APPENDIX 5

1. Accounting Policies

General Principles

The Statement of Accounts summarises the Chief Constable's transactions for the 2013/14 financial year and its position at the year end of 31st March 2014. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2011 which require the statements to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2013/14 and the Service Reporting Code of Authority Accounting 2013/14, supported by International Financial Reporting Standards.

The accounting policies relate to the transactions which have been attributed to the Chief Constable under the Stage 1 transfer from the former Police Authority. The Chief Constable's accounts have been prepared on the basis that all of the Chief Constable's functions are being exercised as an agent of the Police and Crime Commissioner.

The accounting convention adopted in the Statement of Accounts is principally historical cost.

All accounting policies that are material to the production of the accounts are described in this section.

Changes in Accounting Policies

Changes in accounting policy may arise through changes to the Code or changes instigated by the Chief Constable. For changes brought in through the Code, the Chief Constable will disclose the information required by the Code.

For other changes we will disclose:

- the nature of the change;
- the reasons why the change has been made;
- report the changes to the current period and each prior period presented and the amount of the adjustment relating to periods before those presented.

If retrospective application is impracticable for a particular prior period (or for periods before those presented), we will disclose the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.

Prior Period Adjustments

The Code requires prior period adjustments to be made when material omissions or misstatements are identified. Such errors include the effects of arithmetical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

The following disclosures will be made for each prior period adjustment:

- the nature of the prior period error;
- for each prior period presented, to the extent practicable, the amount of the correction for each financial statement line item affected, and;
- the amount of the correction at the beginning of the earliest prior period presented.

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:

- expenses in relation to services provided by employees are recorded as expenditure when the services are received rather than when payments are made.

Provisions

The PCC sets aside provisions for future expenses where:

- an event has taken place on or before the balance sheet date that creates an obligation;
- it is probable that the obligation requires settlement by a transfer of economic benefits;
- the value of settlement can be reliably estimated; but
- the timing of the transfer is uncertain.

While there are no provisions in the Chief Constable's Operating Cost Statement, the revenue charge for provisins are reflected in the Operating Cost Statement. Estimated provisions are reviewed at the end of each financial year. Where it is likely that the provision will not be required, the relevant amounts are reversed in the Operating Cost Statement.

Contingent Liabilities

A contingent liability is where there is a possible obligation to transfer economic benefits due to a past event, but the possible obligation will only be confirmed by the occurrence or non-occurrence of one or more events in the future. These events may not wholly be within the control of the Chief Constable.

The Chief Constable discloses these obligations in the narrative notes to the accounts if greater than £100k.

These amounts are not recorded in the CC's accounts because:

- it is not probable that an outflow of economic benefits or service potential will be required to settle the obligation, or
- the amount of the obligation cannot be measured with sufficient reliability at the year end.

Contingent Assets

A contingent asset is where there is a possible transfer of economic benefit to the Chief Constable from a past event, but the possible transfer will only be confirmed by the occurrence or non-occurrence of one or more events in the future. These events may not wholly be within the control of the CC.

The CC discloses these rights in the narrative notes to the accounts if greater than £100k.

Events after the Reporting Date

These are events that occur between the end of the reporting period and the date when the financial statements are authorised for issue. The Chief Constable will report these in the following way if it is determined that the event has had a material effect on the Chief Constable's financial position:

- events which provide evidence of conditions that existed at the end of the reporting period will be adjusted and included within the figures in the accounts; and
- events that are indicative of conditions that arose after the reporting will be reported in the narrative notes to the accounts.

Costs of 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 for Local Authorities 2013/14. The full cost of overheads and support services are shared between users in proportion to the benefits received.

Value Added Tax (VAT)

The PCC's Comprehensive Income & Expenditure Statement excludes VAT. All VAT must be passed on (where output tax exceeds input tax) or repaid (where input tax exceeds output tax) to HM Revenue and Customs.

The net amount due to or from HM Revenue and Customs for VAT at the year end shall be included as part of creditors or debtors balance.

Employee Benefits – Benefits Payable during Employment

a) Short Term Benefits

These are amounts expected to be within 12 months of the balance sheet date. They include:

1. salaries, wages and expenses accrued up to the balance sheet date;
2. annual leave and flexi hours earned, but not yet taken at the balance sheet date, and;
3. 'back rest days' allocated to police officers when scheduled rest days are cancelled.

The first set of items are costs which appear in the accounts and are charged to the General Fund Balance. Items 2 and 3 are examples of short-term accumulating absences that will also be accrued in the balance sheet at the year end and charged to the relevant service revenue account. However the Local Authorities (Capital Finance and Accounting) (Amendment) (England) Regulations 2010 (SI 2010/454) requires that these amounts are not charged to a revenue account until the date that the liability is discharged. Hence, statutory provision reverses these charges from the Surplus or Deficit on provision of services by debiting the Capital Adjustment Account and crediting the General Fund Balance through the Movement in Reserves Statement.

b) Long Term Benefits

These are amounts which are payable beyond 12 months. The Chief Constable does not have any material long term benefits to be declared within the financial statements.

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 wages and salaries, paid annual leave and paid sick leave, bonuses and non monetary benefits for current employees. The financial consequences of these benefits are recognised in the Operating Cost Statement in the year in which the employee renders service to the Chief Constable. IAS 19 'Employee Benefits' also requires recognition of short term compensating absences which include time owing and annual leave accrued but not taken as at 31 March 2014.

Post employment benefits
There are 2 pension schemes for police officers. Both are contract out from the State Earnings Related Pension Scheme.

The Police Pension Scheme (PPS) is a contributory occupational pension scheme, governed by the Police Pensions Regulations 1987 (as amended) and related regulations that are made under the Police Pensions Act 1976. The 2006 New Police Pension Scheme (NPPS), which started on 1 April 2006, is a contributory occupational pension scheme governed by the Police Pensions Act 1976 (as amended by the Police Pensions Regulations 2007). Officers make contributions in the old scheme are either 12.25% or 12.5% of pensionable pay. In the new scheme employees contribute either 10.1%, 10.5% or 10.75% of pensionable pay. The employees' contribution is set nationally by the Home Office and is subject to triennial revaluation. A Pension Fund was set up on 1 April 2006 to administer both schemes.

The NPPS and PPS are defined benefit schemes paid from revenue but with no managed pension assets. Accrued net pension liabilities have been assessed on an actuarial basis in accordance with IAS 19 Employee Benefits. The net liability and a pensions reserve for both schemes have been recognised in the Group Balance Sheet, as have entries in the Group Income and Expenditure Account for movements in the liabilities. Transfers into and out of the scheme representing joining and leaving police officers are recorded on a cash basis in the Pension Fund. The current economic cost outflow of police officer pensions (including injury benefits) is recognised in the Operating Cost Statement to reflect the costs of operating the scheme.

Police Officer Pensions - Home Office Memorandum Account

From 1st April 2006 the Home Office changed the method of financing police pensions. Effectively the PCC has continued to make payments but accounts for these outside of its own accounts in a separate memorandum account, which is reported as a supplementary statement in these accounts.