

**Chief Constable**

**of Durham Constabulary**

**Statement of Accounts**

**for the year ended 31st March 2018**



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# **2017/18 Narrative Report**

## **Message from Gary Ridley, Assistant Chief Officer**

### **Organisational Overview**

Following the Police Reform and Social Responsibility Act 2011, Durham Police Authority was abolished on 21 November 2012 and replaced with two corporation sole bodies, The Office of the Police and Crime Commissioner for Durham (Durham Police Crime and Victims' Commissioner, PCVC) and the Chief Constable of Durham Constabulary (Chief Constable, CC). This set of accounts shows the financial position of the Chief Constable of Durham Constabulary. The financial position of the PCVC and the consolidated Group of the PCVC and CC are set out in the PCVC and Group accounts which is a separate document.

The Constabulary vision is to protect neighbourhoods, tackle criminals and solve problems. It manages its resources, information and works with partners in order to ensure that the vision is met. In relation to 2017/18, the Constabulary continued to face rising demand and changing demand against a backdrop of continuing austerity. The Constabulary continues to be regularly inspected by HMICFRS in respect of effectiveness, efficiency, leadership, legitimacy as well as various other thematic inspections. During 2017/18 the main grant received by the Constabulary was maintained the same as in 2016/17 as was all other forces. The total revenue budget was £110m.

### **Governance**

The annual governance statements (AGS) for the PCVC and CC were produced in line with CIPFA guidance. Both the AGS's were agreed at the Executive Board on 11 May 2018. The main governance issues to note are as follows:

#### **Finance**

The governance statement reflected the ongoing imposition of austerity and the likely impact that this may have in terms of officer and staff numbers, the scope for investment and the need to match supply to demand. Various plans are in place to actively manage demand across most aspects of the Force.

**Key financial information for 2017/18 is as follows:**

	<b>Original Budget</b>	<b>Actual</b>	<b>Variance</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Employees	98,412	99,319	(907)
Premises	4,208	4,384	(176)
Transport	1,983	2,132	(149)
Agency Services	2,162	2,370	(208)
Supplies and Services	8,289	9,286	(997)
<b>Gross Expenditure</b>	<b>115,054</b>	<b>117,491</b>	<b>(2,437)</b>
			-
<b>Special Grants and Other Income</b>	<b>(5,044)</b>	<b>(8,806)</b>	<b>3,762</b>
			-
<b>Net Expenditure</b>	<b>110,010</b>	<b>108,685</b>	<b>1,325</b>

The main variations to budget include:

- **Employees:**  
There are a number of variances in this figure, police officer pay has underspent for the year mainly due to officers having left sooner than anticipated and, although replacements have been recruited, they have been at a lower scale. Police Overtime is overspent as a result of demand and costs incurred that have been recharged to other Forces. Staff costs have overspent as the pay rise was higher than budgeted.
- **Supplies and Services:**  
Again there are a number of reasons for the overspend, higher than budgeted legal costs which will fall back to normal levels in future years, overspends on equipment and travel costs, which are being closely monitored.
- **Special Grants and Other Income:**  
This is higher than budgeted due to more secondments than anticipated and recharges to other Forces for work carried out.

The operation of the Force is funded by the PCVC. The financial position of the PCVC and the consolidated position of the Group is shown in the Group accounts which is a separate document

### **Collaboration**

The annual governance statements identified the need to continue to exploit collaboration. Whilst the Constabulary does not have a formal collaboration policy, it continues to agree new initiatives where they either increase resilience, capacity or provide value for money. The main initiatives introduced during 2017/18 were as follows:

- The opening of the “quad-station” at Barnard Castle, with the Fire & Rescue Service.
- The opening of the NERSOU joint unit across the regional North East Forces.
- An memorandum of understanding was signed with Dyfed-Powys Police in respect of ICT collaboration

### **Dual Chief Finance Officer Role**

The PCVC Chief Finance Officer role is provided by the Constabulary Chief Finance Officer. This is acknowledged as a governance risk with concerns having previously been expressed by the Joint Audit Committee. Safeguards are in place and the annual review is carried out to ensure that the joint arrangement is working satisfactorily and that no issues have arisen.

### **Business Model**

The Constabulary employed 1152 officers as at 31st March 2018, 904 staff and 137 PCSOs. This was across the following main areas of policing:

<b><u>Command Area</u></b>	<b><u>Officers</u></b>	<b><u>Staff</u></b>	<b><u>PCSOs</u></b>
Response Command	495	197	-
Crime and Justice incl NERSOU	253	245	-
Safeguarding Neighbourhoods	207	51	123
Tasking & Coordination command	45	96	-
Strategic Demand and Harm Reduction	13	37	14
Support Services	17	206	-
CDSOU	93	14	-
Professional Standards and Legal Services	8	38	-
Executive	6	11	-
Secondments and Career Break	15	9	-
<b>Total Group</b>	<b>1152</b>	<b>904</b>	<b>137</b>

During 2017/18 vacancy rates averaged -0.9% for officers, 7.6% for staff and 12.5% for PCSOs.

The Constabulary provided a full range of policing services during the year as well as supporting a number of other Forces as requested. During 2017/18 Durham was awarded by HMIC, "Outstanding" for both efficiency and effectiveness. These were external inspections which covered a range of areas in relation to overall service delivery and efficiency.

### **Risks and Opportunities**

The main risks are as follows:

#### **Funding Formula**

Previous work from Central Government has indicated that any revised funding formula could adversely impact the Constabulary. In mitigation of this, the PCVC has agreed a plan to reduce expenditure across a range of areas in order to ensure financial stability. This will involve losing a number of police officers, police staff, further workforce modernisation as well as reductions in non-pay budgets.

### **Changing Demand**

Demand continues to rise across a number of areas. In particular, cyber crime, safeguarding and mental health demand has increased. The Constabulary continues to work with other forces and statutory agencies as well as academic institutions in order to better understand and manage rising demand.

### **Strategy & Resource Allocation**

The Constabulary has a balanced medium term financial plan for the period up to 2021 which includes the following key assumptions, which are considered reasonable:

- zero grant loss per annum. This is in line with the grant for 2018/19.
- 2% pay rise per annum. This is in line with that specified in the 2018 Chancellor's budget statement.
- £12 increase in precept. It is assumed that the current Council Tax capping criteria will continue into the future.
- No unspecified financial savings.

The Constabulary is aware that there are potential changes to the Police Funding Formula. The PCVC has agreed a report which consists of a range of actions to reduce expenditure by up to £8m over a four year period, should the need arise to offset grant reductions with reduced expenditure. The key elements of the plan include the following:

- A reduction in officer numbers. A number of reviews are ongoing which are expected to result in reduced officer numbers going forward. It is not expected that this will impact upon the front line of policing with Durham and Darlington.
- Reduction in police staff numbers. Again a number of reviews are ongoing whereby staffing numbers may reduce over time. Expected reductions are considered manageable given overall natural turnover of staff and mainly impact upon the back office.
- Reduction in PCSO numbers. This will require a review of operational coverage across the Constabulary.
- Workforce modernisation. A number of posts have been identified for potential workforce modernisation across the middle office. A number of these are likely to occur in any event as it will give the Constabulary the opportunity to save money going forward.
- Non pay reductions. A plan has been agreed to reduce non pay budgets across the Constabulary. These are currently under review and are likely to be delivered irrespective of the outcome of the funding formula.

The challenge with delivering the above would be to ensure that there is minimal impact on service delivery. This will require careful management and clear leadership.

### **Performance**

High level key performance statistics for 2017/18 are as follows:

- Anti-social behaviour reduction of 11.5%
- Alcohol-related anti-social behaviour decrease of 9.7%
- Youth-related anti-social behaviour reduction of 1.4%

- Domestic abuse incidents increase of 10.5%
- Hate crime increase of 26.1%
- Reported crime increase of 27.1%
- Solved rate of 24.5%
- Overall crime increase of 31.8%

Where demand is increasing there are a number of detailed plans in place to mitigate its impact. The Force-wide collaboration plan has been reviewed in light of good practice and is focussed around the 3 service areas of service behaviour, continuous improvement and policing effectiveness. There is an obvious focus upon maximising opportunities to interact and engage with the public via a range of mechanisms e.g. local community events, schools and clubs; PACT meetings; high footfall force-wide events; social media platforms and high-profile initiatives such as Police Interceptors, Mini Police, Cadets etc. In addition Mutual Gain as a project continues to be implemented.

In relation to victim satisfaction, the Total Victim Care Group continues to closely monitor and assess levels of victim satisfaction, this is also regularly reported to Operational Threat and Risk and Force Leadership Group. The force has continued to strive to understand what the victim, witness and customer thinks of our actions by running, monitoring and analysing victim satisfaction surveys across a wide variety of categories, including crime, anti-social behaviour, domestic abuse, serious sexual assaults and post charge.

Durham Constabulary continues as the national lead on the Intervene to Protect a Child (IPC) project. The national IPC awareness input to front line police, wider law enforcement and partner agencies has continued. The Erase Multi Agency Audit finalised in September 2016 showed good progress had been made in supporting those at risk of vulnerability, compliance to procedures had improved and there were clear examples where multi-agency work was co-ordinated which resulted in better outcomes for those at risk.

The Harm Reduction Unit (HRU) coordinates a cross partnership approach to proactively dealing with the harm caused by alcohol and drugs. There are a number of initiatives in force and in the wider partnership designed to reduce the harm caused by alcohol, including the specialist work undertaken by the HRU. Key work includes tackling alcohol linked to ASB and associated vulnerabilities under Operation Aries, Operation Staysafe, the Blue Light drinkers initiative addressing critical pathways through an offender management approach, partnership working with DCC trading standards targeting licence premises with regards underage sales, raising awareness of risks linked to underage drinking and safeguarding vulnerable adults in the night time economy.

The Harm Reduction Unit, with a previous sole focus on alcohol harm, has been subject of growth with the inclusion of the Drug Intervention co-ordinator's role. The HRU deliver a range of education based packages raising awareness of drug harm and substance misuse across the county. Also, the HRU has been proactive together with Trading Standards across Durham and Darlington to address the issue of New Psychoactive substances.

Other achievements include:

- Durham Constabulary was awarded an 'Outstanding' rating for its effectiveness in reducing crime and keeping communities safe – the only Force to receive that rating, and for the third year running.
- Durham Constabulary was rated as 'Outstanding' for efficiency, in November 2017, again for the third year running – one of only two Forces to receive that rating.
- Wide and increasing range of services for victims of crime, with new services launched for victims of hate crime and people with mental health ill-health, in April 2017.



# **Independent Auditor's Report to the Chief Constable of Durham Constabulary**

## **Opinion on the financial statements**

We have audited the financial statements of the Chief Constable of Durham Constabulary ('the CC') for the year ended 31 March 2018 under the Local Audit and Accountability Act 2014. The financial statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement, and notes to the financial statements, including the summary of significant accounting policies. 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 2017/18.

In our opinion the financial statements:

- give a true and fair view of the financial position of the Chief Constable of Durham Constabulary as at 31 March 2018 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 2017/18.

### **Basis for opinion**

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities section of our report. We are independent of the CC in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

### **Conclusions relating to going concern**

We have nothing to report in respect of the following matters in relation to which the ISAs (UK) require us to report to you where:

- the Assistant Chief Officer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Assistant Chief Officer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the CC's ability to continue to adopt the going concern basis of accounting for a period of at least twelve months from the date when the financial statements are authorised for issue.

### **Other information**

The Assistant Chief Officer is responsible for the other information. The other information comprises the Annual Governance Statement and information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

#### **Responsibilities of the Assistant Chief Officer for the financial statements**

As explained more fully in the Statement of the Assistant Chief Officer's Responsibilities, the Assistant Chief 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 2017/18, and for being satisfied that they give a true and fair view. The Assistant Chief Officer is also responsible for such internal control as the Assistant Chief Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Assistant Chief Officer is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 and prepare the financial statements on a going concern basis, unless the CC is informed of the intention for dissolution without transfer of services or function to another entity. The Assistant Chief Officer is responsible for assessing each year whether or not it is appropriate for the CC to prepare its accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

#### **Auditor's responsibilities for the audit of the financial statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at [www.frc.org.uk/auditorsresponsibilities](http://www.frc.org.uk/auditorsresponsibilities). This description forms part of our auditor's report.

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

### **Conclusion**

On the basis of our work, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, we are satisfied that, in all significant respects, the Chief Constable of Durham Constabulary has put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

### **Basis for conclusion**

We have undertaken our review in accordance with the Code of Audit Practice issued by the Comptroller and Auditor General, having regard to the guidance on the specified criterion issued in November 2017, as to whether the CC had proper arrangements to ensure it took properly informed decisions and deployed resources to achieve planned and sustainable outcomes for taxpayers and local people. The Comptroller and Auditor General determined this criterion as that necessary for us to consider in satisfying ourselves whether the CC put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

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 CC had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

### **Responsibilities of the Chief Constable of Durham Constabulary**

The CC 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.

### **Auditor's responsibilities in relation to review of arrangements for securing economy, efficiency and effectiveness in the use of resources**

We are required under section 20(1)(c) of the Local Audit and Accountability Act 2014 to satisfy ourselves that the CC has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Comptroller and Auditor General requires us to report to you our conclusion relating to proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the CC's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

## **Matters on which we are required to report by exception under the Code of Audit Practice**

We are required by the Code of Audit Practice to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under sections 28, 29 or 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

## **Use of the audit report**

This report is made solely to the Chief Constable of Durham Constabulary, as a body, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the CC those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the CC, as a body, for our audit work, for this report, or for the opinions we have formed.

## **Certificate**

We certify that we have completed the audit of the Chief Constable of Durham Constabulary in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.



Mark Kirkham

For and on behalf of Mazars LLP



Salvus House

Aykley Heads

Durham

DH1 5TS

## Statement of Responsibilities for the Statement of Accounts

### The Chief Constable's Responsibilities

The Chief Constable is required to:

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


### The Assistant Chief Officer's Responsibilities

The Assistant Chief 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 Code of Practice on Local Authority Accounting in the United Kingdom 2017/18*. In preparing this Statement of Accounts, the Assistant Chief Officer has:

- selected suitable accounting policies and then applied them consistently
- made judgements and estimates that were reasonable and prudent
- taken reasonable steps for the prevention and detection of fraud and other irregularities

### Assistant Chief Officer's Certificate

I certify that the accounts present a true and fair view of the financial position of the Chief Constable of Durham Constabulary as at 31 March 2018 and of his income and expenditure for the year ended 31 March 2018.



G Ridley OBE MBA CPFA  
Assistant Chief Officer

26 July 2018  
Date



Chief Constable's Certificate

I confirm I have approved these accounts

M Barton Q.P.M., LL.B.

Date

26/7/18

# **Comprehensive Income and Expenditure Statement for the Chief Constable of Durham Constabulary for the Year Ended 31 March 2018**

2016/17 Gross Expenditure £'000	2016/17 Income £'000	2016/17 Net Expenditure £'000		2017/18 Gross Expenditure £'000	2017/18 Income £'000	2017/18 Net Expenditure £'000	
101,919	-	101,919	Employee costs	114,324	-	114,324	
17,803	-	17,803	Non employee costs	16,870	-	16,870	
-	(7,939)	(7,939)	Income	-	(7,563)	(7,563)	
	-	-			-	-	
<b>119,722</b>	<b>(7,939)</b>	<b>111,783</b>	<b>Net Cost of Services before Funding</b>	<b>131,194</b>	<b>(7,563)</b>	<b>123,631</b>	
<b>3,567</b>	-	<b>3,567</b>	<b>Charge for use of assets</b>	<b>3,957</b>	-	<b>3,957</b>	
-	(109,145)	(109,145)	PCVC funding for resources consumed	-	(112,127)	(112,127)	
<b>123,289</b>	<b>(117,084)</b>	<b>6,205</b>	<b>Net Cost of Services</b>	<b>135,151</b>	<b>(119,690)</b>	<b>15,461</b>	
			<b>Other Operating Expenditure</b>				
24,256	(24,256)	-	Police Pension Top Up Grant	25,049	(25,049)	-	
		786	Levies			833	
		45,510	<b>Financing and Investment Income and Expenditure</b>				
			Net interest on defined benefit liability (Note 22)			42,360	
		<b>52,501</b>	<b>Chief Constable deficit on Provision of Services</b>			<b>58,654</b>	
		262,395	Re-measurements of the defined benefit liability (Note 22)			(24,779)	
		<b>262,395</b>	<b>Other Comprehensive Income and Expenditure</b>			<b>(24,779)</b>	
		<b>314,896</b>	<b>Total Comprehensive Income and Expenditure</b>			<b>33,875</b>	

This statement shows the accounting cost in the year for the Chief Constable of providing services at the request of the PCVC in accordance with generally accepted accounting practices. The Chief Constable deploys assets, police officers and police staff to deliver the Police and Crime Plan.

## Movement in Reserves Statement for the Chief Constable of Durham Constabulary

Current year	Police Fund Balances £'000	Total Useable Reserves £'000	Unusable Reserves £'000	Total Reserves £'000
Balance at 31 March 2017	-	-	(1,612,815)	(1,612,815)
Movement in reserves during 2017/18	(58,654)	(58,654)	24,779	(33,875)
Total Comprehensive Income and Expenditure				
Adjustments between accounting basis & funding basis under regulations (note 9)	58,654	58,654	(58,654)	-
Increase/(Decrease) in year	-	-	(33,875)	(33,875)
Balance at 31 March 2018 carried forward	-	-	(1,646,690)	(1,646,690)
Comparative year				
Balance at 31 March 2016	-	-	(1,297,919)	(1,297,919)
Movement in reserves during 2016/17	(52,501)	(52,501)	(262,395)	(314,896)
Total Comprehensive Income and Expenditure				
Adjustments between accounting basis & funding basis under regulations (note 9)	52,501	52,501	(52,501)	-
Increase/(Decrease) in year	-	-	(314,896)	(314,896)
Balance at 31 March 2017 carried forward	-	-	(1,612,815)	(1,612,815)

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.

## Balance Sheet for the Chief Constable of Durham Constabulary at 31 March 2018

31 March 2017		Notes	31 March 2018	
£'000	£'000		£'000	£'000
-			-	
-			-	
487			470	
7,221		11	9,108	
-			-	
	7,708			9,578
(10,320)		12	(12,105)	
	(10,320)			(12,105)
(1,963)		13	(1,703)	
-				
(1,608,240)		14	(1,642,460)	
	(1,610,203)			(1,644,163)
	(1,612,815)			(1,646,690)
-				-
(1,612,815)		15		(1,646,690)
(1,612,815)				(1,646,690)

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 are matched by the reserves held by the Chief Constable.

These financial statements replace the unaudited financial statements confirmed by Gary Ridley on 31 May 2018.



## Cashflow Statement for the Chief Constable of Durham Constabulary for the Year Ended 31 March 2018

2016/17		OPERATING ACTIVITIES	2017/18	
£'000	£'000		£'000	£'000
1,903		<b>Cash Inflow</b>	2,129	
6,035		Specific Grants	4,427	
138,071		Cash received for goods and services	141,927	
	146,009	Adjustments to net deficit on the provision of services		148,483
		<b>Cash Inflows generated from operating activities</b>		
(126,806)		<b>Cash Outflow</b>	(131,073)	
(19,203)		Cash paid to employees	(17,410)	
	(146,009)	Cash paid to suppliers of goods and services		(148,483)
	-	<b>Cash outflows generated from operating activities</b>		
		<b>Net cash flows from operating activities</b>		-
		<b>INVESTING ACTIVITIES</b>		
		Net cash flows from investing activities		-
		<b>FINANCING ACTIVITIES</b>		
		Net cash flows from financing activities		-
	-	<b>Net increase or decrease in cash and cash equivalent</b>		-
		Cash and cash equivalents at the beginning of the reporting period		-
		<b>Less</b>		
	-	Cash and cash equivalents at the end of the reporting period		-
	-			-

The Cashflow Statement shows the changes in cash and cash equivalents of the Chief Constable during the reporting period.

All payments were made and income received into the Bank Account which is held by the PCVC.

# Notes to the Financial Statements for the Chief Constable of Durham for the year to 31 March 2018

## 1 ACCOUNTING POLICIES

### 1.1 General Principles

The Statement of Accounts summarises the Chief Constable of Durham's transactions for the 2017/18 financial year and the position at the year-end of 31 March 2018. The Chief Constable is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2015 which require accounts to be prepared in accordance with proper accounting practices. These practices under section 21 of the 2014 act primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18, supported by International Financial Reporting Standards (IFRS).

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.

On 22 November 2012, Durham Police Authority was replaced by two corporation sole bodies: the Office of the Durham Police and Crime Commissioner and the Chief Constable for Durham Constabulary. Both bodies are required to prepare separate Statements of Accounts.

The financial statements cover the 12 months to 31 March 2018.

### 1.2 Revenue and Expenditure Recognition

Since 1 April 2014, the majority of staff and all officers are employed by the CC however all the major revenue streams are received by the PCVC. The PCVC funds the operations of the CC.

### 1.3 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:

- 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 of the Chief Constable.
- 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.

### 1.4 Cash and Cash Equivalents

All cash is held by the PCVC.

### 1.5 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 and are recognised as an expense for services in the year in

which employees render service to the Group. An accrual is made by the CC for the cost of holiday entitlements (or any form of leave, eg 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 charged to CC's 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 CC to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy. These are charged on an accruals basis to the Net Cost of Services in the Comprehensive Income and Expenditure Statement when the Group is demonstrably committed to the termination of the employment of an officer or group of officers or making an offer to encourage voluntary redundancy.

When termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Group 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**

Employees of the CC are members of two separate pension schemes:

- The Police Pension Scheme for Police Officers, which is unfunded
- The Local Government Pension Scheme, administered by Durham County Council.

#### **The Police Pension Scheme for Police Officers**

This is an unfunded defined benefit final salary scheme 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. If the amounts receivable by the pensions fund for the year are less than amounts payable, the Durham Police and Crime Commissioner must annually transfer an amount to meet the deficit to the pension fund. This cost is then met by central government. If however the pension fund is in surplus for the year, the surplus is required to be transferred from the pension fund to the Durham Police and Crime Commissioner who then must repay the amount to central government.

#### **Injury Awards**

IAS 19 requires that any obligation arising from other long-term employee benefits that depend on length of service need to be recognised when service is rendered. As injury awards under the Police Officer schemes are dependent on service, the liability expected to arise due to injury awards in respect of service prior to the valuation date requires valuation. The gratuity lump sum paid on injury is not dependent on service and so is not recognised as service is rendered.

### **The Local Government Pension Scheme**

The Local Government Pension Scheme for support staff, administered by Durham County Council is a funded defined benefit final salary scheme, meaning that the CC and employees pay contributions into a fund, calculated at a level intended to balance the pension's liabilities with investment assets.

### **Aspects of the schemes**

The main aspects of both these pension schemes are:

- i. The liabilities of each scheme attributable to the Group are included in the Balance Sheet on an actuarial basis using the projected unit method - ie an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates etc and projections of projected earnings for current employees
- ii. Liabilities are discounted to their value at current prices at a rate that is determined by reference to market yields at the end of the reporting period on high quality corporate bonds.
- iii. The attributable assets of each scheme are included in the Balance Sheet at fair value.
- iv. The change in the net pensions liability for each scheme is analysed into the following components:
  - Current service cost - the increase in liabilities as a result of years of service earned this year. The current service cost is stated net of employees' contributions, so as to reflect the part of the total pensions liabilities that are to be funded by the Group - allocated in the Comprehensive Income and Expenditure Statement to employee costs.
  - Past service costs - the increase in liabilities as a result of a scheme amendment or curtailment whose effect relates to years of service earned in earlier years - debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement.
  - Net interest on the net defined benefit liability, ie net interest expense for the Group - the change during the period in the net defined liability that arises from the passage of time charged to the Financing and Investment Income line of the Comprehensive Income and Expenditure Statement - this is calculated by applying the discount rate used to measure the defined benefit obligation at the beginning of the period - taking into account any changes in the net defined benefit liability during the period as a result of contribution and benefit payments.
- v. Remeasurements comprising:
  - The return on plan assets - excluding amounts included in net interest on the net defined benefit liability - charged to the Pensions Reserve as Other Comprehensive Income and Expenditure
  - Actuarial gains and losses - changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions - charged to the Pensions Reserve as Other Comprehensive Income and Expenditure.
- vi. Contributions paid to the funds - cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions require the Police Fund Balance to be charged with the amount payable by the Group to the pension funds or directly to pensioners in the year, not the amount calculated in accordance with relevant accounting standards. In the Movement in Reserves Statement, this means that there are transfers to and from the Pensions Reserve to remove

the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension funds and pensioners and any such amounts payable but unpaid at the year end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the Police Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

A separate statement of Police Pension Fund Accounts is prepared to reflect the transactions in respect of funding for the Police Pension Schemes.

### **1.6 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.

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

### **1.7 Financial Instruments**

#### **Financial Liabilities**

Financial liabilities are recognised on the Balance Sheet when the Chief Constable becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and carried at their amortised cost. The Chief Constable has not given any financial guarantees.

#### **Financial Assets**

Financial assets are classified into two types:

- loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market
- available for sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments

### **1.8 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 CC when there is reasonable assurance that:

- the CC 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.

#### **1.9 Inventories**

Inventories are held at the lower of cost and net realisable value and include uniforms, forensics dry goods, stationery, oil, diesel and ammunition.

#### **1.10 Overheads and Support Services**

The costs of overheads and support services are charged to either Employee or Non Employee costs depending on their nature.

#### **1.11 VAT**

VAT payable is included as an expense only when it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

### **2 ACCOUNTING STANDARDS ISSUED NOT ADOPTED**

In accordance with the Code, the Chief Constable shall disclose information relating to the impact of an accounting change that will be required by a new standard that has been issued but not yet adopted. This requirement applies to accounting standards that come into effect for financial years commencing on or before 1 January 2018.

The following standards have been issued but have not yet been adopted at 31 March 2018:

- IFRS 9 Financial Instruments
- IFRS 15 Revenue from Contracts with Customers
- Amendments to IAS 12 Income Taxes
- Amendments to IAS 7 Statement of Cash Flows

None of the above will have a material impact on the Financial Statements.

### **3 CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES**

In applying the accounting policies set out in Note 1, the Chief Constable has had to make certain judgements about complex transactions or those involving uncertainty about future events.

**Statutory Accounts.** Both the PCVC and the CC are separate bodies listed under the Local Audit and Accountability Act 2014 and so must produce statutory accounts. Both bodies comply with chapter 9 of the code and so group accounts must be produced also. The Police Reform and Social Responsibility Act 2011 (Transitional Provision) Order 2013 (SI 2013/2319) recognises that S21 and S22 of the LG Act 2003 apply to relevant transactions of the Chief Constable as if it were a local authority from 1 April 2013.

On 1 April 2014, the stage 2 transfer occurred between the PCVC and the CC where all the officers and the majority of police staff transferred their employment from the PCVC to the CC. The PCVC retained all property, plant and equipment, the major revenue streams and usable reserves. The CC delivers

the day to day operations funded by the PCVC and holds some current assets and liabilities and unusable reserves relating to pensions and staff absences.

**Staff Costs.** The staff costs have been split according to which organisation employs the individual. All the officer costs and liabilities rest with the CC.

**Asset and Liability Recognition.** Long term control and long term access to the economic benefits associated with assets such as buildings rests with the PCVC. The CC deploys assets to deliver the Police and Crime Plan of the PCVC and is funded by the PCVC. The PCVC retains all long term assets, the major revenue streams and useable reserves. The CC holds some current assets and liabilities and unusable reserves relating to pensions and staff absences.

**Pension Fund Accounts.** The CC is responsible for administering the Police Pension Fund in accordance with the Police Reform and Social Responsibility Act 2011. Therefore the Pension Fund Accounts have been included in financial statements of the CC and the Group.

#### **4 ASSUMPTIONS MADE ABOUT THE FUTURE AND OTHER MAJOR SOURCES OF ESTIMATION UNCERTAINTY**

The Chief Constable of Durham Constabulary's Statement of Accounts contains estimated figures that are based on assumptions made by the CC about the future or that are otherwise uncertain. Estimates are made taking into account historical experience, current trends and other relevant factors. However, as balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

The items in the CC's Balance Sheets at 31 March 2018 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

##### **4.1 Pensions Liability Uncertainty**

Estimation of the net liability to pay pensions depends on a number of complex judgements relating 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. Actuaries are engaged to provide the Chief Constable with expert advice about the assumptions to be applied.

##### **Effect if actual results differ from assumptions**

The effects of changes in individual assumptions on the total pension liability can be measured. Examples of how changes in assumptions would impact upon the Police Officer pension liability are shown in note 21.

##### **4.2 Stage 2 Transfer on 1 April 2014 Judgement**

The allocation of some minor streams of income along with some associated debtors and creditors have been allocated to the CC in accordance with the governance framework.

##### **Effect if actual results differ from assumptions**

There would be no effect on the Group accounts. However in the CC's accounts, if all the income was allocated to the PCVC, the income would decrease by £7.9 million.

## 5 MATERIAL ITEMS OF INCOME AND EXPENSE

There are no material items of income and expense which are not already disclosed on the face of the Comprehensive Income and Expenditure Statement or in the associated notes.

## 6 EVENTS AFTER THE REPORTING PERIOD

The Chief Constable's Statement of Accounts was authorised for issue by the Assistant Chief Officer on 26 July 2018. 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 2018, the figures in the financial statements have been adjusted in all material respects to reflect the impact of this information.

## 7 EXPENDITURE AND FUNDING ANALYSIS FOR THE CHIEF CONSTABLE OF DURHAM CONSTABULARY FOR THE YEAR ENDED 31 MARCH 2018

2016/17	2016/17	2016/17		2017/18	2017/18	2017/18
Net Expenditure Chargeable to the General Fund	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement		Net Expenditure Chargeable to the General Fund	Adjustments between the Funding and Accounting Basis	Net Expenditure in the Comprehensive Income and Expenditure Statement
£'000	£'000	£'000		£'000	£'000	£'000
49,418	52,501	101,919	Employee costs	55,670	58,654	114,324
17,803	-	17,803	Non employee costs	16,870	-	16,870
(7,939)	-	(7,939)	Income	(7,563)	-	(7,563)
3,567	-	3,567	Charge for use of assets	3,957	-	3,957
(109,145)	-	(109,145)	PCC funding for resources consumed	(112,127)	-	(112,127)
(46,296)	52,501	6,205	Net Cost of Services	(43,193)	58,654	15,461
46,296	-	46,296	Other Income and Expenditure	43,193	-	43,193
-	52,501	52,501	Group deficit on Provision of Services	-	58,654	58,654
-			Opening General fund and Earmarked Reserves Balance	-		
-			Less deficit on General Fund and Earmarked Reserves Balance	-		
-			Closing General fund and Earmarked Reserves Balance	-		



The objective of the Expenditure and Funding Analysis is to demonstrate to council tax payers how the funding available to the CC for the year has been used in providing services in comparison with those resources consumed or earned by the CC in accordance with generally accepted accounting practices. The Expenditure and Funding Analysis also shows how this expenditure is allocated for decision making purposes between the PCVC and the CC. Income and Expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement.

## 7A NOTE TO THE EXPENDITURE AND FUNDING ANALYSIS

<b>Year ended 31 March 2018</b>				
<b>Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts</b>	<b>Adjustments for Capital Purposes £'000</b>	<b>Net change for the Pensions Adjustments £'000</b>	<b>Other Differences £'000</b>	<b>Total Adjustments £'000</b>
Employee costs	-	(58,999)	345	(58,654)
Non employee costs	-	-	-	-
<b>Net Cost of Services</b>	-	(58,999)	345	(58,654)
<b>Other income and expenditure from the Expenditure and Funding Analysis</b>	-	-	-	-
<b>Difference between General Fund surplus/deficit and Comprehensive Income and Expenditure Statement surplus or deficit on the Provision of Services</b>	-	(58,999)	345	(58,654)
<b>Year ended 31 March 2017</b>				
<b>Adjustments from General Fund to arrive at the Comprehensive Income and Expenditure Statement amounts</b>	<b>Adjustments for Capital Purposes £'000</b>	<b>Net change for the Pensions Adjustments £'000</b>	<b>Other Differences £'000</b>	<b>Total Adjustments £'000</b>
Employee costs	-	(51,967)	(534)	(52,501)
Non employee costs	-	-	-	-
<b>Net Cost of Services</b>	-	(51,967)	(534)	(52,501)
<b>Other income and expenditure from the Expenditure and Funding Analysis</b>	-	-	-	-
<b>Difference between General Fund surplus/deficit and Comprehensive Income and Expenditure Statement surplus or deficit on the Provision of Services</b>	-	(51,967)	(534)	(52,501)

## 7B SEGMENTAL INCOME

There is a requirement within the Code to present financial information for reportable segments in a manner consistent with an authority's internal management reporting. The CC considers that it has only one operating segment, being the commissioning and delivery of policing services, and the reporting of financial information within the Comprehensive Income and Expenditure Statement (CIES) and Expenditure and Funding Analysis (EFA) is consistent with internal management reports. Accordingly, the analysis in the CIES and within the EFA are deemed to fulfil the segmental reporting requirements set out in the Code.

## 8 CHIEF CONSTABLE OF DURHAM CONSTABULARY EXPENDITURE AND INCOME ANALYSED BY NATURE

	2016/17 £'000	2017/18 £'000
<b>Expenditure</b>		
Employee benefits expenses	97,300	114,324
Other services expenses	25,990	20,827
Interest payments (including defined benefit liability)	45,510	42,360
Levies	786	833
<b>Total Expenditure</b>	<b>169,586</b>	<b>178,344</b>
<b>Income</b>		
Fees, charges and other service income	(7,939)	(7,563)
PCVC funding for resources consumed	(109,145)	(112,127)
<b>Total Income</b>	<b>(117,084)</b>	<b>(119,690)</b>
<b>Deficit on the Provision of Services</b>	<b>52,502</b>	<b>58,654</b>

## 9 ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

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

Year ended 31 March 2018	USABLE RESERVES					
	Police Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Capital Contribution Reserve	Total Usable Reserves	Movement in Unusable Reserves
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Adjustments to the Revenue Resources</b>						
Amounts by which income and expenditure included in the Comprehensive Income and Expenditure statement are different from revenue for the year calculated in accordance with statutory requirements:						
Pension Costs ( <i>transferred to or from the Pension Reserve</i> ):						
- Retirement benefits	(74,930)	-	-	-	(74,930)	74,930
- Employer's pensions contributions and direct payments to pensioners payable in the year	15,931	-	-	-	15,931	(15,931)
Holiday Pay (transferred to the Accumulated Absences Reserve)	345	-	-	-	345	(345)
<b>TOTAL ADJUSTMENTS</b>	<b>(58,654)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(58,654)</b>	<b>58,654</b>
<b>(Movement in Reserves Statement)</b>						

Year ended 31 March 2017	USABLE RESERVES					
	Police Fund Balance	Capital Receipts Reserve	Capital Grants Unapplied	Capital Contribution Reserve	Total Usable Reserves	Movement in Unusable Reserves
	£'000	£'000	£'000	£'000	£'000	£'000
<b>Adjustments to the Revenue Resources</b>						
Amounts by which Income and expenditure Included in the Comprehensive Income and Expenditure statement are different from revenue for the year calculated in accordance with statutory requirements:						
Pension Costs ( <i>transferred to or from the Pension Reserve</i> ) :						
- Retirement benefits	(67,600)	-	-	-	(67,600)	67,600
- Employer's pensions contributions and direct payments to pensioners payable in the year	15,633	-	-	-	15,633	(15,633)
Holiday Pay (transferred to the Accumulated Absences Reserve)	(534)	-	-	-	(534)	534
<b>TOTAL ADJUSTMENTS</b>	<b>(52,501)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(52,501)</b>	<b>52,501</b>
<b>(Movement in Reserves Statement)</b>						

## 10 FINANCIAL INSTRUMENTS

	Current	
	31 March 2017	31 March 2018
	£'000	£'000
<b>Debtors</b>		
Loans and receivables	6,415	8,325
<b>Total included in debtors</b>	<b>6,415</b>	<b>8,325</b>
<b>Creditors</b>		
Financial liabilities carried at contract cost	(7,978)	(9,651)
<b>Total included in liabilities</b>	<b>(7,978)</b>	<b>(9,651)</b>

All the CC's financial assets relate to receivables and are measured at fair value which, in all cases, is their absolute value. Debtors are reviewed for impairment, with the provision for doubtful debts reflecting any risk relating to uncertainty of receipt.

Financial liabilities relate to creditors and are measured at their amortised cost.

Financial instruments give rise to certain areas of risk which must be mitigated:

Credit risk - the possibility that other parties might fail to pay amounts due to the CC.

Liquidity risk - the possibility that the CC might not have funds available to meet its commitments to make payments.

Market risk - the possibility that financial loss might arise for the CC as a result of changes in such measures as interest rates.

The CC is not open to material exposures to these risks due to the nature of the financial instruments and a range of controls:

- an authorisation procedure for all investments held by the PCVC.
- access to borrowing from the Public Works Loan Board by the PCVC.
- a programme of authorised and reviewed Prudential Indicators and Treasury Management Reports which are taken to the Exec Board regularly.

#### **Fair Value of Assets and Liabilities Carried at Amortised Cost**

Financial liabilities, financial assets represented by loans and receivables and long term debtors and creditors are initially measured at fair value and are carried at their amortised cost.

Financial liabilities: the amount presented in the Balance Sheet is the outstanding principle repayable plus accrued interest.

Financial assets: the amount presented in the Balance Sheet is the outstanding principle receivable plus accrued interest.

The fair value of each class of financial assets and liabilities which are carried in the Balance Sheet at amortised cost is disclosed below:

#### **Financial Liabilities - carried at amortised cost**

	2016/17		2017/18	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	£'000	£'000	£'000	£'000
Other payables	(7,978)	(7,978)	(9,651)	(9,651)
<b>Total Financial Liabilities</b>	<b>(7,978)</b>	<b>(7,978)</b>	<b>(9,651)</b>	<b>(9,651)</b>
Current	(7,978)	(7,978)	(9,651)	(9,651)
<b>Total Financial Liabilities</b>	<b>(7,978)</b>	<b>(7,978)</b>	<b>(9,651)</b>	<b>(9,651)</b>

#### **Financial Assets - Loans and receivables**

	2016/17		2017/18	
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	£'000	£'000	£'000	£'000
Receivables	6,415	6,415	8,325	8,325
<b>Total Financial Assets</b>	<b>6,415</b>	<b>6,415</b>	<b>8,325</b>	<b>8,325</b>
Current	6,415	6,415	8,325	8,325
<b>Total Financial Assets</b>	<b>6,415</b>	<b>6,415</b>	<b>8,325</b>	<b>8,325</b>

## 11 DEBTORS

	31 March 2017	31 March 2018
	£'000	£'000
Central government bodies	657	1,304
Other local authorities	5,491	6,753
Other Debtors	346	329
Less provision for impairment of receivables	(126)	(139)
NHS	46	78
Payments in advance	807	783
<b>Total debtors</b>	<b>7,221</b>	<b>9,108</b>

## 12 CREDITORS

	31 March 2017	31 March 2018
	£'000	£'000
Central government bodies	2,077	2,510
Other local authorities	2,386	2,550
Sundry creditors	5,699	6,901
Receipts in advance	139	139
NHS	19	5
<b>Total creditors</b>	<b>10,320</b>	<b>12,105</b>

## 13 PROVISIONS

	Insurance	Other	Employee	Total
	£'000	£'000	£'000	£'000
Balance at 1 April	964	600	400	1,964
Increase/ (decrease) during the year	(481)	220	0	(261)
Balance at 31 March	483	820	400	1,703

An insurance provision has been established to meet the identified potential cost to the Group of claims of negligence from employees for personal injury sustained during the course of their employment, and from third parties for personal injury or damage to their property. The provision is

based on the insurer's estimates of outstanding claims and settlement of the claims is likely to be spread over a number of years. The amount relating to the PCVC is insignificant so this provision is all held by the Chief Constable. An exit packages provision has been included to meet the potential costs of staff leaving posts in the next financial year. All other provisions are individually insignificant.

#### 14 PENSIONS LIABILITY

	31 March 2017	31 March 2018
	£'000	£'000
Police Pension Scheme liability	1,543,250	1,571,890
Local Government Pension Scheme liability	64,990	70,570
<b>Total Liability</b>	<b>1,608,240</b>	<b>1,642,460</b>

#### 15 RESERVES

The Chief Constable has a number of reserves in the Balance Sheet. These are needed to comply with proper accounting practice. Details of the reserves of the Chief Constable are as follows:

Reserve	1 April 2017	Net Movement in year	31 March 2018	Purpose of Reserve	Further details of movement
	£'000	£'000	£'000		
<b>UNUSABLE RESERVES</b>					
Pensions Reserve (IAS 19)	(1,608,241)	(34,220)	(1,642,461)	Balancing account to allow inclusion of pensions liability in the balance sheet	Note 22
Accumulated Absences Account	(4,574)	345	(4,229)	Balancing account to allow inclusion of police officers and other employees liability in the balance sheet	
<b>TOTAL UNUSABLE RESERVES</b>	<b>(1,612,815)</b>	<b>(33,875)</b>	<b>(1,646,690)</b>		

Reserve	1 April 2016	Net Movement in year	31 March 2017	Purpose of Reserve	Further details of movement
	£'000	£'000	£'000		
<b>UNUSABLE RESERVES</b>					
Pensions Reserve (IAS 19)	(1,293,880)	(314,361)	(1,608,241)	Balancing account to allow inclusion of pensions liability in the balance sheet	Note 22
Accumulated Absences Account	(4,039)	(535)	(4,574)	Balancing account to allow inclusion of police officers and other employees liability in the balance sheet	
<b>TOTAL UNUSABLE RESERVES</b>	<b>(1,297,919)</b>	<b>(314,896)</b>	<b>(1,612,815)</b>		

## 16 OFFICERS' REMUNERATION

The remuneration paid to the senior staff of the Chief Constable as follows:

31 March 2018	Salary	Benefits in kind	Allowances	Employer's Pension Contributions	Total
	£	£	£	£	£
Chief Constable - M Barton	139,313	11,700	5,764	-	156,777
Deputy Chief Constable	114,907	8,719	2,403	27,807	153,836
Assistant Chief Constable	109,699	7,666	1,091	26,547	145,003
Assistant Chief Officer	109,123	-	4,307	20,951	134,381

The role of the Treasurer to the PCVC is carried out part time by the Assistant Chief Officer

31 March 2017	Salary	Benefits in kind	Allowances	Employer's Pension Contributions	Total
	£	£	£	£	£
Chief Constable - M Barton	137,933	7,983	5,969	-	151,885
Deputy Chief Constable (from 14/11/2016)	43,475	2,225	915	10,521	57,136
Deputy Chief Constable (to 24/7/2016)	36,950	5,566	756	8,642	51,914
Assistant Chief Constable	108,718	6,078	0	26,310	141,106
Temporary Assistant Chief Constable	29,748	-	2,168	6,684	38,600
Assistant Chief Officer	108,042	-	4,307	16,422	128,771

The role of the Treasurer to the PCVC is carried out part time by the Assistant Chief Officer  
During the year, the Assistant Chief Constable acted as the temporary Deputy Chief Constable for the period 25 July to 13 November 2016. A temporary Assistant Chief Constable was appointed during this time.

The Chief Constable's other employees receiving more than £50,000 remuneration for the year (excluding employer's pension contributions) were paid the following amounts

Remuneration Band	Number of Employees	
	2016/17	2017/18
£50,000 - £54,999	80	95
£55,000 - £59,999	27	43
£60,000 - £64,999	11	13
£65,000 - £69,999	2	7
£75,000 - £79,999	2	2
£80,000 - £84,999	3	4
£85,000 - £89,998	3	3
£95,000 - £99,999	-	1
£110,000 - £114,999	-	1

The numbers of exit packages for the Chief Constable with the total cost per band and total cost of the compulsory and other redundancies are set out in the table below:

Exit package cost band (including special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18	2016/17	2017/18
							£	£
£0-£20,000	-	-	1	1	1	1	7,481	9,907
£20,001-£40,000	-	-	2	2	2	2	65,155	43,134
£40,001-£60,000	-	-	-	2	-	2	-	104,514
£60,001-£80,000	-	-	1	-	1	-	64,776	-
£80,001-£100,000	-	-	1	1	1	1	87,794	80,010
	-	-	5	6	5	6	225,206	237,565



## 17 EXTERNAL AUDIT COSTS

	31 March 2017	31 March 2018
	£'000	£'000
Fees payable to Mazars with regard to external audit services carried out by the appointed auditor for the year	15	15

## 18 RELATED PARTIES

The Chief Constable is required to disclose material transactions with related parties ie bodies or individuals that have the potential to control or influence or be controlled/influenced by the Chief Constable. Disclosure of these transactions allows readers to assess the extent to which the Chief Constable may have been constrained in his ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Chief Constable. Transactions should be disclosed where material to either the organisation or individual with whom the transaction has been incurred.

### Central Government

Central government has effective control over the general operations of the Chief Constable. It is responsible for providing the statutory framework within which the Chief Constable operates, provides the majority of its funding in the form of grants which are paid to the PCVC and prescribes the terms of many of the transactions that the Group has with other parties. Grants received by the Group from government departments are included within the Comprehensive Income and Expenditure Statement of the PCVC and the Group.

All transactions with other public bodies were made with the PCVC and are disclosed in the PCVC's financial statements.

### Officers

There were no related party transactions involving the Chief Constable, or chief officers of the Constabulary.

## 19 DEPRECIATION AND AMORTISATION

The PCVC makes charges to the CC for the use of long term assets equivalent to the charges made in the accounts of the PCC for depreciation, impairment and amortisation. For 2017/18 this amounted to £3.957M (2016/17 £3.567M).

## 20 REGIONAL COLLABORATION

The Commissioner has collaborative arrangements with other local Forces as follows:

- **Cleveland and Durham Fingerprint Bureau (CDFB)**  
Contribution for 2017/18 was £356,486 (£339,039 in 2016/17). Durham's proportionate share is 47% as set out in the collaborative agreement.
- **Tactical Training Centre (TTC)**  
Contribution for 2017/18 was £545,253 at 50% (£448,210 in 2016/17). Durham's proportionate share is 50% as set out in the collaborative agreement.

- **North East Regional Special Operations Unit (NERSOU)**

The North East Regional Special Operations Unit (NERSOU) is a collaboration between the Forces of Durham, Northumbria and Cleveland to tackle serious and organised crime across the region. NERSOU is financed through a combination of Home Office Grants and contributions from each of the participating Forces. The contribution proportion during 2017/18 was 22.74%

	<b>31 March 2017</b>	<b>31 March 2018</b>
	<b>£'000</b>	<b>£'000</b>
Employees	6,361	7,674
Premises	264	557
Transport	233	337
Supplies and Services	450	574
Gross Expenditure	7,308	9,142
Funded by :-		
Income	(1,221)	(2,580)
The Office of the Police and Crime Commissioner for Durham	(1,414)	(1,520)
The Police and Crime Commissioner for Cleveland	(1,496)	(1,661)
The Police and Crime Commissioner for Northumbria	(3,858)	(3,502)
Contribution to/(from) Reserves	681	121
	-	-

The Three Forces jointly own a building for NERSOU which houses regional policing assets and enables further joint working with other partners. The premises are held under a Trust Agreement signed by each of the three Police and Crime Commissioners. The relative share of ownership of the asset is determined by the proportion of agreed capital contributions made by each Force. The proportional share forms the basis of the asset held on the PCVC's balance sheet. The relative share of ownership is 37.5%

- **Cleveland and Durham Special Operations Unit (CDSOU)**

The Special Operations Unit was set up during 2011/12 and is a collaboration between the Durham Police and Crime Commissioner and the Police and Crime Commissioner for Cleveland to deliver roads policing and firearms response. Contribution rate is 50%

	<b>31 March 2017</b>	<b>31 March 2018</b>
	<b>£'000</b>	<b>£'000</b>
Employees	8,919	8,721
Transport	481	458
Supplies and Services	252	291
Gross Expenditure	9,652	9,470
Funded by :-		
Income	(178)	(206)
The Office of the Durham Police and Crime Commissioner	(4,737)	(4,632)
The Police and Crime Commissioner for Cleveland	(4,737)	(4,632)
Balance	-	-

- **Dogs Unit**

In 2016/17 the Dogs unit formed part of CDSOU. From April 2016 to July 2016 the unit comprised of Durham and Cleveland only. From August 2016 to March 2017 North Yorkshire were included. Prior to August 2016 the contribution rate was 50%, from that date the rate was 30.12%

	<b>31 March 2017</b>	<b>31 March 2018</b>
	<b>£'000</b>	<b>£'000</b>
Employees	2,250	2,359
Transport	125	132
Supplies and Services	75	65
Gross Expenditure	2,450	2,556
Funded by :-		
Income	-	(17)
The Office of the Police and Crime Commissioner for Durham	(865)	(765)
The Police and Crime Commissioner for Cleveland	(918)	(838)
Police and Crime Commissioner for North Yorkshire Police	(667)	(936)
Balance	-	-

## 21 LEASES

### Operating Leases

The PCVC and Group has acquired a number of buildings and ICT equipment by entering into operating leases with typical lives ranging from 1 to 25 years. The future minimum lease payments due under non-cancellable leases in future years are:

	<b>2016/17</b>			<b>2017/18</b>		
	<b>Buildings</b>	<b>Equipment</b>	<b>Total</b>	<b>Buildings</b>	<b>Equipment</b>	<b>Total</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
Not later than 1 year	236	-	236	144	-	144
Later than 1, not later 5 years	409	-	409	313	-	313
Later than 5 years	388	-	388	333	-	333
Total	1,033	-	1,033	790	-	790

## 22 DEFINED BENEFIT PENSION SCHEMES

### Participation In Pension 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 two pension schemes:

- The Local Government Pension Scheme for civilian employees, administered by Durham County Council; this is a funded defined benefit final salary scheme, meaning that the PCVC and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

- The Police Pension Scheme for police officers – this is an unfunded defined benefit final salary scheme 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. If the amounts receivable by the pensions fund for the year is less than amounts payable, the Commissioner must annually transfer an amount to meet the deficit to the pension fund. This cost is then met by central government. 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 then must repay the amount to central government.

#### Transactions Relating to Retirement Benefits

The Chief Constable recognises the costs of retirement benefits in the Net Cost of Services as part of the Comprehensive Income and Expenditure Statement when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge required to be made against Council Tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and Movement in Reserves Statement during the year as follows:

	Local Government Pension Scheme		Police Pension Scheme	
	2016/17	2017/18	2016/17	2017/18
	£'000	£'000	£'000	£'000
<b>Comprehensive Income and Expenditure Statement (CIES)</b>				
<b>Net Cost of Service</b>				
Current service cost	4,620	6,670	17,060	23,500
Past service cost	350	-	60	2,400
<b>Finance and Investment Income and Expenditure</b>				
Net Interest Expense	1,270	1,630	44,240	40,730
<b>Total post employment benefit charged to provision of services</b>	6,240	8,300	61,360	66,630
<b>Other post employment benefit charged to the CIES</b>				
Remeasurement of net defined benefit comprising of:				
Return on plan assets	(13,457)	566	(24,302)	(26,455)
Actuarial gain/loss from changes in demographic	(970)	-	(25,820)	(52,790)
Actuarial gain/loss from changes in financial assumptions	44,100	-	292,240	47,490
Other:	(5,480)	770	(3,920)	5,640
<b>Net Charge to the CIES</b>	30,433	9,636	299,558	40,515
<b>Movement in the Reserves Statement</b>				
Reversal of net charges made for retirement benefits accordance with IAS19	(6,240)	(8,300)	(61,360)	(66,630)
<b>Actual amount charged against the General Fund Balance</b>				
Employer's contributions payable to scheme	3,523	4,026	11,030	10,829
Retirement benefits payable to pensioners	30	30	1,048	1,046

**Reconciliation of the present value of the liabilities in the scheme**

2016-17					2017-18					
Police Scheme 1987	Injury Awards	Police Scheme 2006	Police Scheme 2015	Total		Police Scheme 1987	Injury Awards	Police Scheme 2006	Police Scheme 2015	Total
£'000	£'000	£'000	£'000	£'000		£'000	£'000	£'000	£'000	£'000
(1,197,410)	(27,320)	(21,870)	(9,170)	(1,255,770)	Opening present value of liabilities	(1,451,980)	(30,510)	(32,730)	(28,030)	(1,543,250)
(9,430)	(450)	(180)	(7,000)	(17,060)	Current service cost	(10,140)	(460)	(250)	(12,650)	(23,500)
(42,000)	(960)	(780)	(500)	(44,240)	Interest cost	(38,090)	(800)	(880)	(960)	(40,730)
(2,630)	-	(60)	(3,090)	(5,780)	Contributions by participants	(2,200)	-	(60)	(3,470)	(5,730)
					Remeasurement gains and losses:					
23,350	2,480	(10)	-	25,820	Actuarial gain /(loss) arising from changes to demographic assumptions	47,820	770	1,130	3,070	52,790
(264,930)	(5,250)	(9,860)	(8,280)	(288,320)	Actuarial gain / (loss) arising from changes to financial assumptions	(48,590)	20	(3,310)	(1,250)	(53,130)
-	(60)	-	-	(60)	Past service cost	(1,100)	(10)	(730)	(560)	(2,400)
-	-	-	-	-	Loss on curtailments	-	-	-	-	-
41,070	1,050	30	10	42,160	Net benefits paid out	42,980	1,030	30	20	44,060
(1,451,980)	(30,510)	(32,730)	(28,030)	(1,543,250)	Closing present value of liabilities	(1,451,980)	(29,960)	(36,800)	(43,830)	(1,571,890)

2016-17				2017-18						
Police Scheme 1987	Injury Awards	Police Scheme 2006	Police Scheme 2015	Total		Police Scheme 1987	Injury Awards	Police Scheme 2006	Police Scheme 2015	Total
£'000	£'000	£'000	£'000	£'000		£'000	£'000	£'000	£'000	£'000
-	-	-	-	-	Opening fair value of asset	-	-	-	-	-
-	-	-	-	-	Interest Income	-	-	-	-	-
					<b>Remeasurement gains and losses:</b>					
33,136	2	(156)	(8,680)	24,302	The return on plan assets, excluding the amount included in the net interest expense	36,430	(16)	(150)	(9,809)	26,455
5,304	1,048	126	5,600	12,078	Contributions by employer	4,350	1,046	120	6,359	11,875
2,630	-	60	3,090	5,780	Contributions by participants	2,200	-	60	3,470	5,730
(41,070)	(1,050)	(30)	(10)	(42,160)	Net benefits paid out	(42,980)	(1,030)	(30)	(20)	(44,060)
					<b>Closing fair value of assets</b>					
-	-	-	-	-		-	-	-	-	-

**Reconciliation of opening and closing surplus/(deficit) in the scheme**

2016-17												2017-18											
Police Scheme 1987	Injury Awards	Police Scheme 2006	Police Scheme 2015	Total		Police Scheme 1987	Injury Awards	Police Scheme 2006	Police Scheme 2015	Total													
£'000	£'000	£'000	£'000	£'000		£'000	£'000	£'000	£'000	£'000													
(1,197,410)	(27,320)	(21,870)	(9,170)	(1,255,770)	Opening surplus(deficit)	(1,451,980)	(30,510)	(32,730)	(28,030)	(1,543,250)													
(9,430)	(450)	(180)	(7,000)	(17,060)	Current service cost	(10,140)	(460)	(250)	(12,650)	(23,500)													
5,304	1,048	126	5,600	12,078	Contributions by employer	4,350	1,046	120	6,359	11,875													
-	-	-	-	-	Contributions by participants	-	-	-	-	-													
-	(60)	-	-	(60)	Past service cost	(1,100)	(10)	(730)	(560)	(2,400)													
(42,000)	(960)	(780)	(500)	(44,240)	Interest cost	(38,090)	(800)	(880)	(960)	(40,730)													
-	-	-	-	-	Expected return on assets	-	-	-	-	-													
-	-	-	-	-	Loss on curtailments	-	-	-	-	-													
					Remeasurement of net defined benefit liability comprising:																		
33,136	2	(156)	(8,680)	24,302	Return on plan assets	36,430	(16)	(150)	(9,809)	26,455													
					Actuarial gain / (loss) arising from changes to demographic assumptions	47,820	770	1,130	3,070	52,790													
(264,930)	(5,250)	(10)	(8,280)	(278,470)	Actuarial gain / (loss) arising from changes to financial assumptions	(48,590)	20	(3,310)	(1,250)	(53,130)													
(1,451,980)	(30,510)	(32,730)	(28,030)	(1,543,250)	Closing surplus(deficit)	(1,461,300)	(29,960)	(36,800)	(43,830)	(1,571,890)													

## Durham County Council Pension Fund

### Reconciliation of present value of the scheme liabilities:

	Local Government Pension Scheme	
	2016/17	2017/18
	£'000	£'000
Opening present value	(144,390)	(190,250)
Current service cost	(4,620)	(6,670)
Interest cost	(5,030)	(4,910)
Contributions by scheme participants	(1,420)	(1,470)
<b>Remeasurement gains and losses:</b>		
Actuarial gains / losses from changes in	970	-
Actuarial gains / losses from changes in	(38,620)	-
Other:	-	(770)
Past service costs	(350)	-
Liability assumed on entity combinations	-	-
Benefit paid	3,210	3,840
Closing present value	(190,250)	(200,230)

### Reconciliation of fair value of the scheme assets:

	Local Government Pension Scheme	
	2016/17	2017/18
	£'000	£'000
Opening fair value	106,280	125,260
Interest Income	3,760	3,280
Remeasurement gain / loss - Return on plan assets	13,457	(566)
Employer contributions	3,553	4,056
Contributions by scheme participants	1,420	1,470
Assets assumed on entity combinations	-	-
Benefit paid	(3,210)	(3,840)
Closing fair value	125,260	129,660



**Reconciliation of opening and closing surplus / (deficit) of the scheme:**

	<b>Local Government Pension Scheme</b>	
	<b>2016/17</b>	<b>2017/18</b>
	<b>£'000</b>	<b>£'000</b>
Opening surplus (deficit)	(38,110)	(64,990)
Current Service Cost	(4,620)	(6,670)
Contributions by employer	3,553	4,056
Contributions by participants	-	-
Past service cost	(350)	-
Interest cost	(5,030)	(4,910)
Expected return on assets	3,760	3,280
<b>Remeasurement gains and losses:</b>		
Return on plan assets	13,457	(566)
Actuarial gains / losses from changes in demographic assumptions	970	-
Actuarial gains / losses from changes in financial	(44,100)	-
Other: Liability Experience	5,480	(770)
Net Assets / liabilities assumed on entity combinations	-	-
Closing fair value	(64,990)	(70,570)

**Pension assets and liabilities recognised in the balance sheet**

The amount included in the balance sheet arising from the CC's obligation in respect of the defined benefit plan is as follows:

	<b>2016/17</b>	<b>2017/18</b>
	<b>£'000</b>	<b>£'000</b>
<b>Present value of liabilities</b>		
Local Government Pension Scheme	(190,250)	(200,230)
Police Pension Scheme	(1,543,250)	(1,571,890)
Fair value of assets in the Local Government Pension Scheme	125,260	129,660
<b>Surplus / (deficit) in the scheme</b>		
Local Government Pension Scheme	(64,990)	(70,570)
Police Pension Scheme	(1,543,250)	(1,571,890)
<b>Total</b>	<b>(1,608,240)</b>	<b>(1,642,460)</b>

**Local Government Pension Scheme assets comprised:**

	2016/17	2017/18
	£'000	£'000
Cash and Cash equivalents	5,762	6,224
Equity instruments	59,123	64,830
Bonds by sector:		
Corporate	10,270	11,540
Government	40,710	38,120
Sub-total bonds	50,980	49,660
Property	9,395	8,947
Other	-	-
Total assets	125,260	129,660

**Basis for Estimating Assets and Liabilities**

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Both the Police Scheme and the Local Government Fund liabilities have been assessed by independent actuaries, estimates for the Local Government Fund being based on the latest full valuation of the scheme as at 31 March 2016.

The significant assumptions used by the actuaries' are detailed below:

	Local Government Pension Scheme		Police Pension Scheme	
	2016/17	2017/18	2016/17	2017/18
Mortality assumptions				
Longevity at 65 for current pensioners				
Men (years)	23.2	23.3	23.2	22.6
Women (years)	24.9	25.0	25.2	24.2
Longevity at 65 for future pensioners				
Men (years)	25.4	25.5	25.2	24.5
Women (years)	27.2	27.3	27.3	26.1
Rate of Inflation (CPI)	2.0%	2.0%	2.4%	2.3%
Rate of increase of salaries	3.5%	3.5%	4.4%	4.3%
Rate of increase to pensions in payment	2.0%	2.0%	2.4%	2.3%
Rate of increase to deferred pensions	2.0%	2.0%	2.4%	2.3%
Rate for discounting scheme liabilities	2.6%	2.6%	2.7%	2.6%

There is no allowance made for Guaranteed Minimum Pension (GMP) equalisation.

The estimation of defined benefit obligations is sensitive to the actuarial assumptions set out in the table above. The sensitivity analysis below has 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. The assumptions in longevity, for example, assume that life expectancy increases or decreases for men and women. In practice, this is unlikely to occur, and changes in some of the assumptions may be

interrelated. The estimations in the sensitivity analysis have followed the accounting policies for the scheme, ie on an actuarial basis using the projected unit credit method. The method and types of assumptions used in preparing the sensitivity analysis below did not change from those used in the previous period.

**Impact on the Defined Benefit Obligation in the Local Government Pension Scheme:**

	Increase in Assumption	Decrease in Assumption
	£'000	£'000
Longevity (increase or decrease in 1 year)	193,870	205,640
Rate of increase in salaries (increase or decrease by 0.1%)	201,320	198,180
Rate of increase in pensions (increase or decrease by 0.1%)	202,890	196,650
Rate for discounting scheme liabilities (increase or decrease by 0.1%)	195,100	204,490

**Impact on the Defined Benefit Obligation in the Police Pension Scheme:**

	Increase in Assumption	Decrease in Assumption
	£'000	£'000
Longevity (increase or decrease in 1 year)	1,531,890	1,611,890
Rate of increase in salaries (increase or decrease by 0.5%)	1,589,890	1,553,890
Rate of increase in pensions (increase or decrease by 0.5%)	1,694,890	1,448,890
Rate for discounting scheme liabilities (increase or decrease by 0.5%)	1,417,890	1,725,890

**Assets and Liability Matching (ALM) Strategy**

The pensions committee of Durham County Council has agreed an asset and liability matching strategy (ALM) that matches, to the extent possible, the types of assets invested to the liabilities in the defined benefit obligation. The fund has matched assets to the pension's obligation by investing in long-term fixed-interest securities and index-linked gilt-edged investment with maturities that match the benefits payments as they fall due. This is balanced with the need to maintain the liquidity of the fund to ensure that it is able to make current payments. As is required by the pensions and (where relevant) investment regulations the suitability of various types of investment have been considered, as has the need to diversify investments to reduce the risk of being invested in too narrow a range. A large proportion of the assets relate to equities (50% of scheme assets) and bonds (29%). The scheme also invests in properties as a part of the diversification of the schemes investment. The ALM strategy is monitored annually or more frequently if necessary.

**Impact on Cash Flows**

The objectives of the scheme are to keep employer's contributions at as constant rate as possible. The County Council has agreed a strategy with the scheme's actuary to achieve a funding level of 100% over the long term. Funding levels are monitored on an annual basis. The next triennial valuation is due to be completed on 31 March 2019.

The CC is anticipated to pay £4.32M expected contributions to the schemes in 2018/19.

The Chief Constable of Durham, along with other Chief Constables and the Home Office, currently has 35 claims lodged against them with the Central London Employment Tribunal. The claims are in respect of alleged unlawful discrimination arising from the Transitional Provisions in the Police Pension Regulations 2015. Claims of unlawful discrimination have also been made in relation to the changes to the Judiciary and Firefighters Pension regulations and in 2016/17 these claims were heard in the Employment Tribunal. In 2017/18 the Judiciary and Firefighter claims were heard in the Appeal Tribunal. Subsequent to this the respondents are appealing against the Appeal Tribunal judgements. In the case of the Firefighters the claimants are also appealing against aspects of the judgement. The outcome of these further appeals may influence the outcome of the Police claims. The Tribunal has agreed to stay the Police hearing and the Home Office has requested that the stay is extended in light of the further appeals. In the event that the Police claims are successful it is unclear what remedy would be applied, whether this would require further legislation and who it would impact. Given the fact that the Judiciary and Firefighter claims are subject to further appeal and the Police claims are yet to be heard, and the uncertainty regarding remedy and quantum at this point in time it is not possible to provide an estimate of the financial effect in the event that the claims are partially or fully successful. Therefore it has been assessed that the Chief Constable has no liability at 31<sup>st</sup> March 2018.

## **22      CONTINGENT LIABILITY**

The Force has received claims from a number of former officers who took voluntary severance. These claims relate to timings of the payment of pensions. These claims are currently ongoing and at present it is not possible to estimate any potential liability. Additionally, as mentioned above, there are a number of claims relating to the transitional provisions in the Police Pensions Regulations 2015. Again at present it is not possible to estimate any potential liability.

## PENSION FUND ACCOUNTS

The funding arrangements for the Police Pension Scheme in England and Wales changed from 1 April 2006. Before 1 April 2006 each Police Authority was responsible for paying the pensions of its former officers on a pay as you go basis rather than a percentage of pensionable earnings as an employer's contributions. Under the current funding arrangements the Scheme remains unfunded but no longer on a pay-as-you-go basis as far as an individual Chief Constable is concerned. The Chief Constable no longer meets the pension outgoings directly, instead they pay an employer's pension contribution based on a percentage of pay into the Pension Fund. Each individual Chief Constable is required to operate a Pension Fund and the amounts that must be paid into and paid out of the Pension Fund are specified by regulations.

Under the new arrangements the Pension Fund is balanced to nil at the end of the year by transferring from the Chief Constable's Income and Expenditure Account an amount equivalent to the deficit on the Fund. There are no investment assets relating to the Police Pension Fund.

The transactions of the Police Pension Fund are as follows. Net assets are included within the Chief Constable's Balance Sheet.

### Police Officer Pension Fund Account 2017/18

2016/17	2016/17		2017/18	2017/18
£'000	£'000		£'000	£'000
		<b>Contributions receivable</b>		
(9,732)		From local policing body	(9,506)	
(1,325)		Additional funding payable by local policing body to meet the deficit for the year.	(1,294)	
(5,789)		Reimbursement of unabated pensions (30+ police officers) From Officers	(5,732)	
	(16,846)			(16,532)
		<b>Transfers in</b>		
	(3)	Transfers in from other schemes		(1,379)
		<b>Recharges to other local Authorities</b>		
	(148)	Net recharges		(125)
		<b>Benefits payable</b>		
33,471		Pensions	34,684	
7,668		Commutations and lump sum retirement benefits	8,359	
112		Lump Sum Death Benefit	-	
	41,251			43,043
		<b>Payments to and on account of leavers</b>		
		Transfers out to other schemes	42	
2		Refund of Contributions	-	
	2			42
	24,256	<b>Net amount payable for the year</b>		25,049
	(24,256)	<b>Contribution from policing body in respect of the deficit</b>		(25,049)
	-	<b>Year end balance</b>		-

There is an adjustment of 2.9% to the cashflow due to a reduction in the employer contribution rate for police pension schemes in 2017/18, being reflected in a reduction in HMT pension top up funding.

#### Police Officer Pension Fund Net Asset Statement

As at 31 March 2017		As at 31 March 2018
£'000		£'000
	<b>Current Assets</b>	
6,132	Funding to meet deficit due from the local policing body	4,043
4	Cash Held	-
	<b>Current Liabilities</b>	
(4)	Unpaid Pension Benefits	-
(6,132)	Recharges to other Authorities	(4,043)
	Surplus for the year owing to the local policing body	
-	<b>Net Current Assets/Liabilities</b>	-

#### 1 Basis of Preparation

The pension fund accounts have been prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2017/18.

#### 2 Accounting Policies

The principal accounting policies are as follows:

##### Contributions

Contributions represent the total amount receivable from the Chief Constable and pensionable employees. The contributions are made at rates determined by the Government Actuary's Department. The Employer's contributions are set at a nationally applied rate of 24.2% of pensionable pay. For 2017/18 the employee's contributions are dependent on salary: 12.25% or 12.5% for the Police Officers Pension Scheme 1987; 10.1%, 10.5% or 10.75% for the Police Officers' Pension Scheme 2006 and 12.44%, 13.44% and 13.78% for the Police Officers' Pension Scheme 2015.

The Chief Constable is also required to make payments into the Pension Fund in respect of ill-health retirements when they are granted.

##### Benefits

In accordance with the accruals concept benefits are accounted for in the year in which they become due for payment.

##### Transfer Values

Transfer values are those sums payable by or receivable from, other pension schemes for individuals only and relate to periods of previous pensionable employment. Transfers are accounted for on a receipts and payments basis.

**Current Assets and Liabilities**

The current assets and liabilities are measured at fair value and carried at their amortised cost.

**Net Current Assets**

The carrying amounts of current assets is shown below:

	As at 31 March 2017	As at 31 March 2018
	£'000	£'000
Debtors		
Government Departments	6,132	4,043
Local Authorities	-	-
	6,132	4,043

**Net Current Liabilities**

	As at 31 March 2017	As at 31 March 2018
	£'000	£'000
Payables		
Government Departments	-	-
Local Authorities	-	-
Others	4	-
	4	-

The balance reflects the cash overdrawn.

## **GLOSSARY**

### **Accruals**

The concept that income and expenditure are recognised as they are earned or incurred, not as money happens to be received or paid.

### **Budget**

The CC's plans and policies expressed in financial terms.

### **Cash**

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours.

### **Cash Equivalents**

Cash equivalents are investments that mature within three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

### **Chartered Institute of Public Finance and Accountancy (CIPFA)**

The principal accountancy body dealing with local authority finance.

### **Collection Funds**

Funds administered by Durham County Council and Darlington Borough Council in which individuals' Council Tax payments are paid. The Commissioner raises precepts on the funds to finance part of net revenue expenditure.

### **Collection Fund Adjustment Account**

The account through which to implement the accruals basis for recording the precept without affecting the bottom line for taxpayers.

### **Contingency**

The sum of money set aside to meet unforeseen expenditure or liability.

### **Council Tax**

The local tax levied on householders, based on the relative market values of property, which helps to fund local services.

### **Current Assets**

Items that can be readily converted into cash.

### **Current Liabilities**

Items that are due immediately or in the short-term.

### **Debtors**

Persons or bodies who owe sums to the CC.

### **Earmarked Reserves**

These represent monies set aside that can only be used for a specific purpose.

### **Employee Benefits**

Short-term employee benefits are those due to be settled within 12 months of the year end. They include salary, paid annual leave, paid sick leave, bonuses and non-monetary benefits for current employees and are recognised as an expense in the year in which the employee renders service to the CC. An accrual is made for the cost of the benefit earned by an employee but not taken before the year end. The accrual is charged to the surplus or deficit on the provision of Services, but then reversed out through the Movement in Reserves Statement.

### **Interest Income**

The money earned from the investment of surplus cash.

### **International Financial Reporting Standards (IFRS)**

The CC's financial statements have been prepared in accordance with the following statutory accounting standards adopted by the International Accounting Standards Board (IASB):



- International Financial Reporting Standards (IFRS)
- International Accounting Standards (IAS)
- Interpretations of the International Financial Reporting Interpretations Committee (IFRIC)
- Interpretations of the Standing Interpretations Committee (SIC)

#### **National Non-Domestic Rates (NNDR)**

The business rate is set annually by the government. Income from business rates goes into a central government pool that is then distributed to authorities according to resident population.

#### **Outturn**

The actual amount spent in the financial year.

#### **Payables**

Persons or bodies to whom sums are owed by the CC.

#### **Payments in Advance**

These represent payments up to 31st March for supplies and services received after 31 March.

#### **Receipts in Advance**

These represent income received prior to 31st March for supplies and services provided after 1st April.

#### **Retirement Benefits**

All forms of consideration given by an employer in exchange for services rendered by employees that are payable after the completion of employment.

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

Expenditure and income arising from the day to day operation of the CC's service.

#### **Running Expenses**

All expenses other than those relating to employees and the financing costs of capital expenditure (capital financing costs and revenue contributions). Running expenses include expenditure on maintenance of buildings, consumable supplies, transport etc.

#### **Termination Benefits**

Amounts payable as a result of a decision to terminate an officer's employment before the normal retirement date or an officer's decision to accept voluntary redundancy. They are charged on an accruals basis to the Net Cost of Service in the Comprehensive Income and Expenditure Statement.



**CHIEF CONSTABLE OF DURHAM**

**ANNUAL GOVERNANCE STATEMENT 2017/18**

## **ANNUAL GOVERNANCE STATEMENT**

### **1. SCOPE OF RESPONSIBILITY**

Durham Constabulary is responsible for ensuring that its business is conducted in accordance with the financial governance arrangements outlined in the Financial Management Code of Practice for the Police Service of England and Wales (2013). The police service also has a statutory duty to secure value for money in the use of public funds.

In discharging this overall responsibility, Durham Constabulary is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the exercise of its functions, which includes the management of risk.

Durham Constabulary established a Corporate Governance Framework through which the Chief Constable can be assured that the Force's systems, policies and people are operating in a way that is driving the delivery of agreed corporate objectives, are focused on the key risks to the delivery of those objectives and are economic, efficient and effective.

This statement meets the requirements of the Accounts and Audit Regulations 2015 in relation to the publication of an Annual Governance Statement (AGS).

### **2. THE PURPOSE OF THE GOVERNANCE FRAMEWORK**

The governance framework comprises the systems, processes, culture and values, by which the Force is directed and controlled and the activities through which it accounts to and engages with and leads its community. It enables the Force to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services, including achieving value for money.

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

The governance framework has continued to be in place at Durham Constabulary for the year ended 31 March 2018 and up to the date of the approval of the statement of accounts.

### **3. THE GOVERNANCE FRAMEWORK**

Although the Chief Constable is responsible for operational policing matters, the direction and control of police personnel, and for putting in place proper arrangements for the governance of the Force, the Police, Crime and Victims' Commissioner (PCVC) is required under the Police Reform and Social Responsibility Act 2011 to hold him to account for the exercise of those functions and those of the persons under his direction and control.

The Annual Governance Statement (AGS) provides a summary of the extent to which the Force meets the seven principles of good governance as identified in the Delivering Good Governance in Local Government: Guidance Note for Police (2016).

**Principle A Behaving with integrity, demonstrating strong commitment to ethical values, and respecting the rule of law**

To achieve this, the Chief Constable:-

- has a detailed organisational structure, with clearly defined responsibilities and terms of reference, which are monitored and updated when required;
- has established clear roles and responsibilities for each of his senior officers. There is a formal Constabulary accountability/performance management framework and each officer and staff member is subject to the Constabulary Personal Development Review CPD procedures;
- ensures that officers and staff carry out their respective roles in a climate of openness, support and respect;
- has developed standards of conduct and personal behaviour which are defined and communicated through appropriate codes of conduct and protocols;
- has implemented the recommendations contained within the HMIC public interest report – Without Fear or Favour that examined police relationships with media and other parties, information disclosure, hospitality and gratuities, business interests procurement and contracts, and those of the follow up reports - Revisiting police relationships and Integrity Matters;
- has delivered Leading through Standards of Professionalism training via its Professional Standards Department to Officers and staff;
- has a policy on counter fraud and corruption which clearly sets out the procedures to be operated and which is designed to encourage prevention, promote detection and identify a clear pathway for the investigation of fraudulent and/or corrupt practices or behaviour;
- has appropriate and long established Whistle-blowing arrangements and processes in place within the Constabulary;
- has established procedures for dealing with and investigating complaints which are in line with national guidelines;
- promotes the values for the PCVC and Force demonstrating the values of good governance through upholding standards of conduct and behaviour;
- overseas mechanisms and processes such as business interests, gifts and hospitality and media relationships;
- embraces the concept of an internal and external ethics committee responsible for enhancing trust and confidence in the ethical governance and actions of Durham Constabulary;

- completed training to all staff on the code of ethics developed by the College of Policing and awareness raising in respect of abuse of authority for sexual gain.
- ensures that the Constabulary website in relation to integrity and transparency details actions taken to prevent, increase intelligence, enforce and provide reassurance to members of the public of strategies and outcomes of our current transparency agenda;
- oversees a restorative approach to complaint resolution and allows officers and staff to mediate with the members of the public in a controlled fashion;
- oversees all response and neighbourhood staff being provided as personal issue a body camera which maximises evidence yield and assists with the integrity and transparency agenda; and
- ensures that appropriate legal, financial and other professional advice is considered as part of the decision-making process and observes the specific requirements of legislation and its general responsibility by Law.

## **Principle B Ensuring openness and comprehensive stakeholder engagement**

To achieve this, the Chief Constable:-

- holds regular meetings with local communities through the Police and Communities Together (PACT) initiative which offers the community a chance to be heard, to discuss issues that affect communities, to agree local action to tackle these issues and agree priorities;
- works with partner organisations through the Durham and Darlington Community Safety Partnerships to tackle crime, disorder, anti-social behaviour, substance misuse, other behaviour adversely affecting the local environment and to reduce re-offending as required by the Crime and Disorder Act 1998 and amended by the Police and Justice Act 2006;
- The Safe Durham Partnership has developed a Partnership Plan as part of its statutory responsibility to develop a three year plan to tackle priorities identified from the County Durham Joint Strategic Assessment and public consultation;
- regularly publishes information on the Constabulary's work and achievements;
- undertakes a local Public Confidence Survey highlighting public confidence levels and concerns at a local level about policing in their neighbourhood;
- ensures, as part of the investigative update process, that responsible officers in charge engage directly with the victims of crime and keep them informed;
- is working with a group of volunteers who are undergoing training to develop a restorative approach to tackling crime and anti-social behaviour within the community. The volunteers are mostly local people who are giving their time to act as facilitators, bringing together victims and offenders to talk about the impact of an incident and what can be done to put things right;
- undertakes a victim satisfaction survey which provides the Force with information about the quality of service they have received from the Police service;
- holds regular meetings through Neighbourhood Policing teams with the public to discuss local policing priorities and activities to focus work upon. Feedback from these meetings are also included as part of the Force's priority setting process; and
- ensures that Durham Constabulary works in partnership with the Independent Office for Police Conduct. The Home Office and key strategic partners ie HM Coroner to enhance service delivery.

## **Principle C Defining outcomes in terms of sustainable economic, social, and environmental benefits**

To achieve this, the Chief Constable:-

- sets out Durham Constabulary's vision and purpose in accordance with the Police and Crime Plan which sets out policing priorities to be delivered and which is reviewed annually;
- utilises Plan on a Page as the operational delivery mechanism for the Police and Crime Plan and for executing the Chief Constable's own operational independence and 'corporation sole';
- decides how the quality of service for users is to be measured and ensures that the information needed to review service quality effectively and regularly is available;
- provides a commitment to the public to deliver excellent policing to inspire confidence and deliver high satisfaction to victims and local communities in accordance with the Force's Aiming for Excellence philosophy and through 3 key themes of protecting neighbourhoods, tackling criminals and solving problems around the clock; underpinned by the corporate values of 'Positive', 'Fair', 'Courageous' and 'Integrity';
- works in partnership with stakeholders (for example) Durham University to better understand the specific drivers of victim satisfaction and public confidence in relation to crime and Anti Social Behaviour, engages with the public to better understand and address issues that have a negative impact on communities;
- has a robust performance framework that ensures the Chief Constable is informed of progress against key performance objectives;
- has effective arrangements in place to ensure the Constabulary performs to high standards and to identify and deal with failure in service delivery;
- established a Medium Term Financial Plan supported by robust, sustainable multi-year budgets, supported by a Workforce Plan.
- continuously improves processes to ensure that the information needed to review performance in achieving value for money effectively and regularly is available;
- keeps under review the Force's key functions and departments to ensure the delivery of effective policing with reduced numbers of staff. Frontline policing services are prioritised to ensure changes made will provide a maintained or improved service to the communities of County Durham and Darlington in future years;
- compares performance against peer data as provided within HMIC VFM profiles and seeks improvement where best practice is identified;
- has a robust complaints process in place; and
- continues to work with Independent Advisory Groups and minority consultative groups to ensure fairness of delivery.

**Principle D Determining the interventions necessary to optimize the achievement of the intended outcomes**

To achieve this, the Chief Constable:-

- has a detailed medium term financial plan which includes actions to ensure financial sustainability;
- has a performance management framework, to ensure plans are met and remedial action taken;
- has processes in place to ensure data quality is high, so as to enable objective and rigorous decision making;
- reviews victim and community feedback to identify areas for improvement;

- holds monthly Executive Board meetings where issues are raised and actions agreed upon;
- has a risk management process (plan on a page) to identify where interventions may be required; and
- has a sound, research evidenced, understanding of demand (current and future) which informs resource allocation decisions.

**Principle E Developing the entity's capacity, including the capability of its leadership and the individuals within it**

To achieve this, the Chief Constable:-

- has established clear roles and responsibilities for each of the Constabulary's senior officers. There is a formal Constabulary accountability/performance management framework and each officer is subject to the Constabulary Personal Development Review procedures;
- has robust performance management arrangements within the Constabulary which enables each officer's needs, training and development requirements to be identified. The framework enables officers to work with their line managers to agree the appropriate actions to address their needs and regular reviews of progress are held;
- ensures that all police staff are issued with contracts of employment, each role is covered by a job description, all of which are processed through the Constabulary job evaluation scheme to determine the appropriate remuneration for the role. All changes to terms and conditions of contracts or to job descriptions are negotiated through the police staff group;
- Police Officers are servants of the Crown, their terms and conditions are provided for under national police regulations. The Constabulary has a range of policies to support the implementation of the national regulations, and any changes to these policies are negotiated/subject to consultation through the Personnel User Group;
- takes into account previous training and experience when considering officer postings;
- considers succession planning of key roles within departments;
- ensures that PDRs / CPD is carried out;
- ensures that key training is provided to Officers and staff including First Aid Training, Personal Safety Training and Driver Training;
- is working with Durham University Business School in understanding staff behaviours and how staff can best be supported an activity now recognised as national best practice; and
- Provides leadership development training to staff and managers.
- Established a Strategic Demand Command to gain a better understanding of current / future demand.
- monitors the efficient and effective management of human, financial and environmental resources. Clear examples of this have been the Estates Programme which has a clear focus on reducing the impact upon the environment, adopting modern working methods whilst saving money and renewing key IT systems e.g. Locard, Red Sigma, Case & Custody, bodyworn devices and mobile devices;
- promotes an ethos of continuous improvement across the force in order to reduce organisational costs and improve performance. In practice this is driven through the Continuous Improvement Programme Board which commissions activities and oversees outcomes from the Strategic Programme Boards chaired by a Force Executive Officer;
- Individual programmes contain business cases to ensure value for money, programme and project plans to ensure effective resource management, quality measures; and projected benefits for communities;

- Utilises “Plan on a Page” a well established strategic planning approach which combines the vision, business plan, performance and risk all within one document. Strategic business risks are discussed and debated at the monthly Force Leadership Group where a determination is made as to their level and the plan updated. As a minimum this is done across all business areas every three months, but may be done more dynamically as a new risk reemerges. The plan utilises a balanced scorecard approach and links all the business areas within force, and the requirement to achieve value for money. Operational risks are overseen at the monthly Force Threat and Risk meeting which is the highest level operational meeting under the National Intelligence Model in Force;
- actively pursues joint working opportunities at a local, regional and national level, which has resulted in a number of policing services being delivered in collaboration with other forces or organizations; and
- ensures when working in partnership that the arrangements for governance and accountability for performance and financial administration are clearly articulated and disseminated.

**Principle F Managing risks and performance through robust internal control and strong public financial management**

To achieve this, the Chief Constable:-

- develops and maintains effective mechanisms for documenting evidence for decisions and recording the criteria, rationale and considerations;
- develops and maintains effective arrangements to challenge and scrutinise the Constabulary's own performance and compliance with other requirements;
- provides objective and timely information which is necessary to take balanced and informed decisions;
- ensures that risk management is embedded and is used effectively to inform and focus decision making;
- ensures the Constabulary has effective, transparent and accessible arrangements in place for dealing with complaints;
- ensures the Constabulary reviews and revises as appropriate its key governance documents, i.e. financial regulations and contract procedure rules;
- provides the PCVC and External Audit with Revenue and Capital Monitoring reports on a regular basis;
- maintains with the PCVC a Joint Audit Committee; and
- ensures that the Joint Audit Committee have scrutiny of all complaints and misconduct matters.

**Principle G Implementing good practices in transparency, reporting, and audit to deliver effective accountability**

To achieve this, the Chief Constable:-

- has, with the PCVC, an established Corporate Governance Framework that clarifies the way in which their two corporations sole, will govern both jointly and separately, to do business in the right way, for the right reason at the right time
- publishes relevant information relating to salaries, business interests and performance data on its website;
- has a Procurement Department with clear guidelines for procuring goods and services;



- has a well-established community engagement process (PACT);
- has a Joint Audit Committee that operates in accordance with guidance provided by the Chartered Institute of Public Finance and Accountancy (CIPFA) and the Home Office's Financial Management Code of Practice;
- publishes information to the PCVC and Police and Crime Panel as part of established accountability mechanisms;
- acts upon the findings / recommendations of HMIC Inspections and Internal Audit / External Audit Reports; and
- prepares an Annual Governance Statement for scrutiny.

#### **4. REVIEW OF EFFECTIVENESS**

Durham Constabulary has responsibility for conducting, at least annually, a review of the effectiveness of the governance framework, including the system of internal control. The review of effectiveness is informed by the work of the executive managers within the Force who have responsibility for the development and maintenance of the governance environment, the Annual Report of the Head of Internal Audit, and also by comments made by the external auditors and other review agencies and inspectorates.

Based on the delivery of the internal audit plan, Internal Audit is able to provide a moderate overall assurance opinion on the adequacy and effectiveness of internal control operating across the Constabulary in 2017/18. This opinion ranking provides assurance that, whilst there is basically a sound system of control, there are some weaknesses, which may put some of the system objectives at major risk. Given the extent of change across the Constabulary and the overall reduction in resources during the year, the sustainment of this assurance opinion should be regarded as a positive outcome.

During the year the Joint Audit Committee has considered a wide range of reports that related to the Force's governance arrangements and which included:

Chief Constable Annual Governance Statement 2016/17

Annual Internal Audit Report 2016/17

External Audit – Audit Completion Report 2016/17

Internal Audit Plan 2017/18

Fraud and Corruption Annual Report

Annual Review of the System of Internal Audit

Internal Audit Progress Reports

External Audit Progress Reports

Review of the Joint Chief Finance Officer Role and Safeguards Protocol

Corporate Governance Action Plan Updates

Force Risk Register Update

MTFP Scenario Plan

Quarterly Professional Standards Report

Annual Overview of Collaboration

Annual Review of Gifts and Hospitality

Draft Chief Constable Annual Governance Statement 2017/18

## 5. SIGNIFICANT GOVERNANCE ISSUES

The Chief Constable is fully committed to the principles of corporate governance, and has worked closely with the Police, Crime and Victims' Commissioner to develop / enhance arrangements in place.

Following the production of the Annual Governance Statement for 2016/17, an action plan was produced that contained five recommendations relating to the Force. Progress made in implementing each of these has been tracked during the year and formed the starting point of the work to produce the 2017/18 Annual Governance Statement.

A summary of how the significant issues identified in the 2016/17 Annual Governance Statement, which, in the main, are of a recurrent nature, have been progressed is provided below.

Issue Raised in 2016/17	Current Position
Further Funding Reductions	<p><b>Ongoing:</b> The Force agreed its Medium Term Financial Plan with the Executive Board and is delivering 2017/18 budget reductions through a mixture of officer and staff reductions; workforce modernisation initiatives; and through non-pay related savings. The Force monitors progress made to deliver efficiency savings via its Strategic Resourcing Group.</p> <p>The Force is still awaiting the outcome of the formula funding review and as such this issue remains one of significance.</p>
Continued Collaboration with Other Forces and Organisations	<p><b>Ongoing:</b> The Force has already delivered a number of joint initiatives with neighbouring Forces in Cleveland and Northumbria as well as with the County Durham and Darlington Fire &amp; Rescue Service.</p> <p>With further initiatives in development this issue remains one of significance.</p>
The Strategic Policing Requirement (SPR)	<p><b>Ongoing:</b> The Force has carried out an internal assessment and business continuity plans are in place as required by the Strategic Policing Requirement (SPR).</p>

	<p>Whilst there is a sound understanding of the requirements of the SPR, there will be an ongoing need to ensure that its key elements are adequately resourced, where necessary, and as such this issue remains one of significance.</p>
Commissioning of Services	<p><b>Ongoing:</b> A review of Commissioning of Services has been carried out with grants allocated accordingly. Process and outcomes are subject to regular review.</p> <p>With commissioning of services set to expand and in looking to ensure the achievement of the PCVC's objectives whilst delivering Value for Money this issue remains one of significance.</p>
The PCVC Chief Financial Officer Role	<p><b>Ongoing:</b> A review of the Joint CFO role has been carried out and with appropriate safeguards in place, is considered a highly effective way of managing the finances of the PCVC and the Constabulary, and enabling efficient decision-making. This has been reported to the Joint Audit Committee &amp; Executive Board.</p> <p>This arrangement is seen to constitute an ongoing governance risk and as such this issue remains one of significance.</p>

Further to the work undertaken as outlined above the following matters, identified in preparing the Statement and relevant at the time of its adoption, are considered to be significant.

The most recent Government statements on funding for policing indicate that austerity will continue to place pressure on the force budget, although to a lesser extent than in the previous few years. The Government has permitted PCCs to raise additional Council Tax (by up to £12 on a Band D property) in both 2018-19 and 2019-20, with the second year being subject to satisfactory progress being made nationally with regard to collaboration and transformation. This Council Tax increase will provide financial stability for those 2 years which will enable overall workforce numbers to remain static. A comprehensive spending review is planned for the summer of 2019. Therefore any further changes to police funding is likely to take place from 2020/21 onwards. The Medium Term Financial Plan presents a budget that is balanced and which will enable the number of police officers locally to remain stable throughout the life of the plan until 2022. There are assumptions which underpin this, including a 2% annual pay increase. A document about the robustness of the assumptions has been published alongside the Medium Term Financial Plan. If those assumptions turn out to be incorrect, then budget pressures for which we have not planned could arise.

A further risk relates to the potential imposition of a new Police Funding Formula which could adversely affect overall levels of funding in future years. This will prove increasingly challenging to the Force in terms of sustaining ongoing service delivery and will require a continuous review of officer and staffing structures and ongoing scrutiny of all non-staffing budgets. The Force will need to work closely with the PCVC to ensure that savings are achieved and funding streams maximised to ensure that the budget remains in balance. A

report has been agreed at Executive Board in 2017, and which still remains relevant which details specific areas to reduce expenditure in the event that there is a significant reduction in funding as a result of the formula. These are currently the subject of detailed work and a number of actions will be introduced regardless of the outcome of the funding formula review in order to generate budget flexibility. A key challenge for the Force would be to demonstrate increased productivity levels which is required for all Forces in order to justify further freedoms in relation to precept levels and grant levels.

Collaboration will continue to be addressed pro-actively in terms of other forces, and other organisations. The government have placed an increased emphasis on collaboration with Blue Light Services, and this is reflected in the PCVC's governance structure in relation to collaboration. A number of new collaborative initiatives were established during 2017/18 including a shared premises in Barnard Castle with Fire, Ambulance and Mountain Rescue, shared Legal Services provision, and a joint Criminal Justice Programme Team, which will save money and increase capacity / resilience for the Force. However collaboration will not always save the force money. Our systems to determine areas for collaboration require robust business cases to be developed, and proposals will only be proceeded with if benefits are predicted.

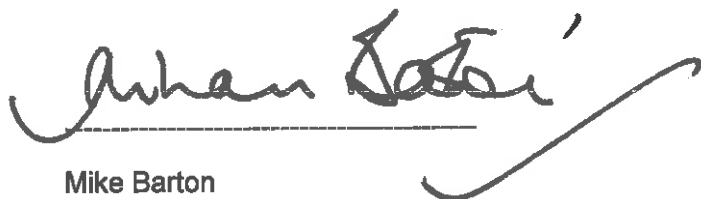
The Strategic Policing Requirement (SPR) may require the Force to respond to a major incident-which could impact on normal governance arrangements/decision making due to its scale and timing.

Commissioning of services will expand and will continue to be progressed so as to ensure the achievement of the PCVC's objectives whilst delivering Value for Money.

The PCVC Chief Financial Officer (CFO) role provided by the CC CFO is acknowledged to contribute a governance risk and concerns have been expressed by the JAC. A review of the arrangement has been undertaken annually, adequate safeguards have been identified, presented to the JAC for comment and review, implemented and embedded as the standard protocol. This protocol has been included as best practice in a report by the Committee on Standards in Public Life into Police Governance.

I propose to address the above matters to further enhance my governance arrangements and will monitor the implementation and operation of these improvements over the course of the year.

Signed:

A handwritten signature in dark ink, appearing to read 'Mike Barton', written over a horizontal line. A long, sweeping flourish extends from the end of the signature to the right.

Mike Barton

Chief Constable of Durham

Date: 26 7/18

