

**Chief Constable for Hampshire**

**Statement of Accounts 2013/14**

| Contents  | Page |
|---|------|
| Chief Finance Officer's Explanatory Foreword to the Statement of Accounts | 1    |
| Statement of Responsibilities for the Statement of Accounts               | 14   |
| Chief Finance Officer's Certificate                                       | 14   |
| Independent Auditor's Report  | 15   |
| Annual Governance Statement   | 18   |
| Movement in Reserves Statement  | 24   |
| Comprehensive Income and Expenditure Statement                            | 26   |
| Balance Sheet   | 27   |
| Cash Flow Statement   | 28   |
| Explanatory Notes to the Core Financial Statements                        | 31   |
| Police Pension Fund Account   | 80   |
| Glossary  | 82   |

## Introduction

The Statement of Accounts sets out the overall financial position of the Chief Constable of Hampshire Constabulary for the year ending 31 March 2014. The accounts have been prepared using the International Financial Reporting Standards (IFRS), in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14. This foreword provides a brief explanation and overview of the financial performance and activities during 2013/14.

## The Chief Constable

The Chief Constable is charged with maintaining the Queen's Peace and directs and controls the Force's officers and staff. He is accountable to the Police and Crime Commissioner for Hampshire for the delivery of the police and crime plan.

The core functions of the Commissioner (the 'PCC') for Hampshire and the Isle of Wight are to secure the maintenance of the police force for the area and to secure that the police force is efficient and effective. Other key functions include

- Holding the Chief Constable to account
- Appointment / suspension / removal of the Chief Constable
- Setting the priorities for the Force and producing the Police and Crime Plan
- Attending the Police and Crime and Panel
- Setting of the annual budget and Council Tax precept
- Direct engagement with the public
- Publishing an annual report stating how priorities and targets have been met, and other information as specified by the Secretary of State to enable greater public awareness of police and crime performance in the area
- Collaborating for an efficient and effective Criminal Justice System for Hampshire and the Isle of Wight with partners such as the Youth Offending Team, Crown Prosecution Service and Prison Service etc

The Chief Constable has established a joint audit committee with the Commissioner. Its purpose is to provide independent assurance on the adequacy of the corporate governance and risk management arrangements in place and the associated control environment, advising according to good governance principles and proper practices. More specifically, this includes the following terms of reference:-

- To support the PCC, Chief Constable and statutory officers in ensuring that effective governance arrangements are in place and functioning efficiently and effectively;
- To monitor the effective development and operation of risk management;
- to scrutinise the draft statement of accounts and annual governance statements and consider whether appropriate accounting policies have been followed;
- To consider the head of internal audit's annual report and opinion, and a summary of internal audit activity (actual and proposed) and the level of assurance it can give over corporate governance arrangements;
- to make recommendations for any improvements to the arrangements and policies in place in relation to "Raising concerns at work", anti fraud and corruption strategies and complaints processes, in light of its experience.

## Chief Finance Officer's Explanatory Foreword to the Statement of Accounts

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The Police and Crime Plan, published in March 2013, sets out the Commissioner's vision and priorities for policing and community safety across Hampshire and the Isle of Wight and is available in summary of full version on his website at [www.hampshire-pcc.gov.uk](http://www.hampshire-pcc.gov.uk). The vision of the Commissioner is to make Hampshire and the Isle of Wight even safer by improving community safety, cutting crime and reducing re-offending and his priorities are to:-

- improve frontline policing to deter criminals and keep communities safe;
- place victims and witnesses at the heart of policing and the wider criminal justice system;
- work together to reduce crime and anti-social behaviour in the community;
- to reduce re-offending.

In policing terms Hampshire Constabulary is the second largest non-metropolitan force in England and Wales. The combined population of Hampshire and the Isle of Wight is approximately 1.9m. Further information on achievements and developments can also be found on the Commissioner's website and on the Chief Constable's website at [www.hampshire.police.uk](http://www.hampshire.police.uk)

### Statement of Accounts

The Police Reform and Social Responsibility Act 2011 established the Police and Crime Commissioner and the Chief Constable as separate entities (known as 'corporations sole'). As separate bodies, both the Commissioner and the Chief Constable are required to appoint their own Chief Finance Officers, each with statutory responsibilities, as being the person responsible for proper financial administration under the provisions of the Act. A consequence is also that each body is required to be subject to audit under the Audit Commission Act 1998 and are thus required to prepare a set of accounts. Additionally, the Commissioner, with his ultimate control over the Chief Constable's resources, has to prepare group accounts.

The Home Office has produced a Financial Management Code of Practice (FMCP) which sets out the responsibilities of the respective Chief Finance Officers. This came into effect on 16 January 2012 and is available on the following link: [Financial Management Code of Practice](#)

The Police Reform and Social Responsibility Act 2011 outlined a two-staged approach to the establishment of the office of the Police and Crime Commissioner and the relationship between Commissioners and Chief Constables. The FMCP outlines how the two bodies should work together in managing the finances and covers such things as schemes of consent and delegation which identify what powers the Commissioner transfers to the Chief Constable. At stage one, all of the assets and liabilities of the Police Authority were transferred to the Commissioner. Proposals for a stage two transfer identifying what assets and liabilities will transfer from the Commissioner was agreed by the Home Secretary and was formally made on 1 May 2014. This had the effect in Hampshire of providing legal form to the relationship between the two parties - the financial effects of which are now embodied in these accounts – rather than entailing any material change to the substance of the relationship between the Commissioner and the Chief Constable.

## Chief Finance Officer's Explanatory Foreword to the Statement of Accounts

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The Chief Constable's Statement of Accounts for 2013/14 consists of the following:

- Statement of Responsibilities for the Statement of Accounts – Page 14
- Independent Auditor's Report – Page 15
- Annual Governance Statement – Page 18
- Movement in Reserves Statement – Page 24
- Comprehensive Income and Expenditure Statement – Page 26
- Balance Sheet - Page 27
- Cash Flow Statement – Page 28
- Notes to the Accounts – Page 31
- Police Pension Fund Account – Page 80

### Relationship between Accounting Statements

The different accounting statements are linked in several important ways. The Movement in Reserves Statement shows the movement in the year on the different reserves held by the Chief Constable, analysed into 'usable' reserves (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Chief Constable's services, more details of which are shown in the Comprehensive Income and Expenditure Statement.

The Cash Flow statement reconciles to the balance on the Comprehensive Income and Expenditure account for the year and the movement in Balance Sheet liquid assets and liabilities.

The Comprehensive Income and Expenditure Statement balance is reconciled in the Movement in Reserves Statement to the actual movement in the general fund cash reserve.

### Significant changes in accounting policies

The Chief Constable is now accounted for as a principal rather than as an agent of the Commissioner. Following the demise of the Hampshire Police Authority in November 2012, and the election of the Police and Crime Commissioner, the transition had been accounted for in line with the CIPFA Code of Practice for Local Authority Accounting 2012/13 which advised that re-organisations of this nature are business combinations under common control and outside the scope of IFRS 3 *Business Combinations* and needed to be accounted for using the principles that apply to group reorganisations and mergers. However, the Chief Constable was determined, effectively, to be an agent of the Commissioner and wholly-owned and controlled subsidiary, which in accounting terms meant that no entries were required in his primary accounting statements. Thus, all assets, liabilities and reserves were recognised on the Commissioner's Balance Sheet.

With further guidance being available from CIPFA and the Audit Commission over the last year, together with more experience of working under the new governance arrangements in the police service it has now been determined that the policy for accounting for the Chief Constable will be amended so that the Chief Constable is shown as a principal in his own right and not an agent of the Police and Crime Commissioner. These accounts have been

## Chief Finance Officer's Explanatory Foreword to the Statement of Accounts

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prepared on that basis and - as a change in accounting policy which has a material impact on the accounts - the comparator figures for 2012/13 have also been changed.

In addition to the above, there have been several significant changes in relation to IAS 19 (Employee Benefits). A revised IAS19 (IAS19R) has been introduced, which applies to accounting periods beginning on or after 1 January 2013. Whilst these accounts are covered by this change in accounting standard and it represents a change in accounting policy, consideration has been given to restating the comparators for 2012/13. However, the impact is not material and there has been no change to the net liability on the Balance Sheet. As a result, whilst the disclosures in the notes have been restated, the CIES and cash flow statement have not been restated. See note 8 for more explanation.

### Underlying accounting principles

Four underlying principles have been employed in order to prepare the accounts so that they demonstrate:

#### a) Understandability

The accounts are based on accounting concepts, treatments and terminology that assume that a reader has:

- A reasonable knowledge of the business of Local Authorities and the ways in which services are provided;
- A reasonable knowledge of accounting; and
- A willingness to study the information required with reasonable diligence.

However, every effort has been made to use plain language and where technical terms are unavoidable they have been explained in the glossary of terms.

#### b) Relevance

The accounts provide information about the Chief Constable's financial performance and position that is useful for assessing the stewardship of public funds and for making economic decisions. Information is presented so that it will assist readers to understand the Group's current financial position or to make predictions about its financial trends.

The relevance of information contained in the accounts is affected by its nature and materiality (whether its misstatement or omission might reasonably be expected to influence assessments of the Group's stewardship, economic decisions or comparisons with other organisations based on financial statements) and therefore a judgement has been made about the levels of materiality to ensure that relevant issues are disclosed.

#### c) Reliability

The financial information within the accounts has been prepared so that it:

- Can be depended upon to represent faithfully what it either purports to represent or could reasonably be expected to represent and therefore reflects the substance of the transactions and other events that have taken place;
- Is free from bias (i.e. it is neutral);
- Is free from material error;

## Chief Finance Officer's Explanatory Foreword to the Statement of Accounts

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- Is complete within the bounds of materiality and cost; and
- Under conditions of uncertainty, it has been prudently prepared (i.e. a degree of caution has been applied in exercising judgement and making the necessary estimates).

### d) Comparability

Comparability (i.e. the ability to compare the Group's performance between financial years and with other organisations), is an important mechanism for ensuring the usefulness of financial information (and is an essential of the best value accounting framework).

The application of the terms, accounting policies and requirements of the Chartered Institute of Public Finance and Accountancy Code of Practice on Local Authority Accounting in England (2013) Statement of Recommended Practice and the Service Reporting Code of Practice is the way in which the Chief Constable has ensured consistency of financial information in the financial statements leading to comparability.

## Review of the year

### Operational Performance

Hampshire Constabulary achieved a seventh consecutive annual reduction in overall crime across Hampshire and the Isle of Wight. Between April 2013 and March 2014 there were 103,535 offences, a drop of 4,914 offences or 4.5% compared with the previous year. In addition to less crime we have seen solved crime rates increase from 31.08% to 32.32%. A further breakdown of the crime statistics in some of the key areas is below:

|                  | 2012/13<br>(final)<br>No. | 2013/14<br>(provisional )<br>No. | Increase/<br>(Reduction )<br>% |
|------------------|---------------------------|----------------------------------|--------------------------------|
| House Burglaries | 3,835                     | 3,879                            | 1.1                            |
| Violent Crime    | 11,228                    | 10,319                           | (8.1)                          |
| Criminal Damage  | 18,492                    | 16,772                           | (9.3)                          |
| Robberies        | 739                       | 632                              | (14.5)                         |
| Vehicle Crime    | 7,586                     | 7,638                            | 0.7                            |

### Financial Overview (including economic climate)

In February 2013, the Commissioner approved funding for a net revenue budget for 2013/14 of £310.350m, which represented an increase in net budget compared to 2012/13 of £4.738m or 1.55%. This increase was partly attributable to a 3.4% precept increase, 3% of which was needed as a result of the one-off council tax freeze grants for 2012/13 dropping out of central government funding, and partly to an additional council tax benefit grant of £10.391m which was given to reduce the expected losses to the council tax base resulting from changes to the council tax benefit system.

The Commissioner and Chief Constable have an objective of ensuring that, by 2015, Hampshire Constabulary would be a top quartile, low cost, high achieving constabulary and one of the best for value for money in the country. Both the Police and Crime Commissioner and the Constabulary have been taking steps to prepare themselves to meet the challenges posed by cuts in the policing budget over a number of years. The Constabulary has been



## Chief Finance Officer's Explanatory Foreword to the Statement of Accounts

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able to make significant improvements in performance against a back drop of central government spending cuts and tough economic conditions. As a consequence of the austerity measures announced by the new coalition government in December 2010, a target of saving £55m over the four years from 2011/12 to 2014/15 had been set in order to balance the budget.

As a result of these austerity measures, both the external auditors and Her Majesty's Inspector of Constabularies (HMIC) have been keen to ensure that the Commissioner has robust and deliverable plans to achieve the required budget reductions whilst delivering value for money services and maintaining service levels to the public. The external auditor concluded, in the audit opinion of the 2012/13 statement of accounts, that "the ..Commissioner... has made proper arrangements for securing economy, efficiency and effectiveness in the use of resources". The HMIC reported on "Hampshire Constabulary's response to the funding challenge" (July 2013). In this, the HMIC identified that the constabulary had identified £49.6m of savings, with a further £4.5m to find. The HMIC noted that, being "already an efficient and low cost force", this was a particular challenge to Hampshire but they concluded that "Hampshire Constabulary has made very good progress in meeting its financial challenge", that "the force has developed a detailed change programme which will allow it to reduce costs while continuing to fight crime" and that "Hampshire's response to the funding challenge to date is strong". The HMIC noted that recorded crime (excluding fraud) was falling faster than the average over the rest of England and Wales over the first two years of the spending review (i.e. 18% compared to 13%). They also noted that the force was demonstrating that it was successfully protecting frontline posts whilst delivering these savings.

Notwithstanding the positive comments made by the HMIC and the external auditor, the challenge remains. A second round of savings targets was announced in June 2013, the impact on the Commissioner's budget being a further reduction in central government funding of £25m in the period to 2016/17, with further savings likely beyond that date to 2020. Plans are in development to achieve the remainder of the known savings requirement. To facilitate this, the Commissioner agreed to allow the Chief Constable to engage consultants to assist with a review of operational policing that will combine with other ongoing programmes of work including the Estate Development Programme, Joint Working (with Hampshire County Council and Hampshire Fire and Rescue Authority) and Collaboration Programme to deliver savings in 2015/16 and 2016/17 to meet the funding gaps.

During 2013/14, the Bank of England maintained the base rate of interest at 0.5%, which has been held since March 2009. This benefits the Commissioner in that he is able to borrow to finance the capital programme at very low rates. However, the downside – allied to the Bank of England's quantitative easing programme which injected significant amounts of cash into the financial markets – means that the returns on interest received on surplus cash balances, which are credited to the income and expenditure account, and which helps to reduce the burden on the council tax payer, are historically low. With the continued climb out of recession and improving economic growth forecasts, coupled with reducing unemployment and low inflation, expectations for changes to the base rate were beginning to suggest that this would be sooner rather than later.



## Chief Finance Officer's Explanatory Foreword to the Statement of Accounts

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### Pensions

The Chief Constable's net pension liability has increased by £33.25m from £2,617.9m at 31 March 2013 to £2,651.1m at 31 March 2014. The Chief Constable's assessed share of the value of the plan assets of the Local Government Superannuation scheme showed a reduction of £6.53m while the assessed present value of the Chief Constable's liabilities on all pension schemes increased by £26.72m. The net liability takes account of a net gain of £4.96m on the settlement costs of staff transferred to Hampshire County Council on 1 February 2014.

The large negative IAS19 pension reserve is mainly due to the police pension scheme being an unfunded scheme i.e. with no fund assets to offset future liabilities when existing police officers have all retired. The statutory arrangements for funding the liability mean that the Chief Constable's financial position remains sound.

### Reserves

The requirement for reserves is covered in sections 32 and 43 of the Local Government Finance Act 1992, which require billing and precepting authorities in England and Wales to have regard to the level of reserves needed for meeting estimated future expenditure when calculating the budget requirement. Earmarked reserves remain legally part of the general fund but are accounted for separately.

As of 31 March 2014 the general reserve stood at £15.966m before any additional transfers to earmarked reserves are approved by the Commissioner. This general reserve balance represents an increase of £1.60m when compared to 31 March 2013. Whilst this represents a relatively modest increase, contributions to and from other earmarked reserves were made during the year and the level of these earmarked reserves had increased by £10.674m by the end of March 2014. These reserves are held by the Commissioner.

The notes to the accounts provide further details of the year end balances and the purpose of each reserve.

### Material Assets Acquired or Liabilities Incurred

There were no material assets acquired or liabilities incurred during the year.

### Unusual Charges or Credits within the accounts

On 1 February 2014 a number of staff transferred to Hampshire County Council (HCC) as part of the tri-partite joint working arrangement (with Hampshire Fire and Rescue Service). This joint working entity will provide a number of key services – such as HR, finance, procurement and occupational health and wellbeing - and will deliver economies of scale and efficiencies, as well as providing resilience across all three parties. All three partners have an equal stake in the new arrangements. However, the employment of all staff is transferring to HCC and the first phase of this was in February. The impact of this in accounting terms is that the associated post-employment benefit assets and liabilities (mainly pensions or IAS19 charges) transfer also. In these accounts, this transfer is recognised as a 'settlement' of an obligation and a credit of £4.96m is shown in the Non-Distributed Costs line of the Comprehensive Income and Expenditure Statement.

### Significant Provisions or Contingencies

As a result of the adoption of International Financial Reporting Standards (IFRS), the Chief Constable is required to accrue for any annual leave, flexitime and time off in lieu which had been earned but not taken at 31 March each year. The amount accrued at 31 March 2014 was £4.507m (£4.856m as at 31 March 2013).

A contingent liability of £33m is recorded in these accounts for the potential outcome of a challenge to the Government to backdate changes in commutation factors which may result in approximately 1,000 pensioners receiving additional lump sum payments. There is an associated contingent asset for the grant which would be due from the Home Office in the event that the Police Pension Fund has to make these additional payments. This case is outstanding and is unlikely to be settled in the coming financial year or any liability determined.

### Collaborative working

There is a clear Home Office, Treasury and HMIC expectation for police bodies to work collaboratively. The Government and HMIC expect collaboration to form a significant part of any "value for money" plans in a new policing landscape to achieve key savings and ensure protective services have the capability and capacity to respond to future threats to the police service. The Commissioner and the Constabulary continue to work with police bodies, including the National Police Air Service, the South East Region Witness Protection Unit, Covert Policing and Technical Support Units with Thames Valley, Surrey and Sussex and the South East Region Serious and Organised Crime Directorate with all five South East Forces. Hampshire Constabulary is also collaborating with Hampshire County Council on a joint laboratory facility.

Hampshire Constabulary and Thames Valley Police have also created a bilateral partnership. Hampshire Police Commissioner has entered into a Section 23 agreement with Thames Valley in order to create a joint Information & Communications Technology (ICT) and Information Management department, with the Head of Department having direct responsibility for the provision of ICT and information management assurance for both Forces. A Joint Operations Unit has also been created using another Section 23 agreement with Thames Valley Police Commissioner allowing strategic operations, roads policing and dogs units, to be done in collaboration between the two forces across departmental and geographical boundaries.

In addition to the above ongoing arrangements, on 1 February 2014 the Commissioner and Chief Constable signed an accession agreement to enter formally into joint working with Hampshire County Council and Hampshire Fire and Rescue Service on a range of support services, including corporate finance, procurement and HR. Staff transferred on this date to the new joint working arrangements and systems, structures and processes have been reviewed to ensure that the objectives of these arrangements are delivered.

### Comparison of accounts with the revenue outturn

The Comprehensive Income and Expenditure Statement is presented in a format that complies with the Code of Practice and shows the net cost of providing services in

## Chief Finance Officer's Explanatory Foreword to the Statement of Accounts

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accordance with generally accepted accounting practices. These costs include charges for the pension scheme (in accordance with International Accounting Standard 19 – IAS19) as well as depreciation and losses on disposal or impairment of fixed assets, and other adjustments.

This is a different basis to the way the management accounts are produced. For the purpose of setting the council tax each year certain charges, such as depreciation of assets and the accrual of retirement benefits, should not be borne by the general fund. The management accounts which are reported to the Commissioner throughout the year exclude such charges and accounting adjustments and are used by the Chief Constable in monitoring the budget, as well as informing the Commissioner in setting the precept for the following year. The management accounts provide for the cost of financing capital expenditure, revenue contributions and actual in year employer's contributions to the pension fund instead of the charges for the pension scheme and depreciation.

As the accounts are prepared in accordance with the requirement of IAS 19 the cost of retirement benefits are recognised within the Comprehensive Income and Expenditure Statement and the liability relating to pensions schemes is included within the long term liabilities on the Balance Sheet. These liabilities totalled £2,651.2m at 31 March 2014 which has resulted in an overall negative balance of £2,471.2m. However finance is only required for the police pensions when the amounts are actually paid.

### Revenue Expenditure

In 2013/14, the reported outturn position for the group as a whole was a spend of £302.7m against a net expenditure budget of £310.3m on policing services for the people of Hampshire and the Isle of Wight. The Commissioner had budgeted for a net contribution from reserves of £4.3m at the beginning of the financial year in order to balance the budget. Instead, the Commissioner was able to make contributions to reserves that resulted in an increase to usable net reserves of £12.3m as shown in the Movement in Reserves Statement (£12.1m increase in 2012/13). This includes the general net underspend of £7.6m.

### Summary Income and Expenditure

The subjective analysis table below shows that there was a deficit of £115.9m on the provision of services for 2013/14 in the statutory financial statements for the group as a whole (£118.0m deficit in 2012/13). This reflects the different basis on which the Statement of Accounts is prepared, as explained above. The difference from the net position reported in the summary compared to the figures reported to the Commissioner and the Chief Constable is due to a number of items which are not included in the management accounting reports. The principal differences between the statutory and the management accounts (i.e. the revenue budget) in 2013/14 are in respect of the deprecation and impairment of assets, the actuarially-assessed charges for police and staff pensions which are earned in the year, an adjustment in respect of capital grants received from the Government and the balances on the collection fund accounts held by the billing authorities.

The table below contains a subjective analysis of the income and expenditure incurred by the Commissioner and the Group in the format of the management accounting figures as prepared for scrutiny by the PCC and senior management in the Constabulary throughout

## Chief Finance Officer's Explanatory Foreword to the Statement of Accounts

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the year and updated with the final outturn figures. The table reconciles these figures to show the Comprehensive Income and Expenditure Statement service expenditure analysis as presented in the Statement of Accounts – i.e. the financial accounts.

The subjective analysis shows net contributions to reserves of £3.036m. This is before adding the general underspend of £7.6m and a £3.2m transfer to reserves for holding account balances. The total net contributions to reserves of £13.8m is greater than the net increase in usable reserves of £12.5m shown in the Movement in Reserves Statement because the net increase in usable reserves is reduced by £2.2m which has been applied from the Capital (Revenue Contributions) Reserve to unusable reserves in order to finance capital expenditure. Additionally, £1.070m was added to the capital receipts reserve.

## Chief Finance Officer's Explanatory Foreword to the Statement of Accounts

### Subjective Analysis Table

|   | Revenue Budget 2013/14<br>Subjective Analysis |                |                 | Income and Expenditure<br>Account Analysis           |                  |
|---|---|----------------|-----------------|--|------------------|
|   | Constabulary                                  | PCC            | Total           | Reconciling<br>items to the<br>Financial<br>Accounts | Total            |
|   | £000  | £000           | £000            | £000   | £000             |
| <b>Expenditure:</b>   |   |                |                 |  |                  |
| Employees   | 255,529                                       | 896            | 256,425         | 25,663   | 282,088          |
| Premises  | 10,959  | 222            | 11,181          | 1,728  | 12,909           |
| Transport   | 4,883   | 0              | 4,883           | 74   | 4,957            |
| Travel and subsistence  | 3,096   | 33             | 3,129           | 516  | 3,645            |
| IT and communications   | 3,240   | 0              | 3,240           | 742  | 3,982            |
| Supplies and services   | 42,173  | 541            | 42,714          | 2,299  | 45,013           |
| Members Allowances  | 0   | 0              | 0               | 0  | 0                |
| National levies   | 1,825   | 0              | 1,825           | (1,825)  | 0                |
| Grants paid   | 252   | 1,789          | 2,041           | 67   | 2,108            |
| Capital financing (net)   | 3,397   | 0              | 3,397           | (3,397)  | 0                |
| Depreciation, amortisation and<br>impairment                        | 0   | 0              | 0               | 9,731  | 9,731            |
| Pensions interest cost and<br>expected return on pensions<br>assets | 0   | 0              | 0               | 110,840  | 110,840          |
| Interest payments   | 0   | 0              | 0               | 1,553  | 1,553            |
| Precepts and levies   | 0   | 0              | 0               | 1,825  | 1,825            |
| Gain or loss on disposal of fixed<br>assets                         | 0   | 0              | 0               | (126)  | (126)            |
| <b>Total expenditure</b>  | <b>325,354</b>                                | <b>3,481</b>   | <b>328,835</b>  | <b>149,690</b>                                       | <b>478,525</b>   |
| <b>Income:</b>  |   |                |                 |  |                  |
| Service income  | (23,241)                                      | (1)            | (23,242)        | (15,441)   | (38,683)         |
| Additional specific grants  | (4,107)                                       | (124)          | (4,231)         | (2,246)  | (6,477)          |
| Interest and investment income                                      | 0   | 0              | 0               | (631)  | (631)            |
| Income and council tax  | 0   | 0              | 0               | (96,272)   | (96,272)         |
| Government grants and<br>contributions                              | (215)   | (1,459)        | (1,674)         | (218,915)  | (220,589)        |
| <b>Total income</b>   | <b>(27,563)</b>                               | <b>(1,584)</b> | <b>(29,147)</b> | <b>(333,505)</b>                                     | <b>(362,652)</b> |
| <b>Contributions to/(from) reserves</b>                             | <b>1,384</b>                                  | <b>1,652</b>   | <b>3,036</b>    | <b>(3,036)</b>                                       | <b>0</b>         |
| <b>Net expenditure/(income)</b>                                     | <b>299,175</b>                                | <b>3,549</b>   | <b>302,724</b>  | <b>(186,851)</b>                                     | <b>115,873</b>   |

### Future Prospects

#### Financial

The Police and Crime Commissioner approved a net revenue budget for 2014/15 of £307.691m, which represented a decrease in net budget compared to 2013/14 of £2.613m. Recognising that the PCC already has one of the lowest costs per head of population, that council tax freeze grants had either ceased or were coming to an end, and in light of further pending budget reductions announced by the government in June 2013, heralding cuts up to 2020, in addition to the normal inflationary pressures, the offer of a further one-off council tax freeze grant was rejected by the Commissioner, which was supported by a public consultation event. The DCLG imposed a cap of 2% on council tax increases and the Commissioner approved a 1.99% (£3.01) precept increase which increased the council tax rate for band D to £154.26.

The medium term spending forecast shows an estimated budget shortfall of £25.964m by 2017/18, even after the 1.99% council tax precept increase in 2013/14 and a 3% per annum increase thereafter. Given that increases had been capped at 2% in 2014/15, this would increase the shortfall and if there were to be a council tax freeze each year, this would increase the shortfall by £9.1m by 2017/18. Work is ongoing to identify further savings to meet the anticipated shortfall in resources.

#### Operational

There are significant changes in operational working in 2014/15 as the operational change programme delivers major changes to the structure of the force, how it works, who it works with and where it operates from. A major element of this is aligning the area structure with the 14 districts in the force and with the aim of making these coterminous with local authority boundaries to enable more effective partnership working. The estates change programme is being pursued alongside these changes with the aim of assisting the Commissioner to achieve the following:-

- Replace unneeded, costly to run and under-utilised properties with a more efficient, more cost effective portfolio by reinvesting capital generated from the release of these buildings into a core estate.
- More efficient use of the remaining estate by including smarter working initiatives.
- Partner with other emergency services and public sector authorities to reduce the overall costs of running the estate and support a more joined up approach to public service delivery across Hampshire and the Isle of Wight.
- Ensure all buildings operate efficiently and effectively supporting the new policing model being delivered through Hampshire Constabulary's Operational Change Programme (OCP).
- Deliver on his priorities in the Police and Crime Plan.

Additionally, the ECP will deliver the new estate strategy alongside the OCP and supporting the Commissioner's Police and Crime Plan priorities, the ECP will set out to:-

- Provide a fit-for-purpose estate that supports operational policing, creating space for teams to function together and work smarter in more efficient and effective workspaces.



## Chief Finance Officer's Explanatory Foreword to the Statement of Accounts

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- Provide 142 modern cells, reducing the cost of the custody estate and provide suitable facilities to support quicker processing and handling of detainees, so frontline officers can return to duty quicker.
- Reduce the amount of space occupied by up to 50% from about 123,000 to 60,000 sq.m.
- Reduce the total running costs of the estate by up to £3m per annum.
- Reduce the backlog maintenance from £5.8m to £0.
- Develop partnership sites across Hampshire and the Isle of Wight with county, unitary, district and borough authorities, creating both back and front office presence for policing services in all 14 public sector hubs in Hampshire and the Isle of Wight.
- Deliver strategic partnership with HFRS to enable the sharing of 10 sites and services across both partners, to create effective blue light centres in Hampshire.

In addition to change operationally and across the force estate, a step change in the provision of support services was made on 1 February 2014 when the Commissioner and the Chief Constable signed an agreement to enter into joint working with Hampshire County Council and Hampshire Fire and Rescue Service. Staff were transferred on this date to HCC and a new entity called 'H3' (under the umbrella of HCC but jointly governed by all three partners) will now provide a number of support services - including corporate finance, procurement and HR – to the Commissioner and the Chief Constable using new systems, processes and working from County Council premises. More support services will follow and processes and systems will be redesigned to give greater efficiencies, economies of scale and resilience to all three partner organisations in the future.

The demise of the Police Authority and the establishment of the Police and Crime Commissioner role was a two-stage reorganisation of local policing. The Commissioner was required to present to the Home Secretary a proposal for a stage two transfer of staff and responsibilities to the Chief Constable in the autumn of 2013. Formal approval for the Stage 2 transfer was given in March 2014 with an effective start date of 1 May 2014. At this date, all operational staff will transfer to the Chief Constable, with the principal exceptions being staff who work directly for the Commissioner and all personnel working on the Estate Change Programme. The Commissioner will retain ownership of the estate and all assets, albeit most of these will be managed by the Chief Constable on a day to day basis. There is a scheme of governance which will regulate the relationship between the Commissioner and the Chief Constable.



## Statement of Responsibilities – Chief Constable’s Accounts

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### The Chief Constable’s Responsibilities

The Chief Constable is required to:

- Make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this organisation, that officer is the Chief Finance Officer;
- Manage the organisation’s affairs to secure economic, efficient, and effective use of resources and safeguard its assets;
- Approve the Statement of Accounts.

### The Chief Finance Officer’s Responsibilities

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

In preparing this Statement of Accounts, the Chief Finance Officer has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the Code of Practice on Local Authority Accounting;
- kept proper accounting records which were up-to-date; and
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

### Certification of Accounts

#### The Chief Finance Officer’s Statement

I certify that the Statement of Accounts for 2013/14 give a true and fair view of the financial position of the Chief Constable at 31 March 2014 and the income and expenditure for the year then ended

**Signed:** *Richard Croucher, CPFA*

**Date:** 24 September 2014

#### Approval of Accounts by the Chief Constable

In accordance with the Accounts and Audit Regulations 2011, I certify that the Statement of Accounts was approved by me on 24 September 2014.

**Signed:** *Andy Marsh*

**Date:** 24 September 2014

### Opinion on the Chief Constable's and Pension Fund accounting statements

We have audited the financial statements of the Chief Constable of Hampshire for the year ended 31 March 2014 under the Audit Commission Act 1998. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, the related notes 1 to 24 and the Police Pension Fund Account. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14.

This report is made solely to the Chief Constable of Hampshire in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Chief Constable of Hampshire, for our audit work, for this report, or for the opinions we have formed.

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

As explained more fully in the Statement of Responsibilities – Chief Constable's Accounts set out on page 14, the Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2013/14, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

### Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Chief Constable of Hampshire circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Finance Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Statement of Accounts 2013/14 to identify material inconsistencies with the audited financial statements and to identify any information that is apparently materially incorrect based on, or materially inconsistent with, the knowledge acquired by us in the course of performing the audit. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

### Opinion on financial statements

In our opinion the financial statements:

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

### Opinion on other matters

In our opinion, the information given in the Statement of Accounts 2013/14 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 (updated as at December 2012);
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Chief Constable to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

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

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

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

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

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

## Independent Auditor's Report

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have we considered, whether all aspects of the Chief Constable's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

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

We have undertaken our audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2013, as to whether the Chief Constable has proper arrangements for:

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

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

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

### **Conclusion**

On the basis of our work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2013, we are satisfied that, in all significant respects, the Chief Constable of Hampshire put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2014.

### **Certificate**

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

Helen Thompson  
for and on behalf of Ernst & Young LLP, Appointed Auditor  
Southampton  
25 September 2014

### 1. SCOPE OF RESPONSIBILITIES

- 1.1 The Chief Constable is responsible for ensuring that his business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Chief Constable also has a duty 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. In discharging this overall responsibility, the Chief Constable is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk.
- 1.2 The Chief Constable has approved and adopted a Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework: *Delivering Good Governance in Local Government*. A copy of the Code can be obtained from the Chief Finance Officer
- 1.3 This statement explains how the Chief Constable has complied with the code and also meets the requirements of Accounts and Audit (England) Regulations 2011, regulation 4(3), which requires all relevant bodies to prepare an annual governance statement.

### 2. THE PURPOSE OF THE GOVERNANCE FRAMEWORK

- 2.1 The governance framework comprises the systems and processes, and culture and values by which the Constabulary is directed and controlled and its activities through which it accounts to and engages with the public. It enables the Constabulary to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.
- 2.2 The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable and foreseeable level. It cannot 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 risk to the achievement of the Constabulary's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.
- 2.3 The governance framework has been in place at the Hampshire Constabulary for the year ended 31 March 2014 and up to the date of approval of the statement of accounts.

### 3. THE GOVERNANCE FRAMEWORK

- 3.1 The annual governance statement should include a brief description of the key elements of the governance framework the Constabulary has in place. In November 2012, as a result of the Police Reform and Social Responsibility Act 2011, the police authority was replaced with two separate legal entities of the Constabulary and the Police and Crime Commissioner for Hampshire. The Act and Financial Code of

Management set out the statutory posts and their respective responsibilities. The Police and Crime Commissioner is responsible for holding the Chief Constable to account for performance and value for money.

- 3.2 It has been established that the Police and Crime Commissioner and Chief Constable are those charged with governance, but they are assisted by advice received from the Joint Audit Committee. The Joint Audit Committee reviewed the Code of Corporate Governance, compliance with it and the review of effectiveness.
- 3.3 Regular one to one meetings are held between the Chief Constable and Police and Crime Commissioner. The Force has a Chief Officers Group that meets fortnightly and an Executive that meets fortnightly so that one of these meetings occurs each week. The Executive includes a wider number of leaders, including Chief Superintendent level officers and staff. The Force Change Board is the governance board for all major change projects and is charged with identifying savings required to balance the reducing budget. The Police and Crime Commissioner, or a representative, attends the Force Change Board. There are also governance boards for the four major programmes of work underway that will transform the Constabulary; Operational Change Programme, Estate Change Programme, Joint Working and Collaboration. The joint Thames Valley Police & Hampshire Bi-lateral Collaboration Governance Board met 3 times during 2013/14. In January 2013 the formal governance framework and performance accountability of the collaborated Operations, ICT and Information Management units were agreed by both PCCs, as well as the collaboration business plan 2014-16. This Board oversees the development of the Contact Management programme, Criminal Justice, Crime & Intelligence, Non-Collaborated Operations Units and Learning & Development. Governance of collaboration between forces across the South East Region is undertaken at the regular Regional Governance Board. Four meetings were held during 2013/14. The South East Regional Organised Crime Unit (SEROCU), hosted by Thames Valley Police, brings together the current regional organised crime units under one structure with additional capabilities included. It is aligned with the South East Counter Terrorism Unit. There is a joint ACC who works directly to Chief Constable of Thames Valley Police to exercise overall command of the regional crime and counter terrorism functions. He also represents serious organised crime at the Regional Governance Board and nationally with the National Crime Agency and other key stakeholders
- 3.4 The performance of the Constabulary is reviewed at monthly Force Performance Group meetings, which includes a representative from the Office of the Police and Crime Commissioner (OPCC). Performance is also reviewed by inspection agencies including Her Majesty's Inspectorate of Constabulary (HMIC), external audit, internal audit, the Health & Safety Executive, other statutory agencies and volunteer schemes such as custody visitors. HMIC, external audit and internal audit all specifically report on value for money. Outcomes from these inspections are summarised for the independent Joint Audit Committee. The annual review of effectiveness required under Regulation 4 of the Accounts and Audit (England) Regulations 2011 is reported to the Joint Audit Committee.
- 3.5 The key elements of the Constabulary's arrangements for governance are:



- a. the Constabulary's vision of its purpose and intended outcomes for people and service users has been reviewed in consultation with key stakeholders. It has been published on the Constabulary website and promoted by the Chief Constable at the Senior Leaders Conference and at various events and roadshows
- b. the arrangements for governance have been reviewed and updated to reflect the changes in structure and guidance such as the Code of Ethics
- c. the Police and Crime Plan sets the priorities for the OPCC. These translate into targets and success measures for the PCC and Constabulary. The objectives delivered by the Constabulary are turned into performance targets
- d. the Performance Profile is reviewed at the monthly Force Performance Group. It measures the quality of service for users, including use of resources. Performance is published on the Constabulary website. The HMIC publishes on its website a value for money study that the Constabulary uses to assess to identify any potential improvements
- e. roles and responsibilities are documented in law (e.g. Police Reform and Social Responsibility Act 2011), the Financial Management Code of Practice, the Code of Corporate Governance and in role profiles for police officers, police staff and volunteers. The Scheme of Delegation and decision log sets out delegated powers
- f. codes of conduct are in place for all officers and staff as set out in the Code of Corporate Governance. Personnel sign up to the codes of conduct on commencement of their role
- g. all decisions made by the Police and Crime Commissioner are logged and published on the website. Decisions made by the Constabulary at key meetings are recorded as notes for reference and communication
- h. the Risk Manager has designed a revised framework for risk management. The review of risk management during 2013/14 has highlighted a need for stronger processes which have begun to be implemented towards the end of 2013/14
- i. counter fraud and anti-corruption strategies are developed and maintained by the Professional Standards Development and Corporate Finance. This gives the Constabulary in house capability to undertake proactive and reactive reviews of police operational and business transactions. Returns are submitted for national anti fraud and corruption work as well
- j. the Force Change Board oversees a number of programmes and boards who are delivering change and transformation
- k. the Chief Finance Officer ensures that the financial management arrangements conform to the *CIPFA Statement on the Role of the Chief Financial Officer in Local Government* (2010). The Chief Finance Officer discharges the s151 responsibilities and is a member of the Chief Officer Group, Executive, Force Change Board, Force Performance Group and Estate Change Programme. Financial Regulations, Standing Orders on Contracts and a Scheme of Delegation are in place.
- l. the Chief Internal Auditor ensures the Chief Constable's assurance arrangements conform to the governance requirements of the *CIPFA Statement on the Role of the Head of Internal Audit* (2010). Oversight was provided by the Joint Audit



Committee from May 2013. Oversight was provided by the Chief Finance Officers in the interim

- m. the monitoring officer responsibilities are required, by law, to be discharged by the Chief Executive of the Police and Crime Commissioner
- n. the Chief Constable is the head of paid service. The discharge of his functions is monitored by the Police and Crime Commissioner
- o. the core functions of an audit committee, as identified in CIPFA's *Audit Committees: Practical Guidance for Local Authorities* were discharged by the Joint Audit Committee from May 2013. The core functions were covered directly by those charged with governance in the interim. A robust process was put in place to attract the appropriate calibre of individuals to the Joint Audit Committee; therefore the first meeting was held in May 2013. The terms of reference for the Joint Audit Committee were agreed by the Police and Crime Commissioner, but will be reviewed to reflect recent guidance from CIPFA specifically tailored for Police Joint Audit Committees
- p. management ensure that relevant laws and regulations, internal policies and procedures are complied with and that expenditure is lawful. The Constabulary's Compliance Unit and internal and external audit assist in the review of the controls and compliance with the control framework
- q. a confidential online reporting facility is in place. This is owned by the Professional Standards Department for both internal and external complaints against all personnel. Complaints are reviewed and acted upon. Complaints about the Chief Constable are considered by the Police and Crime Commissioner and can be made online on the Police and Crime Commissioner's website
- r. a Professional Development Review process is in place. The process appraises performance but also identifies training and development needs for all officers and staff
- s. the Constabulary has a Performance and Consultation team which uses a variety of consultation survey methods to communicate with all sections of the community. Corporate Communications also lead communication through public meetings, leaflets, media statements, website and social media. However, there is an open communication policy which mean that all officers and staff are able to communicate directly with their stakeholders, for example, Safer Neighbourhood Teams can communicate directly with their community through their Twitter accounts. The communication strategy takes into account target markets so additional effort is made to communicate with hard to reach groups. The website has been upgraded to offer more information and facilitate more online communication from stakeholders such as online crime reporting
- t. the Chief Constable is held to account by the Police and Crime Commissioner. Particular focus is given on performance against the priorities and measures set out in the Police and Crime Plan. In addition, a series of public meetings have taken place where the Police and Crime Commissioner and Chief Constable are held to account in public for service delivery and effectiveness
- u. delivery leads on partnerships are reminded of the need for good governance arrangements

### 4. REVIEW OF EFFECTIVENESS

- 4.1 Hampshire Constabulary has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the executive managers within the Constabulary who have responsibility for the development and maintenance of the governance environment, the head of internal audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.
- 4.2 The Constabulary completes a matrix produced by CIPFA in order to review detailed aspects of governance arrangements in order to identify potential weaknesses. This takes into account findings from inspection agencies but in particular annual opinions from auditors.
- 4.3 Joint Audit Committee has given independent advice to the Police and Crime Commissioner and Chief Constable on audit, risk and governance issues throughout the financial year.. The Joint Audit Committee also ensures that the review of effectiveness is a review of group activities of both the OPCC and the Constabulary due to the significant level of group.
- 4.4 I have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Joint Audit Committee. 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 with new actions planned are outlined below.

### 5 SIGNIFICANT GOVERNANCE ISSUES

- 5.1 The review of effectiveness has identified a need to update processes for risk management and business continuity across the OPCC and Constabulary. Work has taken place during 2013/14 to improve risk management arrangements across the OPCC and Constabulary. Reviews by the Joint Audit Committee found that some of the overarching documentation was not kept up to date while a new risk management policy and process was being designed. An internal audit review at the end of 2013/14 has found that the arrangements are now adequate, but this will be subject to further consideration by the Joint Audit Committee.
- 5.2 The Police and Crime Commissioner received a letter from the Health and Safety Executive in 2012/13 requiring a plan of work to be put in place in relation to maintenance of buildings. An action plan is being implemented from 2013/14 by the new joint working estates team with a budget of £2.7m. A programme of work agreed with the Fire and Rescue Service has been undertaken at Police Headquarters to ensure that the building complies with Fire Regulations.
- 5.3 The Joint Audit Committee met for the first time in May 2013. Terms of reference were set out at that meeting but will be reviewed in line with recent CIPFA guidance specifically aimed at Police Joint Audit Committees. The Code of Corporate Governance inherited from the police authority was updated to reflect changes to titles and roles as there are now separate codes for the Police and Crime Commissioner and the Constabulary. Both codes were reviewed for comments by the Joint Audit

Committee. The Joint Audit Committee members were selected because of the relevant skills and experience they have, amongst other things, in relation to governance, accounting, risk management, working on other audit committees. A programme of training is in place to give the members of the Joint Audit Committee a greater insight into the general responsibilities to be discharged within policing and the specific workings of the OPCC and Constabulary in Hampshire and the Isle of Wight..

- 5.4 I propose over the coming year to take steps to address the above matters to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and will monitor their implementation and operation as part of our next annual review.

Signed by:

*Andy Marsh*

Chief Constable of Hampshire Constabulary

## Movement in Reserves Statement

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This statement shows the movement in the year on the different reserves held by the Chief Constable, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Chief Constable's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. This is different from the statutory amounts required to be charged to the General Fund Balance for council tax (precept) setting. The Net Increase/Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Commissioner and Group. The Chief Constable does not hold any general fund reserves.

As there has been a change in accounting policy which recognises the Chief Constable as a principal and not an agent of the Police and Crime Commissioner, the figures for the comparator year (2012/13) have been restated. See Notes 1.17, 3 and 4.

## Movement in Reserves Statement

|  | General Fund Balance | Earmarked General Fund Reserves | Capital Receipts Reserve | Capital (Revenue Contributions) Reserve | Capital Grants Unapplied | Total Usable Reserves | Unusable Reserves | Total Reserves | Note |
|--|----------------------|---------------------------------|--------------------------|---|--------------------------|-----------------------|-------------------|----------------|------|
|  | £'000                | £'000                           | £'000                    | £'000                                   | £'000                    | £'000                 | £'000             | £'000          |      |
| <b>Balance at 1 April 2012 (restated)</b>                              | 0                    | 0                               | 0                        | 0                                       | 0                        | 0                     | (2,361,280)       | (2,361,280)    |      |
| <b>Movements during 2012/13 (restated)</b>                             |                      |                                 |                          |   |                          |                       |                   |                |      |
| Surplus or (deficit) on the provision of services                      | (123,808)            | 0                               | 0                        | 0                                       | 0                        | (123,808)             | 0                 | (123,808)      | CIES |
| Other Comprehensive Income and (Expenditure)                           | 0                    | 0                               | 0                        | 0                                       | 0                        | 0                     | (137,735)         | (137,735)      | CIES |
| <b>Total Comprehensive Income and Expenditure</b>                      | (123,808)            | 0                               | 0                        | 0                                       | 0                        | (123,808)             | (137,735)         | (261,543)      |      |
| Adjustments between accounting basis & funding basis under regulations | 123,808              | 0                               | 0                        | 0                                       | 0                        | 123,808               | (123,808)         | 0              | 14   |
| <b>Net Increase/(Decrease) before Transfers to Earmarked Reserves</b>  | 0                    | 0                               | 0                        | 0                                       | 0                        | 0                     | (261,543)         | (261,543)      |      |
| Transfers to/from earmarked reserves                                   | 0                    | 0                               | 0                        | 0                                       | 0                        | 0                     | 0                 | 0              |      |
| <b>Increase/(Decrease) in year</b>                                     | 0                    | 0                               | 0                        | 0                                       | 0                        | 0                     | (261,543)         | (261,543)      |      |
| <b>Balance at 31 March 2013 (restated)</b>                             | 0                    | 0                               | 0                        | 0                                       | 0                        | 0                     | (2,622,823)       | (2,622,823)    | 18   |
| <b>Movements during 2013/14</b>  |                      |                                 |                          |   |                          |                       |                   |                |      |
| Surplus or (deficit) on the provision of services                      | (126,563)            | 0                               | 0                        | 0                                       | 0                        | (126,563)             | 0                 | (126,563)      | CIES |
| Other comprehensive income and (expenditure)                           | 0                    | 0                               | 0                        | 0                                       | 0                        | 0                     | 93,662            | 93,662         | CIES |
| <b>Total Comprehensive Income and Expenditure</b>                      | (126,563)            | 0                               | 0                        | 0                                       | 0                        | (126,563)             | 93,662            | (32,901)       |      |
| Adjustments between accounting basis & funding basis under regulations | 126,563              | 0                               | 0                        | 0                                       | 0                        | 126,563               | (126,563)         | 0              | 14   |
| <b>Net Increase/(Decrease) before Transfers to Earmarked Reserves</b>  | 0                    | 0                               | 0                        | 0                                       | 0                        | 0                     | (32,901)          | (32,901)       |      |
| Transfers to/from earmarked reserves                                   | 0                    | 0                               | 0                        | 0                                       | 0                        | 0                     | 0                 | 0              |      |
| <b>Increase/(Decrease) in Year</b>                                     | 0                    | 0                               | 0                        | 0                                       | 0                        | 0                     | (32,901)          | (32,901)       |      |
| <b>Balance at 31 March 2014</b>  | 0                    | 0                               | 0                        | 0                                       | 0                        | 0                     | (2,655,724)       | (2,655,724)    | 18   |

## Comprehensive Income and Expenditure Statement

This 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. Police and Crime 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.

As there has been a change in accounting policy which recognises the Chief Constable as a principal and not an agent of the Police and Crime Commissioner, the figures for the comparator year (2012/13) have been restated. See Notes 1.17, 3 and 4.

| 2012/13 (restated) |                   |                 |  | 2013/14         |                   |                 | Note |
|--------------------|-------------------|-----------------|--|-----------------|-------------------|-----------------|------|
| Net Expenditure    | Gross Expenditure | Gross Income    |  | Net Expenditure | Gross Expenditure | Gross Income    |      |
| £'000              | £'000             | £'000           |  | £'000           | £'000             | £'000           |      |
| 135,198            | 149,122           | (13,924)        | Local policing   | 130,477         | 134,500           | (4,023)         |      |
| 26,853             | 27,445            | (592)           | Dealing with the public                                      | 28,135          | 28,372            | (237)           |      |
| 27,342             | 28,053            | (711)           | Criminal justice arrangements                                | 27,797          | 29,388            | (1,591)         |      |
| 10,562             | 14,329            | (3,767)         | Roads policing   | 12,087          | 16,938            | (4,851)         |      |
| 16,049             | 17,088            | (1,039)         | Operational support  | 15,688          | 18,695            | (3,007)         |      |
| 10,330             | 10,808            | (478)           | Intelligence   | 14,137          | 14,640            | (503)           |      |
| 58,517             | 60,791            | (2,274)         | Investigation  | 76,061          | 78,282            | (2,221)         |      |
| 11,530             | 11,755            | (225)           | Investigative support  | 11,526          | 11,628            | (102)           |      |
| 3,983              | 21,619            | (17,636)        | National policing  | (5,518)         | 22,970            | (28,488)        |      |
| 272                | 272               | 0               | Corporate and democratic core                                | 211             | 211               | 0               | 9    |
| 580                | 580               | 0               | Non distributed costs  | (4,404)         | (4,404)           | 0               |      |
| <b>301,216</b>     | <b>341,862</b>    | <b>(40,646)</b> | <b>Net Cost of Police Services before impairment/funding</b> | <b>306,197</b>  | <b>351,220</b>    | <b>(45,023)</b> |      |
| (285,398)          | (326,044)         | 40,646          | Intra-group funding  | (290,474)       | (335,497)         | 45,023          |      |
| <b>15,818</b>      | <b>15,818</b>     | <b>0</b>        | <b>Net Cost of Police Services</b>                           | <b>15,723</b>   | <b>15,723</b>     | <b>0</b>        |      |
| 107,990            |                   |                 | Financing and investment income and expenditure              | 110,840         |                   |                 | 16   |
| <b>123,808</b>     |                   |                 | <b>(Surplus) / Deficit on Provision of Services</b>          | <b>126,563</b>  |                   |                 |      |
| (16,590)           |                   |                 | Return on plan assets  | 20,150          |                   |                 | 8    |
| 154,325            |                   |                 | Actuarial (gains) / losses on pension assets/liabilities     | (113,812)       |                   |                 | 8    |
| 137,735            |                   |                 | <b>Other Comprehensive Income and Expenditure</b>            | (93,662)        |                   |                 |      |
| <b>261,543</b>     |                   |                 | <b>Total Comprehensive Income and Expenditure</b>            | <b>32,901</b>   |                   |                 |      |

## Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Chief Constable.

The net assets of the Group (assets less liabilities) are matched by the reserves held. Reserves are reported in two categories. The first category of reserves are usable reserves, i.e. those reserves that the Group may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use. The second category of reserves is those that the Group is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

The majority of assets and liabilities are held by the Commissioner. The Chief Constable only holds balances in respect of IAS19 (Employee benefits).

As there has been a change in accounting policy which recognises the Chief Constable as a principal and not an agent of the Police and Crime Commissioner, the figures for the comparator year (2012/13) have been restated.

| <b>31 March 2013</b><br><b>(restated)</b> |                                      | <b>31 March 2014</b> | <i>Note</i> |
|---|--------------------------------------|----------------------|-------------|
| <b>£'000</b>                              |                                      | <b>£'000</b>         |             |
| (4,856)                                   | Short term creditors                 | (4,507)              | 17          |
| <b>(4,856)</b>                            | <b>Current Liabilities</b>           | <b>(4,507)</b>       |             |
| (2,617,965)                               | Liability related to pension schemes | (2,651,217)          | 8           |
| <b>(2,617,965)</b>                        | <b>Long Term Liabilities</b>         | <b>(2,651,217)</b>   |             |
| <b>(2,622,821)</b>                        | <b>Net Assets/(Liabilities)</b>      | <b>(2,655,724)</b>   |             |
| 0   | Usable reserves                      | 0                    | <i>MiRS</i> |
| (2,622,821)                               | Unusable reserves                    | (2,655,724)          | 18          |
| <b>(2,622,821)</b>                        | <b>Total Reserves</b>                | <b>(2,655,724)</b>   |             |



## Cash Flow Statement

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The Cash Flow Statement shows the changes in cash and cash equivalents during the reporting period. All cash and cash equivalents are held by the Commissioner.

As there has been a change in accounting policy which recognises the Chief Constable as a principal and not an agent of the Police and Crime Commissioner, the figures for the comparator year (2012/13) have been restated. See Notes 1.17, 3 and 4.

| <b>2012/13<br/>(restated)<br/>£'000</b>  | <b>2013/14<br/>£'000</b> |
|--|--------------------------|
| 123,808 Net (surplus) or deficit on the provision of services  | 126,563                  |
| (123,808) Adjustments to net surplus or deficit on the provision of services for non-cash movements                                    | (126,563)                |
| 0 Adjustment for items included in the net surplus or deficit on the provision of services that are investing and financing activities | 0                        |
| <hr/> 0 Net cash flows from Operating Activities   | <hr/> 0                  |
| 0 Investing Activities   | 0                        |
| 0 Financing Activities   | 0                        |
| <hr/> 0 Net (increase) or decrease in cash and cash equivalents  | <hr/> 0                  |
| <hr/> 0 Cash and cash equivalents at the beginning of the reporting period   | <hr/> 0                  |
| <hr/> 0 Cash and cash equivalents at the end of the reporting period   | <hr/> 0                  |

## Notes to the core financial statements

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### Index of Explanatory Notes to the Core Financial Statements

| Note No | Note   | Page |
|---------|--|------|
| 2       | Accounting Standards that have been issued but have not yet been adopted                           | 38   |
| 14      | Adjustments between accounting basis and funding under regulations                                 | 71   |
| 7       | Amounts reported for Resource Making Decisions   | 48   |
| 5       | Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty                | 46   |
| 19      | Audit Costs  | 76   |
| 24      | Cash flow statement 2013/14 – Notes  | 78   |
| 21      | Contingent assets  | 77   |
| 20      | Contingent Liabilities   | 76   |
| 9       | Corporate and Democratic Core  | 64   |
| 4       | Critical Judgements in Applying Accounting Policies  | 43   |
| 22      | Events after the reporting period  | 77   |
| 16      | Financing and investment income and expenditure  | 73   |
| 13      | Grant Income   | 71   |
| 8       | IAS19 (Pensions Accounting) entries and disclosures  | 53   |
| 11      | Officer and Staff Remuneration   | 65   |
| 23      | Other disclosures  | 77   |
| 15      | Other operating income/expenditure   | 73   |
| 3       | Prior Period Adjustments   | 40   |
| 10      | Related Parties  | 64   |
| 6       | Service Reporting Code of Practice Income and Expenditure Statement restated on a subjective basis | 47   |
| 17      | Short-term creditors   | 74   |

## Notes to the core financial statements

---

|    |  |    |
|----|--|----|
| 1  | Statement of Accounting Policies and Estimation Techniques | 31 |
| 12 | Termination Benefits                                       | 70 |
| 18 | Unusable Reserves  | 74 |

### 1 - Statement of Accounting Policies and Estimation Techniques

#### 1.1 General Principles

The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (2013). This code is recognised by statute as representing proper accounting practices. Any significant non-compliance is explained in the following notes. The accounts have been compiled by applying the most appropriate policies and estimation techniques, taking into account the accounting concepts of qualitative characteristics of financial information (i.e. relevance, reliability, comparability and understandability), materiality and the pervasive accounting concepts (i.e. accruals, going concern and primacy of legislative requirements). All material income and expenditure including receipts, grants and employee costs have been accrued to the financial year to which they relate.

The accounting convention adopted in the Statement of Accounts is principally historical cost, modified by the revaluation of certain categories of non-current assets and financial instruments.

The accounting policies employed by the Chief Constable are consistent with those employed by the Commissioner. The full set of policies is included in the Commissioner's Statement of Accounts and those which are applicable to the Chief Constable are included below. Notwithstanding this, there are some minor differences of disclosure – e.g. debtors and creditors (which exclude working capital) – for presentation purposes and overall readability of the accounts.

#### 1.2 Accruals of Income and Expenditure

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

- Revenue from the sale of goods is recognised when the Chief Constable transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Chief Constable.
- Revenue from the provision of services is recognised when the Chief Constable can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Chief Constable.
- Supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.
- Expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made.
- Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

- Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

Amounts below £1,000 are not routinely accrued at year end even if they meet the other conditions. This is due to the fact that they are not material in the scale of the Chief Constable's overall income and expenditure. Where items of income or expenditure fall below this amount they may still be accrued in certain circumstances such as where they are subject to specific terms and conditions relating to a grant or where there is an element of cost recovery. Items of a similar nature which are individually below this £1,000 threshold may be aggregated if they could be said to have a similar material effect upon the reporting of a particular income, or expenditure head or cost centre.

Where items for which an accrual might be justified in ordinary circumstances, but where these are ongoing and are regular, such as quarterly or monthly payments for utilities, the Chief Constable takes a pragmatic approach and ensures that four quarters or twelve months are recorded in any one year where such payments or receipts are of relatively consistent amounts.

Debtors and creditors are recorded in the Balance Sheet at their fair value, which in both categories of financial instrument is the actual invoiced amount. No estimation techniques are used.

### 1.3 Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, ie in the current and future years affected by the change and do not give rise to a prior period adjustment.

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

Material errors discovered in prior period figures are corrected retrospectively by amending opening balances and comparative amounts for the prior period.

### 1.4 Events After the Reporting Period

Events after the Balance Sheet date are those events, both favourable and unfavourable, that occur between the end of the reporting period and the date when the Statement of Accounts is authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events;
- those that are indicative of conditions that arose after the reporting period – the Statement of Accounts is not adjusted to reflect such events, but where a category of events would have a material effect, disclosure is made in the notes of the nature of the events and their estimated financial effect.

## Notes to the core financial statements

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Events taking place after the date of authorisation for issue are not reflected in the Statement of Accounts.

### 1.5. Service Expenditure Analysis

The Service Reporting Code of Practice 2013/14 (SeRCOP) specifies the headings to present the statutory income and expenditure accounts and defines those headings. The requirement for 2013/14 is to present the information in accordance with the Police Objective Analysis which analyses the gross expenditure and gross income under nine headings which represent the main activities of the police service.

### 1.6 Central Support

The costs of support services are apportioned over all recipient services on a relevant basis e.g. premises costs based on floor areas, personnel support costs based on staff numbers and finance support costs based on budget.

### 1.7 VAT

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

### 1.8 Specific Grants

Specific grants are included in the accounts on the basis of notification from the Government.

### 1.9 Debtors and Creditors

The accounts are maintained on an income and expenditure basis in accordance with the Code of Practice. That is, sums due to or from the Chief Constable during the year are included, whether or not the cash has actually been received or paid in the year. As their value is not material, debtors and creditors of less than £1,000 are dealt with on a cash basis.

### 1.10 Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the Chief Constable when there is reasonable assurance that:

- the Chief Constable will comply with the conditions attached to the payments, and
- the grants or contributions will be received.

Amounts recognised as due to the Chief Constable are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, 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 relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ring fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

Where capital grants are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance 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 to fund capital expenditure.

### 1.11 Employee Benefits

#### Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as salaries, paid annual leave and flexitime for current employees and are recognised as an expense for services in the year in which employees render service to the Chief Constable. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

#### Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Chief Constable to terminate an employee's employment before the normal retirement date or an employee's decision to accept voluntary redundancy and are charged on an accruals basis to the appropriate service or, where applicable, to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement at the earlier of when the authority can no longer withdraw the offer of those benefits or when the authority recognises costs for a restructuring.

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Chief Constable 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 pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.



### Post-employment benefits

As part of the terms and conditions of employment of his officers and other employees, the Chief Constable offers retirement benefits. Although these benefits will not actually be payable until employees retire, the Chief Constable has a commitment to make the payments that needs to be disclosed at the time that employees earn their future entitlement.

The Chief Constable participates in three post-employment schemes:

- The Local Government Pension Scheme (LGPS) for police staff, administered by Hampshire County Council. This is a funded defined benefit final salary scheme;
- Arrangements for the award of discretionary post retirement benefits upon early retirement in respect of members of the LGPS;
- The Police Pension Schemes for police officers. These are unfunded defined benefit final salary schemes

Pension costs included in the income and expenditure account and balance sheet have been determined in accordance with IAS19 Employee Benefits as required by the Code of Practice. The main impact of IAS19 is to include within the net cost of services the cost of actual retirement benefits earned in the financial year, as opposed to the amount paid. For the purpose of showing the impact on the General Fund, the value of benefits earned is replaced by the value of contributions in the Movement in Reserves Statement. The net liability is shown in the balance sheet.

### Police Pension Scheme (for Police Officers only)

There are currently two police pension schemes in operation, known as the Police Pension Scheme (PPS) and the New Police Pension Scheme (NPPS), which offer different terms and benefits. Both are unfunded schemes. The Chief Constable and officers make contributions to the pensions account based on pensionable pay. This amount is included within employees' costs. Pensions and lump sums are paid out of the pensions account. The difference between pension account incomings and outgoings each year is paid to or from the Home Office. The Chief Constable is responsible for the costs of injury pensions. Ill-health pension costs are met by a capital equivalent transfer from the Income and Expenditure Account to the Police Pension Fund Account when the officer retires.

### Local Government Pension Scheme

Police staff are eligible to join the Local Government Pension Scheme administered by Hampshire County Council. This is a funded scheme. In 2013/14 the Chief Constable paid an employer's contribution representing 13.1% of pensionable pay in addition to a 6% overall contribution based on the payroll costs at 31 March 2010. The contribution rate is determined by the Fund's actuary based on valuations every three years. The employers' contribution rate for 2014/15 will remain at 13.1% of pensionable pay, but the overall contribution based on the payroll costs at 31 March 2010 will change to 8.9%.

## Notes to the core financial statements

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Additional contributions are payable to cover the cost of any early retirements except those due to ill-health. In addition the Chief Constable is responsible for all pension payments relating to any added years' benefits, together with the related increases.

The values for each scheme are shown separately in the notes. Assets are measured at fair value which is assessed on the basis of bid price. Liabilities are measured using the projected unit method. Liabilities are discounted at appropriate rates.

The Chief Constable now employs the majority of staff who previously were under the employment of the Commissioner. As such, these accounts include all of the related IAS19 pensions' adjustments for those employees in the LGPS. However, a small minority of staff work directly for the Commissioner on delivering his activities. Notwithstanding this, on the grounds that any proportionate share of the IAS19 entries would not be material to the accounts, all of the LGPS IAS19 adjustments are contained in the Chief Constable's accounts.

Further details are in the notes to the accounts, the valuation report and the Hampshire Pension Fund Annual Report.

### 1.12 Overheads and Support Services

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 2013/14* (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 the Commissioner's status as a single purpose, democratic organisation;
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

These two cost categories are defined in SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services.

### 1.13 Contingent Liabilities

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

Contingent liabilities are not recognised in the Balance Sheet but disclosed in a note to the accounts.

### 1.14 Contingent Assets

A contingent asset arises where an event has taken place that gives the Chief Constable a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Chief Constable.

Contingent assets are not recognised in the Balance Sheet but disclosed in a note to the accounts where it is probable that there will be an inflow of economic benefits or service potential.

### 1.15 Reserves

The introduction of the police pension fund account in 2006/07 obviated the need for a pension reserve and the balance on that reserve was transferred into the general reserve. An IAS19 pension reserve is still required to display the pension liability calculated in accordance with IAS19. The IAS19 pension liability is a significant figure which represents the amount that the Chief Constable would have to find if all officers and staff were able to claim their pension as at 31 March 2014. The figure is high as the majority of the liability is in respect of the police pension schemes which do not have a funded status (i.e. unlike the Local Government Superannuation Scheme for staff).

### 1.16 Revenue Expenditure Funded From Capital Under Statute

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

The revenue expenditure funded from capital under statute generally relates to grants and expenditure on property not owned by the Commissioner. Expenditure in the year is disclosed in the note on capital expenditure and financing in the Group accounts.

### 1.17 Changes in Accounting Policies

There have been several significant changes in relation to IAS 19 Employee Benefits. A revised IAS19 (IAS19R) has been introduced, which applies to accounting periods beginning on or after 1 January 2013. The impact of this is different according to whether the pension scheme is funded or not. Whilst these accounts for 2013/14 are covered by this change in accounting standard and it represents a change in accounting policy, consideration has been given to restating the comparators for 2012/13. However, the impact is not material and there has been no change to the net liability on the Balance Sheet. As a result, whilst the disclosures in the notes have been restated, the CIES and cash flow statement have not been restated. See note 8 for more explanation.

The revised IAS19 means that for unfunded schemes, such as the Police Pension Schemes, this changes the allocation of expenses between current service cost and the interest cost,

## Notes to the core financial statements

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leaving the total expense recognised in the Surplus or Deficit on the Provision of Services unchanged. There is no effect on the Balance sheet.

For funded schemes, such as the Local Government Superannuation Scheme, there are three principal changes:-

- The expected return on assets is calculated at the discount rate, instead of as currently an expected return based on actual assets held in the fund;
- The interest on the service cost is included in the service cost itself;
- Administration expenses will continue to be charged through the profit and loss account. We have included this in the service cost.

A change in accounting policy has also been made in respect of the Chief Constable, who is now clearly shown in these accounts as a principal, which has an impact upon the income and expenditure, reserves and balances which are attributable to the Commissioner. In the light of further guidance on the appropriate accounting for each corporation sole, more experience of how the governance arrangements work in practice - as well as the form of the governance arrangements - and a review of the balance between strategic control and operational control of staff and assets, more expenditure and income is recorded in the Chief Constables accounts and the IAS19 liabilities are recorded in his Balance Sheet. These changes are material and significant and the comparators have been changed. See notes 3 and 4 for more information.

Note that, upon creation of the 'corporation sole' of the Chief Constable the relevant legislation did not classify the Chief Constable as a local authority. The impact of this was that certain statutory overrides – i.e. which enable the local authority to prepare its accounts in accordance with the Code of Practice and, in particular, to reconcile its accounts according to the basis of taxation/funding rather than the accounting basis – did not apply to the accounts of the Chief Constable. A Transitional Order (SI 2013/2319) was enacted to change this position: however, this was applicable to accounting periods with effect from 1 April 2013. The applicability of the statutory overrides to the Chief Constable has been treated as a change in accounting policy and, as it is material, the comparators for 2012/13 have been changed.

### 1.18 Rounding convention

Amounts reported in the financial statements may be rounded as appropriate. As most figures are reported in £'000's, figures will be rounded to the nearest £1,000. Where figures are shown in £'s, they will be rounded to the nearest £1. In some instances, the 'totals' in the tables which are presented are the rounded additions of unrounded figures and, therefore, may not be the strict sums of the figures presented in the text or tables. This will only give minor differences and the overall total is more accurate in such instances.

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## 2 – Accounting Standards that have been issued but have not yet been adopted

Various accounting standards have been issued during 2013/2014 but not adopted in this financial year. Their implementation is in respect of accounting periods which commence on or after 1 January 2014. The standards mainly concern group accounting and consolidation, joint arrangements and disclosures. Whilst they are detailed below they are not anticipated

## Notes to the core financial statements

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to have a material impact on the financial statements of the OCC/PCC. They may however increase the amount of disclosures required.

- IFRS 10 Consolidated Financial Statements. This standard identifies control as the basis for consolidation. There is a new test of control with regard to the power of the investee.
- IFRS 11 Joint Arrangements. This standard establishes principles for financial reporting by entities that have an interest in arrangements that are controlled jointly.
- IFRS 12 Disclosures in Interests in Other Entities. This standard requires an entity to disclose information that enables the users of its financial statements to evaluate the nature of and risks associated with other entities and the effect of those interests on its financial position, performance and cash flows.
- IAS 27 Separate Financial Statements This standard refers to where an entity elects to present separate financial statements when accounting for investments in subsidiaries, joint ventures and associates.
- IAS 28 Investment in Associates and Joint Ventures. This standard sets out the use of the equity method when accounting for investments in associates and joint ventures where there is significant influence over the associate.

Other changes to accounting standards which have come into effect in 2013/2014 include:

- IAS 32 Financial Instruments. This standard provides amended guidance for the offsetting of financial assets and liabilities. This will not have a significant impact on the financial statements as the OCC/PCC do not hold complex financial instruments;
- IAS 1 Presentation of Financial Statements. This standard provides clarification on the presentation of comparative financial information.

None of the above amendments are expected to have a material impact upon the financial statements of the Chief Constable for Hampshire.

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## Notes to the core financial statements

### 3 – Prior Period Adjustments

#### Changes to the management of functions within the Constabulary

During 2013/14 the operations function – i.e. that element which was not subject to collaboration with other forces in the region – transferred from the Deputy Chief Constable's portfolio to the Assistant Chief Constable's (Operations) portfolio.

Also during 2013/14 some other minor changes took place.

The Amounts reported for Resource Making Decisions as note 7 reflect these changes and the comparators for 2012/13 have been restated accordingly. The impact of these changes is as below:-

|   | 2012/13<br>Original    | 2012/13<br>Restated    |                       | 2012/13<br>Original                      | 2012/13<br>Restated                      |                       | 2012/13<br>Original                                      | 2012/13<br>Restated                                      |                       | 2012/13<br>Original                                  | 2012/13<br>Restated                                  |                       |
|---|------------------------|------------------------|-----------------------|--|--|-----------------------|--|--|-----------------------|--|--|-----------------------|
|   | Deputy Chief Constable | Deputy Chief Constable | Amount of restatement | Assistant Chief Constable:<br>Operations | Assistant Chief Constable:<br>Operations | Amount of restatement | Assistant Chief Constable:<br>Crime and Criminal Justice | Assistant Chief Constable:<br>Crime and Criminal Justice | Amount of restatement | Assistant Chief Constable:<br>Territorial Operations | Assistant Chief Constable:<br>Territorial Operations | Amount of restatement |
|   | £'000                  | £'000                  | £'000                 | £'000                                    | £'000                                    | £'000                 | £'000  | £'000  | £'000                 | £'000  | £'000  | £'000                 |
| <b>Expenditure:</b>                     |                        |                        |                       |  |  |                       |  |  |                       |  |  |                       |
| Employees                               | 26,414                 | 22,876                 | (3,538)               | 17,876                                   | 21,933                                   | 4,057                 | 53,596   | 52,756   | (840)                 | 145,193  | 145,515  | 322                   |
| Premises                                | 10,534                 | 10,534                 | 0                     | 2  | 3  | 1                     | 13   | 11   | (2)                   | 33   | 33   | 0                     |
| Transport                               | 527                    | 458                    | (69)                  | 562                                      | 631                                      | 69                    | 355  | 355  | 0                     | 1,403  | 1,403  | 0                     |
| Travel & Subsistence                    | 993                    | 959                    | (34)                  | 176                                      | 236                                      | 60                    | 894  | 858  | (36)                  | 850  | 860  | 10                    |
| IT & Communications                     | 723                    | 694                    | (29)                  | 29                                       | 60                                       | 31                    | 193  | 191  | (2)                   | 2,869  | 2,869  | 0                     |
| Supplies & Services                     | 16,508                 | 15,435                 | (1,073)               | 621                                      | 1,639                                    | 1,018                 | 9,155  | 9,145  | (10)                  | 1,977  | 2,042  | 65                    |
| Members' Allowances                     | 0                      | 0                      | 0                     | 0  | 0  | 0                     | 0  | 0  | 0                     | 0  | 0  | 0                     |
| National Levies                         | 0                      | 0                      | 0                     | 0  | 0  | 0                     | 0  | 0  | 0                     | 0  | 0  | 0                     |
| Grants Paid                             | 68                     | 102                    | 34                    | 8  | 8  | 0                     | 176  | 142  | (34)                  | 116  | 116  | 0                     |
| Capital Financing (net)                 | 0                      | 0                      | 0                     | 0  | 0  | 0                     | 0  | 0  | 0                     | 0  | 0  | 0                     |
| <b>Total Expenditure</b>                | <b>55,767</b>          | <b>51,058</b>          | <b>(4,709)</b>        | <b>19,274</b>                            | <b>24,510</b>                            | <b>5,236</b>          | <b>64,382</b>  | <b>63,458</b>  | <b>(924)</b>          | <b>152,441</b>                                       | <b>152,838</b>                                       | <b>397</b>            |
| <b>Income:</b>                          |                        |                        |                       |  |  |                       |  |  |                       |  |  |                       |
| Service Income                          | (6,310)                | (3,151)                | 3,159                 | (1,823)                                  | (5,002)                                  | (3,179)               | (2,714)  | (2,694)  | 20                    | (727)  | (727)  | 0                     |
| Additional Specific Grants              | 0                      | 0                      | 0                     | (1,623)                                  | (1,623)                                  | 0                     | (4,018)  | (4,018)  | 0                     | (12)   | (12)   | 0                     |
| <b>Total Income</b>                     | <b>(6,310)</b>         | <b>(3,151)</b>         | <b>3,159</b>          | <b>(3,446)</b>                           | <b>(6,625)</b>                           | <b>(3,179)</b>        | <b>(6,732)</b>   | <b>(6,712)</b>   | <b>20</b>             | <b>(739)</b>   | <b>(739)</b>   | <b>0</b>              |
| <b>Contributions to/(from) reserves</b> | <b>(3,073)</b>         | <b>(2,776)</b>         | <b>297</b>            | <b>(174)</b>                             | <b>(192)</b>                             | <b>(18)</b>           | <b>(488)</b>   | <b>(488)</b>   | <b>0</b>              | <b>(797)</b>   | <b>(1,076)</b>                                       | <b>(279)</b>          |
| <b>Net Expenditure</b>                  | <b>46,384</b>          | <b>45,131</b>          | <b>(1,253)</b>        | <b>15,654</b>                            | <b>17,693</b>                            | <b>2,039</b>          | <b>57,162</b>  | <b>56,258</b>  | <b>(904)</b>          | <b>150,905</b>                                       | <b>151,023</b>                                       | <b>118</b>            |



### Accounting for the Chief Constable as a principal in the accounts

Following the Police Reform and Social Responsibility Act 2011 (The Act), Hampshire Police Authority (HPA) was replaced on 23 November 2012 with two 'corporations sole' bodies, the Police and Crime Commissioner for Hampshire (The PCC or Commissioner) and the Chief Constable of Hampshire Constabulary (the CC). It is the Government's intention that the reforms under the Act will be phased over a period of several years. The financial statements for 2012/13 were the first to show the financial positions of the Commissioner and the Group following the cessation of the HPA on 16 November 2012.

The transition had been accounted for in line with the CIPFA Code of Practice for Local Authority Accounting 2012/13 which advised that re-organisations of this nature are business combinations under common control and outside the scope of IFRS 3 *Business Combinations* and needed to be accounted for using the principles that apply to group reorganisations and mergers. Following this approach the results were brought into the financial statements of the new body, the Commissioner, from the beginning of the year that the transfer occurred. In effect, the allocation of costs to the Commissioner was accounted for as taking place on 1 April 2011, as the comparator year, and the financial statements for the Commissioner and the Group covered the entire 12 months to 31 March 2013.

The International Accounting Standards Board (IASB) Framework states that assets, liabilities and reserves should be recognised when it is probable that any 'future' benefit associated with the item will flow to, or from the entity. Based on the statutory responsibilities and local arrangements within which the Commissioner operated in conjunction with the IASB guidance, it had been deemed in the 2012/13 accounts that all assets, liabilities and reserves would be recognised on the Commissioner's Balance Sheet. Consequently there was a single Balance Sheet at 31 March 2013 and single Movement in Reserves Statement and Cash Flow Statement for the year representing both the Commissioner and the Group during this first phase of transition. In accounting terms, the Chief Constable was deemed to be a wholly-owned and controlled subsidiary reporting to the Commissioner and forming part of the Group accounts (i.e. with the Commissioner's own accounting statements). The Chief Finance Officer to the Commissioner is responsible for making arrangements for the preparation of the consolidated group accounts.

Notwithstanding the above, and to reflect that that the Chief Constable provided policing services with the consent of the Commissioner, who provided a budget for the delivery of policing services, the statement of accounts for 2012/13 included an operating cost statement in respect of the operational activities managed by the Chief Constable.

With further guidance being available from CIPFA and the Audit Commission, together with more experience of working under the new governance arrangements in the police service it has been determined that the policy for accounting for the Chief Constable will be amended so that the Chief Constable is shown as a principal in his own right and not an agent of the Police and Crime Commissioner. These accounts have been prepared on that basis and more detail is provided in the next section. As a change in accounting policy which has a material impact on the accounts, the comparator figures for 2012/13 have also been changed.

The impact of the changes to accounting policies on the main statements in the comparator year - i.e. 2012/13 – is shown in the following tables:-



## Notes to the core financial statements

### Opening 1 April 2013 Balance Sheet

The table below shows the adjustments required for the recognition of assets and liabilities on the Chief Constable's Balance Sheet, shown in the restated figures in the main statements:-

|   | Chief Constable  |                     |                  | Police & Crime Commissioner |                     |                  | Total Adjustment (Group Accounts) |
|---|------------------|---------------------|------------------|-----------------------------|---------------------|------------------|-----------------------------------|
|   | 2012/13 original | Intra-group Adjust. | 2012/13 restated | 2012/13 original            | Intra-group Adjust. | 2012/13 restated |                                   |
|   | £'000            | £'000               | £'000            | £'000                       | £'000               | £'000            | £'000                             |
| <i>Current Liabilities :</i>                          |                  |                     |                  |                             |                     |                  |                                   |
| Short Term Creditors - Employees Liability            | 0                | 0                   | 0                | 0                           | 0                   | 0                | 0                                 |
| Other Short Term Creditors                            | 0                | (4,856)             | (4,856)          | (28,318)                    | 4,856               | (23,462)         | 0                                 |
| <i>Long Term Liabilities :</i>                        |                  |                     |                  |                             |                     |                  |                                   |
| Liability relating to Defined Benefit Pension Schemes | 0                | (2,617,965)         | (2,617,965)      | (2,617,965)                 | 2,617,965           | 0                | 0                                 |
| <i>Reserves</i>                                       |                  |                     |                  |                             |                     |                  |                                   |
| Unusable Reserves                                     | 0                | (2,622,821)         | (2,622,821)      | (2,510,081)                 | 2,622,821           | 112,740          | 0                                 |

### 2012/13 Comprehensive Income and Expenditure Statement

The table below shows the adjustments required for the recognition of income and expenditure on the Chief Constable's Comprehensive Income and Expenditure Statement, shown in the restated figures in the main statements:-

## Notes to the core financial statements

|  | Chief Constable  |                     |                  | Police & Crime Commissioner |                     |                  | Total Adjustment (Group Accounts) |
|--|------------------|---------------------|------------------|-----------------------------|---------------------|------------------|-----------------------------------|
|  | 2012/13 original | Intra-group Adjust. | 2012/13 restated | 2012/13 original            | Intra-group Adjust. | 2012/13 restated |                                   |
|  | £'000            | £'000               | £'000            | £'000                       | £'000               | £'000            | £'000                             |
| <b>Net Cost of Police Services before Funding</b>                    | 0                | 301,216             | 301,216          | 316,611                     | (301,216)           | 15,395           | 0                                 |
| Other Operating Income & Expenditure                                 | 0                | 0                   | 0                | 1,162                       | 0                   | 1,162            | 0                                 |
| Financing & Investment Income & Expenditure                          | 0                | 107,990             | 107,990          | 108,955                     | (107,990)           | 965              | 0                                 |
| Taxation & Non-Specific Grant Income                                 | 0                | 0                   | 0                | (308,682)                   | 0                   | (308,682)        | 0                                 |
| Commissioner's Funding to the Chief Constable for Resources Consumed | 0                | (285,398)           | (285,398)        | 0                           | 285,398             | 285,398          | 0                                 |
| <b>(Surplus)/deficit on the Provision of Services</b>                | 0                | 123,808             | 123,808          | 118,046                     | (123,808)           | (5,762)          | 0                                 |
| (Surplus)/deficit on revaluation of Non-Current Assets               | 0                | 0                   | 0                | (682)                       | 0                   | (682)            | 0                                 |
| Actuarial (gains)/losses on Pension assets / liabilities             | 0                | 137,735             | 137,735          | 137,735                     | (137,735)           | 0                | 0                                 |
| <b>Total Comprehensive Income &amp; Expenditure</b>                  | 0                | 261,543             | 261,543          | 255,099                     | (261,543)           | (6,444)          | 0                                 |

### Other – Consistency of accounting policies

The accounting policies contained within these accounts are the same for the Commissioner and the Chief Constable. There has thus been no requirement to make any restatements in the group accounts, which would be required in the event of any differences to achieve uniformity.

## 4 - Critical Judgements in Applying Accounting Policies

In applying the accounting policies, the Chief Constable has to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- There are significant cuts in levels of funding over the next three years which the former police authority had anticipated during 2010/11 and was able to plan for budget reductions and how this would impact upon service delivery and performance. There remains a degree of uncertainty about longer term levels of funding beyond 2014/15.
- In the light of changes to the policing structure and the resource issues faced by the Commissioner in the short and medium term, the Commissioner finalised his estate development plan in June 2013, heralding major changes to service delivery and the force estate structure. This will culminate in a reduction in the current estate, a plan to

## Notes to the core financial statements

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invest in updating the current custody estate through the creation of prisoner investigation centres and through the extension of joint working and co-location with other local authorities and other partners as bases for safer neighbourhood teams. This will make the estate fit for purpose and will enable the Commissioner to maintain high levels of service and performance at a time when significant budget reductions are being experienced.

The previous section makes reference to the decisions which were made in preparing the 2012/13 Statement of Accounts concerning accounting for the Chief Constable as a 'corporation sole' but who is effectively a wholly-owned subsidiary of the Commissioner. At that time there were some overriding factors which led to a decision to treat the Chief Constable as effectively an agent of the Commissioner: namely the overall strategic control the Commissioner has over the activities of the Chief Constable, his control over all resources, assets and liabilities, his funding arrangements and his ability to dismiss the Chief Constable. Added to this, the post of the Commissioner was relatively new and the relationship between the two parties was something which was still being worked through at the time the accounts were prepared. Finally, as a local authority, the Commissioner has some statutory overrides in his accounting for certain items of his income expenditure, which provide a link between the funding basis of the Commissioner and his statutory accounts. However, the Chief Constable did not receive the benefit of these statutory overrides until after the 2012/13 accounts were produced. The result of all of these factors was that the statutory accounts were prepared on a different basis in 2012/13 to 2013/14.

In these accounts, we take notice of the following factors:-

- The Chief Constable is now classed as a local authority, allowing him to benefit from the statutory overrides contained in the Accounts and Audit Regulations 2011;
- Clearer guidance on the accounting arrangements has been received from CIPFA in the form of Local Authority Accounting Panel (LAAP) Bulletins and other communiqués. This guidance aims to draw a distinction between both the form and substance of the arrangements between the two parties, the nature of control being a balance between strategic and operational control and the fact that, whilst the Commissioner can remove the Chief Constable himself, he cannot remove the role per se;
- Guidance from the Audit Commission regarding its instructions to external audit bodies in the wake of the prevailing guidance received by local authorities from CIPFA;
- The relationship between the Commissioner and the Chief Constable which is clearer and more established after 18 months of working together in these new arrangements.

As a result of the above, we have reviewed the various aspects of the relationship between the Commissioner (PCC) and the Chief Constable (CC) in order to determine how to account for these in the 2013/14 Statement of Accounts:-

|             | Accounting determination |    | Reasoning   |
|-------------|--------------------------|----|---|
|             | PCC                      | CC |   |
| Expenditure | √                        | √  | CC to record all expenditure on staff, buildings, supplies and services, vehicles etc. which is |

## Notes to the core financial statements

| Consideration   | Accounting determination |    | Reasoning  |
|---|--------------------------|----|--|
|   | PCC                      | CC |  |
|   |                          |    | employed in the delivery of operational policing except those directly attributable to the activity and functions of the PCC   |
| Employees – IAS19   |                          | √  | As most members of staff are under the day to day operational command of the CC, the IAS 19 (employment benefits, including pensions and the adjustments in respect of accrued employee benefits) charges/credits are attributed to the CC. The net IAS19 adjustments are subject to statutory overrides in the Movement in Reserves Statement.  |
| Charges for assets – i.e. depreciation and impairment   | √                        |    | Whilst the CC has day to day operational control of most assets such as buildings and vehicles, the PCC manages the estate and the strategic direction of the use of that estate. Additionally, he provides resources for the purchase of new assets, uses the proceeds from the sale of assets to fund future development or to pay down long-term debt and is responsible for the long- term decisions relating to the financing of his capital expenditure. |
| Income – General Grants and Taxation  | √                        |    | The PCC sets the precept and is the only recipient of general grants. The PCC receives the income which is put into the Police Fund.   |
| Income – specific grants, service income (events, statutory charges etc.) and other contributions and donations | √                        | √  | This is recorded in the accounts of whichever party the income is directly attributable or whose activities it relates to.   |
| Working capital – debtors, creditors, provisions  | √                        | √  | The PCC settles all of the outstanding cash payments through his overall control of the resources available for policing in the county. Debtors and creditors are recorded in the CIES of the Commissioner and the Chief Constable to show the cost of their activities, but the balance sheet entries in respect of these belong to the PCC.  |
| Reserves- General fund reserve, earmarked general fund reserves, other usable reserves                          | √                        |    | As the PCC controls and owns the Police Fund, he owns the associated reserves.   |
| Reserves - unusable   | √                        | √  | These are accounting reserves, required for different reasons most of which relate to the statutory overrides and accounting for assets. Most  |

## Notes to the core financial statements

| Consideration | Accounting determination |    | Reasoning   |
|---------------|--------------------------|----|---|
|               | PCC                      | CC |   |
|               |                          |    | of these are attributable to the PCC, with the exceptions being those relating to the IAS19 entries in the accounts – i.e. the pensions reserve and the accumulated absences account – as these follow the staff to which they relate (i.e. and which are recorded in the CC's Comprehensive Income and Expenditure Statement). |

### 5 - Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Chief Constable 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 different from the assumptions and estimates.

The items in the Chief Constable's Balance Sheet at 31 March 2014 for which there is a risk of material adjustment in the forthcoming financial year are as follows:

| Item               | Uncertainties   | Effect if Actual Results Differ from Assumptions   |
|--------------------|---|--|
| Pensions Liability | Estimation of net liability to pay pensions depends upon a number of complex judgements in relation to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. The Chief Constable receives annual forecasts and regular reviews of all of its assets and liabilities from an independent actuary to ensure that the accounts contain realistic estimates of the overall impact of these pensions liabilities. | <p>The effects of the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.1% increase in the discount rate assumptions would result in a decrease in the Police Pension Schemes liabilities of 1.7% and a decrease in the Local Government Superannuation Scheme liabilities of 2.2%.</p> <p>However, the assumptions interact in complex ways. More details are provided in the IAS19 disclosures at note 8.</p> |

## Notes to the core financial statements

### 6 - Service Reporting Code of Practice (SeRCOP) Income and Expenditure Statement re-presented on a subjective basis

| 2012/13               |                 |                 | Gross Expenditure  | 2013/14         |                 |                 | Note   |
|-----------------------|-----------------|-----------------|--|-----------------|-----------------|-----------------|--------|
| PCC<br>£'000          | CC<br>£'000     | Group<br>£'000  |  | PCC             | CC              | Group<br>£'000  |        |
| 519                   | 284,905         | 285,424         | Employees (including police pensions)                                      | 896             | 281,192         | 282,088         |        |
| 172                   | 11,400          | 11,572          | Premises   | 222             | 12,687          | 12,909          |        |
| 0                     | 4,861           | 4,861           | Transport  | 1               | 4,956           | 4,957           |        |
| 28                    | 3,595           | 3,623           | Travel and Subsistence   | 33              | 3,612           | 3,645           |        |
| 2                     | 4,585           | 4,587           | IT and Communications  | 0               | 3,982           | 3,982           |        |
| 535                   | 32,147          | 32,682          | Supplies and Services  | 541             | 44,472          | 45,013          |        |
| 218                   | 369             | 587             | Grants   | 1,789           | 319             | 2,108           |        |
| 159                   | 0               | 159             | Members Allowances   | 0               | 0               | 0               |        |
| 13,900                | 0               | 13,900          | Depreciation and Impairment  | 9,731           | 0               | 9,731           | 19, 21 |
| <b>15,533</b>         | <b>341,862</b>  | <b>357,395</b>  | <b>Gross cost of services</b>  | <b>13,213</b>   | <b>351,220</b>  | <b>364,433</b>  |        |
| <b>Service Income</b> |                 |                 |  |                 |                 |                 |        |
| (3)                   | (25,999)        | (26,002)        | Service Income   | 0               | (38,683)        | (38,683)        |        |
| (135)                 | (14,647)        | (14,782)        | Additional Grants  | (137)           | (6,340)         | (6,477)         | 13     |
| <b>(138)</b>          | <b>(40,646)</b> | <b>(40,784)</b> | <b>Total Service Income</b>  | <b>(137)</b>    | <b>(45,023)</b> | <b>(45,160)</b> |        |
| 285,398               | (285,398)       | 0               | Intra group adjustment   | 290,474         | (290,474)       | 0               |        |
| <b>300,793</b>        | <b>15,818</b>   | <b>316,611</b>  | <b>Net Cost of Services</b>  | <b>303,550</b>  | <b>15,723</b>   | <b>319,273</b>  |        |
| 1,162                 | 0               | 1,162           | Other operating income and expenditure                                     | 1,699           | 0               | 1,699           | 17     |
| 965                   | 107,990         | 108,955         | Financing and investment income and expenditure                            | 922             | 110,840         | 111,762         | 18     |
| 0                     | 0               | 0               | Surplus or deficit of discontinued operations                              |                 |                 |                 |        |
| (308,682)             | 0               | (308,682)       | Taxation and non specific grant income                                     | (316,861)       | 0               | (316,861)       | 13     |
| <b>(5,762)</b>        | <b>123,808</b>  | <b>118,046</b>  | <b>(Surplus) or Deficit on Provision of Services</b>                       | <b>(10,690)</b> | <b>126,563</b>  | <b>115,873</b>  |        |
| (682)                 | 0               | (682)           | (Surplus) / deficit on revaluation of Property, Plant and Equipment assets | (421)           | 0               | (421)           | 19     |
| 0                     | 0               | 0               | Any other (gains) / losses   | 0               | 0               | 0               |        |
| 0                     | (16,590)        | (16,590)        | Return on plan assets  | 0               | 20,150          | 20,150          |        |
| 0                     | 154,325         | 154,325         | Actuarial (gains)/losses on pension assets/liabilities                     | 0               | (113,812)       | (113,812)       | 8      |
| <b>(682)</b>          | <b>137,735</b>  | <b>137,053</b>  | <b>Other Comprehensive Income and Expenditure</b>                          | <b>(421)</b>    | <b>(93,662)</b> | <b>(94,083)</b> |        |
| <b>(6,444)</b>        | <b>261,543</b>  | <b>255,099</b>  | <b>Total Comprehensive Income and Expenditure</b>                          | <b>(11,111)</b> | <b>32,901</b>   | <b>21,790</b>   |        |

### 7 - Amounts reported for Resource Making Decisions

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Best Value Accounting Code of Practice. However, decisions about resource allocation are taken by the Chief Constable on the basis of budget reports analysed across the operational directorates within the Constabulary and the Commissioner's own activities. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- no charges are made in relation to capital expenditure (whereas depreciation, revaluation and impairment losses in excess of the balance on the Revaluation Reserve and amortisations are charged to services in the Comprehensive Income and Expenditure Statement);
- the cost of retirement benefits is based on cash flows (payment of employer's pensions contributions) rather than current service cost of benefits accrued in the year;
- the expenditure on some support services is budgeted for centrally and not charged to operational directorates (portfolios).

The income and expenditure of the Chief Constable's principal operational directorates and the Commissioner itself as recorded in the budget reports for the year is shown on the following pages. There are separate pages for 2013/14 and for 2012/13 as the comparator. The first provides a reconciliation of the income and expenditure to the operational directorates (portfolios) to the Cost of Services shown in the Comprehensive Income and Expenditure Statement. The second page reconciles the same to the subjective analysis shown in note 6.

The figures reported to the Chief Constable in June are based on the outturn figures as that time. As the year-end closedown of the accounts progresses and is subject to changes up to the time the audit of the accounts is finalised by the end of September, the figures reported in this note as being 'per the outturn report' may differ from those which were initially presented to the Chief Constable. As such, they represent the updated figures which would be reported at the time the audited accounts are approved.

Note that changes to the organisational structure/operational portfolios in the constabulary in 2013/14 have been reported as a prior period adjustment due to the scale of those changes and to aid comparability between years. Consequently, the 2012/13 comparator figures in the table below are the restated figures. See note 3 for further details of the changes made.



## Notes to the core financial statements

| 2013/14   | Chief Constable and Chief Officers Group | Deputy Chief Constable | Assistant Chief Constable: Crime and Criminal Justice | Assistant Chief Constable: Territorial Operations | Assistant Chief Constable: Operations | Director of Corporate Services & HR | Chief Finance Officer | General Items | Police and Crime Commissioner | Group Total     |
|---|--|------------------------|---|---|---------------------------------------|-------------------------------------|-----------------------|---------------|-------------------------------|-----------------|
|   | £'000                                    | £'000                  | £'000   | £'000   | £'000                                 | £'000                               | £'000                 | £'000         | £'000                         | £'000           |
| <b>Expenditure:</b>   |  |                        |   |   |                                       |                                     |                       |               |                               |                 |
| Employees   | 232                                      | 23,167                 | 50,540  | 142,525   | 22,424                                | 10,610                              | 1,221                 | 4,811         | 896                           | 256,426         |
| Premises  | -  | 10,496                 | 51  | 19  | 343                                   | 50                                  | -                     | -             | 222                           | 11,181          |
| Transport   | 8  | 570                    | 324   | 1,305   | 596                                   | 2,080                               | -                     | -             | -                             | 4,883           |
| Travel and Subsistence  | 8  | 783                    | 696   | 889   | 367                                   | 224                                 | 4                     | 125           | 33                            | 3,129           |
| IT and Communications   | -  | 392                    | 63  | 2,672   | 52                                    | 61                                  | -                     | -             | -                             | 3,240           |
| Supplies and Services   | 42                                       | 16,383                 | 9,108   | 1,489   | 12,203                                | 1,118                               | 1,557                 | 273           | 541                           | 42,714          |
| Members' Allowances   | -  | -                      | -   | -   | -                                     | -                                   | -                     | -             | -                             | 0               |
| National Levies   | -  | -                      | -   | -   | -                                     | -                                   | -                     | 1,825         | -                             | 1,825           |
| Grants Paid   | 50                                       | 72                     | 107   | 12  | -                                     | -                                   | -                     | 11            | 1,789                         | 2,041           |
| Capital Financing (net)   | -  | -                      | -   | -   | -                                     | -                                   | -                     | 3,397         | -                             | 3,397           |
| <b>Total Expenditure</b>  | <b>340</b>                               | <b>51,863</b>          | <b>60,889</b>   | <b>148,911</b>                                    | <b>35,985</b>                         | <b>14,143</b>                       | <b>2,782</b>          | <b>10,442</b> | <b>3,481</b>                  | <b>328,836</b>  |
| <b>Income:</b>  |  |                        |   |   |                                       |                                     |                       |               |                               |                 |
| Service Income  | (6)                                      | (1,284)                | (3,222)   | (701)   | (16,647)                              | (701)                               | (122)                 | (557)         | (1)                           | (23,241)        |
| Additional Specific Grants  | -  | (145)                  | (3,917)   | (44)  | -                                     | (1)                                 | -                     | -             | (124)                         | (4,231)         |
| Government Grants and Contributions   | -  | -                      | -   | -   | -                                     | -                                   | -                     | (215)         | (1,459)                       | (1,674)         |
| <b>Total Income</b>   | <b>(6)</b>                               | <b>(1,429)</b>         | <b>(7,139)</b>  | <b>(745)</b>                                      | <b>(16,647)</b>                       | <b>(702)</b>                        | <b>(122)</b>          | <b>(772)</b>  | <b>(1,584)</b>                | <b>(29,146)</b> |
| <b>Contributions to/(from) reserves</b>   | <b>0</b>                                 | <b>(4,346)</b>         | <b>(517)</b>  | <b>(1,885)</b>                                    | <b>15</b>                             | <b>(612)</b>                        | <b>(27)</b>           | <b>8,756</b>  | <b>1,652</b>                  | <b>3,036</b>    |
| <b>Net Expenditure</b>  | <b>334</b>                               | <b>46,088</b>          | <b>53,233</b>   | <b>146,281</b>                                    | <b>19,353</b>                         | <b>12,829</b>                       | <b>2,633</b>          | <b>18,426</b> | <b>3,549</b>                  | <b>302,726</b>  |
| <b>Reconciliation of portfolio Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement</b> |  |                        |   |   |                                       |                                     |                       |               |                               | <b>£000</b>     |
| Net expenditure in the Portfolio Analysis   |  |                        |   |   |                                       |                                     |                       |               |                               | 302,726         |
| Net expenditure of services and support services not included in the Analysis   |  |                        |   |   |                                       |                                     |                       |               |                               | (4)             |
| Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis                            |  |                        |   |   |                                       |                                     |                       |               |                               | 25,768          |
| Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement                                 |  |                        |   |   |                                       |                                     |                       |               |                               | (9,217)         |
| Cost of Services in Comprehensive Income and Expenditure Statement  |  |                        |   |   |                                       |                                     |                       |               |                               | <b>319,273</b>  |

## Notes to the core financial statements

| 2013/14   | Portfolio Analysis<br>£'000 | Services and Support<br>Services not in Analysis<br>£'000 | Amounts not reported to<br>management for decision<br>making<br>£'000 | £ Amounts not included in<br>I&E<br>£'000 | Allocation of Recharges<br>£'000 | Cost of Services<br>£'000 | Corporate Amounts<br>£'000 | Total<br>£'000   |
|---|-----------------------------|---|---|---|----------------------------------|---------------------------|----------------------------|------------------|
| <b>Expenditure:</b>   |                             |   |   |   |                                  |                           |                            |                  |
| Employees   | 256,426                     | 9,625   | 16,037  | -   | -                                | 282,088                   | -                          | 282,088          |
| Premises  | 11,181                      | 1,728   | -   | -   | -                                | 12,909                    | -                          | 12,909           |
| Transport   | 4,883                       | 73  | -   | 1   | -                                | 4,957                     | -                          | 4,957            |
| Travel and Subsistence  | 3,129                       | 515   | -   | 1   | -                                | 3,645                     | -                          | 3,645            |
| IT and Communications   | 3,240                       | 742   | -   | -   | -                                | 3,982                     | -                          | 3,982            |
| Supplies and Services   | 42,714                      | 2,299   | -   | -   | -                                | 45,013                    | -                          | 45,013           |
| Members Allowances  | -                           | -   | -   | -   | -                                | 0                         | -                          | 0                |
| National Levies   | 1,825                       | -   | -   | (1,825)                                   | -                                | 0                         | -                          | 0                |
| Grants Paid   | 2,041                       | 67  | -   | -   | -                                | 2,108                     | -                          | 2,108            |
| Capital Financing (net)   | 3,397                       | -   | -   | (3,397)                                   | -                                | 0                         | -                          | 0                |
| Depreciation, amortisation and<br>impairment                    | -                           | -   | 9,731   | -   | -                                | 9,731                     | -                          | 9,731            |
| Pensions interest cost and<br>expected return on pension assets | -                           | -   | -   | -   | -                                | 0                         | 110,840                    | 110,840          |
| Interest Payments   | -                           | -   | -   | -   | -                                | 0                         | 1,553                      | 1,553            |
| Precepts & Levies   | -                           | -   | -   | -   | -                                | 0                         | 1,825                      | 1,825            |
| Gain or Loss on Disposal of Fixed<br>Assets                     | -                           | -   | -   | -   | -                                | 0                         | (126)                      | (126)            |
| <b>Total Expenditure</b>  | <b>328,836</b>              | <b>15,049</b>   | <b>25,768</b>   | <b>(5,220)</b>                            | <b>0</b>                         | <b>364,433</b>            | <b>114,092</b>             | <b>478,525</b>   |
| <b>Income:</b>  |                             |   |   |   |                                  |                           |                            |                  |
| Service Income  | (23,241)                    | (16,038)  | -   | 596                                       | -                                | (38,683)                  | -                          | (38,683)         |
| Additional Specific Grants                                      | (4,231)                     | (2,246)   | -   | -   | -                                | (6,477)                   | -                          | (6,477)          |
| Interest and investment income                                  | -                           | -   | -   | -   | -                                | 0                         | (631)                      | (631)            |
| Income from council tax   | -                           | -   | -   | -   | -                                | 0                         | (96,272)                   | (96,272)         |
| Government grants and<br>contributions                          | (1,674)                     | -   | -   | 1,674                                     | -                                | 0                         | (220,589)                  | (220,589)        |
| <b>Total Income</b>   | <b>(29,146)</b>             | <b>(18,284)</b>   | <b>0</b>  | <b>2,270</b>                              | <b>0</b>                         | <b>(45,160)</b>           | <b>(317,492)</b>           | <b>(362,652)</b> |
| <b>Contributions to/(from) reserves</b>                         | <b>3,036</b>                | <b>3,231</b>  | <b>0</b>  | <b>(6,267)</b>                            | <b>0</b>                         | <b>0</b>                  | <b>0</b>                   | <b>0</b>         |
| <b>Net Expenditure</b>  | <b>302,726</b>              | <b>(4)</b>  | <b>25,768</b>   | <b>(9,217)</b>                            | <b>0</b>                         | <b>319,273</b>            | <b>(203,400)</b>           | <b>115,873</b>   |

## Notes to the core financial statements

| Restated 2012/13  | Chief Constable and Chief Officers Group | Deputy Chief Constable | Assistant Chief Constable: Crime and Criminal Justice | Assistant Chief Constable: Territorial Operations | Assistant Chief Constable: Operations | Director of Corporate Services & HR | Chief Finance Officer | General Items  | Police and Crime Commissioner | Total           |
|---|--|------------------------|---|---|---------------------------------------|-------------------------------------|-----------------------|----------------|-------------------------------|-----------------|
|   | £'000                                    | £'000                  | £'000   | £'000   | £'000                                 | £'000                               | £'000                 | £'000          | £'000                         | £'000           |
| <b>Expenditure:</b>   |  |                        |   |   |                                       |                                     |                       |                |                               |                 |
| Employees   | 237                                      | 22,876                 | 52,756  | 145,515   | 21,933                                | 11,044                              | 1,321                 | 5,584          | 518                           | 261,784         |
| Premises  | -  | 10,534                 | 11  | 34  | 3                                     | 13                                  | -                     | -              | 172                           | 10,767          |
| Transport   | 8  | 458                    | 355   | 1,404   | 631                                   | 1,973                               | -                     | -              | -                             | 4,829           |
| Travel and Subsistence  | 11                                       | 959                    | 858   | 861   | 236                                   | 214                                 | 46                    | -              | 28                            | 3,213           |
| IT and Communications   | -  | 694                    | 191   | 2,869   | 60                                    | 103                                 | 34                    | -              | 2                             | 3,953           |
| Supplies and Services   | 44                                       | 15,435                 | 9,145   | 2,042   | 1,639                                 | 654                                 | 1,643                 | 163            | 535                           | 31,300          |
| Members' Allowances   | -  | -                      | -   | -   | -                                     | -                                   | -                     | -              | 159                           | 159             |
| National Levies   | -  | -                      | -   | -   | -                                     | -                                   | -                     | 1,012          | -                             | 1,012           |
| Grants Paid   | -  | 102                    | 142   | 117   | 8                                     | -                                   | -                     | -              | 218                           | 587             |
| Capital Financing (net)   | -  | -                      | -   | -   | -                                     | -                                   | -                     | 3,598          | -                             | 3,598           |
| <b>Total Expenditure</b>  | <b>300</b>                               | <b>51,058</b>          | <b>63,458</b>   | <b>152,842</b>                                    | <b>24,510</b>                         | <b>14,001</b>                       | <b>3,044</b>          | <b>10,357</b>  | <b>1,632</b>                  | <b>321,202</b>  |
| <b>Income:</b>  |  |                        |   |   |                                       |                                     |                       |                |                               |                 |
| Service Income  | -  | (3,151)                | (2,694)   | (727)   | (5,002)                               | (477)                               | (185)                 | (677)          | (3)                           | (12,916)        |
| Additional Specific Grants  | -  | -                      | (4,018)   | (12)  | (1,623)                               | -                                   | -                     | (7,564)        | (135)                         | (13,352)        |
| <b>Total Income</b>   | <b>0</b>                                 | <b>(3,151)</b>         | <b>(6,712)</b>  | <b>(739)</b>                                      | <b>(6,625)</b>                        | <b>(477)</b>                        | <b>(185)</b>          | <b>(8,241)</b> | <b>(138)</b>                  | <b>(26,268)</b> |
| <b>Contributions to/(from) reserves</b>   | <b>0</b>                                 | <b>(2,776)</b>         | <b>(488)</b>  | <b>(1,075)</b>                                    | <b>(192)</b>                          | <b>(994)</b>                        | <b>0</b>              | <b>10,281</b>  | <b>(129)</b>                  | <b>4,627</b>    |
| <b>Net Expenditure</b>  | <b>300</b>                               | <b>45,131</b>          | <b>56,258</b>   | <b>151,028</b>                                    | <b>17,693</b>                         | <b>12,530</b>                       | <b>2,859</b>          | <b>12,397</b>  | <b>1,365</b>                  | <b>299,561</b>  |
| <b>Reconciliation of portfolio Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement</b> |  |                        |   |   |                                       |                                     |                       |                |                               | <b>£000</b>     |
| Net expenditure in the Portfolio Analysis   |  |                        |   |   |                                       |                                     |                       |                |                               | 299,561         |
| Net expenditure of services and support services not included in the Analysis   |  |                        |   |   |                                       |                                     |                       |                |                               | 382             |
| Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis                            |  |                        |   |   |                                       |                                     |                       |                |                               | 29,214          |
| Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement                                 |  |                        |   |   |                                       |                                     |                       |                |                               | (12,546)        |
| <b>Cost of Services in Comprehensive Income and Expenditure Statement</b>   |  |                        |   |   |                                       |                                     |                       |                |                               | <b>316,611</b>  |

## Notes to the core financial statements

| Restated 2012/13  | Portfolio Analysis<br>£'000 | Services and Support<br>Services not in<br>Analysis<br>£'000 | Amounts not reported<br>to management for<br>decision making<br>£'000 | Amounts not included<br>in I&E<br>£'000 | Allocation of Recharges<br>£'000 | Cost of Services<br>£'000 | Corporate Amounts<br>£'000 | Total<br>£'000   |
|---|-----------------------------|--|---|---|----------------------------------|---------------------------|----------------------------|------------------|
| <b>Expenditure:</b>   |                             |  |   |   |                                  |                           |                            |                  |
| Employees   | 261,784                     | 8,255  | 15,385  | -                                       | -                                | 285,424                   | -                          | 285,424          |
| Premises  | 10,767                      | 805  | -   | -                                       | -                                | 11,572                    | -                          | 11,572           |
| Transport   | 4,829                       | 32   | -   | -                                       | -                                | 4,861                     | -                          | 4,861            |
| Travel and Subsistence  | 3,213                       | 410  | -   | -                                       | -                                | 3,623                     | -                          | 3,623            |
| IT and Communications   | 3,953                       | 634  | -   | -                                       | -                                | 4,587                     | -                          | 4,587            |
| Supplies and Services   | 31,300                      | 1,382  | -   | -                                       | -                                | 32,682                    | -                          | 32,682           |
| Members Allowances  | 159                         | -  | -   | -                                       | -                                | 159                       | -                          | 159              |
| National Levies   | 1,012                       | -  | -   | (1,012)                                 | -                                | 0                         | -                          | 0                |
| Grants Paid   | 587                         | 34   | -   | (34)                                    | -                                | 587                       | -                          | 587              |
| Capital Financing (net)   | 3,598                       | -  | -   | (3,598)                                 | -                                | 0                         | -                          | 0                |
| Depreciation, amortisation and<br>impairment                      | -                           | -  | 13,900  | -                                       | -                                | 13,900                    | -                          | 13,900           |
| Pensions interest cost and expected<br>return on pension assets   | -                           | -  | -   | -                                       | -                                | 0                         | 107,990                    | 107,990          |
| Interest Payments   | -                           | -  | -   | -                                       | -                                | 0                         | 1,654                      | 1,654            |
| Precepts & Levies   | -                           | -  | -   | -                                       | -                                | 0                         | 1,012                      | 1,012            |
| Assets  | -                           | -  | -   | -                                       | -                                | 0                         | 150                        | 150              |
| <b>Total Expenditure</b>  | <b>321,202</b>              | <b>11,552</b>  | <b>29,285</b>   | <b>(4,644)</b>                          | <b>0</b>                         | <b>357,395</b>            | <b>110,806</b>             | <b>468,201</b>   |
| <b>Income:</b>  |                             |  |   |   |                                  |                           |                            |                  |
| Service Income  | (12,916)                    | (13,704)   | (71)  | 689                                     | -                                | (26,002)                  | -                          | (26,002)         |
| Additional Specific Grants  | (13,352)                    | (1,430)  | 0   | -                                       | -                                | (14,782)                  | -                          | (14,782)         |
| Interest and investment income                                    | -                           | -  | -   | -                                       | -                                | 0                         | (689)                      | (689)            |
| Income from council tax<br>Government grants and<br>contributions | -                           | -  | -   | -                                       | -                                | 0                         | (101,975)                  | (101,975)        |
|   | -                           | -  | -   | -                                       | -                                | 0                         | (206,707)                  | (206,707)        |
| <b>Total Income</b>   | <b>(26,268)</b>             | <b>(15,134)</b>  | <b>(71)</b>   | <b>689</b>                              | <b>0</b>                         | <b>(40,784)</b>           | <b>(309,371)</b>           | <b>(350,155)</b> |
| <b>Contributions to/(from) reserves</b>                           | <b>4,627</b>                | <b>3,964</b>   | <b>0</b>  | <b>(8,591)</b>                          | <b>0</b>                         | <b>0</b>                  | <b>0</b>                   | <b>0</b>         |
| <b>Net Expenditure</b>  | <b>299,561</b>              | <b>382</b>   | <b>29,214</b>   | <b>(12,546)</b>                         | <b>0</b>                         | <b>316,611</b>            | <b>(198,565)</b>           | <b>118,046</b>   |

### 8 - IAS19 (Pensions Accounting) entries and disclosures

#### Participation in pensions schemes

As part of the terms and conditions of employment of its officers and other employees, the Chief Constable offers retirement benefits. Although these benefits will not actually be payable until employees retire, the Chief Constable has a commitment to make the payments that needs to be disclosed at the time that employees earn their future entitlement.

The Chief Constable participates in three post employment schemes:

- The Local Government Pension Scheme (LGPS) for support staff, administered by Hampshire County Council. This is a funded defined benefit final salary scheme, meaning that the Chief Constable and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets;
- Arrangements for the award of discretionary post retirement benefits upon early retirement in respect of members of the LGPS. Liabilities are recognised when an award is made and the Chief Constable recognises gains and losses in full, immediately through Other Comprehensive Income and Expenditure. Note that the employer's liabilities under these arrangements are not material and the relevant transactions and liabilities are included with the overall LGPS funded scheme;
- The Police Pension Schemes for police officers. These are unfunded defined benefit final salary schemes, meaning that there are no investment assets built up to meet the pensions liabilities, and cash has to be generated to meet actual pensions payments as they eventually fall due. Under the Police Pension Fund Regulations 2007, if the amount receivable by the pensions fund for the year is less than amount paid out, the Commissioner must annually transfer an amount required to meet the deficit to the pension fund. Subject to parliamentary approval, up to 100% of this cost is met by a central government pension top-up grant. If however the pension fund is in surplus for the year, the surplus is required to be transferred from the pension fund to the Commissioner which must then repay the amount to central government.

#### Transactions relating to retirement benefits

The cost of retirement benefits is recognised in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charges made against the precept are based on the cash payable in the year, so the real cost of post employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

## Notes to the core financial statements

|  | Police Pension   |                  | New Police     |                 | LGPS            |                 |
|--|------------------|------------------|----------------|-----------------|-----------------|-----------------|
|  | Scheme (PPS)     |                  | Pension Scheme |                 | (police staff)  |                 |
|  | 2012/13          | 2013/14          | 2012/13        | 2013/14         | 2012/13         | 2013/14         |
|  | £'000            | £'000            | £'000          | £'000           | £'000           | £'000           |
| <b>Comprehensive Income and Expenditure Statement</b>  |                  |                  |                |                 |                 |                 |
| <i>Cost of Services</i>  |                  |                  |                |                 |                 |                 |
| - Current service cost   | 41,790           | 42,680           | 7,450          | 8,460           | 9,580           | 11,040          |
| - Past service costs   | 0                | 0                | 0              | 0               | 480             | 190             |
| - (Gain)/loss from settlements   |                  |                  |                |                 |                 | (4,960)         |
| <i>Financing and Investment Income and Expenditure</i>   |                  |                  |                |                 |                 |                 |
| Net interest expense   | 100,310          | 101,930          | 2,090          | 2,560           | 4,270           | 4,010           |
| <i>Total Charge to the Surplus or Deficit on the Provision of Services</i>                         | <b>142,100</b>   | <b>144,610</b>   | <b>9,540</b>   | <b>11,020</b>   | <b>14,330</b>   | <b>10,280</b>   |
| <i>Other post-employment benefit charged to the Comprehensive Income and Expenditure Statement</i> |                  |                  |                |                 |                 |                 |
| <i>Remeasurement of the net defined benefit liability comprising:</i>                              |                  |                  |                |                 |                 |                 |
| Return on plan assets (excluding the amount included in the net interest expense)                  | 0                | 0                | 0              | 0               | (16,590)        | 20,150          |
| - Actuarial (Gains)/Losses arising:-   |                  |                  |                |                 |                 |                 |
| - from changes in experience   | (550)            | 180              | (10)           | (10)            | 9,670           | (2,480)         |
| - from changes in demographic assumptions  | 0                | 29,040           | 0              | 1,170           | 0               | (9,210)         |
| - from changes in financial assumptions  | 126,930          | (136,103)        | 11,415         | (1,399)         | (80)            | 6,550           |
| <i>Total post-employment benefit charged to the Comprehensive Income and Expenditure Statement</i> | <b>268,480</b>   | <b>37,727</b>    | <b>20,945</b>  | <b>10,781</b>   | <b>7,330</b>    | <b>25,290</b>   |
| <i>Movement in Reserves Statement</i>  |                  |                  |                |                 |                 |                 |
| Reverse charge to Provision of Services  | <b>(142,100)</b> | <b>(144,610)</b> | <b>(9,540)</b> | <b>(11,020)</b> | <b>(14,330)</b> | <b>(10,280)</b> |
| <i>Actual Amount charged against the General Fund Balance for pensions in the year</i>             |                  |                  |                |                 |                 |                 |
| Employer's contributions to the scheme   | <b>25,870</b>    | <b>24,307</b>    | <b>4,905</b>   | <b>5,131</b>    | <b>11,508</b>   | <b>11,650</b>   |
| Benefits paid direct to beneficiaries  | <b>0</b>         | <b>0</b>         | <b>0</b>       | <b>0</b>        | <b>22</b>       | <b>0</b>        |
| <i>Charge on General Fund</i>  | <b>25,870</b>    | <b>24,307</b>    | <b>4,905</b>   | <b>5,131</b>    | <b>11,530</b>   | <b>11,650</b>   |

[table continues on the next page]

## Notes to the core financial statements

|  |  | Injury Pensions<br>(police officers) |              | All schemes -<br>Summary |                |
|--|--|--------------------------------------|--------------|--------------------------|----------------|
|  |  | 2012/13                              | 2013/14      | 2012/13                  | 2013/14        |
|  |  | £'000                                | £'000        | £'000                    | £'000          |
| <b>Comprehensive Income and Expenditure Statement</b>  |  |                                      |              |                          |                |
| <i>Cost of Services</i>  |  |                                      |              |                          |                |
| - Current service cost   |  | 1,460                                | 1,520        | 60,280                   | 63,700         |
| - Past service cost  |  | 0                                    | 0            | 480                      | 190            |
| -(Gain)/loss from settlements  |  | 0                                    | 0            | 0                        | (4,960)        |
| <i>Financing and Investment Income and Expenditure</i>   |  |                                      |              |                          |                |
| Net interest expense   |  | 2,260                                | 2,340        | 108,930                  | 110,840        |
| <b>Total Charge to the Surplus or Deficit on the Provision of Services</b>                         |  | <b>3,720</b>                         | <b>3,860</b> | <b>169,690</b>           | <b>169,770</b> |
| <i>Other post employment benefit charged to the Comprehensive Income and Expenditure Statement</i> |  |                                      |              |                          |                |
| <i>Remeasurement of the net defined benefit liability comprising:</i>                              |  |                                      |              |                          |                |
| - Return on plan assets  |  | 0                                    | 0            | (16,590)                 | 20,150         |
| - Actuarial (Gains)/Losses arising:-   |  |                                      |              |                          |                |
| - from changes in experience   |  | (10)                                 | 80           | 9,100                    | (2,230)        |
| - from changes in demographic assumptions  |  | 0                                    | 640          | 0                        | 21,640         |
| - from changes in financial assumptions  |  | 4,380                                | (2,270)      | 142,645                  | (133,222)      |
| <b>Total post employment benefit charged to the Comprehensive Income and Expenditure Statement</b> |  | <b>8,090</b>                         | <b>2,310</b> | <b>304,845</b>           | <b>76,108</b>  |
| <i>Movement in Reserves Statement</i>  |  |                                      |              |                          |                |
| Reverse charge to Provision of Services  |  | (3,720)                              | (3,860)      | (169,690)                | (169,770)      |
| <i>Actual Amount charged against the General Fund Balance for pensions</i>                         |  |                                      |              |                          |                |
| Employer's contributions payable to the scheme   |  | 0                                    | 0            | 42,283                   | 41,088         |
| Benefits paid direct to beneficiaries  |  | 1,430                                | 1,770        | 1,452                    | 1,770          |
| <b>Charge on General Fund</b>  |  | <b>1,430</b>                         | <b>1,770</b> | <b>43,735</b>            | <b>42,858</b>  |

The IAS19 accounting standard which applies to post employment benefits has been revised and this came into effect from the start of the 2013/14 financial year. The main impact of this standard for the Chief Constable is restricted to funded pension schemes and has the effect of increasing the charges to the CIES and the net interest expense, which is shown under 'Financing and Investment Income and Expenditure' in the CIES. The actuarial gains and losses on pensions assets and liabilities show with the opposite effect of the above changes: thus that the overall impact on the 'Total Comprehensive Income and Expenditure' is neutral.

The implementation of the new IAS19 reflects a change in accounting policy. Where the impact of a change in accounting policy is material, the Code requires that this should be shown as an adjustment to the figures for the comparator year. However, as most of the employees are members of the unfunded police schemes, the impact in Hampshire is not material: as such, no adjustments are made to the prior period in the main accounting statements. Notwithstanding this, to aid the reader's understanding and to reflect the fact that the analysis of the various transactions in relation to reporting post-employment benefits has changed the table above presents all relevant figures in accordance with the new accounting standard and the table which follows shows the figures previously reported in 2012/13.



## Notes to the core financial statements

|  | Police Pension<br>Scheme (PPS)<br>2012/13<br>£'000 | New Police<br>Pension Scheme<br>2012/13<br>£'000                   | LGPS<br>(police staff)<br>2012/13<br>£'000             |
|--|--|--|--|
| <b>Comprehensive Income and Expenditure Statement</b>  |  |  |  |
| <i>Cost of Services</i>  |  |  |  |
| Current service cost   | 40,830   | 7,280  | 9,100  |
| Past service costs   | 0  | 0  | 480  |
| <i>Financing and Investment Income and Expenditure</i>   |  |  |  |
| Interest costs   | 101,270  | 2,260  | 12,350   |
| Expected return on assets  | 0  | 0  | (10,180)   |
| <i>Total Charge to the Surplus or Deficit on the Provision of Services</i>                         | <b>142,100</b>                                     | <b>9,540</b>   | <b>11,750</b>  |
| <i>Other post employment benefit charged to the Comprehensive Income and Expenditure Statement</i> |  |  |  |
| Actuarial (Gains)/Losses   | 126,380  | 11,405   | (4,420)  |
| <i>Total post employment benefit charged to the Comprehensive Income and Expenditure Statement</i> | <b>268,480</b>                                     | <b>20,945</b>  | <b>7,330</b>   |
| <i>Movement in Reserves Statement</i>  |  |  |  |
| Reverse charge to Provision of Services  | <b>(142,100)</b>                                   | <b>(9,540)</b>   | <b>(11,750)</b>  |
| <i>Actual Amount charged against the General Fund Balance for pensions</i>                         |  |  |  |
| Employer's contributions to the scheme   | <b>25,870</b>                                      | <b>4,905</b>   | <b>11,508</b>  |
| Benefits paid direct to beneficiaries  | <b>0</b>   | <b>0</b>   | <b>22</b>  |
| <i>Charge on General Fund</i>  | <b>25,870</b>                                      | <b>4,905</b>   | <b>11,530</b>  |
|  |  | <b>Injury Pensions<br/>(police officers)<br/>2012/13<br/>£'000</b> | <b>All schemes -<br/>Summary<br/>2012/13<br/>£'000</b> |
| <b>Comprehensive Income and Expenditure Statement</b>  |  |  |  |
| <i>Cost of Services</i>  |  |  |  |
| Current service cost   |  | 1,430  | 58,640   |
| Past service cost  |  | 0  | 480  |
| <i>Financing and Investment Income and Expenditure</i>   |  |  |  |
| Interest costs   |  | 2,290  | 118,170  |
| Expected return on assets  |  | 0  | (10,180)   |
| <i>Total Charge to the Surplus or Deficit on the Provision of Services</i>                         |  | <b>3,720</b>   | <b>167,110</b>   |
| <i>Other post employment benefit charged to the Comprehensive Income and Expenditure Statement</i> |  |  |  |
| Actuarial (Gains)/Losses   |  | <b>4,370</b>   | 137,735  |
| <i>Total post employment benefit charged to the Comprehensive Income and Expenditure Statement</i> |  | <b>8,090</b>   | <b>304,845</b>   |
| <i>Movement in Reserves Statement</i>  |  |  |  |
| Reverse charge to Provision of Services  |  | <b>(3,720)</b>   | <b>(167,110)</b>                                       |
| <i>Actual Amount charged against the General Fund Balance for pensions</i>                         |  |  |  |
| Employer's contributions payable to the scheme   |  | <b>0</b>   | <b>42,283</b>  |
| Benefits paid direct to beneficiaries  |  | <b>1,430</b>   | <b>1,452</b>   |
| <i>Charge on General Fund</i>  |  | <b>1,430</b>   | <b>43,735</b>  |

### Pensions assets and liabilities recognised in the Balance Sheet

The nature of the schemes is explained in the accounting policies and further information is also given in the police pension fund account. Under the projected unit method the current service cost will increase as the members of the scheme approach retirement.

There are no material prepaid or accrued pensions contributions at 31 March 2014.

The figures shown in this note are taken from the actuary's disclosure. The net liability shown in this note differs to the amount shown in the balance sheet as the entries in the revenue account and balance sheet have had the actuary's estimated contributions figure replaced by the actual figure. The difference is not material (£97,000), especially as all IAS19 figures are estimates.

The nature of the two police pension schemes in operation is explained in the accounting policies. In addition to the police pension schemes the costs of injury pensions falls upon the income and expenditure account.

The amounts included in the Balance Sheet arising from the Chief Constable's obligation in respect of his defined benefit plan are as follows:-

## Notes to the core financial statements

|  | <b>Police Pension Scheme (PPS)</b> |                 | <b>New Police Pension Scheme (NPPS)</b>  |               | <b>Local Govt Pension Scheme</b> |                 |
|--|------------------------------------|-----------------|--|---------------|----------------------------------|-----------------|
|  | 31 March 2013                      | 31 March 2014   | 31 March 2013                            | 31 March 2014 | 31 March 2013                    | 31 March 2014   |
| Value at year ending   | £m                                 | £m              | £m                                       | £m            | £m                               | £m              |
| Present value of the defined benefit obligation                          | 2,411.15                           | 2,424.57        | 59.39                                    | 65.04         | 283.51                           | 290.62          |
| Fair value of plan assets  | 0.00                               | 0.00            | 0.00                                     | 0.00          | (191.56)                         | (185.03)        |
| <b>Sub-total</b>   | <b>2,411.15</b>                    | <b>2,424.57</b> | <b>59.39</b>                             | <b>65.04</b>  | <b>91.95</b>                     | <b>105.59</b>   |
| Other movement in the liability (asset)                                  | 0.00                               | 0.00            | 0.00                                     | 0.00          | 0.00                             | 0.00            |
| <b>Net liability/(asset) arising from the defined benefit obligation</b> | <b>2,411.15</b>                    | <b>2,424.57</b> | <b>59.39</b>                             | <b>65.04</b>  | <b>91.95</b>                     | <b>105.59</b>   |
|  |                                    |                 | <b>Injury Pensions (police officers)</b> |               | <b>Total</b>                     |                 |
| Value at year ending   |                                    |                 | 31 March 2013                            | 31 March 2014 | 31 March 2013                    | 31 March 2014   |
|  |                                    |                 | £m                                       | £m            | £m                               | £m              |
| Present value of the defined benefit obligation                          |                                    |                 | 55.38                                    | 55.92         | 2,809.43                         | 2,836.15        |
| Fair value of plan assets  |                                    |                 | 0.00                                     | 0.00          | (191.56)                         | (185.03)        |
| <b>Sub-total</b>   |                                    |                 | <b>55.38</b>                             | <b>55.92</b>  | <b>2,617.87</b>                  | <b>2,651.12</b> |
| Other movement in the liability (asset)                                  |                                    |                 | 0.00                                     | 0.00          | 0.00                             | 0.00            |
| <b>Net liability/(asset) arising from the defined benefit obligation</b> |                                    |                 | <b>55.38</b>                             | <b>55.92</b>  | <b>2,617.87</b>                  | <b>2,651.12</b> |



## Notes to the core financial statements

### Reconciliation of the Present Value of the Scheme Liabilities (Defined Benefit Obligation)

|   | Police Pension Scheme (PPS) |               | New Police Pension Scheme (NPPS)         |               | Local Govt Pension Scheme |               |
|---|-----------------------------|---------------|--|---------------|---------------------------|---------------|
|   | 2012/13<br>£m               | 2013/14<br>£m | 2012/13<br>£m                            | 2013/14<br>£m | 2012/13<br>£m             | 2013/14<br>£m |
| Opening Balance - 1 April                 | (2,168.54)                  | (2,411.15)    | (43.35)                                  | (59.39)       | (253.27)                  | (283.51)      |
| Current Service Cost                      | (41.79)                     | (42.68)       | (7.45)                                   | (8.46)        | (9.58)                    | (11.04)       |
| Interest Cost                             | (100.31)                    | (101.93)      | (2.09)                                   | (2.56)        | (12.05)                   | (13.23)       |
| Contributions from scheme participants    | (12.27)                     | (12.83)       | (2.11)                                   | (2.45)        | (3.66)                    | (3.84)        |
| Remeasurement (gains) and losses:         |                             |               |  |               |                           |               |
| Actuarial gains and (losses) arising:-    |                             |               |  |               |                           |               |
| - from changes in experience              | 0.55                        | (0.18)        | 0.01                                     | 0.01          | 0.07                      | 2.48          |
| - from changes in demographic assumptions |                             | (29.04)       | 0.00                                     | (1.17)        | 0.00                      | 9.21          |
| - from changes in financial assumptions   | (170.17)                    | 91.07         | (4.16)                                   | 9.39          | (9.66)                    | (6.55)        |
| Liabilities extinguished on settlements   |                             | 0.00          | 0.00                                     | 0.00          | 0.00                      | 11.87         |
| Benefits Paid                             | 81.38                       | 82.17         | (0.24)                                   | (0.41)        | 5.12                      | 4.18          |
| Past service costs                        | 0.00                        | 0.00          | 0.00                                     | 0.00          | (0.48)                    | (0.19)        |
| Closing balance - 31 March                | (2,411.15)                  | (2,424.57)    | (59.39)                                  | (65.04)       | (283.51)                  | (290.62)      |
|   |                             |               | <b>Injury Pensions (police officers)</b> |               | <b>Total</b>              |               |
|   |                             |               | 2012/13<br>£m                            | 2013/14<br>£m | 2012/13<br>£m             | 2013/14<br>£m |
| Opening Balance - 1 April                 |                             |               | (48.72)                                  | (55.38)       | (2,513.88)                | (2,809.43)    |
| Current Service Cost                      |                             |               | (1.46)                                   | (1.52)        | (60.28)                   | (63.70)       |
| Interest Cost                             |                             |               | (2.26)                                   | (2.34)        | (116.71)                  | (120.06)      |
| Contributions from scheme participants    |                             |               | 0.00                                     | 0.00          | (18.04)                   | (19.12)       |
| Remeasurement (gains) and losses:         |                             |               |  |               |                           |               |
| Actuarial gains and (losses) arising:-    |                             |               |  |               |                           |               |
| - from changes in experience              |                             |               | 0.01                                     | (0.08)        | 0.64                      | 2.23          |
| - from changes in demographic assumptions |                             |               | 0.00                                     | (0.64)        | 0.00                      | (21.64)       |
| - from changes in financial assumptions   |                             |               | (4.38)                                   | 2.27          | (188.37)                  | 96.18         |
| Liabilities extinguished on settlements   |                             |               | 0.00                                     | 0.00          | 0.00                      | 11.87         |
| Benefits Paid                             |                             |               | 1.43                                     | 1.77          | 87.69                     | 87.71         |
| Past service costs                        |                             |               | 0.00                                     | 0.00          | (0.48)                    | (0.19)        |
| Closing balance - 31 March                |                             |               | (55.38)                                  | (55.92)       | (2,809.43)                | (2,836.15)    |

## Notes to the core financial statements

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Note that, whilst not being part of the Police Pension Schemes, injury pensions are shown above for the purposes of completeness. Injury pensions are funded directly by the Chief Constable.

There is a large deficit on the pension schemes overall, and the police pensions schemes in particular. However, statutory arrangements for funding the deficit mean that the financial position of the Chief Constable remains healthy:

- the deficit on the Local Government Pension Scheme will be made good by increased contributions over the remaining working life of employees (i.e. before payments fall due) as assessed by the scheme actuary;
- finance is only required to be raised to cover discretionary benefits when the pensions are actually paid;
- finance is only required to be raised to cover police pensions when the pensions are actually paid. At present, 100% of the difference between what is paid out to retired members and the sum of contributions from current members and the Chief Constable is met by additional grant from the Home Office.

The total contributions expected to be made to the Local Government Pension Scheme by the Chief Constable in the year to 31 March 2015 are £11.38m. In addition, Strain on Fund Contributions may be required.

Total expected contributions for the Police Pension Schemes are £67.87m. This figure includes both the Chief Constable's contribution and the Top-Up Grant from the Home Office. In addition, the Chief Constable expects to pay £1.24m directly to beneficiaries of injury pensions.

### Basis for estimating assets and liabilities

The liabilities are the estimated present value of the benefit payments due from the scheme in respect of the employer after the accounting reference date, valued using the projected unit method. Allowance is made for expected future increases in pay and pension and assumptions are made regarding mortality rates.

The Chief Constable employs a building block approach in determining the rate of return on Fund assets. Historical 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 below. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation for the Fund at 31 March 2014.

Both the Police Scheme and the Local Government Pension Scheme assets and liabilities have been assessed by Aon Hewitt Ltd. The principal assumptions used are as below:

## Notes to the core financial statements

|  | Local Government Pension Scheme |         | Police Pension Schemes |         |
|--|---------------------------------|---------|------------------------|---------|
|  | 2012/13                         | 2013/14 | 2012/13                | 2013/14 |
| Mortality assumptions:   |                                 |         |                        |         |
| Longevity at 65 for current pensioners   |                                 |         |                        |         |
| Men  | 24.0                            | 24.4    | 22.6                   | 22.9    |
| Women  | 25.0                            | 26.2    | 25.0                   | 25.4    |
| Longevity at 65 for future pensioners  |                                 |         |                        |         |
| Men  | 25.7                            | 26.5    | 24.3                   | 25.1    |
| Women  | 26.9                            | 28.5    | 26.9                   | 27.7    |
| Financial Assumptions:   |                                 |         |                        |         |
| Inflation - RPI  | 3.40%                           | 3.40%   | 3.35%                  | 3.30%   |
| Inflation - CPI  | 2.50%                           | 2.40%   | 2.45%                  | 2.30%   |
| Rate of general increase in salaries   | 4.40%                           | 3.90%   | 4.35%                  | 3.80%   |
| Rate of increase to pensions in payment  | 2.50%                           | 2.40%   | 2.45%                  | 2.30%   |
| Rate of increase to deferred pensions  | 2.50%                           | 2.40%   | 2.45%                  | 2.30%   |
| Discount rate  | 4.7%                            | 4.4%    | 4.3%                   | 4.3%    |
| Other Assumptions:   |                                 |         |                        |         |
| Take-up of option to convert annual pension into retirement lump sum (90% of members convert this proportion of their pension)   | -                               | -       | 25%                    | 25%     |
| Take-up of option to convert annual pension into retirement lump sum (100% of members convert this proportion of the maximum amount) - pre-01/04/10 service (LGPS only)                        | 25%                             | -       | -                      | -       |
| As above, post-01/04/10 service (LGPS only)  | 75%                             | -       | -                      | -       |
| Assumed surrender by each member on retirement, such that the total cash received (including any accrued lump sum from pre-2008 service) is the following percentage of the permitted maximum: | -                               | 70%     | -                      | -       |



## Notes to the core financial statements

### Sensitivity of assumptions

The estimation of the defined benefit obligations is sensitive to the actuarial assumptions shown previously. The sensitivity analyses below have been determined based on reasonably possible changes to the assumptions occurring at the end of the reporting period and assumes for each change that the assumption analysed changes while all the other assumptions remain constant. In practice, this is unlikely to occur, and changes in some of the assumptions may be interrelated.

The approximate impact of changing the key assumptions on the present value of the defined benefit obligation as at 31 March 2014 and the projected service cost for the year ending 31 March 2015 is set out below:-

#### Baseline:-

##### Police Schemes

Present Value of total obligation (excluding injury benefits) @ 31.3.14 = £2,489.61M

Projected Service cost 2014/15 = £47.14M

##### Local Government Superannuation Scheme

Present Value of total obligation (funded scheme only) @ 31.3.14 = £290.12M

Projected Service cost 2014/15 = £11.2M

|  | + 0.1% p.a. | - 0.1% p.a. | + 0.1% p.a. | - 0.1% p.a. |
|--|-------------|-------------|-------------|-------------|
| <b>Adjustment to discount rate</b>                                   |             |             |             |             |
| * Present value of total obligations (£M)                            | 283.78      | 296.76      | 2,448.11    | 2,533.93    |
| * % change in present value of total obligations                     | -2.2%       | 2.3%        | -1.7%       | 1.8%        |
| * Projected service cost (£M)  | 10.82       | 11.59       | 45.52       | 48.87       |
| * % change in projected service cost                                 | -3.4%       | 3.5%        | -3.4%       | 3.7%        |
| <b>Rate of general increase in salaries</b>                          |             |             |             |             |
| * Present value of total obligations (£M)                            | 291.53      | 288.73      | 2,497.94    | 2,481.33    |
| * % change in present value of total obligations                     | 0.5%        | -0.5%       | 0.3%        | -0.3%       |
| * Projected service cost (£M)  | 11.20       | 11.20       | 47.97       | 46.32       |
| * % change in projected service cost                                 | 0.0%        | 0.0%        | 1.8%        | -1.7%       |
| <b>Rate of increase to pensions in payment and deferred pensions</b> |             |             |             |             |
| * Present value of total obligations (£M)                            | 295.36      | 285.16      | 2,523.90    | 2,457.79    |
| * % change in present value of total obligations                     | 1.8%        | -1.7%       | 1.4%        | -1.3%       |
| * Projected service cost (£M)  | 11.61       | 10.81       | 48.09       | 46.27       |
| * % change in projected service cost                                 | 3.7%        | -3.5%       | 2.0%        | -1.8%       |
| <b>Adjustment to mortality age rating assumption</b>                 |             |             |             |             |
|  | -1 year     | +1 year     | -1 year     | +1 year     |
| * Present value of total obligations (£M)                            | 297.37      | 282.87      | 2,546.17    | 2,433.04    |
| * % change in present value of total obligations                     | 2.5%        | -2.5%       | 2.3%        | -2.3%       |
| * Projected service cost (£M)  | 11.55       | 10.85       | 48.60       | 45.72       |

## Notes to the core financial statements

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The Police Pension Schemes have no assets to cover liabilities. The LGPS assets consist of the following categories, by proportion of the total assets held:

| All assets<br>at 31<br>March<br>2013 |  | Quoted<br>at 31<br>March<br>2014 | Unquoted<br>at 31<br>March<br>2014 |
|--------------------------------------|--|----------------------------------|------------------------------------|
| 57.6%                                | Equities   | 57.6%                            | 3.2%                               |
| 7.8%                                 | Property   | 7.5%                             | 0.0%                               |
| 24.9%                                | Government bonds                                 | 23.5%                            | 0.1%                               |
| 1.3%                                 | Corporate bonds                                  | 1.4%                             | 0.2%                               |
| 2.3%                                 | Cash   | 3.8%                             | 0.0%                               |
| 6.1%                                 | Other (e.g. Hedge funds, currency holdings etc.) | 0.2%                             | 2.5%                               |
| 100.0%                               | Total  | 94.0%                            | 6.0%                               |

Note that the value of the above assets per category may be calculated by applying the above percentages to the fair value of the plan assets as at the Balance Sheet date (see above). The figures as at 31 March 2014 are split between those plan assets which had a quoted market price in an active market and those which did not. As this analysis was not collected in the comparator year, no breakdown as at 31 March 2013 is available.

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### 9 – Corporate and Democratic Core

Corporate and Democratic Core (as defined by the Accounting Code of Practice) is that element of the service expenditure analysis which brings together the costs of democratic representation and management and corporate management. Democratic representation and management concerns corporate policy making and all other member-based activities. Corporate management concerns those activities and costs that relate to the general running of the Commissioner's office. For the Commissioner, Corporate and Democratic Core represents Commissioner costs excluding grants paid out and internal audit costs which are reapportioned as a support service cost over the net cost of service. Corporate and Democratic Core also includes an element of the costs of the Constabulary for time spent supporting and reporting to the Commissioner.

The corporate and democratic core income and expenditure are shown separately on the face of the Comprehensive Income and Expenditure Statement in the analysis in the Net Cost of Police Services section.

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### 10 – Related Parties

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

## Notes to the core financial statements

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The UK Government exerts significant influence through legislation and grant funding. The value of grants received is shown in the Income and Expenditure Account and further details of specific additional grants received are given in note 13.

The Chief Constable makes contributions to pension schemes for both uniformed officers and non-uniformed staff. The Police Pension Schemes are administered by the Chief Constable and the Chief Constable paid £29.438m to the Police Pension Fund as contributions in respect of existing officers and those retiring due to ill-health in the year (£30.775m in 2012/13). The Local Government Pension Scheme is administered by Hampshire County Council and the Chief Constable made employer's contributions of £11.65m in 2013/14 (£11.51m in 2012/13).

The Code also requires Chief Officers in the Constabulary and certain other senior officers to declare if there were any related party (e.g. close family or business associates) transactions due to their ability to influence spending decisions. There were no related party transaction disclosures in 2013/14 (none in 2012/13).

The Chief Constable is a trustee of the Blue Lamp Trust, which is a private company, limited by guarantee, providing support to vulnerable people, grants to local schemes which work towards reducing crime, the fear of crime and the risk of fire and operates a driver education and training facility. The Chief Constable's liability is limited and the purposes of the company will be clear from its memorandum of association; however, as one of a small number of trustees, the Chief Constable exerts influence over the company and its objectives and operations. The Commissioner also made grants to the company to enable it to fulfil its objectives. In 2013/14, grants to the trust and payments for services received by the constabulary totalled £97,500. Whilst not material to the Group, these grants represent a significant proportion of the turnover of the Trust.

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## 11 – Officer and Staff Remuneration

### All Remuneration over £50,000 in bandings of £5,000

The Accounts and Audit Regulations 2011 require the Chief Constable to report on the number of employees who received remuneration totalling more than £50,000 in the year, grouped in £5,000 bands.

Employee costs - i.e. total remuneration - include salary and taxable allowances paid to officers and staff. It does not include employer pension contributions, nor does it show remuneration net of employees' pension contributions. Where appropriate, compensation for loss of employment is also included.

The 2011 regulations define senior police officers for these purposes as being those with the rank of Chief Superintendent or above. However, the Chief Constable has opted to include all staff whose total remuneration falls into the bandings, regardless of their rank. This is consistent with the information given in previous years. Additionally, whilst relevant police officers and senior police staff are subject to a separate disclosure, the numbers in the table above include these individuals. The numbers also include people seconded to national roles whose costs are reimbursed.

| Remuneration Band   | 2012/13             | 2013/14             |
|---------------------|---------------------|---------------------|
|                     | Number of employees | Number of employees |
| £50,000 - £54,999   | 189                 | 165                 |
| £55,000 - £59,999   | 123                 | 118                 |
| £60,000 - £64,999   | 61                  | 65                  |
| £65,000 - £69,999   | 19                  | 21                  |
| £70,000 - £74,999   | 3                   | 6                   |
| £75,000 - £79,999   | 5                   | 6                   |
| £80,000 - £84,999   | 7                   | 8                   |
| £85,000 - £89,999   | 7                   | 9                   |
| £90,000 - £94,999   | 1                   | 3                   |
| £95,000 - £99,999   | 6                   | 1                   |
| £100,000 - £104,999 | 0                   | 0                   |
| £105,000 - £109,999 | 1                   | 0                   |
| £110,000 - £114,999 | 1                   | 1                   |
| £115,000 - £119,999 | 0                   | 1                   |
| £120,000 - £124,999 | 2                   | 3                   |
| £125,000 - £129,999 | 0                   | 0                   |
| £130,000 - £134,999 | 0                   | 0                   |
| £135,000 - £139,999 | 0                   | 1                   |
| £140,000 - £144,999 | 0                   | 0                   |
| £145,000 - £149,999 | 0                   | 0                   |
| £150,000 - £154,999 | 2                   | 0                   |
| £155,000 - £159,999 | 0                   | 1                   |
| £160,000 - £164,999 | 1                   | 0                   |
| <b>Totals</b>       | <b>428</b>          | <b>409</b>          |

### Remuneration for relevant police officers and senior employees

The Accounts and Audit Regulations 2011 consolidated regulations for the disclosure of the total remuneration package of those charged with the stewardship of the organisation, being senior employees or relevant police officers of the Chief Constable. In Hampshire, the relevant police officer is the Chief Constable, who should be identified by name as well as post, regardless of his salary. However, the definition of senior employees for non-police officers is wider and covers those responsible for the strategic management of the organisation. Given the nature of the services provided by the Chief Constable and the make up of his strategic leadership team, the disclosure below includes all chief officers. Only relevant police officers (regardless of salary) and senior employees with a salary greater than £150,000 are named.

The table below provides the relevant disclosure for 2013/14 and comparative information for 2012/13 is provided in the second table. Where there have been changes in personnel during the current and prior year the part year remuneration is shown on an individual basis over more than one line. This will mean that certain posts are not comparable.

## Notes to the core financial statements

### 2013/14 Disclosure Post holder information

|  | £                           | £        | £                  | £                                   | £                | £                                     | £   | £                                | £   |
|--|-----------------------------|----------|--------------------|-------------------------------------|------------------|---------------------------------------|---|----------------------------------|---|
|  | Salary, fees and allowances | Bonuses  | Expenses Allowance | Compensation for loss of employment | Benefits in Kind | Other payments (Police officers only) | Total Remuneration excluding pensions contributions | Employer's Pension contributions | Total Remuneration including pensions contributions |
| <b>Constabulary</b>  |                             |          |                    |                                     |                  |                                       |   |                                  |   |
| Chief Constable  | 152,100                     | -        | 0                  | 0                                   | 3,217            | -                                     | 155,317   | 35,665                           | 190,982   |
| Acting Deputy Chief Constable<br>(01/04/2013 to 02/06/13)  | 19,257                      | -        | 0                  | 0                                   | 651              | -                                     | 19,908  | 3,781                            | 23,689  |
| Deputy Chief Constable<br>(03/06/2013 to 31/03/2014)   | 110,897                     | -        | 9,853              | 0                                   | 16,501           | -                                     | 137,251   | 25,670                           | 162,921   |
| Assistant Chief Constabulary -<br>Crime and Criminal Justice   | 111,690                     | -        | 0                  | 0                                   | 7,767            | -                                     | 119,457   | 25,765                           | 145,222   |
| Acting Assistant Chief<br>Constabulary - Crime and<br>Criminal Justice<br>(03/06/2013 to 14/10/2013) | 38,661                      | -        | 0                  | 0                                   | 1,386            | -                                     | 40,047  | 8,049                            | 48,096  |
| Assistant Chief Constable -<br>Territorial Operations  | 116,155                     | -        | 1,414              | 0                                   | 4,090            | -                                     | 121,659   | 25,765                           | 147,424   |
| Chief Finance Officer  | 70,373                      | -        | 0                  | 0                                   | 1,589            | -                                     | 71,962  | 8,040                            | 80,002  |
| Head of Human Resources  | 96,856                      | -        | 0                  | 0                                   | 590              | -                                     | 97,446  | 12,620                           | 110,066   |
|  | <b>715,989</b>              | <b>0</b> | <b>11,267</b>      | <b>0</b>                            | <b>35,791</b>    | <b>0</b>                              | <b>763,047</b>                                      | <b>145,355</b>                   | <b>908,402</b>                                      |

## Notes to the core financial statements

### 2012/13 Disclosure

#### Post holder information

|  | £                           | £             | £                  | £                                   | £                | £                                     | £   | £                                | £   | Note |
|--|-----------------------------|---------------|--------------------|-------------------------------------|------------------|---------------------------------------|---|----------------------------------|---|------|
|  | Salary, fees and allowances | Bonuses       | Expenses Allowance | Compensation for loss of employment | Benefits in Kind | Other payments (Police officers only) | Total Remuneration excluding pensions contributions | Employer's Pension contributions | Total Remuneration including pensions contributions |      |
| <b>Constabulary</b>  |                             |               |                    |                                     |                  |                                       |   |                                  |   |      |
| Chief Constable - Mr Andy Marsh (04/02/13 to 31/3/13)                                | 22,444                      | -             | -                  | -                                   | 277              | -                                     | 22,721  | 8,159                            | 30,880  |      |
| Chief Constable - Mr Alex Marshall (01/04/12 to 03/02/13)                            | 161,475                     | -             | -                  | -                                   | -                | -                                     | 161,475   | -                                | 161,475   |      |
| Acting Deputy Chief Constable (04/02/12 to 31/3/13)                                  | 17,041                      | -             | -                  | -                                   | 1,091            | -                                     | 18,132  | 3,930                            | 22,062  |      |
| Deputy Chief Constable (01/04/12 to 03/02/13)  | 109,940                     | 13,997        | -                  | -                                   | 1,528            | -                                     | 125,465   | 25,662                           | 151,127   |      |
| Acting Assistant Chief Constable - Crime and Criminal Justice (04/02/13 to 31/03/13) | 15,779                      | -             | -                  | -                                   | -                | -                                     | 15,779  | 3,633                            | 19,412  |      |
| Assistant Chief Constable - Crime and Criminal Justice (03/09/12 to 03/02/13)        | 46,864                      | 2,449         | -                  | -                                   | 2,981            | -                                     | 52,294  | 10,808                           | 63,102  |      |
| Assistant Chief Constable - Crime and Criminal Justice (01/04/12 to 02/09/12)        | 49,051                      | -             | -                  | -                                   | 1,920            | -                                     | 50,971  | 10,878                           | 61,849  |      |
| Assistant Chief Constable - Territorial Operations (03/09/12 to 31/03/13)            | 66,456                      | -             | -                  | -                                   | 2,602            | -                                     | 69,058  | 14,738                           | 83,796  |      |
| Assistant Chief Constable - Territorial Operations (01/04/12 to 02/09/12)            | 47,168                      | 2,812         | -                  | -                                   | 3,039            | -                                     | 53,019  | 10,878                           | 63,897  |      |
| Head of Finance (22/11/12 to 31/3/13)  | 25,576                      | -             | -                  | -                                   | 612              | -                                     | 26,188  | 3,350                            | 29,538  |      |
| Director of Finance and Resources (01/04 - 21/11/12)                                 | 64,670                      | -             | 1,536              | 109,237                             | 2,986            | -                                     | 178,429   | 8,470                            | 186,899   |      |
| Head of Human Resources  | 92,754                      | -             | -                  | -                                   | 1,441            | -                                     | 94,195  | 11,947                           | 106,142   |      |
|  | <b>719,217</b>              | <b>19,258</b> | <b>1,536</b>       | <b>109,237</b>                      | <b>18,477</b>    | <b>0</b>                              | <b>867,726</b>                                      | <b>112,453</b>                   | <b>980,179</b>                                      | 1    |



## Notes to the core financial statements

### Exit Packages in Bands of £20,000

| Exit Package cost band<br>(including special<br>payments)   | Number of<br>compulsory<br>redundancies |           | Number of other<br>departures<br>agreed |           | Total number of<br>exit packages by<br>cost band |           | Total cost of exit<br>packages in each band |            |
|---|---|-----------|---|-----------|--|-----------|---|------------|
|   | 2012/13                                 | 2013/14   | 2012/13                                 | 2013/14   | 2012/13  | 2013/14   | 2012/13                                     | 2013/14    |
|   | No.                                     | No.       | No.                                     | No.       | No.  | No.       | £'000                                       | £'000      |
| £0 - £20,000  | 3                                       | 9         | 42                                      | 37        | 45   | 46        | 312   | 300        |
| £20,001 - £40,000   | 0                                       | 0         | 1                                       | 0         | 1  | 0         | 32  | 0          |
| £40,001 - £60,000   | 0                                       | 0         | 0                                       | 1         | 0  | 1         | 0   | 49         |
| £60,001 - £80,000   | 0                                       | 0         | 0                                       | 0         | 0  | 0         | 0   | 0          |
| £80,001 - £100,000  | 0                                       | 0         | 1                                       | 0         | 1  | 0         | 82  | 0          |
| £100,001 - £150,000   | 0                                       | 0         | 0                                       | 0         | 0  | 0         | 0   | 0          |
| Additional provision in the<br>Comprehensive Income and<br>Expenditure Statement                          | 1                                       | 22        | 2                                       | 7         | 3  | 29        | 24  | 149        |
| Reversal of previous year's<br>provision (included in<br>bandings in following year<br>when payments due) | 0                                       | (1)       | (39)                                    | (2)       | (39)   | (3)       | (318)                                       | (24)       |
| <b>Totals</b>   | <b>4</b>                                | <b>30</b> | <b>7</b>                                | <b>43</b> | <b>11</b>  | <b>73</b> | <b>133</b>                                  | <b>474</b> |

The Comprehensive Income and Expenditure Statement includes a provision of £0.149m which has been agreed and is payable to 29 officers; these costs are not included in the bands and therefore an additional line has been added to reconcile to the total cost of termination benefits reported in the Comprehensive Income and Expenditure Statement. An additional line has also been added to ensure that provisions included in the prior year are not double-counted when payments are made in the following year.

In addition to the payments made to staff leaving the organisation, the Chief Constable also made payments to the Local Government Superannuation Scheme which it bears as the employer for the early retirement of eligible staff who are made redundant. Charges to the Comprehensive Income and Expenditure Statement to cover the actual or expected payments due amounted to £0.366m in 2013/14 (£0.189m in 2012/13).

## 12 – Termination Benefits

The Commissioner terminated the contracts of a number of employees in 2013/14, incurring liabilities of £0.620m (£0.140m in 2012/13). See note 11 for the number of exit packages and total cost per band.

## Notes to the core financial statements

### 13 – Grant Income – Group

Most of the taxation and non-specific grant income is credited to the Commissioner's CIES, and the majority of specific grants and contributions are recorded in the Chief Constable's CIES. The table below shows the analysis across the group:-

| 2012/13<br>PCC<br>£'000                                   | 2012/13<br>CC<br>£'000 |   | 2013/14<br>PCC<br>£'000 | 2013/14<br>CC<br>£'000 |
|---|------------------------|---|-------------------------|------------------------|
| <b>Credited to Taxation and Non-Specific Grant Income</b> |                        |   |                         |                        |
| (101,975)   | 0                      | Council Tax Precept                             | (96,272)                | 0                      |
| (71,036)  | 0                      | Share of National Business Rates                | (67,446)                | 0                      |
| (131,181)   | 0                      | Police Grant                                    | (133,621)               | 0                      |
| 0   | 0                      | Council tax benefit grant                       | (10,390)                | 0                      |
| 0   | 0                      | Council tax freeze grant                        | (2,520)                 | 0                      |
| 0   | 0                      | Council tax transition grant                    | (215)                   | 0                      |
| 0   | 0                      | Community Safety Fund                           | (1,459)                 | 0                      |
| (1,404)   | 0                      | Revenue Support Grant                           | (1,307)                 | 0                      |
| (3,086)   | 0                      | Government Grant to Finance Capital Expenditure | (3,631)                 | 0                      |
| <b>(308,682)</b>  | <b>0</b>               | <b>Total</b>                                    | <b>(316,861)</b>        | <b>0</b>               |
| <b>Credited to Services</b>                               |                        |   |                         |                        |
| 0   | (7,564)                | Neighbourhood Policing Fund/PCSO's              | 0                       | 0                      |
| 0   | (3,701)                | Dedicated Security Posts grant                  | 0                       | (3,889)                |
| 0   | (1,357)                | ACPO Criminal Records Office                    | 0                       | (2,233)                |
| 0   | 0                      | Restorative Justice/Victims Support grant       | (137)                   | 0                      |
| 0   | (269)                  | Counter terrorism grant                         | 0                       | 0                      |
| 0   | (42)                   | National Police Air Service project             | 0                       | (3)                    |
| 0   | 0                      | Innovation Fund                                 | 0                       | (145)                  |
| 0   | (30)                   | Local Criminal Justice Board                    | 0                       | (10)                   |
| 0   | (1,623)                | Special grant - Olympics                        | 0                       | 0                      |
| (135)   | 0                      | Youth Crime Prevention                          | 0                       | 0                      |
| 0   | (61)                   | Miscellaneous grants                            | 0                       | (60)                   |
| <b>(135)</b>  | <b>(14,647)</b>        | <b>Total</b>                                    | <b>(137)</b>            | <b>(6,340)</b>         |

### 14 – Adjustments between accounting basis and funding under regulations

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

## Notes to the core financial statements

The majority of the adjustments relate to the accounts of the Commissioner. The exceptions to this are the adjustments in respect of the Pensions Reserve and the Accumulated Absences Account, which relate to the Chief Constable's accounts. These are presented below:

2013/14

|   | General Fund<br>Balance | Usable Reserves                                |                                      |   | Capital Grants<br>Unapplied | Movement In<br>Unusable<br>Reserves |
|---|-------------------------|--|--------------------------------------|---|-----------------------------|-------------------------------------|
|   | £'000                   | Earmarked<br>General Fund<br>Reserves<br>£'000 | Capital Receipts<br>Reserve<br>£'000 | Capital<br>(Revenue<br>Contributions)<br>Reserve<br>£'000 | £'000                       | £'000                               |
| <b>Adjustments primarily involving the Pensions Reserve:</b>  |                         |  |                                      |   |                             |                                     |
| Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement   | 169,770                 |  |                                      |   |                             | (169,770)                           |
| Employer's pensions contributions and direct payments to pensioners payable in the year   | (42,858)                |  |                                      |   |                             | 42,858                              |
| <b>Adjustments primarily involving the Accumulated Absences Account:</b>  |                         |  |                                      |   |                             |                                     |
| Amount by which officer remuneration charged to the Comprehensive Income and Expenditure statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements | (349)                   |  |                                      |   |                             | 349                                 |
| <b>Total Adjustments</b>  | 126,563                 | 0  | 0                                    | 0   | 0                           | (126,563)                           |

## Notes to the core financial statements

2012/13

|   | Usable Reserves      |                                 |                          |   |                          | Movement in Unusable Reserves |
|---|----------------------|---------------------------------|--------------------------|---|--------------------------|-------------------------------|
|   | General Fund Balance | Earmarked General Fund Reserves | Capital Receipts Reserve | Capital (Revenue Contributions) Reserve | Capital Grants Unapplied |                               |
|   | £'000                | £'000                           | £'000                    | £'000                                   | £'000                    | £'000                         |
| <b>Adjustments primarily involving the Pensions Reserve:</b>  |                      |                                 |                          |   |                          |                               |
| Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement   | 167,110              |                                 |                          |   |                          | (167,110)                     |
| Employer's pensions contributions and direct payments to pensioners payable in the year   | (43,735)             |                                 |                          |   |                          | 43,735                        |
| <b>Adjustments primarily involving the Accumulated Absences Account:</b>  |                      |                                 |                          |   |                          |                               |
| Amount by which officer remuneration charged to the Comprehensive Income and Expenditure statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements | 433                  |                                 |                          |   |                          | (433)                         |
| <b>Total Adjustments</b>  | 123,808              | 0                               | 0                        | 0                                       | 0                        | (123,808)                     |

### 15 – Other operating income/expenditure

| 2012/13<br>£'000 |  | 2013/14<br>£'000 |
|------------------|--|------------------|
| (35,985)         | Home Office Police Pension Fund Top-up Grant             | (37,042)         |
| 35,985           | Transfer of Home Office Grant to the Police Pension Fund | 37,042           |
| <u>0</u>         |  | <u>0</u>         |

### 16 – Financing and investment income and expenditure

| 2012/13<br>£'000 |  | 2013/14<br>£'000 |
|------------------|--|------------------|
| 107,990          | Pensions interest cost and expected return on pension assets | 110,840          |
| <u>107,990</u>   |  | <u>110,840</u>   |

## Notes to the core financial statements

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### 17 – Short-term creditors

The short-term creditors exclude other items such as accrued interest and the principal on long-term borrowing due to be paid in the 12 months after the balance sheet date: these are shown separately under Current Liabilities in the Balance Sheet.

| <b>31 March<br/>2013<br/>£'000</b> |                                | <b>31 March<br/>2014<br/>£'000</b> |
|------------------------------------|--------------------------------|------------------------------------|
| <u>4,856</u>                       | Other entities and individuals | <u>4,507</u>                       |
| <b><u>4,856</u></b>                | <b>Total</b>                   | <b><u>4,507</u></b>                |

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### 18 – Unusable Reserves

As there has been a change in accounting policy which recognises the Chief Constable as a principal and not an agent of the Police and Crime Commissioner, the figures for the comparator year (2012/13) have been restated.

| <b>31 March<br/>2013<br/>(restated)<br/>£'000</b> |                              | <b>31 March<br/>2014<br/>£'000</b> |
|---|------------------------------|------------------------------------|
| <u>(4,856)</u>                                    | Accumulated Absences Account | <u>(4,507)</u>                     |
| <u>(2,617,967)</u>                                | Pensions Reserve             | <u>(2,651,217)</u>                 |
| <b><u>(2,622,823)</u></b>                         |                              | <b><u>(2,655,724)</u></b>          |

#### 18.1 Reserves – Accumulated Absences 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 Balance is neutralised by transfers to or from the account.

## Notes to the core financial statements

| 2012/13<br>£'000  | 2013/14<br>£'000 | 2013/14<br>£'000 |
|---|------------------|------------------|
| <b>(4,423) Balance at start of year</b>   |                  | <b>(4,856)</b>   |
| 4,423 Settlement or cancellation of accrual made at the end of the preceding year   | 4,856            |                  |
| <b>(4,856) Amounts accrued at the end of the current year</b>   | <b>(4,507)</b>   |                  |
| (433) Amount by which amounts charged to the Comprehensive Income and Expenditure Statement are different from the cost of settlements chargeable in the year in accordance with statutory requirements |                  | 349              |
| <b>(4,856) Balance at end of year</b>   |                  | <b>(4,507)</b>   |

Note that the amount by which employee remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements is the movement in the year. In 2012/13, this was a decrease of £0.349m (An increase of £0.433m in 2012/13).

### 18.2 Reserves – Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Chief Constable accounts for post-employee 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 investments returns on any resources set aside to meet the costs. However, statutory arrangements require benefits to be financed as the Chief Constable makes employer's contributions to pension funds or eventually pays any pensions for which it is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Chief Constable has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

| 2012/13<br>£'000   | 2013/14<br>£'000   |
|--|--------------------|
| <b>(2,356,857) Balance at start of year</b>  | <b>(2,617,967)</b> |
| (137,735) Actuarial gains/(losses) on pensions assets and liabilities  | 93,662             |
| (167,110) Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement | (169,770)          |
| 43,735 Employer's pension contributions and direct payments to pensioners payable in the year  | 42,858             |
| <b>(2,617,967) Balance at end of year</b>  | <b>(2,651,217)</b> |

## Notes to the core financial statements

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### 19 – Audit costs

The Chief Constable has incurred the following costs in relation to the audit of the Statement of Accounts, certification of grant claims and statutory inspections and to any non-audit services provided by the Chief Constable's external auditors:-

| <b>2012/13</b><br><b>£'000</b> |  | <b>2013/14</b><br><b>£'000</b> |
|--------------------------------|--|--------------------------------|
|                                | <b>Chief Constable:</b>  |                                |
| 25.0                           | Fees payable to Ernst & Young with regard to external audit services carried out by the appointed auditor for the year | 25.0                           |
| <b>25.0</b>                    |  | <b>25.0</b>                    |

Ernst & Young LLP were appointed to audit the accounts of the Chief Constable for Hampshire for five years starting with the accounts for 2012/13.

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### 20 – Contingent liabilities

The Police Pension Scheme Commutation Factors are reviewed annually by the Government Actuary's Department (GAD). The factors (the amount that can be commuted for each £1 sacrificed) were not reviewed between 1998 and 2006. This has been challenged and is the subject of a test case to the Pensions' Ombudsman, brought by a member of the Firefighters' Scheme, but which will have relevance to the Police Pension Scheme 1997. This case has not yet been heard and neither GAD nor the Home Office has accepted that commutation factors should have been higher between 1998 and 2006. Consequently, there is currently no liability to pay higher commutation lump sums for members who retired in this period. It is conceivable that such a liability may emerge following any ruling from the Ombudsman. GAD and the Home Office will consider whether any action is required following any such ruling. In the event that there is a liability to pay backdated commuted lump sums, it is estimated that this would affect around 1,000 pensioners with an additional pension commuted lump sum of £33,000 each; this creates a contingent liability for £33m. As the Government funds the difference between the income and expenditure on the Police Pension Fund account, an offsetting contingent asset is recorded for the income which would be receivable to cover any deficit.

At the balance sheet date there were a number of other potential liabilities in respect of events which are alleged to have happened in the past and where claims have been received from various third parties for damages and costs. Some of these relate to operational matters where liability has been alleged to have occurred in the past. These claims take some time to be settled but if there were to be settled all in the same year, insurance cover is in place to meet the costs of aggregate claims over a certain level; below this level (which is a combined £1.63m across the major categories of insurance) existing budgets or, exceptionally, the insurance reserve will cover the shortfall. However, it is considered extremely unlikely that all outstanding claims will be found against the Chief Constable and would, additionally, be settled in the same year.

There are some claims which have been received for which the Chief Constable, through the Commissioner, is not insured and, again, the reserve or existing budgets would cover any



## Notes to the core financial statements

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awards of costs and damages. It is not certain that these or related events which might arise in the future would lead to rulings against the Commissioner or will lead to claims which are substantial. The insurance reserve to cover uninsured losses is £894,000. There was no cause to draw down any of this reserve balance in 2013/14.

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### 21 – Contingent assets

A contingent asset of £33m is recorded in respect of additional top-up grant receivable from the Home Office in the event that changes to commutation factors are backdated for around 1,000 pensioners who retired between 1998 and 2006, requiring additional funding. See Contingent Liabilities for further information.

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### 22 – Events after the reporting period

In accordance with the Police Reform and Social Responsibility Act 2011, the Home Secretary approved the 'stage 2 transfer' agreement between the Commissioner and the Chief Constable. This took effect on 1 May 2014, when the employees who are considered to be under the operational control of the Chief Constable were transferred to the direct employment of the OCC. This transfer did not alter any existing terms and conditions of employment, and did not constitute a break in employment. As a result of this transfer there is no change to the statement of accounts as the relevant employee's costs are already recorded in the Chief Constable's accounts to reflect the command and control of these employees which was already in existence prior to the stage 2 transfer. The Stage 2 transfer thus provided the legal form to match the substance of this relationship. The transfer has been treated as a non-adjusting post-Balance Sheet event in these accounts.

The Statement of Accounts was authorised for issue by the Chief Finance Officer on 30 June 2014. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2014, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

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### 23 – Other disclosures

The following disclosures have been omitted from the Statement of Accounts as they either do not apply or are not material to the Chief Constable's activities:

- There are no acquired or discontinued operations;
  - The Chief Constable does not have any Private Finance Initiative (PFI) arrangements or similar schemes;
  - The Chief Constable does not have any material heritage assets;
  - The Chief Constable does not have any pooled funds;
  - The Chief Constable does not have any of the following:-
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## Notes to the core financial statements

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- Investment properties
  - Material construction contracts
  - Operating activities
  - Material trading operations
  - Trust funds
  - The Chief Constable has not capitalised any borrowing costs
- 

### 24 – Notes to the cash flow statement 2013/14

As there has been a change in accounting policy which recognises the Chief Constable as a principal and not an agent of the Police and Crime Commissioner, the figures for the comparator year (2012/13) have been restated

#### 24.1 Adjustments to the net surplus or deficit on the provision of services for non-cash movements

| <b>2012/13<br/>(restated)<br/>£'000</b>  | <b>2013/14<br/>£'000</b> |
|--|--------------------------|
| 123,808 Net (surplus) or deficit on the provision of services  | 126,563                  |
| (123,808) Adjustments to net surplus or deficit on the provision of services for non-cash movements                                    | (126,563)                |
| 0 Adjustment for items included in the net surplus or deficit on the provision of services that are investing and financing activities | 0                        |
| <hr/> 0 Net cash flows from Operating Activities   | <hr/> 0                  |
| 0 Investing Activities   | 0                        |
| 0 Financing Activities   | 0                        |
| <hr/> 0 Net (increase) or decrease in cash and cash equivalents  | <hr/> 0                  |
| <hr/> 0 Cash and cash equivalents at the beginning of the reporting period   | <hr/> 0                  |
| <hr/> 0 Cash and cash equivalents at the end of the reporting period   | <hr/> 0                  |

## Notes to the core financial statements

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### 24.2 Adjustments to the net surplus or deficit on the provision of services for non-cash movements - CC

| <b>2012/13</b><br><b>(restated)</b><br><b>£'000</b> |   | <b>2013/14</b><br><b>£'000</b> |
|---|---|--------------------------------|
| (123,808)   | Adjustments to net surplus or deficit on the provision of services for non-cash movements | (126,563)                      |
|   | Analysis:-  |                                |
| (123,375)   | - Pensions  | (126,912)                      |
| (433)   | - (Increase)/Decrease in Creditors  | 349                            |
| <u>(123,808)</u>                                    |   | <u>(126,563)</u>               |

## Police Pension Fund Account

| 2012/13 Police Pension Fund Account |  | 2013/14        |
|-------------------------------------|--|----------------|
| £'000                               |  | £'000          |
|                                     | <b>Contributions receivable</b>                      |                |
|                                     | - from employer                                      |                |
| (29,175)                            | - normal   | (28,222)       |
| 0                                   | - early retirements                                  | 0              |
| (1,603)                             | - ill-health capital equivalent charges              | (1,222)        |
| (14,382)                            | - from members                                       | (15,283)       |
|                                     | <b>Transfers in</b>                                  |                |
| (307)                               | - individual transfers in from other schemes         | (753)          |
|                                     | <b>Benefits payable</b>                              |                |
| 61,445                              | - pensions   | 65,001         |
| 19,059                              | - commutations and lump sum retirement benefits      | 15,884         |
| 0                                   | - lump sum death benefits                            | 346            |
|                                     | <b>Payments to and on account of leavers</b>         |                |
| 8                                   | - refunds of contributions                           | 6              |
| 940                                 | - individual transfers out to other schemes          | 1,285          |
| <b>35,985</b>                       | <b>Net amount payable for the year</b>               | <b>37,042</b>  |
| (35,985)                            | <b>Additional contribution from the Commissioner</b> | (37,042)       |
| <b>0</b>                            |  | <b>0</b>       |
|                                     | <b>2012/13 Net Assets Statement</b>                  | <b>2013/14</b> |
| £'000                               |  | £'000          |
|                                     | <b>Current Assets</b>                                |                |
| 0                                   | - contributions due from employer                    | 0              |
| 0                                   | - other current assets                               | 0              |
|                                     | <b>Current Liabilities</b>                           |                |
| 0                                   | - unpaid pension benefits                            | 0              |
| 0                                   | - amount due to sponsoring department                | 0              |
| 0                                   | - other current liabilities                          | 0              |
| <b>0</b>                            |  | <b>0</b>       |

The Pension Fund financial statements do not take account of any liabilities to pay pensions and other benefits after the period end.

Most payments and employer contributions in respect of the police pension schemes are reported in the Police Pension Fund Account. Other pension costs are charged to the Comprehensive Income and Expenditure Statement. This includes the ongoing costs and commuted lump sums in respect of officers who are awarded injury pensions, which totalled £1.50m in 2013/14. For officers who retire on the grounds of ill-health, the employer makes a contribution from the Comprehensive Income and Expenditure Account to the Police Pension Fund Account. This charge is the equivalent to two years' pensionable pay and is a one off credit to the account. All ongoing payments are met by the Police Pension Fund.

Debtors and creditors of the Police Pension Fund Account are included within the main financial statements of the Commissioner as a result of the reimbursement of the top up

## Police Pension Fund Account

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grant and the cash being transferred between the Commissioner and Pension Fund bank accounts on a daily basis.

The Police Pension Fund is managed by the Commissioner but its administration is carried out by the County Council as part of the CFO's responsibilities. The administrator makes all payments to existing and new pensioners and maintains the necessary records of entitlement. The Commissioner provides the funds, through the Chief Constable, to make payments to pensioners and for transfers out of the scheme. The Commissioner's budget and current serving officers make contributions into the fund and at present 100% of any shortfall between this income and the payments made is met by a grant from the Home Office.

The Police Pension Fund makes payments to officers who retire from the scheme whilst in the employment of the Chief Constable or who have previously worked for the Chief Constable and who have a deferred pension. This is based on the length of service and pensionable pay at the point of retirement. Officers may choose to commute part of their benefit into a lump sum and to receive a reduced ongoing pension. Benefits are also paid to dependents when an officer dies in service or after retirement.

Employees in the old pension scheme (pre-2006) make contributions of 11% of salary. Officers joining the scheme after this date pay 9.5% of salary. Both schemes have different accrual rates and retirement ages. The employer made a contribution of 24.2% of pensionable salary and benefits in 2013/14. The employee's contribution is set nationally by the Home Office and is subject to a triennial revaluation by the Government Actuary's Department (GAD).

The Police Pension Fund Account has been prepared in accordance with the extant Police Pensions Regulations and the accounting policies detailed in Note 1.

Note 8 provides further details of the IAS19 entries and the pension schemes.

## Glossary

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### Agency Services

Services which are performed by or for another Chief Constable or public body where the agent is reimbursed for the cost of work done.

### Capital Adjustment Account

A Balance Sheet reserve which reflects the net surplus of resources set aside to finance capital expenditure and the depreciation, impairment and write-off of the historical cost of fixed assets.

### Capital Expenditure

Expenditure on the provision and improvement of assets such as property, plant and equipment and vehicles and major items of equipment providing benefit to the Commissioner over a life of more than one year.

### Capital Receipts

Money obtained on the sale of a capital asset. Capital receipts can be used to finance new capital expenditure or to repay loan debt within rules set down by the government, but they cannot be used to finance revenue expenditure.

### Chief Finance Officer (CFO)

The Commissioner and the Chief Constable both have a legal obligation under the Local Government Finance Act 1998 to appoint a person to be responsible for the proper administration of his financial affairs. This person is the Chief Finance Officer (CFO).

### Collection Fund Adjustment Account

A Balance Sheet account which records the difference between the income included in the Income and Expenditure Account and the amount required by regulation to be credited to the General Fund. The Commissioner includes a proportionate share of Council Tax debtors and creditors due to the billing authority, which is deemed to be acting as an agent of the major preceptors, including the Police and Crime Commissioner.

### Credit Arrangements

An arrangement other than borrowing where the use of a capital asset is obtained and paid for over a period of more than one year. The main types of credit arrangements are leases of property, plant and equipment.

### Creditors

Individuals or organisations to whom the Chief Constable owes money at the end of the financial year for work done, goods received or services rendered but for which payment has not been made at 31 March.

### Debtors

Individuals or organisations who owe the Chief Constable money.

### Depreciation

Depreciation represents the consumption of an asset due to deterioration. The value is included within the income and expenditure account as a cost of providing services but as there is no cashflow impact on the general reserve, it is taken out in the movement in reserves statement.

## Glossary

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### Financial Instruments Adjustment Account

A Balance Sheet account which records the adjustments made to the value of assets and liabilities as a result of showing these at fair value or amortised cost on initial recognition and the subsequent accounting entries required to write the value of these assets and liabilities back up to the actual sum due or payable at the end of its expected life.

### Financial Year

The annual period of accounting – i.e. 1 April to 31 March.

### Fixed Assets

Assets of significant value that yield benefits to the Chief Constable for a period of more than one year.

### Government Grants

Part of the cost of the service is paid for by central government. General grants can be spent at the discretion of the Commissioner. Specific grants (included within additional grants) are also paid to the Chief Constable, but are ring-fenced for spending in specific areas.

### Minimum Revenue Provision (MRP)

An amount required by statute to be charged to the movement in reserves. It ensures that authorities put aside funds for the repayment of loans.

### Precept

The levying of a council tax rate by one authority which is collected by another. The Commissioner precepts upon the district/unitary councils' collection funds for its council tax income.

### Revaluation Reserve

A Balance Sheet reserve which records the accumulated gains on assets held by the Commissioner arising from increases in value, netted off for disposals and certain depreciation adjustments.

### Revenue Contributions to Capital Outlay (RCCO)

Amounts paid from revenue funds (charged to the Income and Expenditure Account) to purchase capital assets.

### Revenue Expenditure

Expenditure to meet the day to day running costs of services including wages and salaries, purchase of materials and services and capital financing charges. This is shown in the Income and Expenditure account.

### Reserves

Accumulated sums which are maintained either to be earmarked for specific liabilities (e.g. pensions, insurance) or generally held to meet unforeseen or emergency expenditure (e.g. General Reserve).