VERA BAIRD QC
POLICE & CRIME COMMISSIONER

Police and Crime Commissioner for Northumbria

Statement of Accounts 2012/13

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Contents Page

Part 1:

Explanatory Foreword

Introduction

2012/13 was a significant year for policing in Northumbria. The Police Reform and Social Responsibility Act 2011 (the Act) changed the way policing in England and Wales was governed and held accountable. On the 22 November 2012, Northumbria Police Authority was replaced by the Police and Crime Commissioner for Northumbria (the Commissioner). At the same time, the Chief Constable for Northumbria, who has responsibility for direction and control of Northumbria Police Force's officers and staff, was established as a separate legal entity. The primary statutory duty and electoral mandate of the Commissioner is to ensure an efficient and effective police force in Northumbria, and to hold the Chief Constable to account on behalf of the public for the exercise of operational policing duties under the Police Act 1996.

These are the first statutory accounts to be prepared under the new arrangements. The statements have been prepared in accordance with the International Financial Reporting Standards (IFRS)-Based Code of Practice on Local Authority Accounting in the United Kingdom (the Code), developed by the CIPFA/LASAAC[1] Board and approved by FRAB[2]. The Code constitutes proper accounting practice.

Under the provisions of the Act, the Commissioner and Chief Constable are created as two separate corporations sole. For financial reporting purposes, the Chief Constable is a subsidiary of the Commissioner by virtue of the powers the Commissioner has to govern the financial and operating policies of the Chief Constable. All the financial transactions incurred during 2012/13 for policing in Northumbria have been recognised and recorded within this Statement of Accounts, which sets out the overall financial position of the Commissioner and the Commissioner's Group (the Group) for the year ended 31 March 2013. The Group position reflects the consolidated accounts of the Commissioner and her subsidiary, the Chief Constable. Separate statutory single entity accounts are prepared for the Chief Constable.

The Statement of Accounts which follows demonstrates the Commissioner's and Group's financial performance for the year ended 31 March 2013, presents their overall financial position at the end of that period and the cost of services provided. When read in conjunction with the Annual Report[3], the Statement provides an insight into the activities of the Commissioner during the year.

This foreword and financial summary provides an overview of the new accounting arrangements and a guide to the most significant matters in the financial statements.

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)[4];

[1] CIPFA's Local Authority (Scotland) Accounts Advisory Committee
[2] Financial Reporting Advisory Board, an independent board within HM Treasury
[3] Available at http://www.northumbria-pcc.gov.uk/
[4] http://www.legislation.gov.uk/ukpga/2011/13/contents/enacted

- The Home Office Financial Management Code of Practice for the Police Service of England and Wales 2012[5]; and
- The Commissioner's Governance Arrangements including Financial and Contract Regulations[6].

The statement of accounts reflects the Government's intention to phase the reforms over more than one year. The first phase of transition, Stage 1, began on 22 November 2012 when all assets, liabilities, reserves, contracts and staff transferred from Northumbria Police Authority to the Commissioner. The Commissioner is responsible for the finances of the whole Group; she receives all income and funding 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[5] is in operation between the two bodies determining their respective responsibilities during the first phase. The accounting arrangements between the Commissioner and Chief Constable during this first phase of the transition are detailed in Note 6 to the accounts.

The second phase, Stage 2, is expected to result in the legal transfer of certain staff, assets, contracts and liabilities from the Commissioner to the Chief Constable. Stage 2 transfer is expected to happen on or by 1 April 2014 and may result in a change in accounting arrangements in future years.

The Statement of Accounts is set out on pages 15 to 67. It consists of the following financial statements that are required to be prepared under the Code.

Explanatory Foreword (Page 2)
The purpose of the foreword is to offer interested parties an easily understandable guide to the most significant matters reported in the accounts. It provides an explanation in overall terms of the Commissioner's financial position, and assists in the interpretation of the accounting statements. It also contains a commentary on the major influences affecting the Commissioner's income and expenditure and cash flow, and information on the financial needs and resources of the Commissioner.

Statement of Responsibilities (Page 14)
This explains the respective responsibilities of both the Commissioner and the Treasurer in respect of the Statement of Accounts.

Core Financial Statements – Commissioner's single-entity accounts:

Movement in Reserves Statement for the Police and Crime Commissioner and Group (Page 16)
This statement shows the movement in year on the different reserves held by the Commissioner, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and unusable reserves.

The 'Surplus or (deficit) on the Provision of Services' line shows the true economic cost of providing the Commissioner's services, more details of which are shown in the Comprehensive Income and Expenditure Statement.

The 'Net (increase) /decrease before transfers to Earmarked Reserves' line shows the statutory General Reserve before any discretionary transfers to or from earmarked reserves undertaken by the Commissioner.

[5] http://www.official-documents.gov.uk/document/other/9780108511332/9780108511332.pdf
[6] Available at: http://www.northumbria-pcc.gov.uk/transparency/decisions

Comprehensive Income and Expenditure Statement for the Police and Crime Commissioner (Page 18)
The purpose of this statement is to show the accounting cost in the year of the Commissioner providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. It includes all income paid into the Police Fund, as well as the accounting cost directly controlled by the Commissioner, in relation to her Office and Community Safety Funding, and an intra-group charge from the Chief Constable for the total cost of policing.

The Comprehensive Income and Expenditure Statement is presented using the service expenditure analysis set out in CIPFA's Service Reporting Code of Practice (SeRCOP).

Balance Sheet for the Police and Crime Commissioner (Page 19)
This shows the Commissioner's financial position and net assets at the financial year-end.

Cash Flow Statement for the Police and Crime Commissioner (Page 20)
This summarises the cash and cash-equivalent receipts and payments of the Commissioner arising from transactions with third parties for both capital and revenue purposes.

Notes to the Single-entity Financial Statements (Page 22)
The notes provide additional information to support the core statements above including a Statement of Accounting Policies.

Core Financial Statements - Group:

Movement in Reserves Statement for the Police and Crime Commissioner Group
The Commissioner holds all the reserves for the Group and the statement for the Group is the same as the statement for the Commissioner (Page 16)

Comprehensive Income and Expenditure Statement for the Police and Crime Commissioner Group (Page 70)
The purpose of this statement is to show the accounting cost in year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Council tax is raised and central government grants are received to cover expenditure in accordance with regulations; this may differ from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

The Comprehensive Income and Expenditure Statement is presented using the service expenditure analysis set out in CIPFA's Service Reporting Code of Practice (SeRCOP).

Balance Sheet for the Police and Crime Commissioner Group (Page 71)
This shows the Group's financial position and net assets at the financial year-end. It summarises the non-current and current assets, which are used in carrying out the Group's activities, together with its liabilities.

Cash Flow Statement for the Police and Crime Commissioner Group (Page 72)
This summarises the cash and cash-equivalent receipts and payments of the Group arising from transactions with third parties for both capital and revenue purposes. Cash is defined for the purpose of this statement as cash in hand; cash equivalents are deposits repayable on demand.

Notes to the Group Financial Statements (Page 74)
The notes for the Group accounts provide additional information where they differ from those disclosed for the Commissioner's single-entity accounts.

Documents supporting the Statement of Accounts:

Annual Governance Statement (Page 80) - This statement, required by regulations[7] to accompany the Statement of Accounts, outlines the Commissioner's approach to corporate governance and internal control.[8]

Independent Auditor's Report to the Police and Crime Commissioner (Page 87) - This report details the basis of the external auditor's opinion on the Statement of Accounts.

Glossary of Terms (Page 89) - This section includes a description of the key terms used in the Statement of Accounts, along with explanations of any technical terminology.

Summary of the Financial Year

The financial year ending 31 March 2013 was the second year of the Government's 2010 Spending Review. The Commissioner faced a reduction in revenue grant funding of 6.7% for 2012/13. A Programme of Change was initiated by the Chief Constable in 2011/12 in response to the economic challenges to ensure that the high quality service expected of the organisation continued to be provided.

Revenue Expenditure and Income Summary

Revenue expenditure is the day-to-day running costs of providing the Commissioner's services and includes expenses such as salaries and wages, premises-related expenditure and the costs of borrowing. This expenditure is financed from council tax, grants and other income such as fees and charges.

Overall performance

The estimated net revenue expenditure for 2012/13 to be met from government grants and local taxation was approved by the former Police Authority in February 2012 at £271.908m, including in-year budget savings of £21.1m, resulting in the use of £15.006m of the General Reserve and £4.404m of Earmarked reserves. This allowed the Band D council tax to remain unchanged at the 2011/12 level of £83.68, due to the receipt of a one off council tax freeze grant of £1.097m, equivalent to a 3% increase in Band D council tax. The revenue budget was revised in June 2012 to take account of agreed re-phasing of savings over the life of the Medium Term Financial Strategy, which resulted in the planned use of reserves being reduced to £17.016m.

Budget monitoring is carried out regularly throughout the year. Each quarter, budget monitoring reports were considered by the former Police Authority's Resource Management Committee and since transition by the Police and Crime Commissioner. These detail the outcome of the review of budgets and spending forecasts for both revenue and capital expenditure and also include a review of certain other key financial items such as Prudential Indicators.

A report to the Commissioner PCC/43/2013 on 27 June 2013[9] reported that the provisional revenue outturn was £6.736m (2.3%) less than the revised estimate, as set out in the table overleaf:

[7] Paragraph 4(4)(a) of Accounts and Audit (England) Regulations 2011 (available from www.legislation.gov.uk)
[8] In line with Regulation 4 of the Accounts and Audit (England) Regulations 2011
[9] Available at: http://www.northumbria-pcc.gov.uk/transparency/decisions

Revenue Outturn 2012/13	Revised Estimate 2012/13 £000	Final Outturn 2012/13 £000	Variance 2012/13 £000
Employees	212,859	214,061	1,202
Pensions	45,257	47,172	1,915
Premises	11,825	11,683	(142)
Supplies & Services	8,388	7,626	(762)
Transport	6,070	5,979	(91)
Establishment Expenses	5,749	5,364	(385)
Agency Services	4,418	3,717	(701)
Miscellaneous Expenses	7,575	7,584	9
Capital Charges	7,084	6,158	(926)
Contingency	1,000	37	(963)
Total Expenditure	**310,225**	**309,381**	**(844)**
Formula Grant	(235,071)	(235,071)	0
Council Tax	(36,837)	(36,837)	0
Other Income	(21,301)	(27,193)	(5,892)
Total Income	**(293,209)**	**(299,101)**	**(5,892)**
Appropriations to / (from) reserves	**(17,016)**	**(10,280)**	**(6,736)**

Close monitoring and management of the budget and the continuous challenge of all non-pay expenditure has contributed to the underspend and enabled earlier than planned delivery of future-year savings. The main areas contributing to this position are on-going underspends against most non-pay budgets including the forensic science service, capital financing and limited use of the one-off transition contingency, together with additional income from special services and fees for services to external organisations; rate rebates following a review of rateable values of the Commissioner's estate; and funding received from providing assistance to other forces.

From the Comprehensive Income and Expenditure Statement, the deficit on the provision of services for the Commissioner for 2012/13 is £171.132m. However, this figure on its own is not the best measure of financial performance, because the financial statements follow accounting standards rather than local government legislation. A better measure is the movement on the General Reserve, which can be established following a number of accounting adjustments and shown in the Movement in Reserves table. The following table summarises these adjustments and the financial position at the year end showing decreases in the General Reserve of £4.990m, and in Earmarked Reserves of £5.290m.

Summary of 2012/13 Financial Position	2012/13 Actual Outturn £000
Net Cost of Services	**311,294**
Other operating expenditure	376
Financing and investment income and expenditure	134,949
Taxation and non specific grant income	(275,487)
(Surplus) or Deficit on Provision of Services	**171,132**
Adjustment between accounting basis and funding basis under Regulations	(160,852)
Net (increase) / decrease before transfer from Earmarked Reserves	**10,280**
Transfers to / (from) Earmarked Reserves	(5,290)
(Increase) / decrease on General Reserve	**4,990**

The Commissioner's key decision PCC/12/2013 of 27 February 2013[10] included a review of reserves, which transferred £1m from earmarked reserves to the General Reserve. The final use of the General Reserve to fund revenue expenditure was £5.990m, resulting in a net movement on the General Reserve of £4.990m and a final position of £21.645m at 31 March 2013. The following table summarises the movement on the General and earmarked reserves and compares with the approved budget:

Use of reserves in 2012/13	2012/13 Original Estimate £000	2012/13 Revised Estimate £000	2012/13 Final Outturn £000
General Reserve brought forward	(26,635)	(26,635)	(26,635)
Review of reserves	0	0	(1,000)
Use of General Reserve	15,006	12,612	5,990
General Reserve carried forward	**(11,629)**	**(14,023)**	**(21,645)**
Earmarked reserves brought forward	(18,586)	(18,586)	(18,586)
Review of reserves	0	0	1,000
Use of Earmarked reserves	4,404	4,404	4,290
Earmarked reserves carried forward	**(14,182)**	**(14,182)**	**(13,296)**

Commissioner's performance

An element of the overall budget is delegated to the Chief Constable for activities under her direction and control; in 2012/13 this totalled £277.141m. The remainder of the budget relates to the Office of the Police and Crime Commissioner and expenditure under her control in support of the Force; in 2012/13, this totalled £11.783m. The report to the Commissioner on 27 June 2013 reported that the provisional outturn for the expenditure under the control of the Commissioner was £2.291m (19.4%) less than the revised estimate. The main areas contributing to this position are underspends on capital financing charges, primarily due to underspends on the capital programme in 2011/12; most of the one-off contingency for transition to the new governance arrangements was not required in 2012/13 and a reduction in office running costs since the Commissioner took office.

[10] Available at: http://www.northumbria-pcc.gov.uk/transparency/decisions

Performance Information

The last twelve months in policing has been challenging, with further economic pressures and a major change to police governance. However, these challenges have not prevented crime from dropping and standards improving, with 7,692 fewer recorded crimes and 10,247 fewer incidents of anti-social behaviour[11].

Since filling the role in November 2012, the Commissioner has[12]:

- Talked to local people and specific groups about their experiences of Northumbria Police;
- Established PCC Advisory Groups covering the six strands of diversity and victims of crime to support the scrutiny of Northumbria Police;
- Recruited members of the public to form a Scrutiny Panel to help look at the work of Northumbria Police and complaints made against them;
- Shaped national policy around a wide range of key policing issues including ending violence against women and girls, anti-social behaviour, police complaints and the criminal justice system;
- Introduced new security staff training for security staff in Northumbria to strengthen their approach to protecting vulnerable people; and
- Published and delivered a Local Policing Summary to all households, sharing information about crime reductions, partnership working and key contacts.

Capital Expenditure

In addition to spending on day-to-day activities, the Commissioner incurs expenditure on the acquisition of fixed assets that will be used in providing services beyond the current accounting period; or expenditure that adds value to an existing fixed asset, such as buildings, computers and communication and other major items of plant and equipment.

The former Police Authority approved a capital programme of £29.177m at its meeting in February 2012, which was revised to £25.466m at the third quarter. The programme continued to focus on the delivery of the new Newcastle City Centre Police Station and the Firearms Operation and Training Facility, together with a focus on priority schemes to deliver the Programme of Change. The final capital outturn for the year of £23.355m is £2.111m less than the revised estimate, and was reported to the Police and Crime Commissioner (PCC/44/2013) on 27 June 2013[13]. The variance was mainly as a result of planned expenditure being delayed and continuing into 2013/14.

The breakdown of capital expenditure for 2012/13 is shown in the following table:

Capital Expenditure	2012/13 Original Estimate £000s	2012/13 Revised Estimate £000s	2012/13 Final Outturn £000s
Building Works	23,235	20,311	18,787
Computers & Communications	2,506	1,869	1,621
Vehicles & Equipment	3,436	3,286	2,947
	29,177	**25,466**	**23,355**

A summary of how this was financed is shown in the following table:

[11] www.ons.gov.uk/ons/rel/crime-stats/crime-statistics/index.html, PFA tables
[12] PCC for Northumbria Annual Report 2012-2013
[13] Available at: http://www.northumbria-pcc.gov.uk/transparency/decisions

Capital Financing	
	£000s
Capital Grants and other contributions	(3,752)
Capital Receipts	(820)
Borrowing	(18,783)
	(23,355)

Current Borrowing Position

The Revenue and Capital Budget report incorporating Prudential Indicators submitted to the former Police Authority on 22 February 2012 detailed the 2012/13 borrowing limits for the Authority.

The specific borrowing limits set relate to two of the Prudential Indicators, which are required under the Prudential Code introduced on 1 April 2004. The Authority was required to set borrowing limits for the following three financial years. The limits for 2012/13 were as follows:

- Authorised Limit for External Debt for 2012/13 of £140m; and
- Operational Boundary for External Debt for 2012/13 of £115m.

The Commissioner adopted the same borrowing limits as part of the statutory transfer.

As part of the Commissioner's Treasury Management operation, these two Prudential Indicators are monitored on a daily basis, and neither was exceeded during 2012/13. The highest level of external debt incurred by the Group in respect of the above limits during 2012/13 was £75.133m for the period 13 March 2013 to 31 March 2013.

Material Assets and Liabilities

As at 31 March 2013, the Commissioner holds £115.156m of long-term assets, £41.149m of current assets, £34.454m of current liabilities and £3,261.690m of long-term liabilities.

Long-term assets have increased by £11.706m, largely due to:

- the investment the Commissioner is making in the new Newcastle City Centre Police Station; and
- completion of the Firearms Operation and Training Facility.

Current assets have decreased by £20.523m, largely due to:

- A decrease of £11.770m in short-term investments arising from the use of investment balances to temporarily fund the capital programme and delay borrowing due to the differential between interest rates on investments and borrowing and uncertainties in the economy; and
- A decrease in cash and cash equivalents of £8.332m as a consequence of the decision to delay borrowing and use cash balances to temporarily fund the capital programme, therefore the full borrowing requirement for the year was not taken.

The Commissioner's current liabilities have reduced by £4.628m, comprising:

- A reduction of £2.952m in short-term borrowing due to changes in the profile of borrowing; and
- A decrease in short-term creditors of £2.217m mainly relating to fewer outstanding payments on capital schemes and a reduction in sundry creditors.

Long-term liabilities have increased by £416.268m, due to:

- An increase of £403.617m in pension liabilities mainly relating to actuarial losses from changes in actuarial assumptions used to place a value on the pension liabilities; and
- An increase of £12.997m in long-term borrowing to fund the capital programme.

A full description of the Commissioner's material assets and liabilities is provided in the Notes to the Core Financial Statements.

Accounting for Pensions

Retirement benefits are offered to employees as part of the terms and conditions of employment. Although these will not actually be payable until employees retire, the Commissioner has a commitment to make these payments, which need to be recognised at the time that employees earn their future entitlement.

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 Commissioner's Balance Sheet, (balanced by the Pension Reserve) shows the underlying commitments that the Commissioner 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.

The value of the liability is determined by the Commissioner's actuaries. The results of any actuarial calculation of pension liabilities are inherently uncertain because of the assumptions which they must make. The increase in liability this financial year is primarily due to large actuarial losses from changes in the assumptions used to place a value on the liabilities. IAS19 requires the assumptions to reflect market conditions at the valuation date. Any changes are compounded over the typically long duration of a pension scheme, causing a significant change in the value placed on the liabilities. Statutory arrangements for funding the liability mean that the financial position of the Commissioner remains sustainable.

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[14]. The Commissioner makes contributions to the Pension Fund based on a percentage of officers' pensionable salaries. The regulations[15] 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 Commissioner to the Pension Fund. 100% of this deficit is recouped by the Commissioner in the form of a top-up grant paid by the Home Office.

Police staff are members of the Tyne and Wear Pension Scheme, administered by South Tyneside Council. The Commissioner makes employer contributions on the basis of an agreed percentage of employees' contributions to the Tyne and Wear Pension Fund, based on an independent actuarial revaluation of the fund every three years. The Commissioner also has to meet the pension costs of employees who have left employment due to ill health or where early retirements have been agreed, and also makes additional contributions to make good the shortfall in the pension fund, known as deficiency payments.

[14] Police Reform & Social Responsibility Act 2011 (Schedule 16 Part 3)
[15] Police Pension Fund Regulations 2007 (SI 2007/1932)

Under provisions within the Police Reform and Social Responsibility Act 2011, both the Commissioner and Chief Constable can be employers. In the first stage of transition, the Commissioner is the sole employer. The impact on pensions if both corporations sole become employers following the second stage of transition is not yet known.

Significant Changes since 2011/12

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

The approach taken to presenting the financial statements was as if the Commissioner had always existed and no new body had been created at 22 November 2012. Merger accounting is applied from 1 April 2012 for the Commissioner (and the Group and Chief Constable) providing the previous year's comparators.

Outlook for 2013/14 and Beyond

Revenue Budget 2013/14

The Commissioner approved a net revenue budget (before use of reserves) of £287.381m, with a Band D council tax of £86.61, an increase of 3.5%. The budget includes savings which have been carefully considered to ensure the Commissioner and Chief Constable can meet the financial challenges they face whilst continuing to focus on their core principles, as set out below:

- Police and Crime Plan Delivery;
- Prioritise Neighbourhood Policing;
- Improve performance; and
- Address local priorities.

Whilst maintaining the above principles, £16.4m of budget savings were identified for 2013/14, with further budget savings of over £19m built into the MTFS[16] for 2014/15 and 2015/16 to meet the challenging financial position and to ensure the impact on frontline policing is minimised.

Further detail on the agreed revenue budget can be found in the Commissioner's Key Decision report PCC/12/2013, Approval of the Revenue and Capital Budgets for Council Tax for 2013/14[17].

Capital Programme

The Commissioner approved a capital budget of £22.750m for 2013/14. The programme has been set at a level to reflect the challenging financial position and the need to focus on essential schemes only to deliver the Programme of Change. The Estates Strategy continues to focus on the delivery of the Newcastle City Centre Police Station and rationalisation of the estate. It is estimated that £16.390m will be spent on committed major building schemes during 2013/14.

The capital programme for 2013/14 also includes £2.239m investment in computers and communications, and planned expenditure of £3.250m on the vehicle fleet and other operational equipment.

The Commissioner has planned to invest a further £21.137m in future years.

[16] Available at: http://www.northumbria-pcc.gov.uk/transparency/decisions
[17] Available at: http://www.northumbria-pcc.gov.uk/transparency/decisions

Local Government Funding

The Local Government Finance settlement for 2013/14 for Northumbria was a reduction in grant funding of 1.6%, consistent with the national reduction for all Commissioners and continues to be at what is referred to as the floor. This cut represents a cash reduction of £3.8m, after adjusting for the Neighbourhood Policing Fund which has been moved into the Main Police Grant. Without the application of floor damping, the Commissioner would have received £21.647m less grant in 2013/14.

No police-specific funding allocations for 2014/15 have been provided as publication of the allocations has been deferred in order to fully scrutinise all Home Office budgets. The Commissioner's Medium Term Financial Strategy assumes funding reductions of 2.2% in 2014/15, based on national police revenue funding within the Spending Review 2010 and indicative allocations from Department for Communities and Local Government (DCLG). In the Autumn Statement the Chancellor announced a further 2% reduction in Home Office and Local Government departmental expenditure limits in 2014/15, and reiterated the cap of 1% on public sector pay. It is not clear what impact these cuts in funding will have on police funding levels but a further 2% cut for Northumbria equates to approximately £4.7m. This additional cut has not been factored into the MTFS projections due to the uncertainty surrounding its application.

The Autumn Statement did not provide government departmental totals for 2015/16 and beyond, but stated that reductions from 2015/16 to 2017/18 will continue on the same trajectory as the previous Spending Review. A new Spending Review setting out government departmental totals for 2015/16 took place on 26 June 2013 which will be taken into account in the next refresh of the MTFS.

It is expected that there will be no change to the damping arrangements until a full review of the funding formula is completed by the Home Office. The Commissioner will continue to engage in the national dialogue on the formula review.

The resources available to achieve the Commissioner's key priorities are contained in the current MTFS, which can be found at the Commissioner's website[18]. The Commissioner's sound financial position supports the continuing success in reducing crime and helping to make Northumbria a safer place to live and work.

Events after the reporting period

Police Reform and Social Responsibility Act

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

Once agreed, the Commissioner must submit her proposals for a Stage 2 transfer scheme to the Home Secretary who will decide whether or not to approve it, with or without modifications, in accordance with her statutory powers. The timing of the Stage 2 transfer will be at the discretion of the Commissioner; however the government has stated transfers must be completed by 1 April 2014. The Commissioner and the Chief Constable will continue to work together to agree the proposed Stage 2 arrangements for submission to the Home Secretary.

[18]Available at: http://www.northumbria-pcc.gov.uk/transparency/decisions

National Police Air Service (NPAS)

The National Police Air Service, a national collaboration of operational air support for police forces, was introduced nationally from October 2012, with Northumbria joining on 1 April 2013. This replaces the local arrangements delivered through the North East Air Support Unit and will be fully reflected in the 2013/14 Statement of Accounts.

Further Information

This publication provides a review of the financial performance of the Group for 2012/13, a summary of which will be included in the Annual Report for 2012/13 available on the Commissioner's website www.northumbria-pcc.gov.uk.

Mike Tait BSc (Econ) CPFA
Treasurer

Dated: 12.9.2013

Statement of Responsibilities

The Commissioner's Responsibilities

The Commissioner is required to:

- appoint a person (Treasurer) 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 her assets; and
- approve the Statement of Accounts.

I approve this statement.

Signed: Date: 17/9/13

The Treasurer's Responsibilities

The Treasurer is responsible for the preparation of the Commissioner's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code).

In preparing this statement of accounts, the Treasurer 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 Treasurer 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 2013, 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 Commissioner at 31 March 2013 and of her income and expenditure for the year ended 31 March 2013.

M J Tait

Signed: Date: 12.9.2013

Mike Tait BSc (Econ) CPFA
Treasurer

Part 2:

Police and Crime Commissioner Single Entity Financial Statements

Comprising:

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

Movement in Reserves Statement 2012/13

The Movement in Reserves Statement details all movements in the Commissioner's reserves.

	Note	General Reserve £000s	Earmarked GF Reserves £000s	Capital Receipts Reserve £000s	Capital Grants Unapplied £000s	Total Useable Reserves £000s	Unusable Reserves £000s	Total Group Reserves £000s
Balance as at 31 March 2012		**(26,635)**	**(18,586)**	**(140)**	**(343)**	**(45,704)**	**2,765,086**	**2,719,382**
(Surplus) or deficit on provision of services		171,132	0	0	0	**171,132**	0	**171,132**
Other Comprehensive Income and Expenditure	8(a)	0	0	0	0	**0**	249,325	**249,325**
Total Comprehensive Income and Expenditure		**171,132**	**0**	**0**	**0**	**171,132**	**249,325**	**420,457**
Adjustments between accounting basis & funding basis under regulations	8(b)	(160,852)	0	83	182	**(160,587)**	160,587	**0**
Net (Increase) / Decrease before Transfers from Earmarked Reserves		**10,280**	**0**	**83**	**182**	**10,545**	**409,912**	**420,457**
Transfers to / (from) Earmarked Reserves	8(c)	(5,290)	5,290	0	0	**0**	0	**0**
(Increase) or Decrease in Year		**4,990**	**5,290**	**83**	**182**	**10,545**	**409,912**	**420,457**
Balance as at 31 March 2013		**(21,645)**	**(13,296)**	**(57)**	**(161)**	**(35,159)**	**3,174,998**	**3,139,839**

Movement in Reserves Statement 2011/12

	Note	General Reserve £000s	Earmarked GF Reserves £000s	Capital Receipts Reserve £000s	Capital Grants Unapplied £000s	Total Useable Reserves £000s	Unusable Reserves £000s	Total Group Reserves £000s
Balance as at 31 March 2011		**(29,977)**	**(25,861)**	**(57)**	**(352)**	**(56,247)**	**2,602,052**	**2,545,805**
(Surplus) or deficit on provision of services		178,258	0	0	0	**178,258**	0	**178,258**
Other Comprehensive Income and Expenditure	8(a)	0	0	0	0	**0**	(4,681)	**(4,681)**
Total Comprehensive Income and Expenditure		**178,258**	**0**	**0**	**0**	**178,258**	**(4,681)**	**173,577**
Adjustments between accounting basis & funding basis under regulations	8(b)	(167,641)	0	(83)	9	**(167,715)**	167,715	**0**
Net (Increase) / Decrease before Transfers from Earmarked Reserves		**10,617**	**0**	**(83)**	**9**	**10,543**	**163,034**	**173,577**
Transfers to / (from) Earmarked Reserves	8(c)	(7,275)	7,275	0	0	**0**	0	**0**
(Increase) or Decrease in Year		**3,342**	**7,275**	**(83)**	**9**	**10,543**	**163,034**	**173,577**
Balance as at 31 March 2012		**(26,635)**	**(18,586)**	**(140)**	**(343)**	**(45,704)**	**2,765,086**	**2,719,382**

Comprehensive Income and Expenditure Statement - Commissioner

2011/12 Gross Expenditure £000s	2011/12 Gross Income £000s	2011/12 Net Expenditure £000s		2012/13 Gross Expenditure £000s	2012/13 Gross Income £000s	2012/13 Net Expenditure £000s	Notes
480	(14,070)	(13,590)	Local Policing	674	(15,074)	(14,400)	
0	(376)	(376)	Dealing with the public	0	(113)	(113)	
0	(1,416)	(1,416)	Criminal Justice Arrangements	0	(1,509)	(1,509)	
0	(1,993)	(1,993)	Roads Policing	0	(2,141)	(2,141)	
0	(2,442)	(2,442)	Specialist Operations	0	(1,659)	(1,659)	
0	(334)	(334)	Intelligence	0	(257)	(257)	
0	(1,423)	(1,423)	Specialist Investigations	0	(1,249)	(1,249)	
0	(91)	(91)	Investigative Support	0	(12)	(12)	
0	(2,796)	(2,796)	National Policing	0	(4,520)	(4,520)	
2,122	0	2,122	Corporate and Democratic Core	2,133	0	2,133	
(2,780)	0	(2,780)	Non Distributed Costs – curtailment gain	(730)	0	(730)	
346,312	0	346,312	Commissioner's resources consumed by the Chief Constable	335,751	0	335,751	
346,134	**(24,941)**	**321,193**	**Net Cost of Services**	**337,828**	**(26,534)**	**311,294**	
		(479)	Other Operating Expenditure			376	9
		147,814	Financing and Investment Income and Expenditure			134,949	9
		(290,270)	Taxation and Non-Specific Grant Income			(275,487)	9
		178,258	**(Surplus) or Deficit on Provision of Services**			**171,132**	
		(3,879)	(Surplus) or deficit on revaluation of non-current assets			(2,593)	
		(802)	Actuarial (gains) or losses on pension assets and liabilities			251,918	
		(4,681)	**Other Comprehensive Income and Expenditure**			**249,325**	
		173,577	**Total Comprehensive Income and Expenditure**			**420,457**	

Balance Sheet - Commissioner

31/03/12 £000s		31/03/13 £000s	Notes
101,698	Property, plant & equipment	114,161	17
1,137	Investment property	653	17
615	Intangible assets	342	17
103,450	**Long-term assets**	**115,156**	
22,863	Short-term investments	11,093	22
1,579	Assets held for sale	732	
650	Inventories	612	
19,061	Short-term debtors	19,525	18
17,519	Cash and cash equivalents	9,187	19
61,672	**Current Assets**	**41,149**	
(1,527)	Bank overdraft	(2,077)	19
(167)	Short-term provisions	(158)	21
(5,774)	Short-term borrowing	(2,822)	22
(31,614)	Short-term creditors	(29,397)	20
(39,082)	**Current Liabilities**	**(34,454)**	
(2,980)	Long-term provisions	(2,839)	21
(60,133)	Long-term borrowing	(73,130)	22
(2,781,493)	Other long-term liabilities (pensions)	(3,185,110)	23
(816)	Capital grants receipts in advance	(611)	
(2,845,422)	**Long Term Liabilities**	**(3,261,690)**	
(2,719,382)	**Net Assets**	**(3,139,839)**	
(26,635)	General Reserve	(21,645)	8(c)
	Earmarked Reserves		8(c)
(11,005)	Capital Development Reserve	(7,478)	8(c)
(3,000)	Workforce Management Reserve	(1,791)	8(c)
(295)	Devolved Budget Reserve	(160)	8(c)
(3,000)	Insurance Reserve	(3,000)	8(c)
0	External Funding Reserve	(653)	8(c)
(1,000)	Airwave Reserve	0	8(c)
(286)	Air Support Unit Reserve	(214)	8(c)
(140)	Capital Receipts Reserve	(57)	8(c)
(343)	Capital Grants Unapplied	(161)	8(c)
(45,704)	**Total usable reserves**	**(35,159)**	
2,765,086	**Total unusable reserves**	**3,174,998**	8(c)
2,719,382	**Total Reserves**	**3,139,839**	

Cash Flow Statement - Commissioner

2011/12 £000s		2012/13 £000s
178,258	**(Surplus) or deficit on the provision of services**	171,132
	Adjustments to surplus or deficit on the provision of service for non-cash movements:	
(9,377)	Depreciation of non-current assets	(8,538)
(167)	Impairment/downward valuation of non-current assets	(4,744)
(319)	Amortisation of intangible non-current assets	(300)
(147,708)	Pension adjustments	(151,699)
(129)	(Increase)/decrease in impairment for provision for bad debts	103
3,887	Contributions to provisions	150
(615)	Carrying amount of PP&E, investment property and intangible assets sold	(1,303)
220	Other non-cash movement	(1,226)
(154,208)		(167,557)
	Accruals Adjustments:	
11	(Decrease)/increase in inventories	(38)
16,335	(Decrease)/increase in debtors	1,392
(234)	(Decrease)/increase in interest debtors	(2)
(14,268)	Decrease/(increase) in creditors	2,447
(54)	Decrease/(increase) in interest creditors	(49)
1,790		3,750
	Adjustments for items included in the net surplus or deficit on the provision of service that are investing or financing activities:	
1,106	Proceeds from the disposal of PP&E, investment property and intangible assets	934
2,851	Capital grants credited to surplus or deficit on the provision of services	3,554
3,957		4,488
	Reversal of operating activity items included in the net surplus or deficit on the provision of service that are shown separately below:	
(2,246)	Reversals of amounts disclosed separately below	(2,932)
	Cash Flows from Operating Activities includes the following items:	
3,194	Interest paid	3,237
(948)	Interest received	(357)
2,246		2,880
29,797	**Net cash flows from operating activities**	11,761

Cash Flow Statement – Commissioner (continued)

2011/12 £000s		2012/13 £000s
	Net Cash Flows from Investing Activities:	
18,972	Purchase of PP&E, investment property and intangible assets	23,151
396,726	Purchase of short term and long term investments	390,793
120	Other payments for investing activities	204
(1,106)	Proceeds from the sale of PP&E, investment property and intangible assets	(927)
(452,481)	Proceeds from the sale of short term and long term investments	(402,549)
(2,752)	Capital Grants Received (government)	(3,481)
(99)	Capital Grants Received (non-government)	(73)
(40,620)	**Net cash flows from investing activities**	7,118
	Net cash flows from financing activities:	
(13,000)	Cash receipts of short and long term borrowing	(10,000)
8,398	Repayment of short and long term borrowings	3
(4,602)	**Net cash flows from financing activities**	(9,997)
(15,425)	**Net (increase)/ decrease in cash and cash equivalents**	8,882

567	**Cash and cash equivalents at the beginning of the period**	**15,992**
15,992	**Cash and cash equivalents at the end of the period**	**7,110**

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 2012/13, 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 modified by the revaluation of certain categories of non-current assets and financial instruments. 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 will be phased over a number of years in a two-stage transition process. At the Balance Sheet date of 31 March 2013, all assets, liabilities, contracts and reserves remain under the control of the Commissioner.

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

The transfer from the Police Authority has been accounted for using merger accounting in line with the Code. The financial statements are prepared as if the functions had always been performed by the Commissioner. The balances and cash flows of the Police Authority at 1 April 2012 are brought into the financial statements of the Commissioner. The results of the former Police Authority for the previous accounting period ending 31 March 2012 are provided as comparatives, with minor restatement of the comparatives being made to ensure consistency of presentation as set out in Note 6.

All expenditure is paid from the Police Fund. All income is paid into the Police Fund and recognised in the Commissioner's accounts.

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:

- Revenue from the sale of goods is recognised when the significant risks and rewards of ownership are transferred to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Commissioner;
- Revenue from the provision of services is recognised when the percentage of completion of the transaction can be measured reliably and it is probable that economic benefits or service potential associated with the transaction will flow to the Commissioner;
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption; they are carried as inventory in the Balance Sheet;
- Interest payable on borrowings and receivable on investment income is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract; and
- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

d) Assets held for sale

When it becomes probable that the carrying amount of a non-current asset will be recovered through a sale transaction rather than continuing use, it is reclassified as an Asset Held for Sale. In order to be classified as an asset held for sale the following conditions must be met:

- The asset is available for immediate sale in its current condition;
- The sale is highly probable, the Commissioner has committed to sell the asset and has initiated a programme to locate a buyer;
- The asset is actively marketed for a sale price that is reasonable in relation to its current fair value; and
- The sale is expected to be completed within one year of the date of classification.

The asset is revalued immediately before reclassification and carried at the lower of this amount and fair value less cost to sell. Where there is a subsequent decrease to fair value less cost to sell, the loss is posted to the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previously recognised losses. Depreciation is not charged on Assets Held for Sale.

e) Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Due to the risk of lost income from reduced interest earned or the cost of penalties charged for early redemption of fixed term investments, the Commissioner does not consider fixed term investments to be highly liquid. Fixed term investments are shown on the Balance

Sheet as either long- or short-term investments depending on the remaining term to maturity of the investment.

f) Charges to revenue for non-current assets

The Comprehensive Income and Expenditure Statement is debited with the following to record the cost of holding non-current assets during the year:

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

Depreciation, impairment losses or amortisation do not impact on the level of council tax precept. However, there is a requirement to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement (equal to either an amount calculated on a prudent basis determined by the Commissioner in accordance with statutory guidance, or loans fund principal charge). Depreciation, impairment losses and amortisation are therefore replaced by a revenue provision in the General Fund balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

g) Council tax income

As a major preceptor, the Commissioner receives her share of council tax income from each collection authority by way of a precept. The amount credited to the General Fund under statute is the Commissioner's demand for the year plus her share of the surplus on the Collection Fund of collection authorities for the previous year (or less her share of the deficit). Council Tax precept income included in the Comprehensive Income and Expenditure Statement is the accrued income for the year. The Commissioner receives her proportionate share of each collection authority's accrued council tax income, which may be more or less than the Commissioner's demand for the year. The difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund shall be taken to the Collection Fund Adjustment Account and included as a reconciling item in the Movement in Reserves Statement. There will be a debtor/creditor position between the Commissioner and the collection authorities, since the net cash paid by each billing authority in the year will not be its share of cash collected from council taxpayers.

h) Employee benefits

Benefits payable during employment

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

Termination Benefits

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

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

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

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

The Local Government Pension Scheme (Tyne & Wear Pension Fund) is administered by South Tyneside Council. It is classified as a funded defined benefit scheme, meaning that the Commissioner 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 Commissioner 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 Note 23.

i) Events after the Balance Sheet date

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

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

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

j) **Prior period adjustments**

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

k) **Financial instruments**

Financial Assets

Financial assets are classified as loans and receivables, which are assets that have fixed or determinable payments but are not quoted in an active market.

Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For loans that the Commissioner has made, the amount presented in the Balance Sheet is the outstanding principal receivable. Interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

Financial Liabilities

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Comprehensive Income and Expenditure Statement are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. For most of the borrowing that the Commissioner has, the amount presented in the Balance Sheet is the outstanding principal repayable and the interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year in the loan agreement.

Amortised cost is adjusted for any premiums, discounts, material transaction costs and accrued interest. Where financial liability interest rates are fixed until maturity they are deemed not to require an effective interest rate calculation to be carried out.

The transaction costs of the financial liabilities held on the Balance Sheet are considered to be immaterial.

Fair Value

For each class of financial asset and financial liability, the Commissioner is required to disclose the fair value of that class of asset and liability in a way that permits it to be compared to its carrying amount. The Commissioner assesses the fair value by calculating the present value of the cash flows that take place over the remaining life of the instruments, using a number of assumptions detailed in Note 22.

Fair values have not been calculated for assets or liabilities where the carrying amount is a reasonable approximation of fair value, such as trade creditors and debtors.

Redemption of Debt

There is a requirement by statute to set aside a minimum revenue provision (MRP), for the repayment of debt. Provision is made for principal repayments by charging a MRP calculated in accordance with CIPFA’s Prudential Code (which follows the provisions of the Local Government Act 2003).

External Interest

Interest payable on borrowings and receivable on investments is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

Borrowing costs

Borrowing costs are recognised as a revenue expense in the period in which they are incurred. Borrowing costs are interest and other costs that the Commissioner incurs in connection with the borrowing of funds.

l) Government grants and other contributions

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

Amounts recognised as due are credited to the Comprehensive Income and Expenditure Statement until conditions attaching to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the Comprehensive Income and Expenditure Statement.

Unspent, non-conditional revenue grant income at year-end is appropriated into an earmarked reserve.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Reserve in the Movement in Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Grants Unapplied reserve. Where it has been applied, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied.

m) Intangible assets

Expenditure on assets that do not have a physical substance but are identifiable and controlled by the Commissioner are capitalised when it is expected that future economic benefits or service potential will flow from the intangible asset to the Commissioner.

Intangible assets are initially measured at cost and are amortised to revenue over their useful economic lives on a straight-line basis, usually five years. An asset is tested for impairment whenever there is an indication that the asset might be impaired. Any gain or loss arising from the disposal or abandonment of an intangible asset is posted to the Other Expenditure line in the Comprehensive Income and Expenditure Statement.

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

n) **Investment property**

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

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arms' length. Properties are not depreciated but are revalued according to market conditions at the year-end. Valuations were carried out for the Commissioner by D Gillbanks BSc(Hons) FRICS IRRV, of Gateshead Council. Gains and losses on revaluation and disposals are posted to the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposals.

Rental income received in relation to investment properties is credited to the Comprehensive Income and Expenditure Statement and results in a gain for the General Fund balance. However, revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the balance. The gains and losses are therefore reversed out of the General Fund balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and for any sale proceeds greater than £10,000 the Capital Receipts Reserve.

o) **Overheads**

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice 2012/13 (SeRCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to democratic representation, public accountability, governance and management by the office of the Commissioner; and
- Non-distributed Costs – the cost of discretionary benefits awarded to employees retiring early and any depreciation and impairment losses chargeable on non-operational properties.

These two cost categories are defined in SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement.

p) **Property, Plant and Equipment**

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

- **Recognition** - Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment is capitalised on an accruals basis, provided that it is possible that the future economic benefits or service potential associated with the item will flow to the Group and the cost of the item can be measured reliably. A de-minimis level of £10,000 is set for the initial recognition of an asset on the Balance Sheet, although individual assets with a value less than this may be capitalised if they form part of a larger investment programme which exceeds the de-minimis level (such as the acquisition of vehicles or ICT equipment).

  All Property, Plant and Equipment will be recognised on the Balance Sheets of the Commissioner and Group. None will be recognised on the Chief Constable's Balance Sheet.

Any expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense when it is incurred.

- **Measurement** – Property, Plant and Equipment are valued on the basis recommended by CIPFA and in accordance with the Royal Institution of Chartered Surveyors (RICS) Valuation Standards (8th Edition). Assets are then carried in the Balance Sheet using the following measurement basis:

  - Assets under construction (excluding investment properties) are measured at historic cost, net of depreciation, where appropriate;
  - Dwellings are measured at fair value; and
  - All other classes of assets are measured at fair value. For land and buildings, the fair value is considered to be the amount that would be paid for the asset in its existing use.

  Assets included in the Balance Sheet at current value are revalued where there have been material changes in the value, but as a minimum every five years. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Comprehensive Income and Expenditure Statement where they arise from the reversal of an impairment loss previously charged to the Comprehensive Income and Expenditure Statement.

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

  Valuations are carried out on a rolling programme basis, with 20% of assets valued each year with an effective date of 1 April in the reporting period. This provides a full revaluation every five years, in line with statutory requirements. In addition, significant assets with a value in excess of £10m, are valued annually. Property with a value of less than £40,000 is treated as de-minimis.

  Valuations were carried out for the Commissioner by, D Gillbanks BSc(Hons) FRICS IRRV of Gateshead Council.

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

  Where impairment losses are identified, they are accounted for as follows:
  - Where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains) or
  - Where there is no balance in the Revaluation Reserve, the carrying amount of the asset is written down in the Comprehensive Income and Expenditure Statement.

  Where an impairment loss is reversed subsequently, the reversal is credited to the Comprehensive Income and Expenditure Statement, up to the amount of the original loss, adjusted for depreciation that would have been charged if the loss had not been recognised.

- **Disposal of Assets** – When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet is written off to the Comprehensive Income and Expenditure Statement as a gain or loss on disposal. Any receipts from the disposal are credited to the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

  Income from the disposal of non-current assets is accounted for on an accruals basis and amounts received for a disposal in excess of £10,000 are categorised as capital receipts.

  The written-off value of disposals is not a charge against the General Reserve, as the cost of non-current assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Reserve balance in the Movement in Reserve Statement.

- **Depreciation** - International Accounting Standard 16 (IAS 16 Property, Plant and Equipment) requires depreciation to be provided for all non-current assets with a finite useful life (which is determined at the time of acquisition or revaluation) according to the following policy:
  - A full year's depreciation is charged on newly acquired assets in the year of acquisition, although assets in the course of construction are not depreciated until they are brought into use;
  - Depreciation is calculated using the straight-line method; and
  - Generally, assets are depreciated in accordance with the following estimate of useful lives:

    - Police houses: 50 years;
    - Police stations: 10 or 50 years depending on use, construction type and condition:
    - Computers and other equipment: 5 years;
    - Communication towers: 8 – 18 years depending on conditions; and
    - Vehicles: 3 years.

  An exception to the above policy is made for assets without a determinable finite life such as land, which is not depreciated.

  Another requirement of IAS 16 is that separate charges are made for the depreciation of major components of a single asset, where significant components of the asset have materially different useful economic lives. The Commissioner has split her assets into separate components where the following criteria are met:

  - The total asset has a value greater than £1 million;
  - The component has a value of greater than 20% of the total asset; and
  - The component has a useful life which differs by 10 years or more from any other component of the asset.

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

q) **Provisions and contingent liabilities**

Provisions

Provisions are made where an event has taken place that gives the Commissioner 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.

Provisions are charged to the Comprehensive Income and Expenditure Statement in the year that the Commissioner becomes aware of the obligation, and are measured at the best estimate at the Balance Sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

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

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

Contingent liabilities

A contingent liability arises where an event has taken place that gives the Commissioner 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 Commissioner. 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 are not recognised in the Balance Sheet but disclosed in a note to the accounts.

r) **Reserves**

Amounts are set aside as reserves for future policy purposes and to cover contingencies. When expenditure to be financed from a reserve is incurred, it is charged to the cost of service in the Comprehensive Income and Expenditure Statement and the reserve is appropriated back into the General Reserve balance in the Movement on Reserves Statement so that there is no impact on the level of council tax precept for the expenditure.

Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments and retirement benefits that do not represent usable resources for the Commissioner.

s) **Revenue expenditure funded from capital under statute**

Expenditure incurred during the year that may be capitalised under statutory provision but does not result in the creation of a non-current asset, has been charged as expenditure to the Comprehensive Income and Expenditure Statement in the year. Where the cost of this expenditure is to be met from existing capital resources or by borrowing, a transfer to the Capital Adjustment Account then reverses out the amount charged in the Movement in Reserves Statement so there is no impact on the level of council tax precept.

t) **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.

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
- Property valuations
- Provisions for future expenditure
- Accounting recognition of assets, liabilities, reserves, revenue and expenditure within the Group 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 Commissioner'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.

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

A number of amendments to accounting standards may affect the Statement of Accounts from 1 April 2013 and may require retrospective application:

- IAS19 *Employee Benefits*: the adoption of the June 2011 amendments to the Code will result in a change of accounting policy that will require additional disclosures;
- IAS1 *Presentation of Financial Statements* (Other Comprehensive Income): the adoption of the June 2011 amendments to the Code has a number of presentational implications;
- Clarifications have been issued that relate to recognition criteria for assets under construction and intangible assets; and
- IRFS7 *Financial Instruments* (offsetting financial assets and liabilities): the adoption of the December 2011 amendments to the Code will result in a change of accounting policy that will require additional disclosures.

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 items in the Commissioner's and Group's Balance Sheets as at 31 March 2013 for which there is significant risk of material adjustment in the forthcoming financial year are 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 latest membership data provided at 31 March 2012 for the latest funding valuation.

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 2010. The Actuary also estimates the Tyne and Wear Pension Fund position as at 31 March 2013 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 23.

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 will be phased over a number of years in a two stage transition process, the first of which provided for a statutory transfer of all income, expenditure, assets, liabilities and reserves of the Police Authority to the Commissioner at 22 November 2012.

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

Accounting recognition

The Group balance sheet will recognise all assets, liabilities and reserves of the Group. The accounting recognition of the Group's assets, liabilities and reserves during the first period of transition reflects the powers and responsibilities of the Commissioner and the Chief Constable as designated by the Act, the Home Office Financial Management Code of Practice and local governance arrangements. At 31 March 2013, all assets, liabilities and reserves were the responsibility of the Commissioner. The Commissioner owns and controls all non-current assets, loans, investments and borrowing. All contracts are in her name. She holds the bank account, is responsible for all liabilities, including the pensions' liabilities, and she holds all reserves. The Commissioner is the recipient of all income including government grants, precepts and other sources of income is paid to the Commissioner and all expenditure 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 Commissioner and the Chief Constable is based on economic benefit and service potential derived by each. Under the provisions of the Act, the Chief Constable is responsible to the Commissioner for the day to day provision of the policing function. In so doing, the Chief Constable consumes the Commissioner's resources in fulfilling her statutory functions. Local governance arrangements give day to day responsibility for financial management of the Force to the Chief Constable within the framework of the agreed budget allocation and levels of authorisation issued by the Commissioner. Consequently, expenditure in relation to policing is recognised in the financial statements of the Chief Constable funded by an equal and opposite credit from the Commissioner for resources consumed. All income, as well as expenditure directly controlled by the Commissioner, in relation to her Office and Community Safety Funding, is recognised in the financial statements of the Commissioner, together with the intra-group charge from the Chief Constable for resources consumed in respect of policing.

In order to show the total 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 £13.582m;
- The current service cost of providing retirement benefits to employees £67.16m; and
- The cost of insurance and support services expended by the Commissioner but provided to support the Chief Constable in her provision of policing £2.4m.

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

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

The table below sets out the intra-group transactions within the single-entity financial statements:

Intra-group adjustments
Comprehensive Income and Expenditure Statement

Commissioner's resources consumed by the Chief Constable

2011/12 £000s		2012/13 £000s
(346,312)	Chief Constable	(335,751)
346,312	Commissioner	335,751
0	Group	0

Intra-group adjustments
Balance Sheet

Net debtor / (creditor) reflecting resources consumed by the Chief Constable but cash payments not made by the Commissioner or payments made by the Commissioner in advance of services received at the Balance sheet date.

2011/12 £000s		2012/13 £000s
21,285	Chief Constable	20,377
(21,285)	Commissioner	(20,377)
0	Group	0

7. Prior period adjustments

An amendment of £0.765m has been made in the financial statements in relation to the expenditure classified as Corporate and Democratic Core. The change has no impact on the Net cost of services or the Surplus on the Provision of Services within the Comprehensive Income and Expenditure Statement but it impacts on the classification of service expenditure within the Net Cost of Police Services. The usefulness of financial information is enhanced if it is comparable and whilst the reclassification does not have a material impact on the comparative figures for 2011/12 for the Commissioner, without the reclassification there could be misleading interpretation of the costs of the Office of the Police and Crime Commissioner and the former Police Authority when considering the financial statements of the Commissioner. As such, the figures on the face of the Comprehensive Income and Expenditure Statement have been restated accordingly. There is no impact on any of the other Financial Statements.

8. Movement in Reserves Statement adjustments

The Movement in Reserves Statement details all movements in the Commissioner's useable reserves (i.e. those that can be applied to fund expenditure or reduce local taxation) and provides a summary of the movement in unusable reserves. The 'Surplus or deficit on the provision of services' line shows the true economic cost of providing the Group's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Reserve balance for council tax setting purposes. The 'Net (Increase)/Decrease before Transfers to Earmarked Reserves' line shows the statutory General Reserve balance before any discretionary transfers to or from earmarked reserves undertaken by the Commissioner. The following tables provide further details of the amounts disclosed in the Movement in Reserves Statement.

a) **Other Comprehensive Income and Expenditure** comprises items of expense and income that are not recognised in the surplus or deficit on the provision of services as required or permitted by the Code. The following tables detail the transactions during 2011/12 and 2012/13:

Other Comprehensive Income & Expenditure		
2011/12		**2012/13**
Unusable Reserves		**Unusable Reserves**
£000s		**£000s**
(3,879)	Surplus or deficit on revaluation of non current assets	(2,593)
(802)	Actuarial gains/losses on pensions' assets and liabilities	251,918
(4,681)	**Total Other Comprehensive Income and Expenditure**	**249,325**

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 Commissioner in the year in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Commissioner to meet future capital and revenue expenditure:

Adjustments between accounting basis & funding basis under regulations 2012/13

	2012/13 movements (£000s)				
	General Fund balance	Earmarked GF reserves	Capital Receipts Reserve	Capital Grants Unapplied	Unusable Reserves
	£000s	£000s	£000s	£000s	£000s
Depreciation, amortisation & impairment of non-current assets and assets held for sale	(13,282)	0	0	0	13,282
Amortisation of intangible assets	(300)	0	0	0	300
Revenue Expenditure Funded from Capital under Statute	(204)	0	0	0	204
Application of Capital Grants and Contributions to capital financing transferred to the Capital Adjustment Account	3,554	0	0	182	(3,736)
Capital Expenditure charged in the year to the General Fund	16	0	0	0	(16)
Net Gain/Loss on sale of non-current assets	(566)	0	(737)	0	1,303
Capital Expenditure Financed from Unapplied Capital Receipts	0	0	820	0	(820)
Difference between amounts credited to the I&E Account and amounts to be recognised under statutory provisions relating to Council Tax	24	0	0	0	(24)
Amount by which pension costs calculated in accordance with the Code (i.e. in accordance with IAS19) are different from the contributions due under the pension scheme regulations	(151,699)	0	0	0	151,699
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	(1,251)	0	0	0	1,251
Revenue provision for the repayment of debt	2,856	0	0	0	(2,856)
Total adjustments between accounting basis & funding basis under regulations	**(160,852)**	**0**	**83**	**182**	**160,587**

Adjustments between accounting basis & funding basis under regulations 2011/12					
	2011/12 movements (£000s)				
	General Fund balance	Earmarked GF reserves	Capital Receipts Reserve	Capital Grants Unapplied	Unusable Reserves
	£000s	£000s	£000s	£000s	£000s
Depreciation, amortisation & impairment of non-current assets and assets held for sale	(9,543)	0	0	0	9,543
Amortisation of intangible assets	(319)	0	0	0	319
Revenue Expenditure Funded from Capital under Statute	(120)	0	0	0	120
Application of Capital Grants and Contributions to capital financing transferred to the Capital Adjustment Account	2,851	0	0	9	(2,860)
Capital Expenditure charged in the year to the General Fund	46	0	0	0	(46)
Net Gain/Loss on sale of non-current assets	33	0	(642)	0	609
Capital Expenditure Financed from Unapplied Capital Receipts		0	559	0	(559)
Difference between amounts credited to the I&E Account and amounts to be recognised under statutory provisions relating to Council Tax	(255)	0	0	0	255
Amount by which pension costs calculated in accordance with the Code (i.e. in accordance with IAS19) are different from the contributions due under the pension scheme regulations	(163,626)	0	0	0	163,626
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	592	0	0	0	(592)
Revenue provision for the repayment of debt	2,700	0	0	0	(2,700)
Total adjustments between accounting basis & funding basis under regulations	**(167,641)**	**0**	**(83)**	**9**	**167,715**

c) Analysis of transfers to / from reserves

The Commissioner maintains a number of reserves, which are classified as either usable (backed by cash) or unusable (notional adjustment accounts not supported by cash).

Usable reserves:

The **General Reserve** (Police Fund) is the main fund into which council tax precept income, government grants and other income is paid into and from which the day-to-day cost of providing services is met. It provides a level of protection for the Commissioner against unexpected events. The Police Reform and Social Responsibility Act specifies that the Commissioner is the holder of the Police Fund and the recipient of all income. The

Commissioner has an agreed strategy that the level of the General Reserve will be influenced by the balance of risks inherent in the budget, the robustness of budget monitoring, past experience of outturn spending, the extent of earmarked reserves and funding cuts over the medium term. As a result, the agreed strategy is to reduce the General Reserve to a minimum level of 3% of budget over the medium term.

Earmarked reserves:

- The **Capital Development Reserve** is used to fund the revenue implications of prudential borrowing to support the delivery of the capital programme. It is anticipated that following the completion of the major projects in the Capital Programme, capital receipts will be received in respect of the former sites, which can be used to either repay debt or replenish this reserve.

- The **Workforce Management Reserve** was set up to assist workforce changes and has been used to fund the one-off cost of police staff redundancies to release the on-going savings of the reduction in staff costs.

- The scheme of financial devolvement ensures that responsibility and accountability for resources rests with those managers who are responsible for service delivery. To make the scheme work and give devolved budget holders the necessary freedom to manage their resources, they are allowed to carry forward underspends. The amount in the **Devolved Budget Reserve** represents the cumulative net unspent element of the budgets devolved to specific departments and area commands, limited to 1% of devolved budgets, which is carried forward into the following financial year to cover future events.

- The **Insurance Reserve** is maintained for potential liabilities and costs which fall onto the Commissioner where no external insurance cover is arranged by or available to the Commissioner. Potential liabilities include storm damage, business interruption and claims that would fall within the Commissioner's policy excess limits.

- The **External Funding Reserve** has been created from unspent non-conditional revenue grant income which is to be used for specific purposes in future years.

- The **Airwave Reserve** was maintained to allow for the future costs associated with the national radio communications system. Such costs are not expected to be incurred until 2016/17 at the earliest. The Reserves Policy of the Commissioner is to abolish this reserve and transfer the balance to the General Fund.

- The balance on the **Air Support Reserve** represents the value of the Commissioner's share of payments in advance at the year end.

Capital Receipts Reserve represents capital receipts from the sale of assets held in order to finance future capital expenditure.

Capital Grants Unapplied represents capital grants or contributions recognised in the Comprehensive Income and Expenditure Statement but for which the expenditure to be financed from the grant or contribution has not been incurred. The reserve is available to finance future capital expenditure.

Unusable reserves:

The **Capital Adjustment Account** absorbs the timing differences arising from the different arrangements for accounting for the consumption of non-current assets and for financing the acquisition, construction or enhancement of those assets under statutory provisions. The account is debited with the cost of acquisition, construction or enhancement and depreciation, impairment losses and amortisations are charged to the Comprehensive Income and Expenditure Statement (with reconciling postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The account is credited with the amounts set aside by the Commissioner as finance for the costs of acquisition, construction and enhancement.

The account contains accumulated gains and losses on investment properties. The account also contains revaluation gains accumulated on property, plant and equipment before 1 April 2007, the date that the Revaluation Reserve was created to hold such gains.

The **Revaluation Reserve** contains gains made by the Commissioner arising from increases in non-current asset values. The balance is reduced when assets with accumulated gains are:

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

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

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 **Collection Fund Adjustment Account** manages the differences arising from the recognition of Council Tax precept income in the Comprehensive Income and Expenditure Statement as it falls due, compared with the statutory arrangements for paying across amounts to the Commissioner from billing authorities.

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 Commissioner 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 Commissioner makes employer's contributions to pension funds or eventually pays any pensions for which she is directly responsible. The debit balance on the reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Commissioner has 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.

Analysis of the transfers to / from earmarked reserves					
Balance as at 31/03/12 £000s		**Transfers to reserve £000s**	**Transfers from reserve £000s**	**Total Movement on Reserves £000s**	**Balance as at 31/03/13 £000s**
	Useable Reserves				
(26,635)	**General Reserve**	**(1,000)**	**5,990**	**4,990**	**(21,645)**
	Earmarked reserves:				
(11,005)	Capital Development Reserve	0	3,527	**3,527**	**(7,478)**
(3,000)	Workforce Management Reserve	0	1,209	**1,209**	**(1,791)**
(295)	Devolved Budget Reserve	0	135	**135**	**(160)**
(3,000)	Insurance Reserve	0	0	**0**	**(3,000)**
0	External Funding Reserve	(653)	0	**(653)**	**(653)**
(1,000)	Airwave Reserve	0	1,000	**1,000**	**0**
(286)	Air Support Unit General Reserve	0	72	**72**	**(214)**
(18,586)	**Total Earmarked reserves**	**(653)**	**5,943**	**5,290**	**(13,296)**
(140)	Capital Receipts Reserve	**(744)**	**827**	**83**	**(57)**
(343)	Capital Grants Unapplied	**0**	**182**	**182**	**(161)**
(45,704)	**Total usable reserves**	**(2,397)**	**12,942**	**10,545**	**(35,159)**
	Unusable reserves				
(12,176)	Revaluation Reserve	(2,974)	1,323	**(1,651)**	**(13,827)**
(12,430)	Capital Adjustment Account	(8,370)	15,089	**6,719**	**(5,711)**
(105)	Collection Fund Adjustment Account	(24)	0	**(24)**	**(129)**
8,304	Accumulated Absences Account	0	1,251	**1,251**	**9,555**
2,781,493	Pensions Reserve	0	403,617	**403,617**	**3,185,110**
2,765,086	**Total unusable reserves**	**(11,368)**	**421,280**	**409,912**	**3,174,998**
2,719,382	**Total reserves**	**(13,765)**	**434,222**	**420,457**	**3,139,839**

9. Information to be presented either in the Comprehensive Income and Expenditure Statement or in the Notes

The Comprehensive Income and Expenditure Statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Commissioners raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

Included in Non-distributed costs is a curtailment gain of £0.73m calculated by the Commissioner's actuary, arising from the implications on the pension liability from staff redundancies which occurred in 2012/13.

An analysis of items below Cost of Services is detailed below:

Other Operating Expenditure				
2011/12			**2012/13**	
Net Expenditure £000s		**Gross Expenditure £000s**	**Gross Income £000s**	**Net Expenditure £000s**
(497)	(Gains)/Losses on Disposal of Property Plant & Equipment	369	0	369
18	(Gains)/Losses on Disposal of Assets Held for Sale	7	0	7
(479)		**376**	**0**	**376**

Financing and Investment Income and Expenditure				
2011/12 restated			**2012/13**	
Net Expenditure £000s		**Gross Expenditure £000s**	**Gross Income £000s**	**Net Expenditure £000s**
3,247	Interest Payable and similar charges	3,286	0	3,286
(714)	Interest and Investment Income	0	(354)	(354)
(29)	Income & Expenditure in relation to Investment Properties	0	(53)	(53)
145,310	Pensions interest costs and expected return on assets	132,070	0	132,070
147,814		**135,356**	**(407)**	**134,949**

Taxation and Non Specific Grant income				
2011/12			**2012/13**	
Net Expenditure £000s		**Gross Expenditure £000s**	**Gross Income £000s**	**Net Expenditure £000s**
(124,285)	Home Office Grant	0	(114,992)	(114,992)
(29,916)	Revenue Support Grant	0	(2,284)	(2,284)
(96,782)	National Non-Domestic Rates	0	(117,796)	(117,796)
(36,436)	Proceeds of PCC Precepts	0	(36,861)	(36,861)
0	Receipts / payments to Police Pension Fund	35,367	(35,367)	0
(2,752)	Capital grant income (from government)	0	(3,481)	(3,481)
(99)	Capital grant income (non-government)	0	(73)	(73)
(290,270)		**35,367**	**(310,854)**	**(275,487)**

10. Segmental analysis

There is a requirement within the Code to present income and expenditure in segments as reported for internal management purposes and provide a reconciliation with the

Comprehensive Income and Expenditure Statement. However, as segments are not used for internal management reporting, no segmental analysis is disclosed.

11. Members' allowances

Members of Northumbria Police Authority were paid allowances and expenses up until the abolition of the Police Authority on 22 November 2012. The table below discloses the total of members' allowances (and expenses) paid in the year as £0.122m, (£0.191m in 2011/12).

Members' Allowances		
2011/12 £000s		**2012/13 £000s**
180	Allowances	117
11	Other Expenses	5
191	**Total**	122

12. Audit Fees

The Commissioner has incurred the following costs in relation to work carried out by the Commissioner's external auditors (2012/13 Mazars, 2011/12 Audit Commission).

Auditors' Fees - Commissioner		
2011/12 £000s		**2012/13 £000s**
63	Fees payable to external auditors with regard to services carried out by the appointed auditor	55
63	**Total**	**55**

13. Government and non-government grants and contributions

The following grants and contributions were credited to the Comprehensive Income and Expenditure Statement in 2012/13:

Government Grants & Contributions				
2011/12			2012/13	
Revenue £000	Capital £000		Revenue £000	Capital £000
		General Government grant not attributable to Services		
29,916		Revenue Support Grant	2,284	
96,782		Distribution of national non domestic rates pool	117,796	
124,285		Home Office Grant	114,992	
26,794		Pension Top-up grant	35,367	
	2,752	Capital Grant		3,252
277,777	**2,752**	**Total**	**270,439**	**3,252**
		Specific Government grant attributable to Services		
1,872		Counter Terrorism Grant (including Dedicated Security Posts & Prevent)	1,798	
8,976		Neighbourhood Policing Fund	8,923	
743		Drug Testing Grant	706	
243		PFI Grant	244	
181		Loan Charges Grant	171	
912		Council Tax Freeze Grant	1,097	
0		Youth Crime & Substance Misuse Prevention	236	
231		Olympics Grant	388	
705		Other Specific Government Grants	0	229
13,863	**0**	**Total**	**13,563**	**229**
		Non-Government grant and contributions attributable to Services		
1,955	99	Other contributions	3,314	73
1,955	**99**	**Total**	**3,314**	**73**
293,595	**2,851**	**Total Government and Non-Government contributions recognised in the Comprehensive Income & Expenditure Statement**	**287,316**	**3,554**

14. Officers' Remuneration

The following table sets out the Commissioner, Deputy and relevant officers whose salary is more than £50,000 per year in 2012/13. There are no equivalent disclosures for 2011/12.

Remuneration of Senior Employees 2012/13 - Commissioner					
Post holder information	Notes	Salary (Including fees & allowances) £	Total remuneration excluding pension contributions £	Pension contributions £	Total Remuneration 2012/13 £
Police and Crime Commissioner	**1**	30,458	**30,458**	3,960	**34,418**
Deputy Police and Crime Commissioner	**2**	22,856	**22,856**		**22,856**
Chief Executive & Monitoring Officer	**3**	464	**464**	60	**524**
Total		**53,778**	**53,778**	**4,020**	**57,798**

Note 1: Police and Crime Commissioner started in role 22 November 2012
Note 2: Deputy Police and Crime Commissioner started in post 22 November 2012
Note 3: Chief Executive & Monitoring Officer started in post 29 March 2013. Prior to this date the post was provided through a Support Service Agreement with Gateshead Council.

Note also, that the Treasurer to the Police and Crime Commissioner from 29 March 2013 is the Chief Finance Officer of the Chief Constable. He received no remuneration for the Treasurers post. Prior to this date, the Treasurer was provided through a Support Service Agreement with Gateshead Council.

Details of remuneration paid to officers through the Support Service Agreement are not disclosed here but are available in Gateshead Council’s Statement of Accounts.

15. Related Party Transactions

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

Office of the Police and Crime Commissioner
During 2012/13, no related party transaction was entered into with the Commissioner, Deputy Commissioner or any senior officers of the Office of the Police and Crime Commissioner or their close family members.

Members
Members of the former Police Authority had direct control over the Authority's financial and operating policies up to 21 November 2012. The total of members' allowances paid in 2012/13 is shown in Note 11.

During 2012/13, no related party transaction was entered into with any member of the former Authority or their close family members.

Chief Constable for Northumbria
The general operations of the Chief Constable are controlled by the Commissioner who governs the financial and operational policy framework within which the Chief Constable operates. The Commissioner funds the expenditure on operational policing incurred by the Chief Constable, the total of which is disclosed in the Commissioner's Comprehensive Income and Expenditure Statement.

UK Government
Central government has effective control over the general operations of the Commissioner – it is responsible for providing the statutory framework, within which the Commissioner operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Commissioner has with other parties. Grants received from government departments are set out in Note 13.

Other Public Bodies
Precepts
The Commissioner obtains part of her income from precepts levied on the local collection authorities in the Northumbria police force area. During the year, transactions with these related parties were as shown below:

Council Tax Precept				
2011/12		2012/13		
Total precept £000s	Local Authorities	Precept (in accordance with regulation) £000s	Share of surplus / (deficit) at 31 March 13 £000s	Total £000s
5,022	Gateshead Council	4,951	58	5,009
6,280	Newcastle City Council	6,379	74	6,453
5,377	North Tyneside Council	5,376	(19)	5,357
3,777	South Tyneside Council	3,772	24	3,796
6,771	Sunderland City Council	6,830	0	6,830
9,209	Northumberland County Council	9,529	(113)	9,416
36,436	**Total**	**36,837**	**24**	**36,861**

Gateshead Council

Gateshead Council provides a range of support services to the Commissioner. The necessary power for this exists within section 113 of the Local Government Act 1972. During 2012/13, the Commissioner was advised by appointed officers, some of which were statutory posts as described below. The combined cost of support services and advice to the Commissioner and Group amounted to £2.260m in 2012/13 (£2.352m in 2011/12).

During 2012/13:

- The Commissioner's Chief Executive and Solicitor was also Gateshead Council's Strategic Director, Legal and Corporate Services (until 28 March 2013).
- The Commissioner's Treasurer was also Gateshead Council's Strategic Director, Finance & ICT (until 28 March 2013).
- The Human Resources Adviser to the Commissioner was also Gateshead Council's Director of Corporate Services.
- The Property Adviser to the Commissioner was also Gateshead Council's Group Director, Development and Enterprise.

A payment of £1.470m was paid to Gateshead Council in respect of building cleaning in 2012/13 (£1.662m in 2011/12).

Joint Arrangements

The Commissioner is involved with a number of entities that are not legally distinct bodies. These have been established to aid joint working between organisations, and as such any material assets or liabilities attributable to the Commissioner will be included in the Balance Sheet. Any income or expenditure is accounted for within the Comprehensive Income and Expenditure Statement.

The main joint arrangements identified during 2012/13 were:

- North East Air Support Unit (NEASU)
- North East Regional Organised Crime Unit
- Community Safety Partnerships (separate partnerships with the six local authorities in the Commissioner's area)

The Commissioner also distributes funding via a Grant Pool to local community and voluntary groups to support delivery of small one-off projects; and to Youth Offending Teams within the six local authorities in the Commissioner's area.

16. Capital Expenditure and Commitments

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

Capital Expenditure and Capital Financing		
2011/12 £000s		**2012/13 £000s**
67,498	**Opening Capital Financing Requirement**	**80,425**
	Capital investment	
18,728	Property, Plant and Equipment	23,123
244	Intangible Assets	28
120	Revenue Expenditure Funded from Capital under Statute	204
	Sources of finance	
(559)	Capital receipts	(820)
(2,906)	Government grants and other contributions	(3,752)
(2,700)	Minimum Revenue Provision	(2,856)
80,425	**Closing Capital Financing Requirement**	**96,352**
	Explanation of movements in year	
12,927	Increase in underlying need to borrowing (unsupported by government financial assistance)	15,927

Capital Commitments

At 31 March 2013, the Commissioner had the following contractual commitments for the construction or enhancement of Property, Plant and Equipment:

- Newcastle City Centre Police Station: £17m
- Firearms Operation and Training Facility: £0.1m

17. Non-current assets

Non-current assets movements	Land & Buildings £000s	Vehicles & Equipment £000s	Surplus Assets £000s	Assets Under Construction £000s	Total Property, Plant & Equipment £000s	Investment Property £000s	Intangible Assets £000s	Total Non-Current Assets £000s
Cost or valuation								
Balance as at 1 April 2011	**78,480**	**52,139**	**200**	**2,213**	**133,032**	**1,437**	**1,154**	**135,623**
Reclassifications	(434)	0	100	0	**(334)**	(300)	1	**(633)**
Additions	757	4,032	0	13,939	**18,728**	0	244	**18,972**
Disposals	(227)	(2,976)	(133)	0	**(3,336)**	0	0	**(3,336)**
Revaluation increase/(decrease):								
Revaluation increase/(decrease) to Revaluation Reserve	1,468	222	63	0	**1,753**	0	0	**1,753**
Revaluation increase/(decrease) to Comprehensive I&E	(234)	0	0	0	**(234)**	0	0	**(234)**
Balance at 1 April 2012	**79,810**	**53,417**	**230**	**16,152**	**149,609**	**1,137**	**1,399**	**152,145**
Reclassifications	4,951	0	(230)	(4,951)	**(230)**	0	0	**(230)**
Additions	9,935	4,709	0	8,479	**23,123**	0	28	**23,151**
Disposals	0	(11,730)	0	0	**(11,730)**	0	(55)	**(11,785)**
Revaluation increase/(decrease):								
Revaluation increase/(decrease) to Revaluation Reserve	1,795	0	0	0	**1,795**	0	0	**1,795**
Revaluation increase/(decrease) to Comprehensive I&E	(4,386)	0	0	0	**(4,386)**	(484)	0	**(4,870)**
Balance at 31 March 2013	**92,105**	**46,396**	**0**	**19,680**	**158,181**	**653**	**1,372**	**160,206**

Non-current assets movements (continued)								
	Land & Buildings	Vehicles & Equipment	Surplus Assets	Assets Under Construction	Total Property, Plant & Equipment	Investment Property	Intangible Assets	Total Non-Current Assets
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Accumulated depreciation and impairment								
Balance as at 1 April 2011	**(4,192)**	**(39,121)**	**(6)**	**0**	**(43,319)**	**0**	**(464)**	**(43,783)**
Reclassifications	13	(1)	3	0	**15**	0	(1)	**14**
Eliminated on disposals of assets	6	2,944	3	0	**2,953**	0	0	**2,953**
Eliminated on revaluation:								
Depreciation written out to Revaluation Reserve	1,897	(148)	0	0	**1,749**	0	0	**1,749**
Depreciation written out to Comprehensive I&E	67	0	0	0	**67**	0	0	**67**
Depreciation	(2,430)	(6,941)	(5)	0	**(9,376)**	0	(319)	**(9,695)**
Balance at 1 April 2012	**(4,639)**	**(43,267)**	**(5)**	**0**	**(47,911)**	**0**	**(784)**	**(48,695)**
Reclassifications	0	0	5	0	**5**	0	0	**5**
Eliminated on disposals of assets	0	11,154	0	0	**11,154**	0	54	**11,208**
Eliminated on revaluation:								
Depreciation written out to Revaluation Reserve	1,103	0	0	0	**1,103**	0	0	**1,103**
Depreciation written out to Comprehensive I&E	167	0	0	0	**167**	0	0	**167**
Depreciation	(2,866)	(5,672)	0	0	**(8,538)**	0	(300)	**(8,838)**
Balance at 31 March 2013	**(6,235)**	**(37,785)**	**0**	**0**	**(44,020)**	**0**	**(1,030)**	**(45,050)**

Non-current assets movements (continued)	Land & Buildings	Vehicles & Equipment	Surplus Assets	Assets Under Construction	Total Property, Plant & Equipment	Investment Property	Intangible Assets	Total Non-Current Assets
	£000s	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Net Book Value at 31/03/2012	75,171	10,150	225	16,152	**101,698**	1,137	615	**103,450**
Net Book Value at 31/03/2013	85,870	8,611	0	19,680	**114,161**	653	342	**115,156**

Valuations

Valuations are carried out on a rolling programme basis, with 20% of assets valued each year. This provides a full revaluation every five years, in line with statutory requirements. In addition, significant assets, those with values in excess of £10m are valued annually.

A full review of the Commissioner's property assets was undertaken at the end of 2008/09 to assess the impact of the economic downturn on the assets. The valuations in subsequent years have been completed as part of the rolling programme and the total valuations are summarised in the table below for the relevant years:

Valuations	Land and Buildings	Vehicles & Equipment	Surplus Assets	Investment Property	Assets Held For Sale	Total Valuation
	£000s	£000s	£000s	£000s	£000s	£000s
Valued at 1 April 2012	30,911	0	0	653	259	**31,823**
Valued at 1 April 2011	45,501	0	360	0	1,707	**47,568**
Valued at 1 April 2010	40,464	0	200	300	810	**41,774**
Valued at 1 April 2009	13,200	1,865	0	0	0	**15,065**

18. Debtors

These amounts represent sums due from a number of sources, such as other local authorities and government departments. It may also include payments in advance, such as invoices spanning financial periods.

The bad debt provision includes £1.382m in relation to the Commissioner's share of the local collection authorities' council tax provisions for bad debts.

Short–term Debtors		
31 March 2012 £000s		**31 March 2013 £000s**
12,780	Central government bodies	12,665
0	NHS bodies	10
5,766	Other local authorities	4,956
0	Other public bodies	369
2,048	Bodies external to general government	2,955
(1,533)	- less bad debt provision	(1,430)
19,061		**19,525**

19. Cash and cash equivalents

The balance of cash and cash equivalent is made up of the following elements:

Cash and Cash Equivalents		
31 March 2012 £000s		**31 March 2013 £000s**
148	Cash held by officers	149
(1,527)	Bank overdraft	(2,077)
17,371	Short-term deposits	9,038
15,992	**Total cash and cash equivalents**	**7,110**

20. Creditors

These amounts represent sums owed to a number of sources, such as other local authorities and government departments, as well as short-term borrowing disclosed separately.

Creditors		
31 March 2012 £000s		**31 March 2013 £000s**
(4,641)	Central government bodies	(4,350)
(9)	NHS bodies	0
(3,311)	Other local authorities	(2,953)
(21)	Public corporations and trading funds	0
(2,347)	Bodies external to central government	(1,717)
(10,329)		**(9,020)**
(21,285)	Chief Constable	(20,377)
(31,614)		**(29,397)**

Under IAS19 Employee Benefits, the Commissioner has a long-term liability in relation to future pension commitments. More details are provided in Note 23.

21. Provisions and contingent liabilities

Provisions

Provisions				
31 March 2012 £000s		Receipts £000s	Payments £000s	31 March 2013 £000s
	Long-term provisions			
(2,980)	Insurance	(380)	521	(2,839)
	Short-term provisions			
(167)	Carbon Reduction Commitment	(149)	158	(158)
(3,147)	**Total**	**(529)**	**679**	**(2,997)**

The **Insurance Provision** is made for known outstanding liability claims, the costs of which have been estimated by the Commissioner's insurers. The timing of payments from the insurance provision will be determined by the settlement of claims and is therefore unknown at present. The decrease in the provision reflects the estimate of outstanding claims at 31 March 2013.

The **Carbon Reduction Commitment Provision** has been created in order to purchase the CRC allowances for 2013/14 relating to carbon emissions produced by the Commissioner in 2012/13.

Contingent Liabilities

At 31 March 2013, the Commissioner has a contingent liability in relation to **injury pensions**, which has arisen following a judicial review ruling in which it was deemed unlawful to review the injury pension of an officer downwards at age 65. A liability will arise if injury pensions are reinstated to their original levels. An estimate has not been disclosed as there is uncertainty around the number of likely further claimants and the value of them.

22. Financial Instruments

a) Nature and Extent of Risk Arising from Financial Instruments

Key Risks

The Commissioner's borrowing and investment activities expose it to a variety of financial risks, the key risks being:

- Credit risk: the possibility that other parties might fail to pay amounts due to the Commissioner;
- Liquidity risk: the possibility that the Commissioner might not have the funds available to meet its commitments to make payments;
- Re-financing risk: the possibility that the Commissioner might be required to renew a financial instrument on maturity at disadvantageous interest rates or terms; and
- Market risk: the possibility that the Commissioner may suffer financial loss as a result of changes in such measures as interest rates.

Procedures for Managing Risk arising from Financial Instruments

The Commissioner's overall risk management procedures focus on the unpredictability of financial markets, and implementing restrictions to minimise these risks. The procedures for risk management are through a legal framework set out in the Local Government Act 2003 and the associated regulations. These require the Commissioner to comply with the CIPFA Prudential Code, the CIPFA Treasury Management in the Public Services Code of Practice and Investment Guidance issued through the Act. Overall these procedures require the Commissioner to manage risk in the following ways:

- by formally adopting the requirements of the Code of Practice;
- by the adoption of a Treasury Policy Statement;
- by approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investments counterparties in compliance with government guidance; and
- by approving annually in advance prudential indicators for the following three years, limiting:
    - the Commissioner's overall borrowing;
    - its maximum and minimum exposure to fixed and variable rates;
    - its maximum and minimum exposures within the maturity structures of its debt; and
    - its maximum annual exposures to investments maturing beyond a year.

These are required to be reported and approved at or before the Commissioner's annual budget setting meeting. These items are reported with the annual Treasury Management Strategy which outlines the detailed approach to managing risk in relation to the Commissioner's financial instruments exposure. Actual performance is also reported annually to the Commissioner.

Gateshead Council provides a treasury management service to the Commissioner as part of a Support Service Agreement under section 113 of the Local Government Act. When undertaking investments on behalf of the Commissioner, Gateshead Council operates an integrated treasury management strategy and has adopted the CIPFA Code of Practice for Treasury Management in the Public Services. The Council maintains written principles for overall risk management, as well as written policies covering specific areas, such as interest rate risk, credit risk, and the investment of surplus cash through Treasury Management Practices (TMPs). These TMPs are a requirement of the Code of Practice and are reviewed regularly. Gateshead Council also utilises treasury consultants to provide guidance in all areas of treasury management.

Credit Risk

Credit risk arises from deposits with banks, building societies, other local authorities and the Debt Management Office, as well as credit exposures to the Commissioner's customers. This risk is minimised through the Annual Investment Strategy, which requires that deposits are not placed with financial institutions that fail to meet the agreed minimum credit criteria. The Annual Investment Strategy also stipulates the maximum amount and time limits in respect of each financial institution.

As at the 31 March 2013 none of the Commissioner's £20.607m of deposits were with financial institutions domiciled outside of the UK.

The table below shows the gross amounts due to the Commissioner from her financial assets, and the amounts which have been impaired due to likely non receipt. The net carrying value represents the maximum credit rating to which the Commissioner is exposed.

Analysis of Financial Assets			
	Gross Value	**Impairment Value**	**Net Value**
	£000s	**£000s**	**£000s**
Deposits with Financial Institutions	20,607	584	20,023
Trade Debtors	17,648	48	17,600

The debtors' balance represents the amount due to the Commissioner from customers. A bad debt provision of £0.048m on trade debtors, (£0.045m in 2011/12) is held on the Balance Sheet to provide against the risk of default on debt outstanding.

The following table summarises the Commissioner's maximum exposure to credit risk on financial assets. This analysis is based on credit rating advice received by treasury advisors, Sector, and focuses on the long term investment grade rating issued to each financial institution by Fitch. The highest possible rating is AAA and the lowest rating is BBB.

Analysis of credit risk		
	2011/12	**2012/13**
Rating	**£000s**	**£000s**
AAA	30,177	15,345
AA-	0	0
A+	4,268	0
A	4,623	4,120
Total (excluding impaired investments)	**39,068**	**19,465**

Liquidity Risk

The Commissioner's liquidity position is managed through the risk management procedures above (the setting and approval of prudential and treasury indicators and the approval of the treasury and investment strategy reports), as well as through cash flow management procedures required by the Code.

The Commissioner has ready access to borrowings from the money markets to cover any day-to-day cash flow need, and the Public Works Loans Board (PWLB) and money markets for access to longer term funds. The Commissioner is also required to provide a balanced budget through the Local Government Finance Act 1992, which ensures sufficient monies are raised to cover annual expenditure. There is therefore no significant risk that the Commissioner will be unable to raise finance to meet its commitments under financial instruments.

At the 31 March 2013, all of the Commissioner's £20.607m deposits were due to mature within 364 days.

Refinancing and Maturity Risk

The Commissioner maintains a debt portfolio of £75.133m and investment portfolio of £20.607m. Whilst the cash flow procedures above are considered against the refinancing risk procedures, longer term risk to the Commissioner relates to managing the exposure to replacing financial instruments as they mature. This risk relates to both the maturing of longer term financial liabilities and longer term financial assets.

The approved treasury indicator limits for the maturity structure of debt and the limits on investments placed for greater than one year in duration are the key parameters used to address this risk. The Commissioner-approved treasury and investment strategies address the main risks and the central treasury team address the operational risks within the approved parameters. This includes:

- monitoring the maturity profile of financial liabilities and amending the profile through either new borrowing or the rescheduling of the existing debt; and
- monitoring the maturity profile of investments to ensure sufficient liquidity is available for the Commissioner's day to day cash flow needs, and the spread of longer term investments provide stability of maturities and returns in relation to the longer term cash flow needs.

The maturity profile of the Commissioner's financial liabilities is shown below:

Maturity profile of financial liabilities				
Maturity Period	**Approved limits %**	**as at 31 March 2012 %**	**Approved limits %**	**as at 31 March 2013 %**
< 1 year	20.00	7.68	20.00	2.66
1 - 2 years	20.00	3.08	35.00	15.75
2 - 5 years	80.00	33.26	80.00	25.84
5 - 10 years	80.00	16.11	80.00	27.84
> 10 years	90.00	39.87	90.00	27.91

Market Risk

Interest rate risk – The Commissioner is exposed to interest rate movements on her borrowings and investments. Movements in interest rates have a complex impact on the Commissioner, depending on how variable and fixed interest rates move across differing periods.

Borrowings are not carried at fair value on the Balance Sheet, so nominal gains and losses on fixed rate borrowing will not impact on the Comprehensive Income and Expenditure Statement. However, changes in interest payable and receivable on variable rate borrowing and investments will affect the General Reserve balance.

The Commissioner is required to carry out a risk assessment on the impact of a change in interest rates on the surplus or deficit for the year. The assessment has been carried out assuming a 1% increase in interest rates (with all other variables such as principle, maturity periods etc being held constant). The increase in interest rates will only affect the rate applied to variable rate borrowing and investments. However, as the Commissioner had no variable rate borrowings or investments as at 31 March 2013, there was no exposure to interest rate sensitivity, the analysis is provided for information only. The results of this assessment are shown in the following table:

Analysis of 1% increase in interest rates	
	£000s
Increase in interest payable on variable rate borrowing	8
Increase in interest receivable on variable rate investments	(134)
Impact on the (surplus)/deficit	**(126)**
Decrease in the fair value of fixed rate investments	23.000
Decrease in the fair value of fixed rate borrowing	(3.037)

The Commissioner has a number of strategies for managing interest rate risk. The annual Treasury Management Strategy draws together the Commissioner's prudential indicators and her expected treasury operations, including an expectation of interest rate movements. From this Strategy a prudential indicator is set which provides maximum and minimum limits for fixed and variable interest rate exposure. The central treasury team will monitor market and forecast interest rates within the year to adjust exposures appropriately. For instance during periods of falling interest rates, and where economic circumstances make it favourable, fixed rate loans will be repaid to limit exposure to losses.

Price Risk – The Commissioner does not invest in equity shares, so has no exposure to loss arising from movements in equity shares.

Foreign Exchange Risk – The Commissioner has no financial assets or liabilities denominated in foreign currencies so has no exposure to loss arising from movements in exchange rates.

b) Financial Instrument Balances

The borrowings and investments disclosed in the Balance Sheet are made up of the following categories of financial instruments:

Financial Instrument Balances				
	Long Term		Current	
	31 March 2012 £000s	31 March 2013 £000s	31 March 2012 £000s	31 March 2013 £000s
Financial Liabilities at amortised cost	60,133	73,130	5,774	2,822
Total Borrowing	**60,133**	**73,130**	**5,774**	**2,822**
Loans and Receivables	0	0	40,234	20,131
Total Investments	**0**	**0**	**40,234**	**20,131**

c) Analysis of Financial Liabilities at Amortised Cost

Analysis of Financial Liabilities	Range of Interest Rates Payable	Total Outstanding 31 March	
		2012	2013
	%	£000s	£000s
Source of Loan			
Public Works Loans Board	1.03 – 9.75%	60,892	70,937
Other Loan Instruments	3.52%	5,015	5,015
An Analysis of loans by maturity:			
Maturing within 1 year		5,774	2,822
Maturing within 1 - 2 years		2,002	11,834
Maturing within 2 - 5 years		21,666	19,411
Maturing within 5 - 10 years		10,496	20,916
Maturing in more than 10 years		25,969	20,969
Total Borrowing		**65,907**	**75,952**
Trade Creditors		20,970	18,047
Total Financial Liabilities		**86,877**	**93,999**

d) Loans and Receivables

No loans and receivables over 364 days were outstanding as at 31 March 2013 (there were none in 2011/12).

e) Financial Instruments Gains and Losses

The Commissioner does not hold any financial instruments that have been recognised at fair value and income received in relation to the available-for-sale assets held is considered to be immaterial. Therefore all gains and losses on financial instruments have been recognised in the Commissioner's Comprehensive Income and Expenditure Statement.

The gains and losses recognised in the Comprehensive Income and Expenditure Statement in relation to loans and receivables and financial liabilities at amortised cost are as follows:

Financial Instruments Gains and Losses	2011/12	2012/13
	£000s	£000s
Interest and Investment Income	(714)	(354)
Interest Payable and Similar Charges	3,247	3,286
Total	**2,533**	**2,932**

f) Fair Value of Assets and Liabilities carried at Amortised Cost

Financial liabilities and financial assets are carried on the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that take place over the remaining life of the instruments, using the following assumptions:

- the new borrowing rates from the PWLB have been applied to provide the fair value of PWLB debts to ensure that the rate used to calculate fair value is a rate currently available from a comparable lender for the same loan;
- for market loans the prevailing rate of a similar instrument with a published market rate has been used, where this was unavailable the assumption above has been applied;
- loans from sources other than the PWLB and the market have not been assessed for fair value and are included in the calculation at the carrying amount. The amounts involved are considered to be immaterial and would have a minimal impact on the calculation of the fair value of the debt held;
- for loans receivable prevailing benchmark market rates have been used to provide the fair value;
- the fair value of trade and other receivables is taken to be the invoiced or billed amount; and
- a consistent approach has been applied to assets and liabilities.

Fair Value of Assets and Liabilities				
	31 March 2012		**31 March 2013**	
	Carrying Amount	**Fair Value**	**Carrying Amount**	**Fair Value**
	£000s	**£000s**	**£000s**	**£000s**
PWLB Debt	60,892	70,545	70,938	82,687
Non PWLB Debt	5,015	4,387	5,015	4,589
Total Financial Liabilities	**65,907**	**74,932**	**75,953**	**87,276**
Market loans < 1 year	40,706	39,194	10,535	10,587
Market loans > 1 year	0	0	0	0
Total Loans and Receivables	**40,706**	**39,194**	**10,535**	**10,587**

The fair value of the total financial liabilities is greater than the carrying amount because the Commissioner's portfolio of loans includes a number of fixed rate loans where the interest rate payable is higher than the rates available for similar loans in the market at the Balance Sheet date.

The differences between the carrying amount and the fair value of total loans and receivables are attributable to fixed interest instruments being held by the Commissioner whose interest rate is higher than the prevailing rate estimated to be available at 31 March. This increases the fair value of loans and receivables.

g) Impairment of Investments

When Heritable Bank entered administration in October 2008, the former Police Authority had £5.2m invested which was due to mature with interest by the end of 2008/09. The administrator is still running the business off and dividends are being paid quarterly.

The impaired investments are included in the current assets figure in the Balance Sheet at the present value of the expected repayments, discounted using the investments original interest rate.

To date dividends totalling £4.096m (77.28p in the pound) have been received, with the next dividend due in July 2013. The prospects for a full recovery are still good with the latest forecast from the administrators being at least a 90% return.

As there have been no material changes to the repayment expectations the impairment adjustment has not been amended during 2012/13.

h) Reconciliation of Loans and Receivables to Balance Sheet

Loans and Receivables	Principal	Impairment	Accrued Interest	Total
	£000s	£000s	£000s	£000s
Short-Term Investments				
Fixed term deposits	10,438	0	97	10,535
Impaired investment	1,142	(584)	0	558
Total Short-Term Investments	**11,580**	**(584)**	**97**	**11,093**
Short-term deposits - (cash equivalents)	9,027	0	11	9,038
Total	**20,607**	**(584)**	**108**	**20,131**

23. Employee benefits

Post-employment benefits

a) Defined Benefit Plan: Tyne and Wear Pension Fund

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

In 2012/13, the Commissioner paid £7.4m (£8.7m in 2011/12) to the Pension Fund in respect of pension contributions, representing 13% of pensionable pay (13% in 2011/12).

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 Commissioner'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 Commissioner recognises the cost of retirement benefits in the Cost of Services when they are earned by employees, rather than when the benefit is paid as pensions. However, the charge which is made against council tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out of the Comprehensive Income and Expenditure Statement as an appropriation. The following transactions have been made in the Comprehensive Income and Expenditure Statement during the year:

Charges to Comprehensive Income and Expenditure Statement				
	Funded Liabilities as at 31 March		Unfunded Liabilities as at 31 March	
	2012 £m	2013 £m	2012 £m	2013 £m
Current service cost	8.09	7.39	0	0
Past service cost	0	0	0	0
Loss on curtailments	(2.78)	(0.73)	0	0
Financing and Investment Income and Expenditure				
Interest cost	12.57	12.83	0.18	0.17
Expected return on assets	(12.62)	(12.03)	0	0
Total charge to Provision of Services	**5.26**	**7.46**	**0.18**	**0.17**
Other Comprehensive Income and Expenditure				
Actuarial (gain)/loss on assets and Liabilities	33.25	2.38	0.32	0.31
Total IAS 19 charge to Comprehensive Income & Expenditure Statement	**38.51**	**9.84**	**0.50**	**0.48**

The cumulative amount of actuarial gains and losses recognised in other Comprehensive Income and Expenditure is a loss of £93.75m.

Assets and Liabilities in Relation to Retirement Benefits

Reconciliation of the present value of the scheme liabilities				
	Funded Liabilities as at 31 March		Unfunded Liabilities as at 31 March	
	2012 £m	2013 £m	2012 £m	2013 £m
Opening present value of liabilities	**(232.82)**	**(265.94)**	**(3.47)**	**(3.75)**
Current service cost	(8.09)	(7.39)	0	0
Interest cost	(12.57)	(12.83)	(0.18)	(0.17)
Contributions by participants	(2.92)	(2.31)	0	0
Actuarial gains/(losses) on liabilities	(23.36)	(10.89)	(0.32)	(0.31)
Net benefits paid out	11.04	7.11	0.22	0.25
Past service cost	0	0	0	0
Loss on curtailments	2.78	0.73	0	0
Closing present value of liabilities	**(265.94)**	**(291.52)**	**(3.75)**	**(3.98)**

Reconciliation of the fair value of the scheme assets				
	Funded Liabilities as at 31 March		Unfunded Liabilities as at 31 March	
	2012 £m	2013 £m	2012 £m	2013 £m
Opening fair value of fund assets	**167.44**	**170.81**	**0**	**0**
Expected return on assets	12.62	12.03	0	0
Actuarial gains and (losses) on assets	(9.89)	8.51	0	0
Contributions by employer	8.76	6.80	0.22	0.25
Contributions by participants	2.92	2.31	0	0
Net benefits paid out	(11.04)	(7.11)	(0.22)	(0.25)
Closing fair value of fund assets	**170.81**	**193.35**	**0**	**0**

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		
	31 March 2012 £m	31 March 2013 £m
Present value of liabilities (funded)	265.94	291.52
Present value of liabilities (unfunded)	3.75	3.98
Net pension liability (funded)	(95.13)	(98.17)
Net pension liability (unfunded)	(3.75)	(3.98)
Fair value of assets	**170.81**	**193.35**

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 £20.54m (£2.73m gain in 2011/12).

The Tyne and Wear Pension Fund's assets consist of the following categories, by proportion of the total:

Analysis of fund assets				
	31 March 2012		31 March 2013	
	Asset Split	Rate of Return*	Asset Split	Rate of Return*
Equity investments	68.5%	8.1%	68.0%	7.8%
Property	9.2%	7.6%	9.0%	7.3%
Government bonds	7.1%	3.1%	7.0%	2.8%
Corporate bonds	11.6%	3.7%	11.0%	3.8%
Cash	1.9%	1.8%	1.6%	0.9%
Other assets**	1.7%	8.1%	3.4%	7.8%
	100.0%	**7.1%**	**100.0%**	**6.9%**

* These are long term rates of return. The overall expected rate of return is a weighted average of the individual expected rates of return on each asset class.

** This category includes hedge funds, currency holdings, asset allocation futures and other.

Scheme History Gains and Losses

The liabilities below show the underlying commitment that the Commissioner has to pay retirement benefits. The total liability has a substantial impact on the net worth of the Commissioner as recorded in the Balance Sheet, reducing the overall balance by £102.15m. 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:

History of asset values, present value of liabilities and surplus / deficit					
	2008/09	**2009/10**	**2010/11**	**2011/12**	**2012/13**
	£m	**£m**	**£m**	**£m**	**£m**
Present value of the defined benefit obligation					
- Funded liabilities	(175.99)	(247.91)	(232.82)	(265.94)	(291.52)
- Unfunded liabilities	(3.50)	(3.85)	(3.47)	(3.75)	(3.98)
Fair value of fund assets	104.75	151.65	167.44	170.81	193.35
Surplus / (deficit) in the scheme	**(74.74)**	**(100.11)**	**(68.85)**	**(98.88)**	**(102.15)**

History of Experience Gains and Losses

The actuary gains/losses identified as movement on the Pensions Reserve in 2012/13 can be analysed into the following categories, measured as a percentage of assets or liabilities as at 31 March 2013:

History of experience gains and losses					
	2008/09	**2009/10**	**2010/11**	**2011/12**	**2012/13**
Funded liabilities					
Experience gains / (losses) on assets					
- Amount (£m)	(31.40)	33.39	(2.28)	(9.87)	8.51
- Percentage of fund assets (%)	-30.0	22.0	-1.4	-5.8	4.4
Experience gains / (losses) on liabilities					
- Amount (£m)	(0.48)	1.53	4.53	(1.11)	0.32
- Percentage of present value of liabilities (%)	-0.3	0.6	1.9	-0.4	0.1
Unfunded liabilities					
Experience gains / (losses) on liabilities					
- Amount (£m)	(0.04)	0.12	0.03	(0.08)	0.01
- Percentage of present value of liabilities (%)	-1.1	3.1	0.9	-2.1	0.3

Expected Future Contributions

The expected contributions to be made to the Tyne and Wear Pension Fund by the Commissioner for the accounting period to 31 March 2014 are estimated to be £6.722m. In addition, strain on the fund contributions may be required as a result of voluntary redundancies and early retirements.

Actuarial Assumptions

Liabilities have been assessed on an actuarial basis using the projection unit method, 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

2010. The liabilities for unfunded benefits are based on an actuarial valuation which took place on 31 March 2004.

A building block approach is employed in determining the rate of return on fund assets. Historic markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The assumed rate of return on each asset class is set out in the assumption table below. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation for the fund at 31 March 2013.

Principal financial and actuarial assumptions				
	Funded Liabilities		Unfunded Liabilities	
	2011/12	2012/13	2011/12	2012/13
Financial Assumptions (% per annum)				
Discount rate	4.80%	4.60%	4.60%	4.10%
Rate of inflation (CPI)	2.60%	2.80%	2.40%	2.60%
Rate of inflation (RPI)	3.60%	3.70%	3.40%	3.50%
Rate of increase in salaries	5.10%	4.70%	n/a	n/a
Rate of increase to pensions in payment	2.60%	2.80%	2.40%	2.60%
Rate of increase to deferred pensions	2.60%	2.80%	n/a	n/a
Take-up of option to convert annual pension into retirement lump sum (post 31 March 2010)	75.0%	75.0%	n/a	n/a
Take-up of option to convert annual pension into retirement lump sum (pre 1 April 2010)	50.0%	50.0%	n/a	n/a
Mortality Assumptions				
Longevity at 65 for current pensioners:				
Men	21.6	21.7	21.6	21.7
Women	23.8	23.9	23.8	23.9
Longevity at 65 for future pensioners (currently aged 45):				
Men	23.4	23.5	n/a	n/a
Women	25.7	25.8	n/a	n/a

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

b) Defined Benefit Plan: Police Pension Schemes

The Police Pension Schemes are wholly unfunded final salary defined benefits schemes. Contributions and pensions are made to and paid from the Police Pension Fund, which is balanced to nil at the end of each financial year by receipt of a top-up pension grant from the Home Office. There are no investment assets built up to meet the pensions' liabilities and cash has to be generated by the Home Office to meet the actual pension payments as they eventually fall. The valuation has 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 2013. The transactions shown below have been made during the year:

Charges to Comprehensive Income and Expenditure Statement		
	31 March 2012 £m	31 March 2013 £m
Current service cost	61.97	59.77
Past service cost	0	0
Financing and Investment Income and Expenditure		
Pension interest cost	145.18	131.10
Total charge to Provision of Services	**207.15**	**190.87**
Other Comprehensive Income and Expenditure		
Actuarial gain/(losses) on assets and liabilities	(34.37)	249.23
Total IAS 19 charge to Comprehensive Income and Expenditure	**172.78**	**440.10**

The cumulative amount of actuarial gains and losses on liabilities recognised in Other Comprehensive Income and Expenditure is a loss of £1,062.6m.

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

Present Value of liabilities					
	2008/09 £m	2009/10 £m	2010/11 £m	2011/12 £m	2012/13 £m
Present value of liabilities	(1,782.98)	(2,725.65)	(2,549.82)	(2,682.62)	(3,082.96)
Surplus / (Deficit) in the Scheme	**(1,782.98)**	**(2,725.65)**	**(2,549.82)**	**(2,682.62)**	**(3,082.96)**

The history of experience gains and losses on the pension scheme' liabilities are shown below:

History of Experience gains and losses					
	2008/09	2009/10	2010/11	2011/12	2012/13
Experience gains / (losses) on the scheme liabilities					
Amount (£m)	71.67	0.41	6.48	94.41	95.59
Percentage of the liability at the year end (%)	4.02%	0.02%	0.25%	3.52%	3.10%
Total actuarial gains / (loss)					
Amount (£m)	280.56	(844.26)	48.12	6.79	(284.35)
Percentage of the liability at the year end (%)	15.74%	(30.97%)	1.89%	0.25%	(9.2%)

Reconciliation of the present value

Reconciliation of the present value of the scheme liabilities		
	31 March 2012	31 March 2013
	£m	£m
Opening present value of liabilities	**(2,549.82)**	**(2,682.62)**
Current service cost	(61.97)	(59.77)
Interest cost	(145.18)	(131.10)
Contributions by participants	(15.65)	(16.67)
Actuarial gains/(losses) on liabilities	6.79	(284.35)
Net benefits paid out	84.30	92.04
Transfers in	(1.09)	(0.49)
Past service cost	0	0
Loss on curtailments	0	0
Closing present value of liabilities	**(2,682.62)**	**(3,082.96)**

The Police Pension Scheme has no investment assets to cover its liabilities.

Reconciliation of the present value of the scheme assets		
	31 March 2012	31 March 2013
	£m	£m
Opening fair value of fund assets	**0**	**0**
Actuarial gains and (losses) on assets	27.58	35.12
Contributions by employer	39.98	39.76
Contributions by participants	15.65	16.67
Transfers in	1.09	0.49
Net benefits paid out	(84.30)	(92.04)
Closing fair value of fund assets	**0**	**0**

Expected Future Contributions

The expected contributions to be made to the Police Pension Schemes by the Commissioner for the accounting period to 31 March 2014 are estimated to be £37.323m, compared with £39.745m in 2012/13.

Actuarial Assumptions

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

Principal Financial and Actuarial Assumptions		
	2011/12	**2012/13**
Discount rate	4.90%	4.30%
Rate of inflation (CPI)	2.50%	2.50%
Rate of inflation (RPI)	3.60%	3.65%
Rate of increase in salaries	4.75%	4.75%
Rate of return in excess of:		
Earnings increases	0.20%	(0.43%)
Pension increases	2.30%	1.76%

Mortality assumptions		
	2011/12 (years)	**2012/13 (years)**
65 year old current pensioners:		
Men	23.3	23.4
Women	25.7	25.8
45 year old future pensioner at 65:		
Men	25.6	25.7
Women	27.8	27.9

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 large actuarial losses this year have been primarily caused by changes in the discount rate assumption from 4.9% last year to 4.3% this year. The change in yields on long-term corporate bonds have led to this fall. The table below sets out the sensitivity to the main assumptions.

Sensitivity to main assumptions		
Change in assumptions*		**Approximate effect on total liability**
Rate of return		
(i) in excess of earnings:	- ½ % a year	+ 2 ½ %
(ii) in excess of pensions	- ½ % a year	+ 7 ½ %
Pensioner mortality		
(iii) pensioner living (on average) 2 years longer		+ 4 %

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

24. Trust Funds

The Commissioner holds funds on behalf of others as identified below which are excluded from the accounts:

Trust Funds		
2011/12 £000s		**2012/13 £000s**
(94)	Commissioner charities	(87)
(645)	Proceeds of Crime Act 2002	(825)
(739)		**(912)**

25. Events after the Balance Sheet date

National Police Air Service (NPAS)

The National Police Air Service, a national collaboration of operational air support for police forces, was introduced nationally from October 2012, with Northumbria joining in April 2013. This will replace the local arrangements delivered through the North East Air Support Unit and will be fully reflected in the 2013/14 statement of accounts. Assets transferred to the Police and Crime Commissioner for West Yorkshire, who is hosting

NPAS, on 1 April 2013. An annual contribution is made by Northumbria for the provision of an agreed air support service.

26. Authorisation of accounts for issue

The Commissioner's Statement of Accounts for the financial year ended 31 March 2013 was approved by the Commissioner and authorised for issue on 17 September 2013.

Part 3:

Police and Crime Commissioner Group Financial Statements

Comprising:

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

Movement in Reserves Statement 2012/13

See the Movement in Reserves Statement for the Police and Crime Commissioner (Page 16). As all reserves are held by the Commissioner, this statement represents the Commissioner's and the Group's position

Comprehensive Income and Expenditure Statement - Group

Restated 2011/12 Gross Expenditure	Restated 2011/12 Income	Restated 2011/12 Net Expenditure		2012/13 Gross Expenditure	2012/13 Income	2012/13 Net Expenditure	Notes
£000s	£000s	£000s		£000s	£000s	£000s	
194,161	(14,070)	180,091	Local Policing	193,596	(15,074)	178,522	
18,603	(376)	18,227	Dealing with the public	18,237	(113)	18,124	
22,564	(1,416)	21,148	Criminal Justice Arrangements	19,951	(1,509)	18,442	
12,733	(1,993)	10,740	Roads Policing	12,032	(2,141)	9,891	
21,740	(2,442)	19,298	Specialist Operations	18,789	(1,659)	17,130	
18,896	(334)	18,562	Intelligence	17,854	(257)	17,597	
48,551	(1,423)	47,128	Specialist Investigations	46,084	(1,249)	44,835	
6,363	(91)	6,272	Investigative Support	5,460	(12)	5,448	
3,152	(2,796)	356	National Policing	4,397	(4,520)	(123)	
2,151	0	2,151	Corporate and Democratic Core	2,158	0	2,158	
(2,780)	0	(2,780)	Non Distributed Costs – curtailment gain	(730)	0	(730)	
346,134	**(24,941)**	**321,193**	**Net Cost of Services**	**337,828**	**(26,534)**	**311,294**	
		(479)	Other Operating Expenditure			376	
		147,814	Financing and Investment Income and Expenditure			134,949	
		(290,270)	Taxation and Non-Specific Grant Income			(275,487)	
		178,258	**(Surplus) or Deficit on Provision of Services**			**171,132**	
		(3,879)	(Surplus) or deficit on revaluation of non-current assets			(2,593)	
		(802)	Actuarial (gains) or losses on pension assets and liabilities			251,918	
		(4,681)	**Other Comprehensive Income and Expenditure**			**249,325**	
		173,577	**Total Comprehensive Income and Expenditure**			**420,457**	

Balance Sheet - Group

31/03/12 £000s		31/03/13 £000s	Notes*
101,698	Property, plant & equipment	114,161	
1,137	Investment property	653	
615	Intangible assets	342	
103,450	**Long-term assets**	**115,156**	
22,863	Short-term investments	11,093	
1,579	Assets held for sale	732	
650	Inventories	612	
19,377	Short-term debtors	19,744	5
17,519	Cash and cash equivalents	9,187	
61,988	**Current Assets**	**41,368**	
(1,527)	Bank overdraft	(2,077)	
(167)	Short-term provisions	(158)	
(5,774)	Short-term borrowing	(2,822)	
(31,930)	Short-term creditors	(29,616)	6
(39,398)	**Current Liabilities**	**(34,673)**	
(2,980)	Long-term provisions	(2,839)	
(60,133)	Long-term borrowing	(73,130)	
(2,781,493)	Other long-term liabilities (pensions)	(3,185,110)	
(816)	Capital grants receipts in advance	(611)	
(2,845,422)	**Long-Term Liabilities**	**(3,261,690)**	
(2,719,382)	**Net Assets**	**(3,139,839)**	
(26,635)	General Fund	(21,645)	
	Earmarked Reserves		
(11,005)	Capital Development Reserve	(7,478)	
(3,000)	Workforce Management Reserve	(1,791)	
(295)	Devolved Budget Reserve	(160)	
(3,000)	Insurance Reserve	(3,000)	
0	External Funding Reserve	(653)	
(1,000)	Airwave Reserve	0	
(286)	Air Support Unit Reserve	(214)	
(140)	Capital Receipts Reserve	(57)	
(343)	Capital Grants Unapplied	(161)	
(45,704)	**Total usable reserves**	**(35,159)**	
2,765,086	**Total unusable reserves**	**3,174,998**	
2,719,382	**Total Reserves**	**3,139,839**	

* See notes in Commissioner's Statements if separate notes are not identified

Cash Flow Statement - Group

2011/12 £000s		2012/13 £000s
178,258	**(Surplus) or deficit on the provision of services**	171,132
	Adjustments to surplus or deficit on the provision of service for non-cash movements:	
(9,377)	Depreciation of non-current assets	(8,538)
(167)	Impairment/downward valuation of non-current assets	(4,744)
(319)	Amortisation of intangible non-current assets	(300)
(147,708)	Pension adjustments	(151,699)
(129)	(Increase)/decrease in impairment for provision for bad debts	103
3,887	Contributions to provisions	150
(615)	Carrying amount of PP&E, investment property and intangible assets sold	(1,303)
220	Other non-cash movement	(1,226)
(154,208)		(167,557)
	Accruals Adjustments:	
11	(Decrease)/increase in inventories	(38)
11,544	(Decrease)/increase in debtors	387
(234)	(Decrease)/increase in interest debtors	(2)
(9,477)	Decrease/(increase) in creditors	3,452
(54)	Decrease/(increase) in interest creditors	(49)
1,790		3,750
	Adjustments for items included in the net surplus or deficit on the provision of service that are investing or financing activities:	
1,106	Proceeds from the disposal of PP&E, investment property and intangible assets	934
2,851	Capital grants credited to surplus or deficit on the provision of services	3,554
3,957		4,488
	Reversal of operating activity items included in the net surplus or deficit on the provision of service that are shown separately below:	
(2,246)	Reversals of amounts disclosed separately below	(2,932)
	Cash Flows from Operating Activities includes the following items:	
3,194	Interest paid	3,237
(948)	Interest received	(357)
2,246		2,880
29,797	**Net cash flows from operating activities**	11,761

Cash Flow Statement – Group (continued)

2011/12 £000s		2012/13 £000s
	Net Cash Flows from Investing Activities:	
18,972	Purchase of PP&E, investment property and intangible assets	23,151
396,726	Purchase of short term and long term investments	390,793
120	Other payments for investing activities	204
(1,106)	Proceeds from the sale of PP&E, investment property and intangible assets	(927)
(452,481)	Proceeds from the sale of short term and long term investments	(402,549)
(2,752)	Capital Grants Received (government)	(3,481)
(99)	Capital Grants Received (non-government)	(73)
(40,620)	**Net cash flows from investing activities**	7,118
	Net cash flows from Financing Activities:	
(13,000)	Cash receipts of short and long term borrowing	(10,000)
8,398	Repayment of short and long term borrowings	3
(4,602)	**Net cash flows from financing activities**	(9,997)
(15,425)	**Net (increase)/ decrease in cash and cash equivalents**	8,882
567	**Cash and cash equivalents at the beginning of the period**	**15,992**
15,992	**Cash and cash equivalents at the end of the period**	**7,110**

Notes to the Group's Financial Statements

Notes for the Commissioner's Accounts are set out on pages 22 to 67. The following are provided for areas where different notes apply to the Group's financial statements.

1. Accounting Policies

The accounting policies relevant to the Group Accounts are those shown for the Commissioner's Single Entity Accounts.

2. Prior period adjustments

An amendment has been made in the financial statements of the Commissioner in relation to the expenditure classified as Corporate and Democratic Core and an adjustment has been made to the classification of expenditure relating to Serious and Organised Crime to enable meaningful comparisons to be made between financial years. The adjustments have no impact on the Net cost of services or the Surplus on the Provision of Services within the Comprehensive Income and Expenditure Statement but impact on the classification of service expenditure within the Net Cost of Police Services. The changes to the Comprehensive Income and Expenditure Statement above Net Cost of Services are set out below:

Prior Period Adjustments
(Comprehensive Income and Expenditure Statement 2011/12)

	Original 2011/12	Re-classification	Corporate & Democratic Core adjustment	**Restated 2011/12**
	£000s	£000s	£000s	**£000s**
Local Policing	180,282		(191)	180,091
Dealing with the Public	18,328		(101)	18,227
Criminal Justice Arrangements	21,250		(102)	21,148
Roads Policing	10,780		(40)	10,740
Specialist Operations	19,361		(63)	19,298
Intelligence	21,724	(2,990)	(172)	18,562
Specialist investigations	44,203	2,990	(65)	47,128
Investigative Support	6,293		(21)	6,272
National Policing	366		(10)	356
Police Services	**322,587**	**0**	**(765)**	**321,822**
Corporate & Democratic Core	1,386	0	765	2,151
Non Distributed Costs: curtailment gain from redundancies	(2,780)	0	0	(2,780)
Net Cost of Service	**321,193**	**0**	**0**	**321,193**

3. Audit Fees

The Group has incurred the following costs in relation to work carried out by the Group's external auditors (Mazars 2012/13, Audit Commission 2011/12):

Auditors' Fees		
2011/12 £000s		2012/13 £000s
92	Fees payable to external auditors with regard to services carried out by the appointed auditor	80
92	**Total**	**80**

4. Officers' 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 2012/13 and the equivalent disclosure for 2011/12.

Numbers of Employees earning over £50,000		
Remuneration Band	**Number of Employees**	
	2011/12	**2012/13**
£50,000 - £54,999	136	110
£55,000 - £59,999	95	85
£60,000 - £64,999	13	11
£65,000 - £69,999	4	2
£70,000 - £74,999	5	3
£75,000 - £79,999	11	9
£80,000 - £84,999	13	14
£85,000 - £89,999	9	6
£90,000 - £94,999	0	3
£95,000 - £99,999	1	0

Remuneration of the senior employees of the Commissioner and senior police officers is disclosed in the following tables. The statutory posts of Chief Executive and Monitoring Officer, and Treasurer were provided by employees of Gateshead Council up to 28 March 2013. Remuneration received by these officers is not disclosed here but is available in Gateshead Council's Statement of Accounts.

Remuneration of Senior Employees 2012/13

Post holder information	Notes	Salary (Including fees & allowances) £	Benefits in Kind £	Total remuneration excluding pension contributions £	Pension contributions £	Total Remuneration 2012/13 £
Chief Constable - Sue Sim		159,514	4,762	**164,276**	37,935	**202,211**
Deputy Chief Constable – A		127,354	14,950	**142,304**	29,580	**171,884**
Deputy Chief Constable - B	**1**	8,300	524	**8,824**	1,964	**10,788**
Assistant Chief Constable – A	**2**	109,092	6,287	**115,379**	25,525	**140,904**
Assistant Chief Constable – B		108,523	8,089	**116,612**	0	**116,612**
Assistant Chief Constable – C		106,604	3,927	**110,531**	24,805	**135,336**
Assistant Chief Officer, Corporate Services		91,339	7,363	**98,702**	11,874	**110,576**
Assistant Chief Officer, Finance & Resources	**3**	48,430	4,749	**53,179**	125,991	**179,170**
Director of Finance (Chief Finance Officer)	**4**	26,142	35	**26,177**	3,399	**29,576**
Police and Crime Commissioner	**5**	30,458	0	**30,458**	3,960	**34,418**
Deputy Police and Crime Commissioner	**6**	22,856	0	**22,856**	0	**22,856**
Chief Executive & Monitoring Officer	**7**	464	0	**464**	60	**524**
Total		**839,076**	**50,686**	**889,762**	**265,093**	**1,154,855**

Note 1: Deputy Chief Constable B started in post 25 March 2013
Note 2: Assistant Chief Constable was in post until 24 March 2013 when he filled the Deputy Chief Constable’s post
Note 3: Assistant Chief Officer, Finance & Resources took early retirement on 31 October 2012. The Pension contributions include £119,695 strain on fund payment to the Pension Fund.
Note 4: Director of Finance became the statutory post of Chief Finance Officer for the Chief Constable on 22 November 2012. He became Treasurer to the Police and Crime Commissioner on 29 March 2013 but received no remuneration for the role.
Note 5: Police and Crime Commissioner took office on 22 November 2012
Note 6 Deputy Police and Crime Commissioner started in post 22 November 2012
Note 7 Chief Executive & Monitoring Officer started in post 29 March 2013

Remuneration of Senior Employees 2011/12						
Post holder information	**Notes**	**Salary (Including fees & allowances) £**	**Benefits in Kind £**	**Total remuneration excluding pension contributions £**	**Pension contributions £**	**Total Remuneration 2011/12 £**
Chief Constable – Sue Sim		159,484	4,105	**163,589**	37,942	**201,531**
Deputy Chief Constable	**1**	76,999	4,549	**81,548**	17,884	**99,432**
Temporary Deputy Chief Constable	**2**	57,351	2,219	**59,570**	13,241	**72,811**
Assistant Chief Constable - A	**3**	60,677	2,219	**62,896**	14,346	**77,242**
Temporary Assistant Chief Constable - B	**4**	47,212	1,975	**49,187**	10,765	**59,952**
Assistant Chief Constable – C		108,468	5,822	**114,290**	25,534	**139,824**
Assistant Chief Constable – D		98,315	5,042	**103,357**	23,214	**126,571**
Assistant Chief Officer, Finance & Resources		91,339	7,776	**99,115**	11,874	**110,989**
Assistant Chief Officer, Corporate Services		91,339	8,347	**99,686**	11,874	**111,560**
Total		**791,184**	**42,054**	**833,238**	**166,674**	**999,912**

Note 1: Deputy Chief Constable started in post 30 August 2011
Note 2: Temporary Deputy Chief Constable in post until 29 August 2011
Note 3: Assistant Chief Constable in post from 30 August 2011
Note 4: Temporary Assistant Chief Constable left post 13 September 2011

Exit packages 2012/13				
	Number of other departures	Number of compulsory redundancies	Total number of departures	Total cost of exit packages in each band £000s
£0 - £20,000	47	11	58	425
£20,001 - £40,000	8	1	9	221
£40,001 - £60,000	1	0	1	45
£60,001 - £80,000	3	0	3	203
£80,001 - £100,000	2	0	2	177
£100,001 - £150,000	1	0	1	120
Total Group	**62**	**12**	**74**	**1,191**

The table above shows the total number and cost of exit packages for which the Commissioner became demonstrably committed to during the year ending 31 March 2013. The number of voluntary redundancies includes early retirements.

In 2010/11, the former Police Authority agreed a voluntary redundancy programme and became demonstrably committed to a reduction of police staff posts. The 2011/12 Statement of Accounts noted 491 staff (448 fte) leaving the Authority with an exit package between February 2011 and April 2012 at a total cost of £11.4m.

A further specific Workforce Management Reserve totalling £3m was provided to fund the workforce strategy over the remainder of the Comprehensive Spending Review period. In 2012/13, a total of 74 (67.12fte) staff left the organisation with an exit package at a total cost of £1.191m, leaving the remainder of the reserve available for future years.

5. Debtors

These amounts represent sums due from a number of sources, such as other local authorities and government departments. It may also include payments in advance, such as invoices spanning financial periods.

The bad debt provision includes £1.382m in relation to the Group's share of the local collection authorities' council tax provisions for bad debts.

Short–term Debtors		
31 March 2012 £000s		**31 March 2013 £000s**
12,780	Central government bodies	12,665
0	NHS bodies	10
5,766	Other local authorities	4,956
0	Other public bodies	371
2,364	Bodies external to general government	3,172
(1,533)	- less bad debt provision	(1,430)
19,377		**19,744**

6. Creditors

These amounts represent sums owed to a number of sources, such as other local authorities and government departments, as well as short-term borrowing disclosed separately.

Creditors		
31 March 2012 £000s		**31 March 2013 £000s**
(5,051)	Central government bodies	(5,162)
(17)	NHS bodies	(119)
(4,073)	Other local authorities	(3,765)
(28)	Public corporations and trading funds	(5)
(22,761)	Bodies external to central government	(20,565)
(31,930)		**(29,616)**

Under International Accounting Standard 19, the Commissioner has a long-term liability in relation to future pension commitments. More details are provided in Note 23 to the Commissioner's accounts.

7. Employee Benefits

Benefits payable during employment

The table below shows the cost of holiday entitlements and lieu time earned by police officers and police staff but not taken by the year-end:

Benefits payable during employment		
2011/12 £000s		**2012/13 £000s**
5,075	Local Policing	5,744
181	Dealing with the Public	428
245	Criminal Justice Arrangements	465
360	Roads Policing	341
548	Specialist Operations	498
591	Intelligence	522
1,213	Specialist Investigations	1,385
12	Investigative Support	61
79	National Policing	111
8,304	**Total employee benefits accrued at the Balance Sheet date**	**9,555**

Annual Governance Statement

Scope of Responsibility

1. The Police and Crime Commissioner for Northumbria (the PCC) is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The OPCC also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

2. In discharging this overall responsibility, the PCC is responsible for putting in place proper arrangements for the governance of her office's (the OPCC) affairs facilitating the effective exercise of its functions, which includes ensuring a sound system of internal control is maintained through the year and that arrangements are in place for the management of risk.

3. The PCC has carried out an annual review of its governance arrangements which is consistent with the principles of the CIPFA/SOLACE Framework *Delivering Good Governance in Local Government*.

4. This statement explains how the PCC has complied with these principles and meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2011.

The Purpose of the Governance Framework

5. The governance framework comprises the systems and processes, and culture and values, by which the OPCC is directed and controlled and its activities through which it accounts to, engages with and responds to the needs of local communities. It enables the PCC for Northumbria to monitor the achievement of her strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services, within agreed financial targets, including achieving value for money.

6. The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the PCC's policies, aims and objectives, to evaluate the likelihood and impact of those risks being realised and to manage them efficiently, effectively and economically.

7. The governance framework has been in place at the OPCC for the year ended 31 March 2013 and up to the date of approval of the statement of accounts.

The Governance Framework

8. Under the Police Reform & Social Responsibility Act 2011, the PCC for Northumbria replaced the Northumbria Police Authority on 22nd November 2012. All assets, liabilities, staff, contracts and reserves transferred from the Authority to the PCC on this date. Both the former Authority and subsequently the PCC are required to hold the Chief Constable to account for the exercise of operational policing functions and those of the persons under her direction and control. It therefore follows that the PCC must satisfy herself that the Chief Constable has appropriate mechanisms in place for the maintenance of good governance, and that these operate in practice effectively. The assurance derived from the Chief Constable's arrangements therefore directly support this statement for the PCC.

9. Public opinion, national priorities, force performance and information on crime and future trends are reviewed together as part of a Strategic Assessment, which identifies priority areas for Northumbria Police. The findings of the Strategic Assessment contributed directly to the development of the Force Objectives and Actions as set out in the Local Policing Plan 2012-2013 which was agreed by Members of the Authority on 14th March 2012.

10. The Scrutiny Committee monitored performance against the 2012/13 Local Policing Plan on a quarterly basis up until 22nd November 2012. After this date, performance was 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.

11. Following the election of the PCC for Northumbria a Police and Crime Plan for 2013-18 was developed and agreed with the Police and Crime Panel. This is set around the five local police and crime objectives of: -

    - Putting victims first
    - Dealing with anti-social behaviour
    - Domestic and sexual abuse
    - Reducing Crime
    - Community Confidence

12. The Plan also aims to support national policing priorities as set out in the Strategic Policing Requirement. 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.

13. The Police Reform & Social Responsibility Act 2011 also led to the formation of the Northumbria Police and Crime Panel to scrutinise and support the PCC in the effective exercise of her functions. The Panel is comprised of twelve local authority councillors, two from each of the six authorities in the Northumbria policing area, and two independent members. A Relationship Protocol between the PCC, Chief Constable and the Police and Crime Panel was agreed following the election and this sets out the mutual expectations and responsibilities needed to promote and enhance local policing through effective working relationships of all parties.

14. In accordance with the Elected Local Policing Bodies (Complaints and Misconduct) Regulations 2012, the Police and Crime Panel will investigate any complaints about the Police and Crime Commissioner. The Panel agreed on 6th February 2013 a complaints procedure and determined that any complaints about the Police and Crime

Commissioner or the Deputy Police and Crime Commissioner will be dealt with, in the first instance, by the Chief Executive of the Police and Crime Commissioner. An independent Scrutiny Panel is also being established during 2013/14 to review police complaints and highlight areas of good practice in policing. Prior to November 2012 the former Authority had a complaints and whistleblowing policy in place under the responsibility of the Monitoring Officer. The PCC and her deputy publish all disclosable interests, a register of gifts and hospitality and business expenses on the PCC's website.

15. Policy and decision making arrangements prior to November 2012 were facilitated by a framework of delegation as set out in the Standing Orders and the Financial Regulations of the Authority. Following the election of the PCC all policies and procedures of the former Authority were initially adopted pending the completion of reviews to reflect the new arrangements and this continued to be the position as at 31st March 2013. An updated framework, including the Commissioner's Delegations to Officers, Financial and Contract Regulations, Consents and Governance Structures and Procedures was formally adopted by the PCC on 12th April 2013 and published on the website.

16. Strategic risk management is being reviewed and addressed from the perspective of both the PCC and Force, with an emphasis on shared objectives, risks and an integrated approach across the Police Service.

17. Risk management was embedded into the culture of the Authority through a Corporate Risk Management Policy which included the requirement to identify strategic and operational risks, assess those risks for likelihood and impact, identify mitigating controls and allocate responsibility for those controls. Operational risks facing the PCC are currently being reviewed to reflect the new governance arrangements including the relocation of the OPCC from Gateshead Civic Offices to Victory House in North Tyneside.

18. The Authority's Audit and Improvement Committee received quarterly reports on risk management up until 22nd November 2012 and looking forward this responsibility is included within the terms of reference of the new Joint Independent Audit Committee of the PCC and Chief Constable.

19. Up until November 2012 the Treasurer to the Authority was designated as the responsible officer for the administration of Northumbria Police Authority's financial affairs under section 151 of the Local Government Act 1972. Following the election the Authority's Treasurer was appointed as an advisor to the PCC. These positions both included ensuring the lawfulness and financial prudence of decision-making; providing advice, particularly on financial impropriety, publicity and budget issues and giving financial information. It also extended to ensuring the financial arrangements in place conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010). With effect from 29th March 2013 the Chief Constable's Director of Finance has also acted as Treasurer to the PCC on an interim basis.

20. The Authority's Audit and Improvement Committee carried out the functions of an Audit Committee up to November 2012; its terms of reference included it to consider both the external and internal audit plan and activity with a specific brief to independently contribute to the overall process of ensuring that an effective internal control environment was in place in the Authority. The new Joint Independent Audit Committee of the PCC and Chief Constable was established during 2012/13 in line with the

requirements of the Home Office's Financial Management Code of Practice and monitors internal control, risk and governance issues relating to both the PCC and Force.

21. The Authority maintained an independent Internal Audit Service and the same provider was engaged to continue delivery of the 2012/13 Internal Audit Plan since November 2012. The Internal Audit Service is required to objectively examine, evaluate and report upon the adequacy of the control environment as a contribution to the proper, economic, efficient and effective use of the PCC and Chief Constable's resources. This is achieved through the delivery of a risk based annual audit plan which is monitored by the Joint Independent Audit Committee on a quarterly basis. The Chief Internal Auditor also prepares an annual report based on the work of the Internal Audit Service which provides an independent and objective opinion on the control environment of the Authority, PCC and Chief Constable based on the work undertaken by the Internal Audit Service throughout 2012/13.

22. The Authority was pro-active in its approach to community engagement with all stakeholders. The aim was to ensure all local people were well informed about the Authority; actively involved in influencing what happens in their local area and ensuring delivery of the policing services that meet the needs of local people. Since November 2012 the PCC has undertaken extensive consultation to help shape the priorities in the Police and Crime Plan. This has included input from over forty voluntary and community groups through the Voluntary Organisations' Network North East (VONNE), the Safer Community Safety Survey, over 3,500 responses to the PCC's online survey, input from the Community Safety Partnerships, the establishment of advisory groups representing each of the communities protected under the Equality Act 2010 and a group to represent the views specifically of the victims of crime.

Review of Effectiveness

23. The PCC has responsibility for conducting, at least annually, a review of the effectiveness of the governance framework, including the system of internal control. The review for 2012/13 was undertaken by the Joint PCC and Chief Constable Monitoring Group meeting on 3rd June 2013. The joint group provides assurance to the PCC by providing her with an oversight of the review of the Chief Constable's governance arrangements in addition to her own.

24. The review has been primarily completed and informed by the work of Authority Members, the Chief Executive & Solicitor, the Chief Constable, the Treasurer & Director of Finance, the Head of Legal Services, the Chief Internal Auditor and senior managers within the Force who have the responsibility for the development and maintenance of the governance environment. In addition comments made by external auditors and other review agencies and inspectorates have informed this review.

25. The review of the effectiveness of governance arrangements has been and will continue to be informed by:

- The work of Senior Managers;
- The effectiveness and work of Internal Audit, incorporating the Internal Audit provider and the Joint Independent Audit Committee.
- Corporate Risk Management arrangements;
- Performance Management and Data Quality information;
- The external auditors in their annual audit letter and other inspectorate reports;

- Assurance from the Chief Executive on the operation of the PCC's Legal and Regulatory Framework;
- Assurance from the Treasurer on the operation of the PCC's financial controls, and
- Partnerships arrangements with third party organisations.

26. The Authority's Code of Governance set out the role of Northumbria Police Authority as follows:

    - Listen to local people, and deal with issues that matter to them and their community;
    - Make sure that performance improves each year and tell local people about it;
    - Provide a police service that reflects the communities it serves and treats everyone fairly, regardless of who they are;
    - Talk to local people, and deal with the issues that matter to them and their community; and
    - Be open and honest in all that we do.

27. The Authority's Code of Governance was reviewed annually and last approved by Members on 14th March 2012. The PCC in conjunction with the Chief Constable is currently reviewing the need for a Local Code of Governance to draw together all relevant policies and procedures and to reflect the new governance arrangements since November 2012.

28. The Chief Internal Auditor reports on an operational basis to the Treasurer, but in order to ensure independence has direct access to the PCC, Chief Constable, Chair of Joint Independent Audit Committee and Chief Executive. A review of the effectiveness of Internal Audit, incorporating the Internal Audit provider and the Joint Independent Committee, has been undertaken and was reported to the Joint Independent Audit Committee of 10th June 2013. This review included ensuring compliance with the CIPFA Statement on the Role of the Head of Internal Audit. This concluded that the PCC's system of internal audit is considered to be effective, which in turn allows the opinion of the Chief Internal Auditor to be relied upon.

29. The Chief Internal Auditor provides an independent opinion on the adequacy and effectiveness of the system of internal control and governance arrangements, which is incorporated in the Annual Internal Audit Report to the Joint Independent Audit Committee. The Annual Internal Audit Report for 2012/2013, which was presented to the Committee on 10th June 2013 concluded that, based on the work undertaken, the PCC's internal control systems and governance arrangements are considered to have worked effectively in practice but with some actions for improvement as set out below.

30. The Annual Corporate Risk Management Report was presented to the Joint Independent Audit Committee on 10th June 2013, in which it was concluded that risk management arrangements are effective.

31. Area Commanders and Heads of Departments have carried out self-assessments of the processes and controls they have in place to allow them to achieve their service objectives. A report was submitted to the Joint Independent Audit Committee on 10th June 2013, which concluded that based on their self-assessments Area Commanders and Heads of Department, agreed that effective controls and governance arrangements were in place.

32. Regular reports on performance management information and data quality have been considered by the Scrutiny Committee over the course of the year and have been subsequently monitored by the PCC through her attendance at the Force's Strategic Management Board.

33. Assurance on the effectiveness of the former Authority's legal and regulatory framework has been provided by the Monitoring Officer who had a legal duty to ensure the lawfulness and fairness of decision-making within the Authority. Since 29th March 2013 this assurance role for the PCC has been undertaken by the Chief Executive with specialist legal advice being received from the Force's legal representatives as required. This has highlighted no areas of non-compliance.

34. Assurance on the effectiveness of the former Authority's and PCC's financial controls has been provided by the Treasurer who was designated as the responsible officer for the administration of financial affairs under section 151 of the Local Government Act 1972. As stated above, since 29th March 2013 the Chief Constable's Director of Finance has also acted as Treasurer to the PCC on an interim basis. Systems are in place to ensure the lawfulness and financial prudence of decision-making and to fully discharge the responsibilities of the role. The financial arrangements in place conform to the governance requirements of the CIPFA Statement on the Role of the Chief Financial Officer in Local Government (2010).

35. Area Commanders and Heads of Department have reviewed key partnerships following an exercise carried out by the Chief Constable. Area Commanders and Heads of Departments have also been required to provide assurance on partnership governance arrangements through self-assessments. The PCC and Force continue to work together in strengthening the approach to working in partnership. All Community Safety Partnerships carry out regular self assessments against the Home Office 'Hallmarks of Effective Practice' guidance which includes governance, communications and strategic planning. From this work it was concluded that governance arrangements for partnerships were operating effectively.

36. The results of the review of the PCC's governance arrangements, including the internal control environment, have concluded that arrangements operated effectively throughout 2012/13.

37. The Joint Independent Audit Committee have advised on the implications of the result of the review of the effectiveness of the governance framework and that the arrangements continue to be regarded as fit for purpose in accordance with the governance framework. The areas already addressed and those to be specifically addressed jointly by the Chief Constable and PCC are outlined below.

- A review of compliance by the PCC of governance arrangements in place against the requirements as set out in *CIPFA's "Delivering Good Governance – A Guidance Note for Police Authorities"*.
- Continue to review the current Financial and Contract Regulations to ensure they remain appropriate and fully reflective of the different governance regimes that are in place.
- Finalise the Joint Strategic Risk Register covering both the PCC and Chief Constable and arrangements for its reporting to both senior officers and the Joint Independent Audit Committee.
- Identify the training and development requirements of members of the Joint Independent Audit Committee and arrange an appropriate programme to be delivered during 2013/14.

38. By November 2013 the above matters will have been reviewed to further enhance our governance arrangements and address the need for improvements that were identified in our review of effectiveness. The implementation and operation of changes will be monitored as part of our next annual review.

Signed ....

Police and Crime Commissioner

Date: 27 June 2013

Signed ....

Interim Chief Executive

Date: 27 June 2013

Signed ....

Interim Treasurer

Date: 27 June 2013

Independent Auditor’s Report

Opinion on the financial statements

We have audited the financial statements of the Police and Crime Commissioner for Northumbria for the year ended 31 March 2013 under the Audit Commission Act 1998. The financial statements comprise the PCC and Group Movement in Reserves Statement, the PCC and Group Comprehensive Income and Expenditure Statement, the PCC and Group Balance Sheet, the PCC and Group Cash Flow Statemen*t* 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 2012/13.

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

Respective responsibilities of the Treasurer and auditor

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

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Police and Crime Commissioner’s and Group’s circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Treasurer; 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 Police and Crime Commissioner for Northumbria as at 31 March 2013 and of its expenditure and income for the year then ended;
- give a true and fair view of the financial position of the Group as at 31 March 2013 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 2012/13.

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;
- 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

Other matters on which we are required to conclude

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Police and Crime Commissioner has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We have undertaken our audit in accordance with the Code of Audit Practice and, having regard to the guidance issued by the Audit Commission in November 2012, we have considered the results of the following:

- our review of the annual governance statement;
- the work of other relevant regulatory bodies or inspectorates, to the extent the results of the work have an impact on our responsibilities;
- our locally determined risk-based work on transition from the police authority.

As a result, we have concluded that there are no matters to report.

Certificate

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

Steve Nicklin

For and on behalf of Mazars LLP, Appointed Auditors

The Rivergreen Centre
Aykley Heads
Durham, DH1 5TS

30 September 2013

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. For example, an accounting policy for a particular type of expenditure may specify whether an asset or a loss is to be recognised; the basis on which it is to be measured; and where in the comprehensive income and expenditure statement or Balance Sheet it is to be presented.

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.

Acquired operations are those operations of the Commissioner that are acquired in the period.

Actuarial gains and losses: for a defined benefit pension scheme, the changes in actuarial deficits or surpluses that arise because:

- events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses); or
- the actuarial assumptions have changed.

Amortisation is the process of writing-off an intangible asset over its projected life. It is analogous to depreciation of tangible non-current assets.

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 the Commissioner and the services it provides for a period of more than one year (e.g. land and buildings).

Assets held for sale are non-operational assets that meet the following criteria:

- They are available for immediate sale in their present condition subject to terms that are usual and customary for sales of such assets (or disposal groups).
- The sale is highly probable, with the Commissioner committed to a plan to sell the asset
- An active programme to locate a buyer and complete the plan has been initiated
- The asset (or disposal group) must be actively marketed for a sale at a price that is reasonable in relation to its current fair value. The sale should be expected to qualify for recognition as a completed sale within one year of the date of classification and action required to complete the plan should indicate that it is unlikely that significant changes to the plan will be made or that the plan will be withdrawn.

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

Capital Adjustment Account: This account shows various transactions in relation to capital expenditure. It accommodates write outs on disposal and downward revaluations in excess of the balance on the revaluation reserve. It also includes accounting entries such as depreciation over MRP, capital financing entries and Government Grants Deferred amortisation.

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.

Capital expenditure is expenditure on the acquisition of a non-current asset or expenditure which adds to and not merely maintains the value of an existing non-current asset.

Capital receipts are proceeds from the sale of the Commissioner's buildings or from the repayment of loans and advances.

Cash comprises cash in hand and demand deposits.

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

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.

Constructive obligation is an obligation that derives from an entity's actions where:
by an established pattern of past practice, published policies or a sufficiently specific current statement, the authority has indicated to other parties that it will accept certain responsibilities, and as a result, the authority has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

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 Commissioner'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 Commissioner'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 democratic representation, governance and management by the office of the Commissioner. Corporate Management costs concerns those activities and costs that provide the infrastructure that allows services to be provided and the information that is required for public accountability, for example, treasury management 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 the Commissioner for goods and services supplied but where payment has not been received at the end of the financial year.

Deferred liabilities are liabilities that should have been paid to an individual or an organisation during the year but have been deferred to a later date.

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.

Depreciation is the systematic allocation of the depreciable amount of a non-current asset over its useful life, and reflects the economic benefits consumed by the asset during the period.

Discontinued operations are those that meet all of the following conditions:

(a) The termination of the operation is completed either in the period or before the earlier of three months after the commencement of the subsequent period and the date on which the financial statements are approved.

(b) The activities related to the operation have ceased permanently.

(c) The termination of the operation has a material effect on the nature and focus of the local authority's operations and represents a material reduction in its provision of services resulting either from its withdrawal from a particular activity (whether a service or division of service or its provision in a specific geographical area) or from a material reduction in net expenditure in the Commissioner's continuing operations.

(d) The assets, liabilities, income and expenditure of operations and activities are clearly distinguishable physically, operationally and for financial reporting purposes. Operations not satisfying all these conditions are classified as continuing.

Operations comprise services and divisions of service as defined in CIPFA's Standard Classification of Income and Expenditure.

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 Commissioner 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 Commissioner and which need to be disclosed separately by virtue of their size or incidence to give fair presentation of the accounts.

Expected rate of return on pension assets: for a funded defined benefit scheme, is the average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets held by the scheme.

Exit packages are the cost to the Commissioner 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.

Fair value is the price at which it could be exchanged in an arm's length transaction less (where applicable) any grants receivable towards the purchase or use of the asset.

Finance leases are leases that transfer substantially all the risks and rewards incidental to ownership of a non-current asset. Title may or may not eventually be transferred.

Financial instruments are contracts that give rise to a financial asset of one entity and a financial liability or equity instrument of another entity.

Floors are a method by which stability in funding is protected through limiting the effect of wide variations in grant increase. A floor guarantees a minimum fixed level of increase in grant. To pay for the floor, the grant increases of authorities who are above the floor are scaled back (damping) by a fixed proportion.

Floor damping is used by central government to phase the impact of changes to the revenue grant distribution system, to give stability in funding for individual public bodies. It limits the effect these changes have on council tax levels and is intended to give authorities more time to adjust their spending following the changes. Damping of grant is achieved by setting a minimum floor level for the percentage increase in grant, with the cost of providing this additional level of grant met by scaling back the grant allocated to authorities whose percentage increase in grant is above the floor minimum.

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

General Reserve holds the police fund and is the main reserve 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 the Commissioner in return for past or future compliance with certain conditions relating to the activities of the authority.

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

Heritage assets are assets held to increase the knowledge, understanding and appreciation of the Commissioner's history.

Historical cost is the original monetary value of an asset.

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.

Impairment: Impairment is permanent reduction in the valuation of an asset, caused by either a consumption of economic benefits (e.g. obsolescence, damage or adverse change in statutory environment), or general fall in prices.

Intangible assets are identifiable, non-monetary, non-current assets without physical substance. Examples include software licences, patents and copyrights.

Investments are separated into the following categories:
- Long-term investments are investments intended to be held for use on a continuing basis in the activities of the Commissioner for 365 days or more; and
- Short-term investments occur when surplus funds are invested for 364 days or fewer.

Investment properties are interests in land and/or buildings, in respect of which construction work and development have been completed, and which is held solely for its investment potential, with any rental income being negotiated at arm's length.

Leases: leasing is the method of financing the provision of various capital assets to discharge the Commissioner's functions outside normal borrowing procedures but within the criteria laid down in the Local Authorities (Capital Finance) Regulations. Leases are classified as either *finance leases* or *operating leases*.

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 authority's stewardship, economic decisions or comparison with other entities. Materiality is dependent on the size and nature of the item in question.

Minimum lease payments are payments over lease terms that lessee is or can be required to make, excluding contingent rent, costs for services and taxes to be paid by and reimbursed to the lessor, together with:

(a) for a lessee, any amounts guaranteed by the lessee or by a party related to the lessee; or
(b) for a lessor, any residual value guaranteed to the lessor by:
  (i) the lessee;
  (ii) a party related to the lessee; or
  (iii) a third party unrelated to the lessor that is financially capable of discharging the obligations under the guarantee.

Net book value, or carrying amount, is the amount at which non-current assets are included in the Balance Sheet, i.e. their historical cost or current value less the cumulative amounts provided for depreciation / amortisation.

Net current replacement cost is the cost of replacing or recreating a particular asset in its existing condition and in its existing use i.e. the cost of its replacement or of the nearest equivalent asset adjusted to reflect the current condition of the existing asset.

Net debt is the Commissioner's borrowings less cash and liquid resources. Where cash and liquid resources exceed borrowings, reference should be to net funds rather than net debt.

Net realisable value is the open market value of an asset in its existing use (or open market value in the case of non-operational assets) less the expenses to be incurred in realising the asset.

Non-current assets are those that yield benefits to the Commissioner and the services she provides for a period of more than one year.

Operating lease is a lease other than a finance lease.

Operational assets are non-current assets held and occupied, used or consumed by the Commissioner in the direct delivery of those services for which it has either a statutory or discretionary responsibility or for the service or strategic objectives of the Commissioner.

Past service cost, for a defined benefit pension scheme, is the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

Pension fund: an employees' pension fund which is maintained by an authority, or group of authorities, in order to make pension payments on retirement of participants. It is financed from contributions from the employing authority, 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 the fund into which all receipts of a Commissioner must be paid and from which all expenditure must be paid out of.

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

Police Pension Scheme is the collective term used for the pension schemes for police officers and comprised the Police Pension Scheme (PPS), the New Police Pension Scheme (NPPS) and the Police Injury Benefit 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.

Police staff includes staff within the Commissioner's office and staff under the direction and control of the Chief Constable.

Precepts: The demands made by the Commissioner on councils to finance her expenditure.

Private Finance Initiatives (PFIs) are public/private sector partnerships designed to procure new major capital investment resources for authorities. They are intended to form a substantial and genuine additional source of funding to authorities rather then merely being a replacement for existing funding.

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.

Prudential borrowing: All borrowing must remain within the Commissioner's prudential borrowing limits (see Prudential Code), which are agreed annually by Commissioner.

Prudential Code for Capital Finance in Local Authorities: This replaced the previous regulatory frameworks in England, Wales and Scotland. The 2003 Code introduced a need for local authorities to consider capital spending plans with reference to affordability (implications for Council Tax), prudence and sustainability, value for money, stewardship of assets, strategic objectives and the practicality of the plans.

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 an authority include:
(i) Central government
(ii) Local authorities and other bodies precepting or levying demands on the council tax
(iii) Its subsidiary and associated companies
(iv) Its joint ventures and joint venture partners
(v) Its members
(vi) Its chief officers, and
(vii) Its 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 authority 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 police purposes or to cover contingencies.

Residual value is the net realisable value of a non-current asset at the end of its useful life. Residual values are based on prices prevailing at the date of the acquisition (or revaluation) of the asset and do not take account of expected future price changes.

Retirement benefits are all forms of consideration given by the Commissioner 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.

Revaluation Reserve: Where assets have been revalued upwards, the increase is recorded in the reserve for as long as the Commissioner holds the asset on the Balance Sheet.

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

Revenue expenditure funded from capital under statute is expenditure that legislation allows to be classified as capital for funding purposes when it does not result in the expenditure being carried on the Balance Sheet as a non-current asset.

Revenue Support Grant (RSG) is grant paid by the government to aid Commissioner services in general, as opposed to specific grants, which may only be used for a specific purpose.

Scheme liabilities (of a defined benefit scheme) are outgoings due after the valuation date. They are measured using the projected unit method reflect the benefits that the employer is committed to provide for service up to the valuation date.

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.

Short Term Accumulating Absences Account represents the estimated financial value of untaken short-term employee benefits, e.g. annual leave, at the end of the financial period.

Strain on the Fund: when a member of the Local Government Pension Fund is allowed to retire early (e.g. efficiency, redundancy or with the Commissioner's consent) 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.

Unusable reserves are those reserves that the Commissioner is not able to use to provide services. This category of reserves includes reserves that hold unrealisable gains and losses, where amounts would only become available to provide services if the assets are sold and reserves that hold timing differences. Note 6 provides further information on the individual reserves in this category.

Usable reserves are those reserves that the Commissioner may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use. They can also be described as 'cash-backed'. Note 8 provides further information on the individual reserves in this category.

Useful life, or useful economic life, is the period over which, the Commissioner will derive benefits from the use of a fixed asset.

Contacts

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

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