategy (MTFS) 2015/16 to 2017/18 details the overall strategy and financial plans that the Commissioner has agreed to manage future reductions.

The total savings planned over the 3 year MTFS period are £40.5 million. Of these, £39.5m will be met from reductions to the Chief Constable's budget, with £34.3 million managed through reductions in the workforce. The Chief Constable remains 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, and meeting the priorities set out in the Police and Crime Plan.

The Commissioner approved a revenue budget for the Chief Constable of £256.656 million for 2015/16 on 9 February 2015. The budget includes a further savings requirement for the Chief Constable of £15.2 million which is being managed through further workforce change, rationalisation of the estate to reduce the revenue running costs associated with police buildings, reductions in vehicle running costs through the fleet replacement programme and further scrutiny of all non-pay expenditure.

The Force is also changing the way it works with a major restructure introduced in April 2015 under the new three Area Command model. The new northern, central and southern area commands will shape the way Northumbria does business in the future whilst maintaining the service provided to the public with officers and CSOs out in local communities highly visible and accessible.

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<sup>5</sup> Police Pension Fund Regulations 2007 (SI 2007/1932)

## Events after the reporting period

### **New Chief Constable**

The Chief Constable Mrs Sue Sim retired from the Force on 3 June 2015. Mr Steve Ashman has been appointed as the new Chief Constable. Mr Ashman joined Northumbria in 2009 as Assistant Chief Constable and became Deputy in 2013.

### **Pension Ombudsman Determination - Lump Sum Commutation Factors 2001 to 2006**

An event has arisen after the reporting period which relates to a determination made by the Pension Ombudsman in respect of historic commutation factors. As a result of the determination the Police Pension Fund has a liability to make backdated payments in respect of lump sum benefits. The total liability is estimated at £9.485 million. It is expected that payments will be made in 2015/16 and the liability will be covered by an additional top up payment from Government, through the Police and Crime Commissioner. This event is being treated as an adjusting post balance sheet event, the full details of which are set out at Note 17 to the Core Financial Statements.

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: 22 September 2015

# Statement of Responsibilities

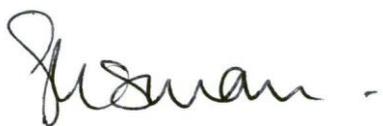
## The Chief Constable's Responsibilities

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: 22 September 2015

## 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 2015, 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 2015 and of her income and expenditure for the year ended 31 March 2015.

Signed:



Date: 22 September 2015

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

# 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 2014/15

|   | Note | General Fund<br>£000 | Total Usable<br>Reserves<br>£000 | Pension Fund<br>£000 | Accumulated<br>Absences<br>Account<br>£000 | Total UnUsable<br>Reserves<br>£000 | Total Reserves<br>£000 |
|---|------|----------------------|----------------------------------|----------------------|--|------------------------------------|------------------------|
| <b>Balance as at 31 March 2014 (Restated)</b>                           |      | <b>0</b>             | <b>0</b>                         | <b>3,219,595</b>     | <b>8,453</b>                               | <b>3,228,048</b>                   | <b>3,228,048</b>       |
| (Surplus) or deficit on provision of services                           |      | 168,841              | 168,841                          | 0                    | 0  | 0                                  | 168,841                |
| Other Comprehensive Income and Expenditure                              | 7(a) | 0                    | 0                                | 310,505              | 0  | 310,505                            | <b>310,505</b>         |
| <b>Total Comprehensive Income and Expenditure</b>                       |      | <b>168,841</b>       | <b>168,841</b>                   | <b>310,505</b>       | <b>0</b>                                   | <b>310,505</b>                     | <b>479,346</b>         |
| Adjustments between accounting basis & funding basis under regulations  | 7(b) | (168,841)            | (168,841)                        | 168,615              | 226  | 168,841                            | <b>0</b>               |
| <b>Net (Increase) / Decrease before Transfers to Earmarked Reserves</b> |      | <b>0</b>             | <b>0</b>                         | <b>479,120</b>       | <b>226</b>                                 | <b>479,346</b>                     | <b>479,346</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>479,120</b>       | <b>226</b>                                 | <b>479,346</b>                     | <b>479,346</b>         |
| <b>Balance as at 31 March 2015</b>                                      |      | <b>0</b>             | <b>0</b>                         | <b>3,698,715</b>     | <b>8,679</b>                               | <b>3,707,394</b>                   | <b>3,707,394</b>       |

## Movement in Reserves Statement 2013/14

|   | Note | General Fund<br>£000 | Total Useable<br>Reserves<br>£000 | Pension Fund<br>£000 | Accumulated<br>Absences<br>Account<br>£000 | Total<br>Unuseable<br>Reserves<br>£000 | Total Reserves<br>£000 |
|---|------|----------------------|-----------------------------------|----------------------|--|--|------------------------|
| <b>Balance as at 1 April 2013 (Restated)</b>                            |      | <b>0</b>             | <b>0</b>                          | <b>3,194,595</b>     | <b>9,555</b>                               | <b>3,204,150</b>                       | <b>3,204,150</b>       |
| (Surplus) or deficit on provision of services                           |      | 174,751              | 174,751                           | 0                    | 0  | 0                                      | 174,751                |
| Other Comprehensive Income and Expenditure                              | 7(a) | 0                    | 0                                 | (150,853)            | 0  | (150,853)                              | <b>(150,853)</b>       |
| <b>Total Comprehensive Income and Expenditure</b>                       |      | <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  | 7(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>3,219,595</b>     | <b>8,453</b>                               | <b>3,228,048</b>                       | <b>3,228,048</b>       |

# Comprehensive Income and Expenditure Statement - Chief Constable

| 2013/14                    |                       |  |   | 2014/15                    |                       |                          | Notes |
|----------------------------|-----------------------|--|---|----------------------------|-----------------------|--------------------------|-------|
| Gross Expenditure<br>£000s | Gross Income<br>£000s | Net Police Objective<br>Expenditure<br>£000s | Service Expenditure Analysis  | Gross Expenditure<br>£000s | Gross Income<br>£000s | Net Expenditure<br>£000s |       |
| 200,010                    | 0                     | 200,010                                      | Local Policing  | 190,091                    | 0                     | 190,091                  |       |
| 19,499                     | 0                     | 19,499                                       | Dealing with the Public   | 18,103                     | 0                     | 18,103                   |       |
| 19,850                     | 0                     | 19,850                                       | Criminal Justice Arrangements   | 20,826                     | 0                     | 20,826                   |       |
| 12,823                     | 0                     | 12,823                                       | Roads Policing  | 12,247                     | 0                     | 12,247                   |       |
| 16,781                     | 0                     | 16,781                                       | Specialist Operations   | 17,210                     | 0                     | 17,210                   |       |
| 18,577                     | 0                     | 18,577                                       | Intelligence  | 17,929                     | 0                     | 17,929                   |       |
| 45,040                     | 0                     | 45,040                                       | Specialists Investigations  | 44,304                     | 0                     | 44,304                   |       |
| 6,192                      | 0                     | 6,192  | Investigative Support   | 5,930                      | 0                     | 5,930                    |       |
| 4,356                      | 0                     | 4,356  | National Policing   | 3,522                      | 0                     | 3,522                    |       |
| 25                         | 0                     | 25   | Corporate & Democratic Core   | 25                         | 0                     | 25                       |       |
|                            |                       |  | Non Distributed Costs: Past Service Cost /  |                            |                       |                          |       |
| 120                        | 0                     | 120  | (Curtailment Gain)  | 300                        | 0                     | 300                      |       |
| 0                          | (305,582)             | (305,582)                                    | PCC Financing of Police Services  | 0                          | (302,236)             | (302,236)                |       |
| <b>343,273</b>             | <b>(305,582)</b>      | <b>37,691</b>                                | <b>Net Cost of Services</b>   | <b>330,487</b>             | <b>(302,236)</b>      | <b>28,251</b>            |       |
|                            |                       |  | Financing and Investment Income and Expenditure<br>(Interest on the net defined benefit pension liability /<br>(asset)) |                            |                       |                          |       |
|                            |                       | 137,060                                      |   |                            |                       | 140,590                  |       |
|                            |                       | <b>174,751</b>                               | <b>(Surplus) or Deficit on the Provision of Services</b>  |                            |                       | <b>168,841</b>           |       |
|                            |                       |  | Re-measurements of the net defined benefit pension<br>liability   |                            |                       |                          |       |
|                            |                       | (150,853)                                    |   |                            |                       | 310,505                  | 7 (a) |
|                            |                       | <b>(150,853)</b>                             | <b>Other Comprehensive Income &amp; Expenditure</b>   |                            |                       | <b>310,505</b>           |       |
|                            |                       | <b>23,898</b>                                | <b>Total Comprehensive Income &amp; Expenditure</b>   |                            |                       | <b>479,346</b>           |       |

# Balance Sheet

| Restated<br>1 April 2013<br>£000s | Restated<br>31 March 2014<br>£000s |  | 31 March 2015<br>£000s | Notes |
|-----------------------------------|------------------------------------|--|------------------------|-------|
| 9,485                             | 9,485                              | Long-term debtors                      | -                      | 11    |
| <b>9,485</b>                      | <b>9,485</b>                       | <b>Long-term assets</b>                | -                      |       |
| 15,946                            | 16,188                             | Short-term debtors                     | 24,014                 | 11    |
| <b>15,946</b>                     | <b>16,188</b>                      | <b>Current Assets</b>                  | <b>24,014</b>          |       |
| (25,501)                          | (24,641)                           | Short-term creditors                   | (32,693)               | 12    |
| <b>(25,501)</b>                   | <b>(24,641)</b>                    | <b>Current Liabilities</b>             | <b>(32,693)</b>        |       |
| (9,485)                           | (9,485)                            | Long-term creditors                    | -                      | 12    |
| (3,194,595)                       | (3,219,595)                        | Other long-term liabilities (pensions) | (3,698,715)            |       |
| <b>(3,204,080)</b>                | <b>(3,229,080)</b>                 | <b>Long-term Liabilities</b>           | <b>(3,698,715)</b>     |       |
| <b>(3,204,150)</b>                | <b>(3,228,048)</b>                 | <b>Net Assets</b>                      | <b>(3,707,394)</b>     |       |
|                                   |                                    | <b>Unusable Reserve</b>                |                        |       |
| 9,555                             | 8,453                              | Accumulated Absences Account           | 8,679                  |       |
| 3,194,595                         | 3,219,595                          | Pensions Reserve                       | 3,698,715              |       |
| <b>3,204,150</b>                  | <b>3,228,048</b>                   | <b>Total Reserves</b>                  | <b>3,707,394</b>       |       |

# Cash Flow Statement

| 2013/14<br>£'000 |   | 2014/15<br>£'000 | Note  |
|------------------|---|------------------|-------|
| 174,751          | (Surplus) or Deficit on the provision of services   | 168,841          |       |
|                  | <b><u>Adjustments to surplus or deficit on the provision of service for non-cash movements:</u></b> |                  |       |
| (174,751)        |   | (168,841)        | 7 (b) |
|                  | <b><u>Accruals Adjustments:</u></b>   |                  |       |
| 242              | Increase/(Decrease) in Debtors  | (1,659)          |       |
| (242)            | (Increase)/Decrease in Creditors  | 1,659            |       |
| <u>0</u>         | <b>Net cash flows from Operating Activities</b>   | <u>(0)</u>       |       |
| <u>0</u>         | <b>Net (increase)/decrease in cash and cash equivalents</b>   | <u>0</u>         |       |
| 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 2014/15, issued by CIPFA, and are prepared in accordance with International Financial Reporting Standards (IFRS).

The accounts have been prepared on a going-concern basis using a historical cost convention. Any departure from the relevant standards is stated in the notes.

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 were 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 remained under the control of the Commissioner. The second stage (Stage 2) came into force on 1 April 2014 when the employment contracts of those staff and officers directly under the control of the Chief Constable were transferred 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 (PCC) single-entity accounts. The Chief Constable, who is treated as a subsidiary of the Commissioner, has prepared 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.

**f) 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.

**g) 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.

**h) 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 a disclosure is made 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. Events after the balance sheet date for the 2014/15 financial year are described at Note 17 (page 45).

**i) 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 in 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. Prior period adjustments required for 2014/15 are set out at Note 18 (page 47).

**j) 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 2014/15 (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.

**k) 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. Contingent liabilities for 2014/15 are set out at Note

**l) 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.

**m) 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 percentage 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 2014/15 is shown in the disclosure notes.

**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 areas where judgements have been necessary are:

- Accounting for pension liabilities;
- Provisions for future expenditure; and
- Accounting recognition of assets, liabilities, reserves, revenue and expenditure following introduction of the new governance arrangement under provisions of the Police Reform and Social Responsibility Act.

Where judgement has been applied, the key factors taken into consideration are disclosed in the accounting policies and the appropriate note in the financial statements.

### 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.

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. There have been no significant changes in accounting policies in 2014/15.

### 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 March 2015:

- IFRS 13 Fair Value Measurement (May 2011).
- IFRIC 21 Levies.
- Annual Improvements to IFRS 2011 – 2013 Cycle.
- IFRS 1: Meaning of effective IFRSs;
- IFRS 3: Scope exceptions for joint ventures;
- IFRS 13: Scope of paragraph 52 (portfolio exception);
- IAS 40: Clarifying the interrelationship of IFRS 3 Business Combinations; and
- IAS 40 Investment Property when classifying property as investment property or owner-occupied property.

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 Sheet as at 31 March 2015 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 16.

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 2015 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 15.

## 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.

Under the second phase of the transition process, the Commissioners Stage 2 Scheme transferred 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 April 2014 transferring certain 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 all police officers and 1,847 police staff posts, with the Commissioner only retaining core staff in order to fulfil the statutory role.

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.

### Accounting Recognition

At 31 March 2015, 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 the Commissioners name. The Commissioner controls the bank account, is responsible for all liabilities, and controls 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 the 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 a credit from the Commissioner for resources consumed. Similarly, following the CIPFA guidance on best practice, the liabilities associated with the employee costs disclosed in the Chief Constable's Accounts are also shown in the Chief Constable's Balance Sheet rather than that of the Commissioner.

All income, as well as expenditure directly controlled by the Commissioner, in relation to her Office and a number of Specific Grants and other funding streams, 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 £22.32 million; and
- the cost of insurance and support services expended by the Commissioner but provided to support the Chief Constable in her provision of policing £1.46 million.

In order to show the total cost of services provided by the Police and Crime Commissioner, the following charges, under the control of the Chief Constable, are included as a proxy in the Commissioner's Comprehensive Income and Expenditure Statement:

- the proportion of the Joint Chief Finance Officer (CFO) role attributed to the statutory functions provided under the Office of the Police and Crime Commissioner £0.019 million.

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; and
- the Chief Constable's Balance Sheet includes any creditors and debtors in relation to the cost of policing, offset by a balancing net debtor 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. 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 2013/14 and 2014/15:

| <b>Other Comprehensive Income &amp; Expenditure</b>               |                          |
|---|--------------------------|
| <b>2013/14</b>  | <b>2014/15</b>           |
| <b>Unusable Reserves</b>  | <b>Unusable Reserves</b> |
| <b>£000s</b>  | <b>£000s</b>             |
| (150,853)   | 310,505                  |
| <b>(150,853) Total Other Comprehensive Income and Expenditure</b> | <b>310,505</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.

| Adjustments between accounting basis & funding basis under regulations |                                      |   |                                    |                                      |
|--|--------------------------------------|---|------------------------------------|--------------------------------------|
| 2013/14  |                                      |   | 2014/15                            |                                      |
| Usable Reserves General Fund £000s                                     | Unusable Reserves Pension Fund £000s |   | Usable Reserves General Fund £000s | Unusable Reserves Pension Fund £000s |
|  |                                      | 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)                              |   | (226)                              | 226                                  |
| (220,105)  | 220,105                              | Reversal of IAS 19 Pension Charges Contributions due under the pension scheme regulations   | (212,190)                          | 212,190                              |
| 44,252   | (44,252)                             |   | 43,575                             | (43,575)                             |
| <b>(174,751)</b>   | <b>174,751</b>                       | <b>Total adjustments between accounting basis and funding basis under regulations</b>   | <b>(168,841)</b>                   | <b>168,841</b>                       |

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 Commissioner is responsible for usable reserves and the level held. 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 is maintained at a nil balance.

### c) 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 the Chief Constable 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<br/>Balance<br/>as at<br/>31/03/14<br/>£000s</b> |                                | <b>Transfers<br/>to<br/>reserve<br/>£000s</b> | <b>Transfers<br/>from<br/>reserve<br/>£000s</b> | <b>Total<br/>movement<br/>on reserve<br/>£000s</b> | <b>Balance<br/>as at<br/>31/03/15<br/>£000s</b> |
| <b>Usable 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>                                     |                                |   |   |  |   |
| 8,453  | Accumulated Absences Account   | 0   | 226   | 226  | 8,679   |
| 3,219,595  | Pensions Reserve               | 0   | 479,120   | 479,120  | 3,698,715                                       |
| <b>3,228,048</b>   | <b>Total unusable reserves</b> | <b>0</b>                                      | <b>479,346</b>                                  | <b>479,346</b>                                     | <b>3,707,394</b>                                |
| <b>3,228,048</b>   | <b>Total reserves</b>          | <b>0</b>                                      | <b>479,346</b>                                  | <b>479,346</b>                                     | <b>3,707,394</b>                                |

## 8. External Audit Costs

The Chief Constable has incurred the following costs in relation to work carried out by the Group's external auditors, Mazars LLP, in 2014/15.

| <b>External Audit Costs - Chief Constable</b> |                          |           |
|---|--------------------------|-----------|
| <b>2013/14<br/>£000s</b>                      | <b>2014/15<br/>£000s</b> |           |
| 25  | External Audit Services  | 25        |
| 0   | Rebate                   | (6)       |
| <b>25</b>                                     | <b>Net Cost</b>          | <b>19</b> |

In 2014/15 a rebate was provided by the Audit Commission for the two previous financial years.

## 9. 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 2014/15 and the equivalent disclosure for 2013/14.

| <b>Numbers of Employees receiving over £50,000</b> |                |  |
|--|----------------|--|
| <b>Remuneration Band</b>                           | <b>2013/14</b> | <b>Number of<br/>Employees<br/>2014/15</b> |
| £50,000 - £54,999                                  | 104            | 111  |
| £55,000 - £59,999                                  | 69             | 64   |
| £60,000 - £64,999                                  | 8              | 6  |
| £65,000 - £69,999                                  | 1              | 5  |
| £70,000 - £74,999                                  | 7              | 5  |
| £75,000 - £79,999                                  | 15             | 9  |
| £80,000 - £84,999                                  | 7              | 4  |
| £85,000 - £89,999                                  | 4              | 6  |
| £90,000 - £94,999                                  | 2              | 0  |

The table below shows the total number and cost of exit packages during the year ending 31 March 2015.

| <b>Exit packages 2014/15</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> |
|                              |                                   |  |                                   | <b>£</b>  |
| £0 - £20,000                 | 12                                | 1  | 13                                | 118,005   |
| £20,001 - £40,000            | 7                                 | 0  | 7                                 | 169,715   |
| <b>Total Group</b>           | <b>19</b>                         | <b>1</b>                                 | <b>20</b>                         | <b>287,720</b>                                  |

The total cost in the table above has been charged to the Authority's Comprehensive Income and Expenditure Statement in the current year and funded from the Commissioner's earmarked Workforce Development Reserve.

The 2013/14 Statement of Accounts noted 8 staff leaving the Force with an exit package at a total cost of £0.177 million.

| <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> |
|                              |                                   |  |                                   | <b>£</b>  |
| £0 - £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 Group</b>           | <b>2</b>                          | <b>6</b>                                 | <b>8</b>                          | <b>177,151</b>                                  |

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

| <b>Remuneration of Senior Employees 2014/15</b> |              |   |                                   |   |  |   |
|---|--------------|---|-----------------------------------|---|--|---|
| <b>Post holder information</b>                  | <b>Notes</b> | <b>Salary<br/>(Including<br/>fees &amp;<br/>allowances)<br/>£</b> | <b>Benefits in<br/>Kind<br/>£</b> | <b>Total<br/>remuneration<br/>excluding<br/>pension<br/>contributions<br/>£</b> | <b>Pension<br/>contributions<br/>£</b> | <b>Total<br/>Remuneration<br/>2014/15<br/>£</b> |
| Chief Constable - Sue Sim                       |              | 162,839   | 3,950                             | <b>166,789</b>  | 10,842                                 | <b>177,631</b>                                  |
| Deputy Chief Constable                          |              | 136,482   | 7,114                             | <b>143,596</b>  | 31,889                                 | <b>175,484</b>                                  |
| Assistant Chief Constable - C                   |              | 103,923   | 6,638                             | <b>110,561</b>  | 24,204                                 | <b>134,764</b>                                  |
| Assistant Chief Constable - E                   | <b>1</b>     | 89,358  | 4,657                             | <b>94,015</b>   | 20,654                                 | <b>114,668</b>                                  |
| Temporary Assistant Chief Constable - D         | <b>2</b>     | 22,713  | 0                                 | <b>22,713</b>   | 5,209                                  | <b>27,921</b>                                   |
| Assistant Chief Officer, Corporate Services     |              | 104,185   | 7,550                             | <b>111,735</b>  | 14,137                                 | <b>125,873</b>                                  |
| Director of Finance (Chief Finance Officer)     |              | 82,044  | 37                                | <b>82,081</b>   | 11,132                                 | <b>93,213</b>                                   |
| <b>Total</b>                                    |              | <b>701,543</b>  | <b>29,946</b>                     | <b>731,489</b>  | <b>118,066</b>                         | <b>849,555</b>                                  |

Note 1: Assistant Chief Constable E started post on 9th May 2014

Note 2: Assistant Chief Constable D in post until 22<sup>nd</sup> June 2014

The Director of Finance is the Chief Finance Officer for both the Chief Constable and Police and Crime Commissioner. 80% of his salary is charged to the Chief Constable in the CIES.

| <b>Remuneration of Senior Employees 2013/14</b> |              |   |                                   |   |  |   |
|---|--------------|---|-----------------------------------|---|--|---|
| <b>Post holder information</b>                  | <b>Notes</b> | <b>Salary<br/>(Including<br/>fees &amp;<br/>allowances)<br/>£</b> | <b>Benefits in<br/>Kind<br/>£</b> | <b>Total<br/>remuneration<br/>excluding<br/>pension<br/>contributions<br/>£</b> | <b>Pension<br/>contributions<br/>£</b> | <b>Total<br/>Remuneration<br/>2013/14<br/>£</b> |
| Chief Constable - Sue Sim                       |              | 160,483   | 4,058                             | <b>164,541</b>  | 38,260                                 | <b>202,801</b>                                  |
| Deputy Chief Constable                          |              | 136,743   | 5,376                             | <b>142,119</b>  | 31,687                                 | <b>173,806</b>                                  |
| Assistant Chief Constable – A                   | <b>3</b>     | 74,837  | 5,721                             | <b>80,558</b>   | 0                                      | <b>80,558</b>                                   |
| Assistant Chief Constable – B                   | <b>4</b>     | 47,529  | 1,557                             | <b>49,086</b>   | 11,754                                 | <b>60,840</b>                                   |
| Assistant Chief Constable – C                   | <b>5</b>     | 81,334  | 5,886                             | <b>87,220</b>   | 17,641                                 | <b>104,861</b>                                  |
| Assistant Chief Constable – D                   | <b>6</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 3: Assistant Chief Constable A left on 17 December 2013

Note 4: Assistant Chief Constable B left on 29 August 2013

Note 5: Assistant Chief Constable C started in post 19 June 2013

Note 6: Assistant Chief Constable D started in post 25 November 2013

## 10. 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. Disclosure of these transactions allows readers to assess the extent to which the Chief Constable might have been constrained to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Chief Constable.

### Victims First Northumbria

The Chief Constable is a joint director of Victims First Northumbria Ltd, a company limited by guarantee, with the PCC with effect from 10 March 2015. The company has been established to deliver victim support services. No material transactions were carried out during the financial year 2014/15.

### Police and Crime Commissioner for Northumbria

The Commissioner has an integrated scheme of corporate governance that sets out the operational policy framework within which the PCC and Chief Constable will operate. The Scheme of Corporate Governance sets out the role of the PCC in setting the Force budget and the allocation of community safety grants.

### UK Government

Central government has significant 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 arrangement identified during 2014/15 is:

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

#### NERSOU Governance and Area of Business

The North East Regional Special Operations Unit (NERSOU) is a collaboration between the three forces of Northumbria, Durham and Cleveland categorised as a Joint Operation in line with the *Accounting for Collaboration* guidance issued by CIPFA. The governance of the Joint Operation is managed through a Section 22A collaboration agreement from the Police Act 1996, between all three Chief Constables and Police and Crime Commissioners.

NERSOU comprises of a number of highly specialised teams of officers and staff from the three forces which work with embedded partners from Her Majesty's Revenue and Customs (HMRC), UK Border Force and the National Crime Agency (NCA) to effectively tackle serious and organised crime across the region.

The unit creates additional specialist capacity through effective partnership working and collaboration to deliver an increased response to tackling serious and organised crime that transcends force borders in the region.

In line with the Home Office Serious and Organised Crime Strategy, NERSOU places emphasis on preventing, prosecuting and disrupting serious and organised crime ensuring a co-ordinated national approach across Government, law enforcement, security and intelligence agencies.

## Financing and Reserves

NERSOU is financed through a combination of Home Office Grants and force contributions under a fully immersed budget model. The net revenue requirement after the application of all available grant funding, is met by the three forces with contributions being determined on the basis of Home Office core grant allocations.

The contribution proportions made for 2014/15 are set out in the table below:

| Force       | Contribution |
|-------------|--------------|
| Northumbria | 57.0%        |
| Durham      | 20.9%        |
| Cleveland   | 22.1%        |

The final outturn position for NERSOU was £4.386 million with Northumbria's share of the net cost being £2.500 million as set out below:

|                               | NERSOU                      |                                 |
|-------------------------------|-----------------------------|---------------------------------|
|                               | Outturn<br>2014/15<br>£000s | Northumbria<br>2014/15<br>£000s |
| Employee Pay and Pensions     | 4,812                       | 2,743                           |
| Premises Costs                | 244                         | 139                             |
| Vehicles and Fuel             | 130                         | 74                              |
| Transport and Mileage         | 18                          | 10                              |
| Accommodation and Subsistence | 47                          | 27                              |
| Communications and Computing  | 32                          | 18                              |
| Training and Conference Fees  | 92                          | 52                              |
| Supplies and Services         | 170                         | 97                              |
| Miscellaneous Expenses        | 26                          | 15                              |
| <b>Total Expenditure</b>      | <b>5,571</b>                | <b>3,175</b>                    |
| Home Office Grant             | 1,105                       | 630                             |
| Other Income                  | 80                          | 45                              |
| <b>Total Income</b>           | <b>1,185</b>                | <b>675</b>                      |
| <b>Net Expenditure</b>        | <b>4,386</b>                | <b>2,500</b>                    |

The accounting treatment for NERSOU is that expenditure is shown as £3.175 million in the Chief Constable's accounts with income of £0.675 million 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 Group is £2.500 million.

All three forces have equal representation and rights to control under the Section 22A collaboration agreement. Assets purchased by a force and provided for the use of NERSOU are held on the balance sheet of that force. The only joint assets are those funded through Home Office grants and contributions. The share of NERSOU assets attributable to Northumbria is 57% and these are held on the balance sheet of the Police and Crime Commissioner Single Entity and Group accounts.

Reserves attributable to NERSOU are also held on the balance sheet of the Police and Crime Commissioner with the share of overall reserves for Northumbria being 57.0%, equating to £0.229 million as at 31st March 2015.

**11. 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 2015.

| <b>Short-term Debtors</b>                   |                      |
|---|----------------------|
| <b>31 March 2014</b>                        | <b>31 March 2015</b> |
| <b>£000s</b>                                | <b>£000s</b>         |
| 85 Central government bodies                | 132                  |
| 102 Public corporations and trading funds   | 153                  |
| 1,677 Bodies external to general government | 100                  |
| 14,324 Police and Crime Commissioner        | 23,629               |
| <b>16,188</b>                               | <b>24,014</b>        |

| <b>Long-term Debtors</b>            |                      |
|-------------------------------------|----------------------|
| <b>Restated<br/>31 March 2014</b>   | <b>31 March 2015</b> |
| <b>£000s</b>                        | <b>£000s</b>         |
| 9,485 Police and Crime Commissioner | 0                    |
| <b>9,485</b>                        | <b>0</b>             |

**12. 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 2014</b>                           | <b>31 March 2015</b> |
| <b>£000s</b>                                   | <b>£000s</b>         |
| (4,741) Central government bodies              | (400)                |
| (393) NHS bodies                               | (362)                |
| (90) Other local authorities                   | (2,176)              |
| (1,092) Public corporations and trading funds  | (144)                |
| (18,326) Bodies external to general government | (29,611)             |
| <b>(24,641)</b>                                | <b>(32,693)</b>      |

| <b>Long-term Creditors</b>        |                      |
|-----------------------------------|----------------------|
| <b>Restated<br/>31 March 2014</b> | <b>31 March 2015</b> |
| <b>£000s</b>                      | <b>£000s</b>         |
| (9,485) Police Pension Fund       | 0                    |
| <b>(9,485)</b>                    | <b>0</b>             |

### 13. Contingent Liabilities

At 31 March 2015, the Chief Constable has identified the following contingent liabilities:

- 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 judicial review brought by those pensioners affected meant that injury awards would be the subject of reconsideration. 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.
- Employment Tribunal 1 - 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. The final verdict is currently subject to deliberation by the Courts, should the Force lose the appeal it will be liable for remit in the region of £250,000.
- Employment Tribunal 2 - An estimate has not been disclosed due to the uncertainty around the possible outcome of the proceedings. A hearing is anticipated in the summer of 2015 but no date has yet been set.
- Employment Tribunal 3 - An estimate has not been disclosed due to the uncertainty around the possible outcome of the proceedings. A hearing is anticipated during October-December 2015 but no date has yet been set.
- Holiday pay - In the case of *Fulton v Bear Scotland* the Employment Tribunal ruled that the Working Time Regulations 1998 should be interpreted so that an employee's pay which includes an element of overtime should be included within that person's holiday pay. A future hearing will be held in order to resolve the means of calculation. A final decision is not yet available but it is anticipated that around 1,000 staff within Northumbria Police may be affected by this decision.

### 14. 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 is 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>2013/14</b>                            | <b>2014/15</b> |
| <b>£000s</b>                              | <b>£000s</b>   |
| 5,014 Local Policing                      | 5,191          |
| 504 Dealing with the Public               | 510            |
| 451 Criminal Justice Arrangements         | 449            |
| 313 Roads Policing                        | 319            |
| 382 Specialist Operations                 | 390            |
| 453 Intelligence                          | 455            |
| 1134 Specialist Investigations            | 1,164          |
| 98 Investigative Support                  | 105            |
| 104 National Policing                     | 96             |
| <b>Total employee benefits accrued at</b> |                |
| <b>8,453 the Balance Sheet date</b>       | <b>8,679</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 the Comprehensive Income and Expenditure Statement.

### **15. 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 2014/15, the Chief Constable paid £7.5 million (£6.8 million in 2013/14) to the Pension Fund in respect of pension contributions, representing 13.6% of pensionable pay (13.0% in 2013/14).

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 the Police fund 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>             |                           |              |                             |             |
|--|---------------------------|--------------|-----------------------------|-------------|
|  | <b>Funded Liabilities</b> |              | <b>Unfunded Liabilities</b> |             |
|  | <b>as at 31 March</b>     |              | <b>as at 31 March</b>       |             |
|  | <b>2014</b>               | <b>2015</b>  | <b>2014</b>                 | <b>2015</b> |
|  | <b>£m</b>                 | <b>£m</b>    | <b>£m</b>                   | <b>£m</b>   |
| <b>Within Cost of Service</b>  |                           |              |                             |             |
| Current Service Cost   | 8.50                      | 7.81         | 0                           | 0           |
| Past service cost (incl. curtailments)                                       | 0.12                      | 0.27         | 0                           | 0           |
| <b>Financing, Investment Income &amp; Expenditure</b>                        |                           |              |                             |             |
| Interest on net defined benefit liability / (asset)                          | 4.38                      | 2.99         | 0.16                        | 0.15        |
| <b>Pension expense recognised in CIES</b>                                    | <b>13.00</b>              | <b>11.07</b> | <b>0.16</b>                 | <b>0.15</b> |
| <b>Remeasurements in OCI</b>   |                           |              |                             |             |
| Return on plan assets (in excess of) / below that recognised in net interest | (2.68)                    | (16.41)      | 0                           | 0           |
| Actuarial (gains) / losses due to change in financial assumptions            | (17.91)                   | 33.74        | (0.20)                      | 0.26        |
| Actuarial (gains) / losses due to change in demographic assumptions          | (5.30)                    | 0            | 0.12                        | 0           |
| Actuarial (gains) / losses due to liability experience                       | (6.02)                    | (1.59)       | (0.21)                      | (0.04)      |
| <b>Total Amount recognised in OCI</b>  | <b>(31.91)</b>            | <b>15.74</b> | <b>(0.29)</b>               | <b>0.22</b> |
| <b>Total Amount charged to CIES</b>  | <b>(18.91)</b>            | <b>26.81</b> | <b>(0.13)</b>               | <b>0.37</b> |

### Assets and Liabilities in Relation to Retirement Benefits

| <b>Changes to the present value of the defined benefit obligation</b> |                              |               |                             |             |
|---|------------------------------|---------------|-----------------------------|-------------|
|   | <b>Funded Liabilities as</b> |               | <b>Unfunded Liabilities</b> |             |
|   | <b>at 31 March</b>           |               | <b>as at 31 March</b>       |             |
|   | <b>2014</b>                  | <b>2015</b>   | <b>2014</b>                 | <b>2015</b> |
|   | <b>£m</b>                    | <b>£m</b>     | <b>£m</b>                   | <b>£m</b>   |
| <b>Opening defined benefit obligation</b>                             | <b>291.52</b>                | <b>278.70</b> | <b>3.98</b>                 | <b>3.62</b> |
| Current service cost  | 8.50                         | 7.81          | 0                           | 0           |
| Interest expense on defined benefit obligation                        | 13.29                        | 11.89         | 0.16                        | 0.15        |
| Contributions by participants   | 2.23                         | 2.64          | 0                           | 0           |
| Actuarial (gains) / losses on liabilities - financial assumptions     | (17.91)                      | 33.74         | (0.20)                      | 0.26        |
| Actuarial (gains) / losses on liabilities - demographic assumptions   | (5.30)                       | 0             | 0.12                        | 0           |
| Actuarial (gains) / losses on liabilities - experience                | (6.02)                       | (1.59)        | (0.21)                      | (0.04)      |
| Net benefits paid out   | (7.73)                       | (7.34)        | (0.23)                      | (0.24)      |
| Past service cost (incl. curtailments)                                | 0.12                         | 0.27          | 0                           | 0           |
| <b>Closing defined benefit obligation</b>                             | <b>278.70</b>                | <b>326.12</b> | <b>3.62</b>                 | <b>3.75</b> |

| <b>Changes to the fair value of assets during the period</b> |                              |               |                             |             |
|--|------------------------------|---------------|-----------------------------|-------------|
|  | <b>Funded Liabilities as</b> |               | <b>Unfunded</b>             |             |
|  | <b>at 31 March</b>           |               | <b>Liabilities as at 31</b> |             |
|  | <b>2014</b>                  | <b>2015</b>   | <b>2014</b>                 | <b>2015</b> |
|  | <b>£m</b>                    | <b>£m</b>     | <b>£m</b>                   | <b>£m</b>   |
| <b>Opening fair value of assets</b>                          | <b>193.35</b>                | <b>205.65</b> | <b>0</b>                    | <b>0</b>    |
| Interest income on assets                                    | 8.91                         | 8.90          | 0                           | 0           |
| Remeasurement gains / (losses) on assets                     | 2.68                         | 16.41         | 0                           | 0           |
| Contributions by the employer                                | 6.21                         | 7.36          | 0.23                        | 0.24        |
| Contributions by participants                                | 2.23                         | 2.64          | 0                           | 0           |
| Net benefits paid out  | (7.73)                       | (7.34)        | (0.23)                      | (0.24)      |
| <b>Closing fair value of assets</b>                          | <b>205.65</b>                | <b>233.62</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> |                 |                 |
|--|-----------------|-----------------|
|  | <b>31 March</b> | <b>31 March</b> |
|  | <b>2014</b>     | <b>2015</b>     |
|  | <b>£m</b>       | <b>£m</b>       |
| Present value of defined benefit obligation (funded)   | 278.70          | 326.12          |
| Present value of defined benefit obligation (unfunded)   | 3.62            | 3.75            |
| Asset / (liability) recognised on the balance sheet (funded)   | (73.05)         | (92.50)         |
| Asset / (liability) recognised on the balance sheet (unfunded)   | (3.62)          | (3.75)          |
| <b>Fair value of assets</b>  | <b>205.65</b>   | <b>233.62</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 £25.31 million (£11.59 million gain in 2013/14).

| <b>Analysis of Scheme Assets</b> |                                 |             |              |                                 |
|----------------------------------|---------------------------------|-------------|--------------|---------------------------------|
| Asset                            | Asset split at<br>31 March 2015 |             |              | Asset split at<br>31 March 2014 |
|                                  | (%)                             |             | Total        | Total                           |
|                                  | Quoted                          | Unquoted    |              |                                 |
| Equities                         | 58.2                            | 8.2         | <b>66.4</b>  | 66.8                            |
| Property                         | 0.0                             | 9.5         | <b>9.5</b>   | 8.5                             |
| Government bonds                 | 3.7                             | 0.0         | <b>3.7</b>   | 3.5                             |
| Corporate bonds                  | 11.7                            | 0.0         | <b>11.7</b>  | 11.5                            |
| Cash                             | 2.4                             | 0.0         | <b>2.4</b>   | 2.9                             |
| Other*                           | 4.2                             | 2.1         | <b>6.3</b>   | 6.8                             |
|                                  | <b>80.2</b>                     | <b>19.8</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 Chief Constable is liable to pay retirement benefits. The total liability has a substantial impact on the net worth of the Chief Constable as recorded in the Balance Sheet, reducing the overall balance by £96.25 million. 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> |                |                |                 |                |                |
|--|----------------|----------------|-----------------|----------------|----------------|
|  | 2010/11        | 2011/12        | 2012/13         | 2013/14        | 2014/15        |
|  | £m             | £m             | £m              | £m             | £m             |
| Present value of the defined benefit obligation                                    |                |                |                 |                |                |
| - Funded liabilities   | (232.82)       | (265.94)       | (291.52)        | (278.70)       | (326.12)       |
| - Unfunded liabilities   | (3.47)         | (3.75)         | (3.98)          | (3.62)         | (3.75)         |
| Fair value of fund assets  | 167.44         | 170.81         | 193.35          | 205.65         | 233.62         |
| <b>Surplus / (deficit) in the scheme</b>   | <b>(68.85)</b> | <b>(98.88)</b> | <b>(102.15)</b> | <b>(76.67)</b> | <b>(96.25)</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 (analysis of scheme assets) table on the previous page. 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 2015.

| <b>Principal financial and actuarial assumptions</b>     |                           |                |                 |                |
|--|---------------------------|----------------|-----------------|----------------|
|  | <b>Funded Liabilities</b> |                | <b>Unfunded</b> |                |
|  | <b>2013/14</b>            | <b>2014/15</b> | <b>2013/14</b>  | <b>2014/15</b> |
| <b>Financial assumptions (% per annum)</b>               |                           |                |                 |                |
| Discount Rate  | 4.3                       | 3.3            | 4.2             | 3.1            |
| Rate of Inflation (CPI)                                  | 2.4                       | 1.9            | 2.2             | 1.8            |
| Rate of Inflation (RPI)                                  | 3.4                       | 3.0            | 3.2             | 2.9            |
| Rate of increase in salaries                             | 3.9                       | 3.4            | n/a             | n/a            |
| Rate of increase to pensions in payment                  | 2.4                       | 1.9            | 2.2             | 1.8            |
| Rate of increase to deferred pensions                    | 2.4                       | 1.9            | n/a             | n/a            |
| <b>Mortality assumptions</b>                             |                           |                |                 |                |
| Future lifetime from age 65 (aged 65 at accounting date) |                           |                |                 |                |
| Men  | 23.0                      | 23.1           | 23.0            | 23.1           |
| Women  | 24.6                      | 24.7           | 24.6            | 24.7           |
| Future lifetime from age 65 (aged 45 at accounting date) |                           |                |                 |                |
| Men  | 25.0                      | 25.1           | n/a             | n/a            |
| Women  | 26.9                      | 27.0           | n/a             | n/a            |

| <b>Commutations</b>      |   |
|--------------------------|---|
| Year ended 31 March 2015 | 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 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. |

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 2015 and the projected service cost for the year ending 31 March 2016. 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>          | Base Figure | <b>-0.1% p.a</b> |
| Present value of total obligation (£M)   | 319.09                    | 326.12      | 333.30           |
| % change in present value of total obligation  | -2.20%                    |             | 2.20%            |
| Projected service cost (£M)  | 9.25                      | 9.61        | 9.98             |
| Approximate % change in projected service cost   | -3.80%                    |             | 3.90%            |
| <b>Rate of general increase in salaries</b>  | <b>Adjustment to Rate</b> |             |                  |
| Adjustment to salary increase rate   | <b>+0.1% p.a</b>          | Base Figure | <b>-0.1% p.a</b> |
| Present value of total obligation (£M)   | 328.60                    | 326.12      | 323.68           |
| % change in present value of total obligation  | 0.80%                     |             | -0.70%           |
| Projected service cost (£M)  | 9.61                      | 9.61        | 9.61             |
| Approximate % change in projected service cost   | 0.00%                     |             | 0.00%            |
| <b>Rate of increase to pensions in payment and deferred pensions assumption, and rate of revaluation of pension accounts assumption</b>                  | <b>Adjustment to Rate</b> |             |                  |
| Adjustment to pension increase rate  | <b>+0.1% p.a</b>          | Base Figure | <b>-0.1% p.a</b> |
| Present value of total obligation (£M)   | 331.03                    | 326.12      | 321.29           |
| % change in present value of total obligation  | 1.50%                     |             | -1.50%           |
| Projected service cost (£M)  | 9.98                      | 9.61        | 9.25             |
| Approximate % change in projected service cost   | 3.90%                     |             | -3.80%           |
| <b>Post retirement mortality assumption</b>  | <b>Adjustment to Rate</b> |             |                  |
| Adjustment to mortality age rating assumption*   | <b>- 1 year</b>           | Base Figure | <b>+ 1 year</b>  |
| Present value of total obligation (£M)   | 335.04                    | 326.12      | 317.18           |
| % change in present value of total obligation  | 2.70%                     |             | -2.70%           |
| Projected service cost (£M)  | 9.95                      | 9.61        | 9.27             |
| Approximate % change in projected service cost   | 3.50%                     |             | -3.50%           |
| * A rating of +1 year means that members are assumed to follow the mortality pattern of the base table for an individual that is 1 year older than them. |                           |             |                  |

### 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 2016 are estimated to be £7.38 million. In addition, strain on the fund contributions may be required as a result of voluntary redundancies and early retirements.

### Duration of Liabilities

The duration of the Employer's liabilities is the average period between the calculation date and the date at which benefit payments fall due. This is estimated as 21.8 years.

**16. 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 2015, allowing for additional service accrued and known pension and salary increases that would have applied. The transactions shown have been made during the year:

| <b>Charges to Comprehensive Income and Expenditure Statement</b>   |                                 |                                 |
|--|---------------------------------|---------------------------------|
|  | <b>31 March<br/>2014<br/>£m</b> | <b>31 March<br/>2015<br/>£m</b> |
| <b>Net cost of services</b>  |                                 |                                 |
| Current service cost   | 74.43                           | 63.49                           |
| Past service cost  | 0                               | 0.03                            |
| <b>Financing and investment income and expenditure</b>             |                                 |                                 |
| Pension interest cost  | 132.52                          | 137.45                          |
| <b>Total charge to Provision of Services</b>                       | <b>206.95</b>                   | <b>200.97</b>                   |
| Remeasurement of the net defined liability / (asset)               | (118.65)                        | 294.55                          |
| <b>Total IAS 19 charge to Comprehensive Income and Expenditure</b> | <b>88.30</b>                    | <b>495.52</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>              |                                    |                                    |                                    |                                    |                       |
|---|------------------------------------|------------------------------------|------------------------------------|------------------------------------|-----------------------|
|   | <b>Restated<br/>2010/11<br/>£m</b> | <b>Restated<br/>2011/12<br/>£m</b> | <b>Restated<br/>2012/13<br/>£m</b> | <b>Restated<br/>2013/14<br/>£m</b> | <b>2014/15<br/>£m</b> |
| Present value of the defined benefit obligation | (2,559.31)                         | (2,692.11)                         | (3,092.45)                         | (3,142.93)                         | (3,602.47)            |
| Surplus / (Deficit) in the Scheme               | <b>(2,559.31)</b>                  | <b>(2,692.11)</b>                  | <b>(3,092.45)</b>                  | <b>(3,142.93)</b>                  | <b>(3,602.47)</b>     |

The weighted average duration of the defined benefit obligation for the New Police Pension Scheme 2006 is around 34 years, and for the Police Pension Scheme 1987 it is around 23 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> |                                 |                                 |
|--|---------------------------------|---------------------------------|
|  | <b>31 March<br/>2014<br/>£m</b> | <b>31 March<br/>2015<br/>£m</b> |
| <b>Opening fair value of assets</b>                      | <b>0</b>                        | <b>0</b>                        |
| Actuarial gains and (losses) on assets                   | 39.02                           | 47.22                           |
| Contributions by employer                                | 37.82                           | 35.98                           |
| Contributions by participants                            | 17.45                           | 17.45                           |
| Transfers in   | 1.43                            | 0.68                            |
| Net benefits paid  | (95.72)                         | (101.33)                        |
| <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>Restated<br/>31 March<br/>2014<br/>£m</b> | <b>31 March<br/>2015<br/>£m</b> |
| Net surplus / (deficit) at the beginning of year            | (3,092.45)                                   | (3,142.93)                      |
| Current service cost  | (74.43)                                      | (63.49)                         |
| Cost covered by employee contributions                      | (17.45)                                      | (17.45)                         |
| Past service cost   | 0  | (0.03)                          |
| Pension transfers in  | (1.43)                                       | (0.68)                          |
| Net interest on the net defined benefit liability / (asset) | (132.52)                                     | (137.45)                        |
| Net benefits paid   | 95.72  | 101.33                          |
| Remeasurements of the net defined liability / (asset)       | 79.63  | (341.77)                        |
| Net surplus / (deficit) at the end of year                  | <b>(3,142.93)</b>                            | <b>(3,602.47)</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 2016 are estimated to be £35.284 million compared to £36.025 million paid in 2014/15.

### 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>2013/14</b> | <b>2014/15</b> |
| Discount rate (Rate of Return)                       | 4.40%          | 3.30%          |
| Rate of inflation (CPI)                              | 2.50%          | 2.20%          |
| Rate of inflation (RPI)                              | 3.65%          | 3.35%          |
| Rate of increase in salaries                         | 4.50%          | 4.20%          |
| Rate of return in excess of:                         |                |                |
| Earning increases                                    | (0.10%)        | (0.90%)        |
| Pension increases                                    | 1.85%          | 1.10%          |

| <b>Mortality Assumptions</b>                                    |                            |                            |                            |                            |
|---|----------------------------|----------------------------|----------------------------|----------------------------|
|   | <b>Normal Health</b>       |                            | <b>Ill Health</b>          |                            |
|   | <b>2013/14<br/>(years)</b> | <b>2014/15<br/>(years)</b> | <b>2013/14<br/>(years)</b> | <b>2014/15<br/>(years)</b> |
| Future Lifetime at 65 for current pensioners                    |                            |                            |                            |                            |
| Men   | 23.4                       | 23.3                       | -                          | 20.7                       |
| Women   | 25.9                       | 25.7                       | -                          | 23.1                       |
| Future Lifetime at 65 for future pensioners (currently aged 45) |                            |                            |                            |                            |
| Men   | 25.6                       | 25.4                       | -                          | 23.0                       |
| Women   | 28.0                       | 27.9                       | -                          | 26.6                       |

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 increase in the scheme liability attributed to the re-measurement of the net defined benefit pension liability is primarily caused by the change in the discount rate assumption from 4.40% last year to 3.30% this year. The table below sets out the sensitivity to the main assumptions.

| <b>Sensitivity to main assumptions</b>            |               |  |
|---|---------------|--|
| <b>Change in assumptions</b>                      |               | <b>Approximate effect on total liability</b> |
| <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) 1 year longer |               | +2.5%  |

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

## 17. Events after the Balance Sheet date

### **New Chief Constable**

The Chief Constable Mrs Sue Sim retired from the Force on 3 June 2015. Mr Steve Ashman has been appointed as the new Chief Constable. Mr Ashman joined Northumbria in 2009 as Assistant Chief Constable and became Deputy in 2013.

## **Adjusting post balance sheet event – Pension Ombudsman Determination Lump Sum Commutation Factors 2001 to 2006**

On 15 May 2015 The Pensions Ombudsman published his determination in the case of Milne vs the Government Actuary's Department (GAD) concerning the lump sum paid to a firefighter on his retirement. The determination made by the Pensions Ombudsman concerns historic commutation factors in the Fire Scheme and the responsibilities for maintaining and updating them. The Ombudsman's findings also have relevance to the Police Scheme given the similar commutation provisions which apply.

The determination finds that "an opportunity to review the commutation factors was lost in 2001/2 and then again between 2002 and 2004". The Ombudsman ordered that a new commutation factor should be prepared for Mr Milne, as if a factor review had been carried out in December 2004, with a payment made to the member to reflect the recalculated commutation lump sum. He also directed that interest should be paid on the back-dated payment and, if necessary, any tax liability arising from the additional lump sum should be reimbursed to the member.

The Ombudsman has noted that the principles of his findings are also relevant to police officers. He further states that he expects Government to make arrangements for payments to be made to others affected, reflecting the more beneficial terms that would have applied had commutation factors been reviewed and, where appropriate, revised at the relevant times.

The Government has made arrangements for payments to be made from the Police Pension Fund and GAD has prepared tables for use in the calculation of redress, based on a best reconstruction of the commutation factors which would have applied if factors had been reviewed and revised at 1 December 2001 and at 1 December 2004. The mortality and related assumptions used in the development of these tables have been reviewed by an independent firm of consulting actuaries who have confirmed that the assumptions fall within the range that GAD might reasonably have chosen if it had prepared revised commutation factors at these dates.

Using the tables and guidance issued by the government we have identified 530 pensioners that we understand would have been affected by this issue. We have calculated the revised lump sums and interest based on the guidance. Our calculations indicate a total liability of £9.485 million. This sum could be subject to change depending on acceptance by the pensioners as a full and final settlement and when the payments are made.

### **Recognition in the financial statements**

Although the determination was issued after the 31 March 2015 and payments will be made in 2015/16, as the sum is material it is treated as an error arising prior to the comparative period and an adjusting post balance sheet event [IAS10 para9(a)].

The liability to make additional payments for lump sum benefits from the pension fund totalling £9.485m is recognised as a creditor in the Pension Fund Statements, within the Net Asset Statement. A corresponding asset of £9.485m is also recognised as a debtor in the Net Asset Statement representing the additional top-up grant due from Government to cover the liability. The management judgement regarding the recognition point for the top-up grant is based on the assumption that the top-up grant is receivable to the fund in the year that benefits should have been paid. On this basis the balance on the Net Asset Statement for the Police Pension Fund is nil across the three balance sheet dates.

The creditor and debtor balances are also recognised in the balance sheet for the Chief Constable, prior year adjustments are shown at Note 18 to the accounts and a third balance sheet has been added to show the opening balances for the prior year (2013/14).

The loss associated with the liability is recorded in the financial statements by adjusting actuarial losses, in recognition of the error made in calculating lump sum benefits in a period prior to the comparative period. The calculation of total payments due to pensioners of £9.485m has been used as an estimate of the actuarial loss to be recognised. Any variance against this estimate will be dealt with in 2015/16 as part of the pension disclosures and GAD IAS19 reports. The pension liability has therefore been increased to recognise the additional actuarial loss, and the pension reserve is adjusted to recognise the increased liability to make payments from the fund in 2015/16.

All prior period adjustments required as a result of accounting for the Pension Ombudsman Determination in respect of commutation factors are set out in Note 18 to the accounts.

## 18. Prior Period Adjustments

The Police and Crime Commissioner Group accounts include an adjusting post balance sheet event as a result of the Pension Ombudsman determination in respect of commutation factors for the Police Pension Fund. The accounting treatment and recognition is described at Note 17 and the prior period adjustments required are set out below:

| <b>Prior period adjustments - Statements to the Accounts</b> |   |   |   |
|--|---|---|---|
|  | <b>Original Disclosure in 2013/14<br/>£000s</b> | <b>Adjustment (Commutation Factors - Liability)<br/>£000s</b> | <b>Restated Balance for 2013/14<br/>£000s</b> |
| <b>Balance Sheet</b>   |   |   |   |
| <b>Long-term assets</b>                                      |   |   |   |
| Long-term debtors  | 0   | 9,485   | 9,485   |
| <b>Long-term Liabilities</b>                                 |   |   |   |
| Long-term creditors  | 0   | (9,485)   | (9,485)                                       |
| Other long-term liabilities (pensions)                       | (3,210,110)                                     | (9,485)   | (3,219,595)                                   |
| <b>Unusable Reserve</b>                                      |   |   |   |
| Pensions Reserve   | 3,210,110                                       | 9,485   | 3,219,595                                     |
| <b>Reserves Statement</b>                                    |   |   |   |
| Pensions Reserve   | 3,210,110                                       | 9,485   | 3,219,595                                     |
| <b>Police Pension Fund - Net Asset Statement</b>             |   |   |   |
| Long-term debtors  | 0   | 9,485   | 9,485   |
| Long-term creditors  | 0   | (9,485)   | (9,485)                                       |

## Prior period adjustments – Note 16 to the Accounts Defined Benefit Plan: Police Pension Scheme

| <b>History of scheme liability</b>                     |                       |                       |                       |                       |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
| <b>Present value of the defined benefit obligation</b> | <b>2010/11<br/>£m</b> | <b>2011/12<br/>£m</b> | <b>2012/13<br/>£m</b> | <b>2013/14<br/>£m</b> |
| Original disclosure in 2013/14                         | (2,549.82)            | (2,682.62)            | (3,082.96)            | (3,133.44)            |
| Adjustment (Commutation Factors - Liability)           | (9.49)                | (9.49)                | (9.49)                | (9.49)                |
| <b>Restated Balance</b>                                | <b>(2,559.31)</b>     | <b>(2,692.11)</b>     | <b>(3,092.45)</b>     | <b>(3,142.93)</b>     |

| <b>Analysis of the movement in scheme liability</b> |                      |                     |                    |
|---|----------------------|---------------------|--------------------|
|   | <b>Original</b>      | <b>Adjustment</b>   | <b>Restated</b>    |
|   | <b>Disclosure in</b> | <b>(Commutation</b> | <b>Balance for</b> |
|   | <b>2013/14</b>       | <b>Factors -</b>    | <b>2013/14</b>     |
|   | <b>£m</b>            | <b>Liability)</b>   | <b>£m</b>          |
|   |                      | <b>£m</b>           |                    |
| Net surplus / (deficit) at the beginning of year    | (3,082.96)           | (9.49)              | (3,092.45)         |
| Net surplus / (deficit) at the end of year          | (3,133.44)           | (9.49)              | (3,142.93)         |

## 19. 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.

## 20. Authorisation of accounts for issue

The Chief Constable's Statement of Accounts for the financial year ended 31 March 2015 was approved by the Chief Constable and authorised for issue on 22 September 2015.

# 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 2014/15 and shows comparative figures for 2013/14

| 2013/14<br>£000s | FUND ACCOUNT  | 2014/15<br>£000s |
|------------------|---|------------------|
| (31,965)         | Normal  | (30,537)         |
| (1,112)          | Other (Ill Health Retirements)  | (708)            |
| <b>(33,077)</b>  | <b>Contribution Receivable from Employer</b>  | <b>(31,245)</b>  |
| (17,453)         | Contribution Receivable from Members  | (17,446)         |
| <b>(17,453)</b>  | <b>Contribution Receivable from Members</b>   | <b>(17,446)</b>  |
| <b>(50,530)</b>  | <b>Contributions Receivable</b>   | <b>(48,691)</b>  |
| (1,436)          | Individual Transfers in from other schemes  | (694)            |
| <b>(1,436)</b>   | <b>Transfers in</b>   | <b>(694)</b>     |
| 69,141           | Pensions  | 73,414           |
| 20,979           | Commutations and Lump Sum Retirement Benefits   | 20,876           |
| 150              | Lump Sum Death Benefits   | -                |
| 280              | Other (Inter Authority Adjustments / LTA Payments)  | 195              |
| <b>90,550</b>    | <b>Benefits Payable</b>   | <b>94,485</b>    |
| -                | Refunds of Contributions  | 11               |
| 538              | Individual Transfers Out To Other Schemes   | 2,113            |
| <b>538</b>       | <b>Payments To and On Account of Leavers</b>  | <b>2,124</b>     |
| <b>91,088</b>    | <b>Total Benefits Payable</b>   | <b>96,609</b>    |
| <b>39,122</b>    | <b>Net amount payable for the year before contribution from the Police Fund</b>   | <b>47,224</b>    |
| <b>(39,122)</b>  | <b>Contributions from Police Fund Income and Expenditure Account in respect of Deficit on the Police Pension Fund Account</b> | <b>(47,224)</b>  |
| <b>0</b>         | <b>Net Amount (Receivable) / Payable In Year</b>  | <b>0</b>         |

| <b>Net Asset Statement</b>                 |   |                      |                                |
|--|---|----------------------|--------------------------------|
| <b>Restated<br/>1 April 2013<br/>£000s</b> | <b>Restated<br/>31 March 2014<br/>£000s</b> |                      | <b>31 March 2015<br/>£000s</b> |
| 9,485                                      | 9,485                                       | Long-term debtors    | 0                              |
| 0  | 0   | Short-term debtors   | 9,485                          |
| 0  | 0   | Short-term creditors | (9,485)                        |
| (9,485)                                    | (9,485)                                     | Long-term creditors  | 0                              |
| <b>0</b>                                   | <b>0</b>                                    | <b>Net Assets</b>    | <b>0</b>                       |

## 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 Net Asset Statement includes a creditor of £9.485m to recognise the pension fund's liability to make back-dated lump sum payments to pensioners as a result of the Pension Ombudsman determination in respect of commutation factors. The debtor of £9.485m is included to recognise the additional top-up grant due from Government in respect of this liability. The Pension Ombudsman decision is described in further detail at Note 17.

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 16).

# Annual Governance Statement

The Accounts and Audit Regulations 2011 require an Annual Governance Statement (AGS) to be published with the annual statement of accounts.

This statement is prepared in accordance with the CIPFA/SOLACE Good Governance: Framework and explains how the Chief Constable of Northumbria Police Force has complied with this framework and meets the statutory requirements of regulations.

## Scope of Responsibility

The Police Reform and Social Responsibility (PRSR) Act 2011 sets out the accountability and governance arrangements for police and crime. The Act establishes both the Police and Crime Commissioner (PCC) and the Chief Constable as 'corporations sole'. This means each is a separate legal entity, though the Chief Constable is accountable to the PCC. Both the PCC and Chief Constable are subject to the Accounts and Audit Regulations 2011 and as such both have to prepare a set of accounts in accordance with the Code of Practice on Local Authority Accounting and an Annual Governance Statement and are subject to audit.

This statement covers the Chief Constable. The PCC's statement of accounts includes a similar statement which covers both the Office of the PCC as well as the group position of the PCC and Chief Constable.

The Chief Constable is responsible for the direction and control of the Force. In discharging this function, the Chief Constable supports the PCC in ensuring their business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively.

The Chief Constable is also responsible for putting in place proper arrangements for the governance of the Force and ensuring that these arrangements comply with the PCC's Governance Framework. In so doing the Chief Constable is ensuring a sound system of internal control is maintained throughout the year and that appropriate arrangements are in place for the management of risk.

The Chief Constable and PCC have adopted corporate governance principles which are consistent with the principles of the CIPFA/SOLACE Good Governance: Framework.

The PRSR Act 2011 requires the PCC and Chief Constable to each appoint a Chief Finance Officer (CFO) with defined responsibilities and powers. The Chartered Institute of Finance and Accountancy (CIPFA) Statement on the Role of the CFO appointed by the PCC and the CFO appointed by the Chief Constable gives detailed advice on how to apply CIPFA's overarching Public Services Statement. The revised 2014 Statement states:

"That both the PCC and Chief Constable appoint separate CFOs, where under existing arrangements a joint CFO has been appointed the reasons should be explained publicly in the authority's AGS, together with an explanation of how this arrangement delivers the same impact."

The PCC and the Chief Constable agreed to appoint a joint CFO for both corporate bodies. The reasoning was that a joint CFO role would provide both the PCC and Chief Constable with a single efficient, effective and economic financial management lead. The appointment to the joint role was approved by the independent Northumbria Police and Crime Panel at their confirmation meeting held on 29th March 2013. However, the panel raised concerns at the potential for a conflict of interest to arise with the joint role and stressed the need, especially with the Section 151 responsibilities, to advise the PCC and Chief Constable of any such conflicts at an early stage. The panel also stated that they expect the CFO to act in accordance with the requirements, standards and controls as set out in 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 (the CIPFA Statement).

As part of the AGS assurance review an assessment to the latest CIPFA Statement (2014) has been completed and reviewed by the Joint Independent Audit Committee. It confirms that the role is complying with the requirements of the Statement. The PCC and the Chief Constable are also satisfied that the role is working efficiently, that the responsibilities set out in the Scheme of Governance are being completed effectively and that potential conflicts are subject to continuous review.

### **The Governance Framework**

The governance framework in place throughout the 2014/15 financial year covers the period from 1 April 2014 to 31 March 2015 and up to the date of approval of the annual Statement of Accounts.

This framework comprises the systems, processes, culture and values by which the Chief Constable operates in support of the PCC's Scheme of Governance. It is through the application of this framework that the Chief Constable is able to both monitor and deliver the objectives of the Force and provides assurance to the PCC that these objectives are leading to the delivery of appropriate and cost-effective policing services which provide value for money which is a duty under the Local Government Act 1999.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable and foreseeable level. It cannot, however, eliminate all risk of failure to achieve aims and objectives and therefore only provides reasonable and not absolute assurance of effectiveness. The system of internal control is an on-going process designed to identify and prioritise the risks to achieving the PCC's and Chief Constable's aims and objectives, evaluate the likelihood and impact of those risks being realised and manage them effectively, efficiently and economically.

A copy of the Governance Framework is available on the PCC website at <https://goo.gl/rwZkEB> (This is a shortened URL that will take you to the document on our website).

The Chief Constable is responsible for operational policing matters, the direction and control of police personnel, and making proper arrangements for the governance of the Force. The role is accountable to the PCC for the exercise of those functions. The Chief Constable must therefore satisfy the PCC that the Force has appropriate mechanisms in place for the maintenance of good governance and that these operate in practice.

This statement provides a summary of the extent to which the Chief Constable is supporting the aspirations set out in the PCC's Governance Framework. It is informed by assurances on the five principles set out in the CIPFA/SOLACE Framework – Delivering Good Governance in Local Government (Guidance Notes for Police Authorities 2012 Edition) where the Chief Constable has responsibility, and by on-going internal and external audit and inspection opinions.

The principles of good governance where the Chief Constable has responsibility are:

1. Focusing upon the purpose of the Force and on outcomes for the community, and creating and implementing a vision for the local area.
2. Ensuring that the Force and partners work together to achieve a common purpose within clearly defined functions and roles.
3. Promoting values for the Force and demonstrating the values of good governance through upholding high standards of conduct and behaviour.
4. Taking informed and transparent decisions, which are subject to effective scrutiny, and managing risk.
5. Developing the capacity and capability of all to be effective in their roles.

### **Focusing on the Purpose of the Force and on Outcomes for the Community and Creating and Implementing a Vision for the Local Area**

The purpose, vision, values, priorities and strategic objectives of the PCC are developed in consultation with the Chief Constable. These are set out in the PCC's Police and Crime Plan.

Delivery of the Policing Plan is the responsibility of the Chief Constable. Performance is monitored through a robust framework based around the Chief Constable's Delivery Plan and the PCC attends the Force's Strategic Management Board to scrutinise progress. In addition, Joint Fortnightly Business Meetings manage progress on specific issues.

Other areas of business are also regularly reported to SMB, and include equality, the Strategic Policing Requirement, community consultation and engagement, progress against Her Majesty's Inspectorate of Constabulary for England and Wales (HMIC) action plans and risk management.

All Area Commands and Departments produce a local delivery plan that supports the Police and Crime Plan. Progress against these local delivery plans are monitored by Chief Officers as part of regular meetings with respective heads of service.

### **Ensuring the Force and Partners Work Together to Achieve a Common Purpose with Clearly Defined Functions and Roles**

The PCC's Governance Framework sets out the roles of both the Chief Constable and PCC are clearly defined and demonstrates how we work together to ensure effective governance and internal control.

The Chief Constable and PCC have regular meetings, the minutes of which are published on the PCC website to ensure transparency of decision making.

The governance arrangements for partnership working are clearly set out and monitored during the year. All Community Safety partnerships carry out regular self-assessments to Home Office guidance. The partnership arrangement with the North East Regional Special Operations Unit (NERSOU), a collaboration between the three forces of Northumbria, Cleveland and Durham, is subject to a formal agreement and monitored.

### **Promoting Values of Good Governance Through Upholding High Standards of Conduct and Behaviour**

HMIC completed an inspection of arrangements to ensure officers and staff act with integrity and that forces have the capability and capacity to tackle corruption in policing and published their report on 30 January 2015.

The report concludes that police forces have made significant progress in putting in place processes to prevent and tackle corruption, and this is in part due to strong leadership being demonstrated by senior police officers. Issues regarding consistency were identified and HMIC reported that some forces lacked the capability to proactively seek out and prevent corruption.

Northumbria Police received a Force report on Police Integrity and Corruption in November 2014 which found that the Force was set up to prevent, identify and investigate corruption and there is good consistency in the management of complaints and misconduct and in the conduct and sanctions applied in disciplinary cases.

An assessment of the national report has been completed and additional actions have been incorporated into the Force's existing Police Integrity and Corruption Action Plan.

The PCC is responsible for handling complaints and conduct matters in relation to the Chief Constable and the Force as well as complying with the requirements of the Independent Police Complaints Commission. The PCC also operates an independent complaints scrutiny panel that look at upheld complaints made against the Force looking for lessons learned to improve future practices. Complaints are also reported to each Police and Crime Panel meeting.

The Force has a Professional Standards Department, which reports directly to the Chief Constable. It is through the work of this department that the Force is able to promote the ethos of personal accountability amongst staff, as well as to investigate allegations of breaches in the code of conduct. Regular communication with both new and existing members of staff re-enforce our corporate anti-corruption messages.

## **Taking Informed and Transparent Decisions Which are Subject to Effective Scrutiny and Risk Management**

All strategic decision making is carried out in accordance with the PCC's Governance Framework.

The Governance arrangements ensure that key decisions are taken at the appropriate level, and are referred to the PCC as required. The Chief Constable is subject to the oversight and scrutiny of the PCC through regular meetings between the Chief Constable and the PCC.

The PCC and Chief Constable have established a Joint Independent Audit Committee (JIAC). This JIAC receives reports of both the internal and external auditors, as well as any other reports required to be referred to it under its established Terms of Reference. Through this body the Chief Constable is subject to scrutiny not only of the PCC, but also of the independent members of the JIAC.

The PCC and Chief Constable share a Joint Strategic Risk Register which has been designed to ensure the effective management of strategic risk, whilst reducing the bureaucracy associated with historic practices. Each strategic risk is assigned to a Chief Officer and OPCC owner who has responsibility for the management of controls and the implementation of new controls where necessary. The register is monitored by the Chief Constable's Executive Board and the monthly SMB that is attended by the PCC, Chief Constable and Northumbria Police senior management.

The strategic risk register is also subject to scrutiny by the JIAC.

## **Developing the Capacity and Capability of Officers of the Force to be Effective**

The Force operates a Performance Development Review (PDR) process. Through the PDR process the Force is able to ensure that the corporate values are reinforced and promoted and that each member of staff has individual objectives which underpin and support the performance of the local policing area or department in which they work as well as their own personal development.

A range of internal training resources are also provided to meet the identified development needs of the staff. If appropriate the Force will also use external training events to provide staff with necessary development opportunities.

## **Value for Money and Reliable Financial and Performance Statements are Reported and Internal Financial Controls Followed**

Financial control involves the existence of a control structure which ensures that all resources are used as efficiently and effectively as possible to attain the Chief Constable's and PCC's overall objectives and targets. Internal financial control systems are in place to minimize the risk of loss, unlawful expenditure or poor value for money, and to maximize the use of those assets and resources over which the Chief Constable has delegated control.

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 JIAC 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 internal control, governance and risk environments of the PCC and Chief Constable based on the work undertaken by the Internal Audit Service throughout 2014/15.

The financial management and performance reporting framework follows national and/or professional best practice and its key elements are set out below:

- Financial Regulations establish the principles of financial control. They are designed to ensure that the PCC and Chief Constable conducts their financial affairs in a way which complies with

statutory provision and reflects best professional practice. Contract Standing Orders set out the rules to be followed in respect of contracts for the supply of goods and services;

- A robust system through which we manage finance, HR, payroll and procurement processes is used throughout the Force. This enables systematic control to be applied, particularly in relation to budget management. This ensures that responsibility and accountability for resources rest with those managers who are responsible for service provision. This is underpinned by systematic controls which ensure financial commitments are approved by the relevant manager;
- In accordance with the Prudential Code and best accounting practice the Chief Constable and PCC produce a three year Medium Term Financial Strategy (MTFS) and capital programme. These are reviewed on an on-going basis and form the core of resource planning, setting the precept level, the annual revenue budget and capital programme;
- The MTFS includes known commitments, anticipated resources availability and other expenditure items which the Chief Constable has identified as necessary to deliver both national and local policing priorities;
- The annual revenue budget provides an estimate of the annual income and expenditure requirements for the Chief Constable and sets out the financial implications of the PCC's policies. It provides Chief Officers with the authority to incur expenditure and a basis on which to monitor and report on financial performance;
- Monthly financial performance reports are presented to the Executive Board that focus on year to date information and forecast outturn enabling officers to establish a clear understanding of financial performance. These are then presented quarterly to the PCC through the Joint Business Meeting and these are available on the PCC website for wider scrutiny of financial performance by the public. Additional monitoring reports are produced and discussed with budget managers on a regular basis throughout the year;
- HMIC Value for Money reviews are considered by management and recommendations implemented as appropriate.

### Review of Effectiveness

The Chief Constable has responsibility for conducting, at least annually, a review of the effectiveness of the governance framework, including the system of internal audit and system of internal control. This is informed by the internal audit assurance, the opinions and reports of our external auditors and other inspection bodies, as well as the work of the CFO, and of managers within the Force who have responsibility for the development and maintenance of the governance environment.

For 2014/15 the review process has been led by the Joint PCC/Chief Constable Governance Monitoring Group and considered by the JIAC and has taken account of:

- Governance arrangements
- An assessment of the CFO role to best practice
- Senior managers assurance statements
- The system of internal audit
- Risk management arrangements
- Performance management and data quality
- Views of the external auditor, HMIC and other external inspectorates
- The legal and regulatory framework
- Financial controls, revenue outturn
- Partnership arrangements and governance
- Other sources of assurance as appropriate

### Internal Audit Overall Assessment & Independent Opinion

The assessment by Internal Audit of the PCC and Chief Constable's internal control environment and governance arrangements makes up a fundamental element of assurance for the Annual Governance Statement.

During 2014/15 27 internal audits were completed. Of those completed 13 audits concluded that systems and procedures in place were operating well and 10 audits concluded that systems and

procedures were operating satisfactorily. No audit concluded systems contained a significant weakness.

Based on the evidence arising from internal audit activity during 2014/15, including advice on governance arrangements, the PCC and Chief Constable's internal control systems and risk management and governance arrangements are considered to be effective.

### **Actions From The 2013/14 Statement**

The five actions identified in the 2013/14 Annual Governance Statement were all completed.

### **Governance Issues**

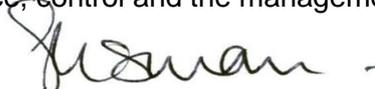
The review has identified two best practice points as listed in the table below and their implementation will be monitored by the JIAC.

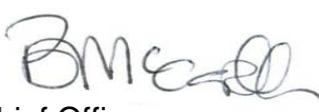
| <b>Action for Improvement</b>   | <b>Current Position</b>   |
|---|---|
| 1.1. Ensure that consideration has been given to nominated deputy provision if the CFO is unable to discharge their responsibilities. As there is a single CFO the nomination between the two roles set out in the Statement does not apply. However, best practice would suggest that even with a single CFO a suitable deputy is nominated. | CFO to nominate a deputy.   |
| 1.2. Ensure that capital projects are managed with post completion reviews.   | To be added to the Governance Framework - Financial Regulations: summer 2015. |

### **Assurance Summary**

No system of internal control can provide absolute assurance against material misstatement or loss; this statement is intended to provide reasonable assurance.

However, on the basis of the review of the sources of assurance set out in this statement, we are satisfied that the Chief Constable of Northumbria Police has in place satisfactory systems of internal control which facilitate the effective exercise of their functions and which include arrangements for the governance, control and the management of risk.

Signed:   
Chief Constable

Signed:   
Assistant Chief Officer

Signed:   
Director of Finance

Date: 22 September 2015

# Independent Auditor's Report

## Independent auditor's report to the Chief Constable for Northumbria

### Opinion on the financial statements

We have audited the financial statements of the Chief Constable for Northumbria for the year ended 31 March 2015 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, the Pension Fund account, 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 2014/15.

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. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Chief Constable for Northumbria for our audit work, for this report, or for the opinions we have formed.

### Respective responsibilities of the Chief Finance Officer and auditor

As explained more fully in the Statement of the Chief Finance Officer's Responsibilities, the Chief Finance Officer 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 Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Chief Constable's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Finance Officer; 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 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 2015 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 2014/15.

### 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 Police and Crime Commissioner 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 for Northumbria's arrangements for securing economy, efficiency and effectiveness in the use of resources**

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

The Chief Constable for Northumbria 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 for Northumbria 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 for Northumbria 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 arrangements for securing economy, efficiency and effectiveness 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 Police and Crime Commissioner for Northumbria 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 for Northumbria put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2015.

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 for Northumbria 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 2015.

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

**28 September 2015**

# 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

For copies, please contact the Chief Constable on 0191 49 36311 or email [accountancy.services@northumbria.pnn.police.uk](mailto:accountancy.services@northumbria.pnn.police.uk)

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

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