

# **Surrey Police and Crime Commissioner - Group**

## **Statement of Accounts for the year 2017/18**



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# Narrative Report

## 1. Introduction

The purpose of this narrative report is to provide a guide to the most significant matters reported in the 2017/18 Financial Statements for the Police and Crime Commissioner (PCC) for Surrey and the PCC Group. This narrative report explains the purpose of the Financial Statements and a summary of the financial activities during 2017/18 and its financial position as at 31<sup>st</sup> March 2018.

Surrey is a county in the South East of England, covering 644 square-miles, with one county council, 11 boroughs/districts and five major hospitals. It has 62 miles of motorway, including the busiest M25 stretch. Surrey's rivers include the Thames (notable flooding risk); the county is 73% greenbelt. Surrey borders the UK's busiest two airports. It is the most densely populated county in South East England with a population of 1.2 million. The Olympic legacy increased the sporting footprint, with national cycling competitions and the country's largest one-day sporting event (Epsom Derby).

The vision for Surrey Police is to make Surrey the safest it can be in which to live and work, and a welcoming place to visit. Surrey Police has a track record of successful crime reduction and problem solving activity. Building on this experience and know-how, there is an aspiration to make Surrey even safer.

Policing has become more complex; crime is changing and new demands are made of Surrey Police, this requires new ways of working along with new ways of leading. Surrey Police continues to work more closely with other forces, other agencies and with its communities to find new ways of managing demand and improving efficiency. As an example in July 2017 Surrey Police re-launched the Policing Matters campaign, increasing public awareness on policing demands.

The PCC for Surrey is an elected official under The Police Reform and Social Responsibility Act 2011. The PCC is responsible for delivering an effective and efficient police service in Surrey, to oversee the work of Surrey Police, and to hold the Chief Constable to account for the exercise of operational policing duties under the Police Act 1996.

The PCC for Surrey and the Chief Constable of Surrey are separate legal entities or 'corporation sole' bodies. Both have an individual statutory responsibility to prepare its own accounts to present fairly its operations for the financial year. The Chief Constable is a 100% subsidiary of the PCC for Surrey. The PCC and the PCC Group refers to the consolidated position for both the PCC for Surrey and the Chief Constable of Surrey.

The financial transactions under the above arrangement are broadly incurred as follows:

The PCC receives the core grant funding and precept relating to the Group, and incurs costs relating to the Office of the Police and Crime Commissioner (OPCC). The PCC funds expenditure incurred by the Chief Constable and holds the majority of the Balance Sheet transactions.

The Chief Constable incurs all operating costs (excluding those relating to the OPCC) and receives any associated operating income, the net of which is funded directly by the PCC. The Chief Constable accounts for all pension costs, including the associated pension liability that is shown in the Chief Constables Balance Sheet.

## 2. The Statement of Accounts

All the financial transactions incurred during 2017/18 for policing Surrey have been recognised and recorded within this Statement of Accounts, which sets out the overall position of the PCC and the PCC Group for the year ending 31 March 2018. Where the Group position differs from the PCC position this is made clear in the statements and notes. Separate statutory accounts are prepared for the Chief Constable.

The 2017/18 Financial Statements which follow this narrative report, have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 based on International Financial Reporting Standards issued by Chartered Institute of Public Finance & Accountancy (CIPFA) and comprise of:

- **Movement in Reserves Statement.** This statement shows the movement in the year on the different reserves held by the PCC and PCC Group, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce council tax) and other reserves.
- **Comprehensive Income and Expenditure Statement.** This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from council tax. The PCC raises council tax to cover expenditure in accordance with regulations which differs from the accounting cost. Expenditure in accordance with regulation is shown in the Movement in Reserves Statement.
- **Balance Sheet.** This statement shows the value as at the 31st March 2018 of the assets and liabilities recognised by the PCC and PCC Group. The net assets (assets less liabilities) are matched by usable or unusable reserves.
- **Cash Flow Statement.** This statement shows the changes in cash and cash equivalents of the PCC and PCC Group during the reporting period. The statement shows how the PCC and PCC Group generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities.  
The Financial Statements are supported by various notes to the accounts including the Accounting Policies designed to aid the reader.

## 3. Police & Crime Commissioner Financial Arrangements

### Method of Funding

Funding arrangements for Police and Crime Commissioners broadly follow the arrangements for local authorities. The PCC and PCC Group gross revenue budget (or operating budget) for 2017/18, was set at £213.0m (2016/17, £212.6m). A summary of the funding sources is shown below:

	2016/17	2017/18
Home Office Police Grants	62.2	61.3
Non Domestic Rates	29.2	28.8
Council Tax Freeze Grant	2.5	2.5
<b>Total Central Support</b>	<b>93.9</b>	<b>92.6</b>
Gross Council Tax Requirement	109.0	112.3
Council Tax Localisation Grant	6.7	6.7
General Reserves	3.0	1.4
<b>Total Funding</b>	<b>212.6</b>	<b>213.0</b>

All of the above is set centrally by Government, apart from the council tax requirement and use of general reserves which are set locally by the PCC prior to the start of the financial year.

In addition to the principal grants received from the Home Office, there is a range of specific grants that are targeted towards initiatives to improve the police service. Details of these grants are available in the notes to the Financial Statements.

End of year variations to the £213.0m budget (2016/17, £212.6m) are transferred to/from the PCC and PCC Group balances.

Capital expenditure is financed from government grants, contributions from third parties, capital receipts, borrowing and direct funding from the operating (revenue) budget. The detail of the financing employed in 2017/18 is shown in the Capital Expenditure and Capital Financing table. The balances held for future capital expenditure are shown in the Balance Sheet and notes to the Core Financial Statements.

### **The Role of the Police and Crime Commissioner**

Under the Reform and Social Responsibility Act 2011 the key financial roles for the Police and Crime Commissioner are:

- To agree the budget for Surrey Police
- Oversee how the budget is spent
- Receive funding from government grants
- Setting the annual precept

### **Role of the Chief Finance Officer**

The Chief Finance Officer is the professional adviser on financial matters to the PCC. The Chief Finance Officer has certain statutory duties in relation to financial administration and stewardship. Statutory responsibilities include securing the production of and signing a statement that the Statement of Accounts provide a true and fair view of the financial position, maintaining financial standing and securing an adequate and effective internal audit function.

## **4. Operating (Revenue) Expenditure**

The PCC budgeted to spend £213.0m in 2017/2018 which included using £1.4m from reserves. Expenditure of £213.4m (2016/17 £212.4m) was actually incurred resulting in an unplanned £0.4m decrease in reserves as shown in the following table.

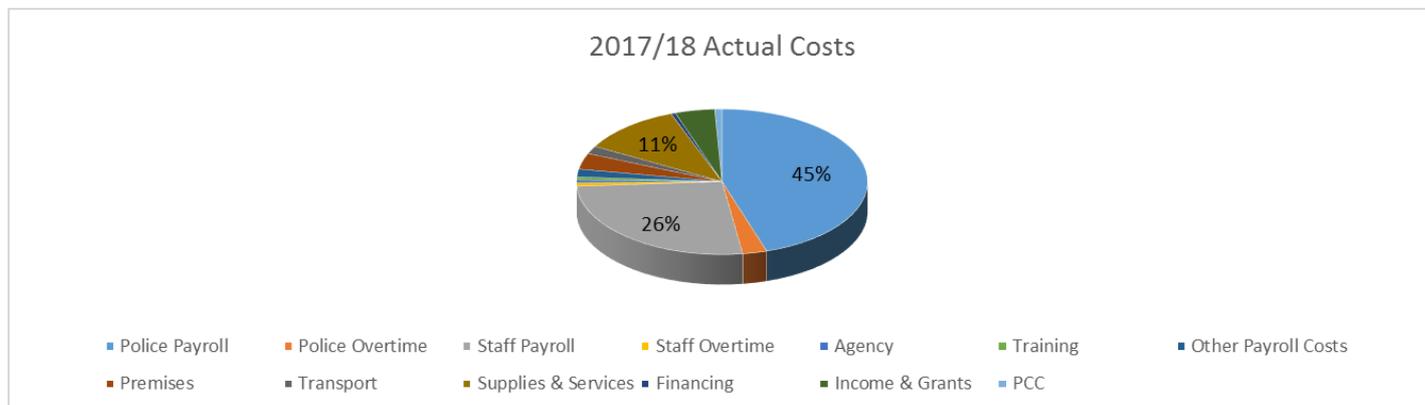
	<b>£m</b>
Gross Budget	213.0
Out-turn Expenditure	213.4
Gross Variation	(0.4)
To/(from) Reserves	(0.4)

Further information on the reserves movements for the year is shown in the Movement in Reserves Statement.

The table below shows the actual expenditure for the Group compared to budget for 2017/18 by cost type along with a chart showing how the money is spent. The Chief Constable overspent

by £0.5m which is offset by the PCC underspending by £0.1m to give the PCC Group an overall £0.4m overspend.

The Chief Constable was over establishment for police officers for the year, which along with an overspend on police overtime was offset with an under establishment within staff costs. These variances would have resulted in a balanced position, however the resulting overspend is attributable to the Home Secretary awarding police officers a 2% pay increase during the year, when a 1% increase was budgeted for.



	2017/18		
	Budget	Actual	Variance
	£ m	£ m	£ m
Police Payroll	104.3	105.4	1.1
Police Overtime	4.2	6.3	2.1
Staff Payroll	64.2	61.4	(2.8)
Staff Overtime	1.6	1.8	0.2
Agency	0.6	1.5	0.9
Training	1.8	1.5	(0.3)
Other Payroll Costs	3.5	4.1	0.6
Premises	9.3	8.3	(1.0)
Transport	4.6	4.1	(0.5)
Supplies & Services	24.6	26.2	1.6
Financing	0.8	1.2	0.4
Income & Grants	(8.5)	(10.3)	(1.8)
<b>Chief Constable's Expenditure</b>	<b>211.0</b>	<b>211.5</b>	<b>0.5</b>
PCC	2.0	1.9	(0.1)
<b>Group Expenditure</b>	<b>213.0</b>	<b>213.4</b>	<b>0.4</b>

Detailed analysis of actual expenditure for the year ended 31st March 2018 can also be seen in the Comprehensive Income and Expenditure Statement.

The Comprehensive Income and Expenditure Statement measures the financial performance for the year in terms of resources consumed over the period and the funding provided to finance these resources. The accounting basis used is different to the statutory basis used to calculate net expenditure to be funded from local taxation in the form of council tax, as it includes non-cash elements.

The total net expenditure shown in the Comprehensive Income and Expenditure Statement includes operating income and expenditure along with adjustments for non-cash accounting transactions for depreciation, capital grants and pension costs in accordance with IAS 19 requirements. A summary of the Comprehensive Income and Expenditure Statement is shown

below. The intra-group funding is a transfer between the PCC and Chief Constable accounts to offset the financial resources consumed at the request of the Chief Constable on behalf of the Group.

	2017/2018		
	Group	PCC	CC
	Net Expenditure £m	Net Expenditure £m	Net Expenditure £m
<b>Cost Of Services</b>	<b>246.5</b>	<b>1.9</b>	<b>244.6</b>
<b>Other Operating Expenditure</b>			
Levies	0.6	0.0	0.6
Intra-group funding	0.0	237.6	(237.6)
(Gain) or Loss on the disposal of non-current assets	(0.1)	(0.1)	0.0
Home Office grant payable to the cost of retirement benefits	(19.6)	(19.6)	0.0
<b>Financing and Investment Income and Expenditure</b>			
Financing and Investment Income and Expenditure	(0.1)	(0.1)	0.0
Pension Interest Cost	49.6	0.0	49.6
<b>Taxation and Non-Specific Grant Income</b>	<b>(211.9)</b>	<b>(211.9)</b>	<b>0.0</b>
<b>(Surplus) or Deficit on Provision of Services</b>	<b>65.0</b>	<b>7.8</b>	<b>57.2</b>

The table below reconciles Group operational expenditure for 2017/18 to the position reported in the Comprehensive Income and Expenditure Statement. The table summarises how the management accounts are adjusted for accounting regulations and other statutory adjustments to arrive at the deficit on provision of services as reported in the Comprehensive Income and Expenditure Statement.

	2017/2018		
	Group £m	PCC £m	CC £m
<b>Operational Delivery Net Expenditure per revenue outturn management report 2017/18</b>	<b>213.4</b>	<b>1.9</b>	<b>211.5</b>
<b>Reserve and Provision transfers outside (Surplus) or Deficit on Provision of Services:</b>			
Usable Reserves	0.1	0.0	0.1
Financial year end accounting adjustments	(1.5)	0.0	(1.5)
<b>Amounts in the CIES not in the outturn report:</b>			
Depreciation & amortisation	7.4	0.0	7.4
Pensions	27.1	0.0	27.1
<b>Net Cost of Services</b>	<b>246.5</b>	<b>1.9</b>	<b>244.6</b>
Intra-group Adjustment from PCC to CC for resources consumed at the request of the Chief Constable	0.0	237.6	(237.6)
Pension Interest costs and expected return on pension assets	30.0	(19.6)	49.6
Gain on disposal of non current assets	(0.1)	(0.1)	0.0
Levies	0.6	0.0	0.6
Financing & investment income	(212.0)	(212.0)	0.0
<b>(Surplus) or deficit on the provision of services</b>	<b>65.0</b>	<b>7.8</b>	<b>57.2</b>

## 5. Capital Expenditure

The PCC approved a 2 year capital programme totalling £14.2m, (£12.0m in 2016/17) which when combined with the carry forward from 2016/17 of an additional £2.7m gave a total capital budget of £16.9m. The Force reviews the size of the capital programme ensuring it is manageable over the year and, as with 2016/17, ran a flexible programme enabling the Force to bring forward schemes or defer identified schemes into a later year. As a result, some

schemes were deferred to 2018/19 reducing the 2017/18 capital programme to £10.6m, with the overall 2 year programme remaining at £16.9m. In 2017/18 actual expenditure of £8.6m (£7.0m in 2016/17) was incurred, which was funded by capital grants, capital receipts, revenue, and third party contributions. The major schemes that continue into 2018/19 include:

- Digital Forensics
- Estates Strategy

Details of actual expenditure and financing for the year are shown in the Capital Account.

## 6. Employee Pension Schemes

The PCC Group operates two separate pension schemes, one for Police Officers and another for Police Staff. Although benefits from these schemes will not be payable until an officer or staff member retires, the PCC Group has a future commitment to make these payments and under International Accounting Standard 19 (IAS 19), the PCC Group is required to account for this future commitment based on the full cost at the time of retirement. The result of accounting for this commitment has a substantial impact on the net worth of the Balance Sheet, resulting in a negative pension reserve on the Balance Sheet totalling £1,928.2m. However, statutory arrangements for funding the deficit mean that the financial position of the PCC Group remains healthy.

The value of the Police Staff pension scheme is assessed triennially and the employer's contribution is adjusted in line with the actuary's recommendations. The latest triennial valuation completed in April 2016 resulted in employer's contributions being decreased in April 2017 from 17.7% to 14.5% with an increase in an additional payment to the pension fund to repay the deficit, known as the additional monetary amount.

For the police officers pension fund, the employer's contribution rate is presently set at 21.3% with an additional 2.9% payable as an additional contribution. Under current legislation, any costs that are over or under the employer's contribution are met by the Home Office or returned to them.

## 7. Overall Financial Position

The level of available revenue balances, earmarked reserves and general reserves held by the PCC has decreased by £1.6m from £15.1m to £13.0m. The balance of £13.0m represents 6.1% of the 2018/19 annual budget. General Reserves are £6.1m, 2.8% of the annual budget for 2017/18 with earmarked reserves at £6.9m.

General reserves decreased as follows:

	£m
<b>Opening Balance</b>	<b>8.7</b>
Operational overspend	(0.4)
Budgeted use of Reserves	(1.3)
<b>Decrease in Reserves before transfers to Earmarked Reserves</b>	<b>(1.7)</b>
Transfer (to) from Earmarked Reserves	(0.9)
<b>Closing Balance</b>	<b>6.1</b>

The earmarked reserves are held as follows: At 31st March 2018 £2.6m was held against the PCC and PCC Group’s estimate of existing insurance liabilities under the current self-funded arrangements, £2.5m in Ill health reserves, £0.3m in an Estates Maintenance reserve, £0.4m in an Estates Maintenance reserve, £0.5m for an Innovation reserve and a £0.6m operational reserve for the Chief Constable.

Full details can be seen in the Income & Expenditure Account, the Balance Sheet and the associated notes.

## 8. Further Information

Surrey Police continues to undertake significant change activity through the Policing Together programme with Sussex Police, and also with other forces in the South-East region, in order to meet the financial challenges, increase resilience and improve service delivery. The actual savings programme and budget reductions for 2017/18 totalled £5.7m shown by portfolio in the chart below.



The Specialist Crime Capabilities Programme and the new operating model both delivers savings and provides opportunities for wider collaboration with the region in the future. Implementation of the fully collaborated Investigations and Intelligence functions is currently underway.

The detailed design of the new operating model for Operations command has been agreed and implementation planning is now underway. This will provide further savings and interoperability, whilst maintaining resilience and providing an effective service to the public of both forces.

A single Change Delivery function for Surrey and Sussex is being implemented to ensure that both Forces are well positioned to be able to deliver their change strategies both individually, bilaterally and within the region.

The majority of services within the Support Services functions are collaborated including; Procurement, Insurance, Transport, People Services, Information & Communication Technology, and Finance. Further work is ongoing to develop a Shared Business Service Centre along with the implementation of the new Enterprise Resource Planning (ERP).

The Tri-Force programme team continues to implement the new ERP system for Surrey, Sussex and Thames Valley Police, which will underpin much of the support services collaboration activity. This project also links in with further regional integration overseen by the South East Region Integrated Policing (SERIP) programme.

The Digital Enablement Programme continues to coordinate work on five key priorities: Mobile Data, Niche, Public Facing Digital Services (Community Messaging, Online Crime Reporting and Track My Crime), Body Worn Video and the Joint Intranet. Whilst the Force has used Mobile Data devices for a number of years a rolling programme focusses on updating these devices and enhancing their capabilities through additional interfaces.

Regionally five police forces (Thames Valley, Hampshire, Sussex, Surrey and Kent) continue working together on counter terrorism and tackling serious and organised crime. There is a joint regional oversight board which the five PCCs chair in rotation.

Future savings are in development with the search for a new Force headquarters site as part of a long-term estates programme. The project is expected to take at least four to five years to complete, including plans to dispose of current outdated and costly buildings and creating a modern and cost-effective estate that will allow the Force to meet the challenges of modern policing.

Surrey Police began piloting the National Volunteer Police Cadet (VPC) scheme in autumn 2016 and now has six units running across the county, with plans to expand further in the future. Each of these units are led by a volunteer leadership team consisting of Police Officers, Police Staff, Special Constables and Police Support Volunteers who all give up their own time on top of their day roles to run the sessions. The scheme is designed to provide a safe environment in which young people can learn as individuals, develop positive relationships with the police and actively support their community. National objectives for the scheme include Cadets that represent the diversity of their community, an aim to recruit 25% from a vulnerable or disadvantaged background, and offering a diversionary opportunity to those who are most in need of it.

All police forces are inspected by Her Majesty's Inspectorate of Constabulary (HMIC) and during the year Surrey Police was rated overall as good for effectiveness, efficiency and legitimacy. HMIC also recognised the Force's performance in keeping people safe and reducing crime.

## **9. Financial Outlook**

The financial statements are prepared on the assumption that the PCC & PCC Group for Surrey Police is a going concern, meaning that it will continue to operate for the foreseeable future. The CIPFA Code states that government changes should not be seen as having a detrimental impact on a local authority continuing as a going concern. In addition to this an authority cannot be created or dissolved without statutory prescription, and accordingly must prepare their financial statements on a going concern basis of accounting.

Unusable reserves on the balance sheet include the large negative pension reserve which is mainly due to the police pension schemes being unfunded. The statutory arrangements for funding the liability mean that the PCC Group financial position remains sound.

The financial resilience and sustainability of the Force is monitored by the production and review of the medium term financial plan (MTFP). The MTFP supports the Force Business Plan incorporating all known financial and business assumptions along with developing a number of planning scenarios for consideration by the Chief Officer Group.

The annual revenue budget for 2018/19 was set by the PCC at £214.6m, this included a static central grant provision, and raising the local precept by the maximum of £12 per Band D property. The grant settlement was an improvement on the previous pledge of government when the Chancellor stated Police Forces will have the same cash level over the next four years. The Home Office have also offered to continue the static grant and precept flexibility for the

2019/20 subject to meeting productivity, efficiency measures and increasing transparency on Forces Reserves Strategy.

Reserves are a key part of budget setting and financial planning. The general reserves strategy for the PCC is to maintain a balance that does not fall below 3% of the budget. A number of earmarked revenue reserves are also held for specific purposes or activities. The use of general reserves assists in the medium term financial planning to mitigate any short term predicted funding gaps. Estimated reserves as per the Home Office classifications are shown on table below, with the full reserves strategy being available on the PCC’s website.

*estimated	2018/19	2019/20	2020/21	2021/22	2022/23
	£m*	£m*	£m*	£m*	£m*
Funding for planned expenditure on projects and programmes over the period of the current medium term financial plan	4.8	4.0	3.0	2.0	2.0
Funding for specific projects and programmes beyond the current planning period	0.0	0.0	0.0	0.0	0.0
As a general contingency or resource to meet other expenditure needs held in accordance with sound principles of good financial management	10.1	10.6	10.7	10.8	10.9
<b>Total</b>	<b>14.9</b>	<b>14.6</b>	<b>13.7</b>	<b>12.8</b>	<b>12.9</b>

Following Article 50 being triggered to end the UK’s membership of the European Union (EU), there remains a heightened level of volatility in the financial markets and increased macroeconomic uncertainty in the UK. There could be an impact on property valuations if confidence in the wider UK property market falls; and the valuation of Surrey Police officer and staff defined benefit pension obligations may also be affected in the future.

Details of the PCC’s plans for revenue and capital expenditure in 2018/19 budget can be found in the Surrey Police and Crime Commissioner’s Precept Setting proposal. Whilst the annual budget is agreed by the PCC it is scrutinised by the Police and Crime Panel before a final decision is made. Copies of the documents can be obtained from the Office of the Police and Crime Commissioner for Surrey by telephoning: 01483 630200, or from the website at [www.surrey-pcc.gov.uk](http://www.surrey-pcc.gov.uk).

**Ian Perkin, Treasurer of the Police and Crime Commissioner**

**Date:**

## Report on the Audit of the Financial Statements

### Opinion

We have audited the financial statements of the Police and Crime Commissioner for Surrey (the 'Police and Crime Commissioner') and its subsidiary the Chief Constable (the 'group') for the year ended 31 March 2018 which 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 a summary of significant accounting policies, and including Surrey police pension fund financial statements comprising the Pension Fund Account and the Net Assets Statement and the notes to the financial statements. 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 group and of the Police and Crime Commissioner as at 31 March 2018 and of the group's expenditure and income and the Police and Crime Commissioner's expenditure and income for the year then ended;
- have been prepared properly in accordance with the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

### 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 for the audit of the financial statements section of our report. We are independent of the group and the Police and Crime Commissioner 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.

### Who we are reporting to

This report is made solely to the Police and Crime Commissioner, 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 Police and Crime Commissioner those matters we are required to state to the Police and Crime Commissioner 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 Police and Crime Commissioner as a body, for our audit work, for this report, or for the opinions we have formed.

### 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 Treasurer's use of the going concern basis of accounting in the preparation of the financial statements is not appropriate; or
- the Treasurer has not disclosed in the financial statements any identified material uncertainties that may cast significant doubt about the group's or the Police and Crime Commissioner'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 Treasurer is responsible for the other information. The other information comprises the information included in the Statement of Accounts, the Narrative Report and the Annual Governance Statement, other than the group and Police and Crime Commissioner 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 of the group and the Police and Crime Commissioner obtained in the course of our work including that gained through work in relation to the Police and Crime Commissioner's arrangements for securing value for money through economy, efficiency and effectiveness in the use of its resources 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.

Other information we are required to report on by exception under the Code of Audit Practice Under the Code of Audit Practice published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice) we are required to consider whether the Annual Governance Statement does not comply with the 'Delivering Good Governance in Local Government: Framework (2016)' published by CIPFA and SOLACE or is misleading or inconsistent with the information of which we are aware from our audit. We are not required to consider whether the Annual Governance Statement addresses all risks and controls or that risks are satisfactorily addressed by internal controls.

We have nothing to report in this regard.

### **Opinion on other matter required by the Code of Audit Practice**

In our opinion, based on the work undertaken in the course of the audit of the financial statements and our knowledge of the Police and Crime Commissioner gained through our work in relation to the Police and Crime Commissioner's arrangements for securing economy, efficiency and effectiveness in its use of resources, the other information published together with the financial statements in the Statement of Accounts, the Narrative Report and the Annual Governance Statement for the financial year for which the financial statements are prepared is consistent with the financial statements.

### **Matters on which we are required to report by exception**

Under the Code of Audit Practice we are required to report to you if:

- we have reported a matter in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have made a written recommendation to the Police and Crime Commissioner under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we have exercised any other special powers of the auditor under the Local Audit and Accountability Act 2014.

We have nothing to report in respect of the above matters.

### **Responsibilities of the Police and Crime Commissioner and the Treasurer for the financial statements**

As explained more fully in the Statement of Responsibilities, the Police and Crime Commissioner is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. That officer is the Treasurer. The Treasurer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC code of practice on local authority accounting in the United Kingdom 2017/18, which give a true and fair view, and for such internal control as the Chief Financial Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, the Treasurer is responsible for assessing the group's and the Police and Crime Commissioner's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the group or the Police and Crime Commissioner lacks funding for its continued existence or when policy decisions have been made that affect the services provided by the group or the Police and Crime Commissioner.

The Police and Crime Commissioner is Those Charged with Governance.

### **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.

### **Report on other legal and regulatory requirements - Conclusion on the Police and Crime Commissioner's arrangements for securing economy, efficiency and effectiveness in its 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 *the* Police and Crime Commissioner put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2018.

### **Responsibilities of the Police and Crime Commissioner**

The Police and Crime Commissioner is responsible for putting in place proper arrangements for securing 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 for the review of the Police and Crime Commissioner's arrangements for securing economy, efficiency and effectiveness in its use of resources**

We are required under Section 20(1)(c) of the Local Audit and Accountability Act 2014 to be satisfied that the Police and Crime Commissioner has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. We are not required to consider, nor have we considered, whether all aspects of the Police and Crime Commissioner's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We have undertaken our review in accordance with the Code of Audit Practice, having regard to the guidance on the specified criterion issued by the Comptroller and Auditor General in November 2017, as to whether in all significant respects the Police and Crime Commissioner 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 under the Code of Audit Practice in satisfying ourselves whether the Police and Crime Commissioner 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 be satisfied that the Police and Crime Commissioner has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources.

### **Report on other legal and regulatory requirements - Certificate**

We certify that we have completed the audit of the financial statements of the Police and Crime Commissioner in accordance with the requirements of the Local Audit and Accountability Act 2014 and the Code of Audit Practice.

**Iain Murray**

for and on behalf of Grant Thornton UK LLP, Appointed Auditor

30 Finsbury Square | London EC2A 1AG

**[Date]**

## Statement of Responsibilities

### **The Responsibilities of the Police and Crime Commissioner for Surrey**

The Police and Crime Commissioner is required:

- To make arrangements for the proper administration of the Office of the Police and Crime Commissioner's financial affairs and to ensure that one of its officers (the Treasurer) has the responsibility for the administration of those affairs.
- To manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- To approve the Statement of Accounts.

I approve these Statement of Accounts for the year ended 31 March 2018.

**David Munro**  
**Police and Crime Commissioner for Surrey**

Date:

### **The Responsibilities of the Treasurer**

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

In preparing this Statement of Accounts, the Treasurer has:

- Selected suitable accounting policies and then applied them consistently.
- Made judgements and estimates that were reasonable and prudent.
- Complied with the Code.
- Kept proper accounting records which were up to date.
- Taken reasonable steps for the prevention and detection of fraud and other irregularities.

I certify that the Statement of Accounts gives a true and fair view of the financial position of the Office of the Police and Crime Commissioner for Surrey and the Surrey Police Group at the accounting date and the income and expenditure for the year ended 31 March 2018.

**Ian Perkin**  
**Treasurer of the Police and Crime Commissioner**

Date:

# Surrey Police and Crime Commissioner Annual Governance Statement

## 1. Introduction

- 1.1 This annual governance statement sets out how the Surrey Police & Crime Commissioner (PCC) and Office of the Police & Crime Commissioner (OPCC) have complied with the corporate governance framework set out in the Scheme of Corporate Governance for Surrey in place for the year ended 31<sup>st</sup> March 2018. It also details areas of improvement to further enhance governance arrangements that the PCC plans to progress during 2018-19.
- 1.2 It is designed to complement the annual governance statement of Surrey Police, to give the full picture of governance.
- 1.3 This statement has been informed by an annual review of governance arrangements, looking at how the PCC and OPCC comply with the seven principles of the Code of Corporate Governance. It has also taken into account commentary from audit inspections and external review.
- 1.4 All PCCs are required by the Accounts and Audit (England) Regulations 2011 to produce an annual governance statement which must accompany the statement of accounts. This requirement is reflected in The Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 (Chartered Institute of Public Finance & Accountancy, CIPFA).

## 2. Scope of Responsibility

- 2.1 The respective roles of PCCs, Chief Constables and Police & Crime Panels are detailed in the statutory instrument, Policing Protocol Order 2011. This cites that the PCC is responsible for the 'totality of policing' within Surrey. The over-arching key responsibilities of the PCC are:
  - To secure the maintenance of an efficient and effective police force for the area
  - To hold the Chief Constable to account for the exercise of his or her functions
  - Wider powers in relation to working with and bringing together community safety and criminal justice partners
- 2.2 The Chief Constable retains operational control of the Force in governance arrangements, which must not be fettered by the PCC.
- 2.3 In May 2016, David Munro was elected as PCC for Surrey. Mr Munro is supported by a small team of staff who form the Office of the Surrey Police & Crime Commissioner. The team structure is set out on the PCC's [website](#). The OPCC is responsible for ensuring that the PCC's business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.
- 2.4 In discharging this overall responsibility, the Surrey OPCC is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions and for the management of risk.

### 3. The Governance Framework: Scheme of Corporate Governance

3.1 Surrey OPCC has approved and adopted a [Scheme of Corporate Governance](#) which is consistent with the principles of the CIPFA Framework, 'Delivering Good Governance'. The Scheme shows how the OPCC complies with the principles of 'good governance' as defined by CIPFA and sets out the arrangements in place for effective governance and financial management. It comprises a number of elements, including:

- Code of Corporate Governance: *how the PCC and Chief Constable achieve the core principles of 'good governance'*
- Framework of Decision-Making and Accountability: *how the PCC makes/publishes key decisions and holds the Chief Constable to account*
- Scheme of Delegation: *key roles of the PCC and those functions delegated to others*
- Memorandum of Understanding: *setting out the cooperative arrangements between the PCC and Chief Constable for the provision of business support and administration.*
- Financial Regulations: *the framework for managing the PCC's financial affairs*
- Contract Standing Orders: *rules for the procurement of goods, works and services*

The scheme is reviewed annually in tandem with Surrey Police, Sussex Police and Sussex OPCC.

3.2 A copy of the Scheme and its component parts is available on the PCC's website or can be obtained from the Office of the Police & Crime Commissioner, Mount Browne HQ, Guildford GU3 1HR. This Annual Governance Statement explains how Surrey OPCC has complied with the Scheme during the year 2017-18.

3.3 The various elements of the Scheme of Corporate Governance set out the systems and processes, culture and values by which Surrey OPCC is directed and controlled and the activities it undertakes to engage with and be accountable to local communities. It enables the OPCC to monitor the achievement of the PCC's strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.

3.4 The systems of internal control are a significant part of the Scheme and are designed to manage risk to a reasonable level. They cannot eliminate all risk of failure to achieve policies, aims and objectives and can therefore only provide reasonable and not absolute assurance of effectiveness. The PCC has on-going processes designed to identify and prioritise risks to the achievement of the OPCC'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.

3.5 Below, we set out how the OPCC demonstrates the seven principles of good governance in policing, as defined by the CIPFA Guidance Notes for Policing Bodies in England and Wales (2016 Edition).

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

To achieve this principle, the PCC has:

- Ensured that the **Code of Ethics** is embedded in the organisation, as recognised by the most recent HMIC Legitimacy inspection (December 2017)
- Been briefed on the Code of Ethics and signed up to an [Ethical Checklist](#)
- Linked the recently revised [Police & Crime Plan](#) to the Force's 'Plan on a Page' to ensure shared values are communicated clearly across the organisation

- Signed up to a [Concordat](#) with the Chief Constable, aligned to the Policing Protocol Order 2011, requiring abidance to the Seven Principles of Public Life (the Nolan Principles). The concordat highlights the expectation that the relationship between PCC and Chief Constable will be based on the principles of goodwill, professionalism, openness and trust
- Taken the **Oath of Office** on the day of election
- Signed up to a voluntary [Code of Conduct](#)
- Published [Registers of interests](#) and records of gifts, hospitalities and expenses for the PCC, Chief Officers and relevant staff and shared these with the Audit Committee
- Ensured that all staff have clear objectives and up-to-date Performance Development Reviews (PDRs) and job descriptions
- As part of his **governance arrangements**, put in place a regular performance meeting which allows the PCC to hold the Chief Constable to account against the priorities of the Police & Crime Plan
- Provided responses to all HMIC reports which make a recommendation for Surrey or the police service nationally, including the HMIC's 'PEEL' reports
- Kept **Anti-fraud and corruption policies** up-to-date and under review by the Audit Committee (December 2016)
- Ensured that the OPCC has an up-to-date [Freedom of Information](#) Act **Publication Scheme**
- Put **Whistle-blowing** policies in place that are published and subject to review by the Audit Committee
- Published policies and procedures on [complaints](#) on our website
- Put in place arrangements for the **oversight of professional standards** and dip checking of complaints files
- Commenced a review of arrangements for the **handling of complaints** in light of new Provisions in the Policing and Crime Act 2017 coming into effect in 2019
- Run an effective [Independent Custody Visitors Scheme](#) which ensures the welfare of those detained in police custody
- Taken on a **national portfolio lead** for issues of equality, diversity and human rights
- Employed a Chief Executive who undertakes the responsibilities of **Monitoring Officer**

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

To achieve this principle, the PCC has:

- Published his **Police & Crime Plan** which clearly sets out the strategic direction and objectives for Surrey and how they will be delivered. The Plan has been recently revised as part of a mid-course review and was subject to public consultation
- Published an **Annual Report** against his plan which was approved by the Police & Crime Panel in July 2017
- Fostered good working relationships with the **Police & Crime Panel**, constituent local authorities and other partners
- Made a series of visits to a wide range of partner organisations, community groups and residents associations

- Written a **communication and engagement strategy** to set out how local people will be involved to ensure they are part of decision-making, accountability and future direction
- Developed an accessible and engaging **public website** and social/digital media channels
- Held regular **webcast performance meetings** which can be viewed by the public with papers published on the OPCC's website
- Discharged his statutory, reciprocal duty with responsible authorities to co-operate to reduce crime, disorder and re-offending through good governance arrangements with partner agencies
- Provided chairmanship of the Local Criminal Justice Partnership and Community Safety Board and put in place a **protocol** to set out how these boards will work in partnership with other strategic county-wide boards
- Engaged with **partnerships** at a national level (e.g. taken a national lead on equality and diversity issues), at a regional level (e.g. South East collaboration board) as well as at a local level
- Signed up to a number of **Collaboration agreements** to set out those areas of business to be undertaken jointly with other Forces and Local Policing Bodies
- Undertaken an options appraisal to consider the future governance of **Fire & Rescue services** and engaged all key stakeholders on this matter
- Undertaken a **survey** prior to setting the council tax precept and published results on his website
- Responded to **national consultations** where appropriate, for example through the Association of PCCs
- Published a **commissioning and grants strategy** to set the framework for how he will focus resources and work with partners and a **funding hub** to provide information on how monies have been spent
- Played an active role in the **Independent Advisory Group** and taken a national lead on issues around equality and diversity

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

To achieve this principle, the PCC has:

- Ensured that the Force's **Vision and Mission** document is used as a basis for corporate and service planning and is linked to the Police & Crime Plan
- Established **performance measures** and governance structures that allow the PCC and Surrey Police to assess progress against their objectives
- Kept the **Medium Term Financial Plan** under regular review
- Ensured that reviews of **capital investment** plans are undertaken to achieve appropriate lifespans and adaptability for future use
- Sought assurance that projects are subject to sound **business cases** with appropriate 'gateway' sign-off points
- Subjected key strategic projects, e.g. the new ERP system, to specific oversight arrangements
- Commissioned **services for victims** and communities that are informed by needs analysis

- *Developed partnerships between Surrey Police and private and public sector partners to jointly tackle problems, for example promoting partnership working in tackling Modern Slavery*

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

To achieve this principle, the PCC has:

- *Undertaken an annual review of the **corporate governance framework** and key high level governance documents*
- *Agreed a **Memorandum of Understanding** to set out the information and service requirements needed by the PCC and provided by the Force*
- *Maintained a **Medium Term Financial Strategy***
- *Ensured that processes are in place to allow proper **analysis and evaluation of plans** including option appraisal, assessing the impact of alternative approaches and benefits realisation*
- *Overseen **workforce development and asset management plans** (e.g. estates and ICT)*
- *Ensured that the Force and OPCC have **business plans** in place*
- *Published a **forward plan** of decisions*
- *Kept **Risk Management** policies under review, with assurances from the Audit Committee*
- *Included a set of **performance aspirations** in the Police & Crime Plan*
- *Placed particular **focus on areas of underperformance**, e.g. 101 call handling*

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

To achieve this principle, the PCC has:

- *Appointed a **Chief Constable**, in accordance with guidance from the College of Policing*
- *Overseen the Force's **People Plan** which prioritises:*
  - *Leadership: developing leaders who are role models and who enable performance through their people*
  - *Workforce design: a workforce that is capable of meeting current and future challenges*
  - *Workforce Profile: drawing on our workforce diversity and strengths to meet current and future needs*
  - *Professional development: skilled and competent officers and staff who meet the needs of today and the challenges of tomorrow and who develop future leaders*
- *Ensured that **talent and succession plans** are in place*
- *Reviewed the Force's preparations for new initiatives such as Apprenticeships and the Police Constable Degree (PCDA) programme*
- *Given staff of the Force and OPCC access to **learning and development resources** and encouraged a focus on Continuous Professional Development*
- *Analysed feedback from **staff well-being surveys***

- Kept a check on the Force's approach to **reward** that aims to attract and retain the best people with the most appropriate skills
- Ensured that policies for **Equality and Diversity** set out how the OPCC/Force will promote diversity by recognising, valuing and respecting the different contributions and needs of both communities and staff

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

To achieve this principle, the PCC has:

- Put in place a **Risk Management Strategy** that allows the Force and OPCC to identify and manage operational, strategy and project risks
- Maintained a **Risk Register and Assurance Framework** for the OPCC
- Received advice from the [Joint Audit Committee](#) which continues to provide **external scrutiny** of strategic risks and which operates in line with Chartered Institute of Public Finance and Accountancy (CIPFA) guidance and within the guidance of the Financial Management Code of Practice
- Subjected decisions to scrutiny by the **Police & Crime Panel**
- Reviewed the overarching **Scheme of Corporate Governance** which highlights the parameters for decision making, including the arrangements for governance, delegations, consents, financial limits for specific matters and standing orders for contracts
- Received an **unqualified audit opinion**
- Ensured that **Annual Governance Statements** are produced for the Force and OPCC
- Ensured that an effective **internal audit** service has been resourced (provided by RSM) and that internal audit plans and reports are informed by and scrutinised by the Audit Committee
- Engaged with the **External audit** service, whose reports are scrutinised by the Audit Committee
- Put in place and published **Data protection** policies and prepared for implementation of the new **General Data Protection Requirements**
- Received assurances from HMIC around Force **efficiency and effectiveness**
- Received regular **budget monitoring** reports
- Approved a **treasury management** strategy
- Been represented at meetings of the Crime Performance Board and other force meetings where data quality issues are discussed
- Put in place and tested **business continuity plans**
- Ensured that The PCC and Chief Constable abide by the **CIPFA Financial Management Code of Practice**

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

To achieve this principle, the PCC has:

- Held the **Chief Constable to account** on a regular basis at performance meetings, with some of these being webcast so they are publicly available, with papers and minutes published

- *Been commended for the second year running for compliance with the Local Policing Bodies Specified Information Order 2011 which determines which information should be **published on the OPCC website***
- *Ensured that the Force and OPCC publish their respective **Statement of Accounts** and Annual Governance Statements*
- *Ensured compliance with the CIPFA Statement on the Role of the Head of Internal Audit (2010)*
- *Published **all key decisions** on his website*
- *Reviewed his **decision-making practices** which are clearly set out in the Framework of Decision-Making and Accountability*

#### **4. Review of Effectiveness**

- 4.1 The PCC must ensure the effectiveness of the governance framework, including the system of internal audit and control. This annual governance statement provides a summary of activities undertaken and areas for improvement identified through and OPCC review of the governance arrangements. These have been included in the action plan for 2018-19.
- 4.2 Assessments and recommendations made by the internal and external auditors and other review agencies and inspectorates have also informed this review.
- 4.3 The Joint Audit Committee has been consulted on the development of the annual governance statement. The Committee will ensure there is continuous improvement in the process and receive updates on progress to address the areas for improvement.
- 4.4 A process is established to ensure the Chief Constable and Surrey PCC, approve and sign off their respective annual governance statements, in accordance with the CIPFA guidance.

#### **5. Internal Audit opinion**

- 5.1 For the 12 months ended 31 March 2018, the Head of Internal Audit opinion for Surrey Police is as follows:

The organisation has an adequate and effective framework for risk management, governance and internal control. However, the work has identified further enhancements to the framework of risk management, governance and internal control to ensure that it remains adequate and effective.

Governance - We completed an advisory review of the Fire Governance Project which has informed our opinion on governance. This review was undertaken whilst the project was in its infancy, and therefore was focussed on looking at the design of the project governance and management arrangements. We noted a number of positive observations with the project initiation and governance arrangements, and presentation of the options analysis to close out phase 1. We have drawn on our knowledge from attendance at the Joint Audit and Risk Committee, as well as consideration of governance arrangements during a number of the internal audits below in order to inform our opinion on Governance for the Force.

Risk Management - Our risk management opinions were informed by the assessment of the risk mitigation procedures undertaken in the areas covered by our risk-based reviews in the following areas:

- IT reviews;
- Proceeds of Crime Act;
- Tasers; and
- Evidential Property.

We issued reasonable assurance opinions for the Proceeds of Crime Act, IT governance and Tasers audits. For the Proceeds of Crime Act we raised one high, two medium and two low priority actions, for IT governance we raised seven medium and two low priority actions and for Tasers we raised one high, two medium and four low priority actions.

Our review of Evidential Property resulted in a no assurance opinion. We have agreed three 'High', seven 'Medium' and three 'Low' priority management actions with regards to the design and application with the control framework. We completed a follow up of this area and found the Force had implemented six of the 13 actions agreed in this area. Of the remaining seven, three were not due and we were able to confirm that the other four were all in the process of being implemented.

Furthermore, through attendance at the Joint Independent Audit Committee we confirmed the organisations' risk management arrangements continued to operate effectively and were adequately reported and scrutinised by committee members.

Control - We undertook seven audits of the control environment that resulted in formal assurance opinions. These seven reviews concluded with one no assurance (negative) opinion, one partial (negative) assurance opinion, four reasonable (positive) assurance and one substantial assurance (positive) opinion. We identified the organisations had established controls frameworks in place for a number of the audits undertaken, however improvements in their application was required in a number of areas.

The implementation of agreed management actions raised during the course of the year are also a contributing factor when assessing the overall opinion on control. We have performed two Follow Up reviews during the year which concluded in little and poor progress being made towards the implementation of those actions.

## **6. Compliance with CIPFA's Statement on the Role of the Chief Financial Officer (CFO)**

The PCC and Chief Constable must both have a suitably qualified CFO with defined responsibilities and powers. The CIPFA Statement requires that the CFO should be a professionally qualified accountant, report directly to the PCC or the Chief Constable (depending on the specific CFO concerned) and be a member of their respective leadership teams. In the OPCC, the role of the CFO meets these requirements. In Surrey Police, the CFO is a key member of the Chief Constable's leadership team, but does not report directly to the Chief Constable. The CFO has direct access to the Chief Constable on financial matters however reports to the Deputy Chief Constable. This is consistent with other Surrey Chief Officers who report to either the Chief Constable or the Deputy Chief Constable.

## **7. Certification**

- 7.1 This statement has been prepared on the basis of the review of effectiveness of governance arrangements. It represents a fair and reasonable assessment of current arrangements and plans for improvement for Surrey's Police & Crime Commissioner.

**David Munro**

Police & Crime Commissioner for Surrey **Date:**

**Alison Bolton**

Chief Executive, Office of the PCC for Surrey **Date:**

**Ian Perkin**

Chief Finance Officer, Office of the PCC for Surrey **Date:**

## Areas for Improvement - Action Plan for 2018/19

<b>Ref</b>	<b>Area for improvement/Action</b>	<b>Action owner</b>
	<p><b>Continue preparation for implementation of the requirements of the Policing and Crime Act 2017 in relation to complaints</b>  <i>The Act will introduce new responsibilities for the PCC, particularly around the review (appeal) of locally-resolved complaints</i></p>	<b>OPCC CEX/Policy Leads</b>
	<p><b>Continue oversight of the Force's ICT Strategy</b></p>	<b>OPCC CEX/CFO</b>
	<p><b>Continue oversight of Force's Enterprise Resource Planning (ERP) project</b></p>	<b>OPCC CEX/CFO</b>
	<p><b>Oversight of Estates Strategy</b>  <i>This is a significant piece of work which will be developing during the year ahead</i></p>	<b>OPCC CEX/CFO</b>
	<p><b>Further improvements to financial reporting</b>                      Including improvements required in processes used by the joint Surrey/Sussex Management Accounting team</p>	<b>OPCC CFO</b>
	<p><b>Design and Implementation of new arrangements for provision of services for victims of crime</b></p>	<b>OPCC Head of Policy and Commissioning</b>
	<p><b>Develop and Publish a refreshed Police and Crime Plan</b></p>	<b>OPCC Head of Governance</b>

## Update on Areas for Improvement - Action Plan for 2017/18

<b>Ref</b>	<b>Area for improvement/Action</b>	<b>Update</b>	<b>Action owner</b>
1	<p><b>Undertake review of the requirements of the Policing and Crime Act 2017 in relation to complaints</b>  <i>The Act will introduce new responsibilities for the PCC, particularly around the review of locally-resolved complaints</i></p>	<p><i>Initial consideration has been given to how to meet the new requirements around appeal handling. Discussions held with Surrey Police Professional Standards Department. However, the Home Office reports a delay to the introduction of</i></p>	<b>OPCC CEX/Policy Officer</b>

		<i>new responsibilities until Spring 2019</i>	
2	<p><b>Ensure effective oversight of any plans to change governance arrangements in respect of Surrey Fire &amp; Rescue Service</b></p> <p><i>The PCC is likely to be considering options for future change during the year ahead</i></p>	<i>Review of options for future of fire governance completed. PCC reported in October 2017 that he would not seek a change, but would review the position in May 2018 with a strong expectation of improved fire collaboration</i>	<b>OPCC CEX/OPCC Head of Governance</b>
3	<p><b>Prepare for the General Data Protection Regulations</b></p> <p><i>New and significant enhancements to data protection arrangements will come into effect from May 2018</i></p>	<i>Project plan established. Key actions identified. Scrutiny of Surrey Police arrangements</i>	<b>OPCC CEX</b>
4	<p><b>Continue oversight of the Force's ICT Strategy</b></p>	<i>This has been subject to regular briefings</i>	<b>OPCC CEX/CFO</b>
5	<p><b>Oversight of Estates Strategy</b></p> <p><i>This is a significant piece of work which will be developing during the year ahead</i></p>	<i>Recent milestone reached with the announcement of central Surrey as a preferred area. Continued attendance at strategic board. Review of initial financial appraisal. Lead on external stakeholder engagement</i>	<b>OPCC CEX/CFO</b>
6	<p><b>Further improvements to financial reporting</b></p> <p>Including improvements required in processes used by the joint Surrey/Sussex Management Accounting team</p>	<i>Continued monitoring by CFO and subject to internal audit during the past year with steps identified to bring about improvements</i>	<b>OPCC CFO</b>

## Movement in Reserves Statement

### Group

	General Fund Balance £000	Earmarked General Fund Reserves £000	Total General Fund Balance £000	Capital Receipts Reserve £000	Capital Grants Un- applied Account £000	Total Usable Reserves £000	Unusable Reserves £000	Total Reserves £000
<b>Balance at 31 March 2017</b>	(8,700)	(6,386)	(15,086)	(11,229)	(905)	<b>(27,220)</b>	1,788,133	<b>1,760,913</b>
<b>Movement in reserves during 2017/18</b>								
(Surplus) or deficit on the provision of services	64,964		64,964			<b>64,964</b>		<b>64,964</b>
Other Comprehensive Income / Expenditure							(17,515)	<b>(17,515)</b>
<b>Total Comprehensive Income and Expenditure</b>	<b>64,964</b>	<b>0</b>	<b>64,964</b>			<b>64,964</b>	<b>(17,515)</b>	<b>47,449</b>
Adjustments between accounting basis and funding basis under regulations	(62,932)		(62,932)	2,423	(697)	<b>(61,206)</b>	61,206	<b>0</b>
<b>Net (Increase) or Decrease before Transfers to Earmarked Reserves</b>	<b>2,032</b>	<b>0</b>	<b>2,032</b>	<b>2,423</b>	<b>(697)</b>	<b>3,758</b>	<b>43,691</b>	<b>47,449</b>
Transfers (to) / from Earmarked Reserves	521	(521)	0			<b>0</b>	0	<b>0</b>
<b>(Increase) or Decrease in 2017/18</b>	<b>2,553</b>	<b>(521)</b>	<b>2,032</b>	<b>2,423</b>	<b>(697)</b>	<b>3,758</b>	<b>43,691</b>	<b>47,449</b>
<b>Balance at 31 March 2018</b>	<b>(6,147)</b>	<b>(6,907)</b>	<b>(13,054)</b>	<b>(8,806)</b>	<b>(1,602)</b>	<b>(23,462)</b>	<b>1,831,824</b>	<b>1,808,362</b>

	<b>General Fund Balance</b>	<b>Earmarked General Fund Reserves</b>	<b>Total General Fund Balance</b>	<b>Capital Receipts Reserve</b>	<b>Capital Grants Un- applied Account</b>	<b>Total Usable Reserves</b>	<b>Unusable Reserves</b>	<b>Total Reserves</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Balance at 31 March 2016</b>	(11,476)	(7,110)	(18,586)	(12,175)	(865)	<b>(31,626)</b>	1,402,105	<b>1,370,479</b>
<b>Movement in reserves during 2016/17</b>								
(Surplus) or deficit on the provision of services	53,947		53,947			<b>53,947</b>		<b>53,947</b>
Other Comprehensive Income / Expenditure							336,487	<b>336,487</b>
<b>Total Comprehensive Income and Expenditure</b>	<b>53,947</b>	<b>0</b>	<b>53,947</b>			<b>53,947</b>	<b>336,487</b>	<b>390,434</b>
Adjustments between accounting basis and funding basis under regulations	(50,447)		(50,447)	946	(40)	<b>(49,541)</b>	49,541	<b>0</b>
<b>Net (Increase) or Decrease before Transfers to Earmarked Reserves</b>	<b>3,500</b>	<b>0</b>	<b>3,500</b>	<b>946</b>	<b>(40)</b>	<b>4,406</b>	<b>386,028</b>	<b>390,434</b>
Transfers (to) / from Earmarked Reserves	(724)	724	0			<b>0</b>	0	<b>0</b>
<b>(Increase) or Decrease in 2016/17</b>	<b>2,776</b>	<b>724</b>	<b>3,500</b>	<b>946</b>	<b>(40)</b>	<b>4,406</b>	<b>386,028</b>	<b>390,434</b>
<b>Balance at 31 March 2017</b>	<b>(8,700)</b>	<b>(6,386)</b>	<b>(15,086)</b>	<b>(11,229)</b>	<b>(905)</b>	<b>(27,220)</b>	<b>1,788,133</b>	<b>1,760,913</b>

**OPCC**

	<b>General Fund Balance</b>	<b>Earmarked General Fund Reserves</b>	<b>Total General Fund Balance</b>	<b>Capital Receipts Reserve</b>	<b>Capital Grants Un-applied Account</b>	<b>Total Usable Reserves</b>	<b>Unusable Reserves</b>	<b>Total Reserves</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Balance at 31 March 2017</b>	(8,700)	(6,386)	(15,086)	(11,229)	(905)	<b>(27,220)</b>	(81,251)	<b>(108,471)</b>
<b>Movement in reserves during 2017/18</b>								
(Surplus) or deficit on the provision of services	7,759		7,759			<b>7,759</b>		<b>7,759</b>
Other Comprehensive Income / Expenditure							(19,753)	<b>(19,753)</b>
<b>Total Comprehensive Income and Expenditure</b>	<b>7,759</b>	<b>0</b>	<b>7,759</b>			<b>7,759</b>	<b>(19,753)</b>	<b>(11,994)</b>
Adjustments between accounting basis and funding basis under regulations	(5,727)		(5,727)	2,423	(697)	<b>(4,001)</b>	4,001	<b>0</b>
<b>Net (Increase) or Decrease before Transfers to Earmarked Reserves</b>	<b>2,032</b>	<b>0</b>	<b>2,032</b>	<b>2,423</b>	<b>(697)</b>	<b>3,758</b>	<b>(15,752)</b>	<b>(11,994)</b>
Transfers (to) / from Earmarked Reserves	521	(521)	0			<b>0</b>	0	<b>0</b>
<b>(Increase) or Decrease in 2017/18</b>	<b>2,553</b>	<b>(521)</b>	<b>2,032</b>	<b>2,423</b>	<b>(697)</b>	<b>3,758</b>	<b>(15,752)</b>	<b>(11,994)</b>
<b>Balance at 31 March 2018</b>	<b>(6,147)</b>	<b>(6,907)</b>	<b>(13,054)</b>	<b>(8,806)</b>	<b>(1,602)</b>	<b>(23,462)</b>	<b>(97,003)</b>	<b>(120,465)</b>

	<b>General Fund Balance</b>	<b>Earmarked General Fund Reserves</b>	<b>Total General Fund Balance</b>	<b>Capital Receipts Reserve</b>	<b>Capital Grants Un- applied Account</b>	<b>Total Usable Reserves</b>	<b>Unusable Reserves</b>	<b>Total Reserves</b>
	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
<b>Balance at 31 March 2016</b>	(11,476)	(7,110)	(18,586)	(12,175)	(865)	<b>(31,626)</b>	(84,908)	<b>(116,534)</b>
<b>Movement in reserves during 2016/17</b>								
(Surplus) or deficit on the provision of services	8,541		8,541			<b>8,541</b>		<b>8,541</b>
Other Comprehensive Income / Expenditure							(478)	<b>(478)</b>
<b>Total Comprehensive Income and Expenditure</b>	<b>8,541</b>	<b>0</b>	<b>8,541</b>			<b>8,541</b>	<b>(478)</b>	<b>8,063</b>
Adjustments between accounting basis and funding basis under regulations	(5,041)		(5,041)	946	(40)	<b>(4,135)</b>	4,135	<b>0</b>
<b>Net (Increase) or Decrease before Transfers to Earmarked Reserves</b>	<b>3,500</b>	<b>0</b>	<b>3,500</b>	<b>946</b>	<b>(40)</b>	<b>4,406</b>	<b>3,657</b>	<b>8,063</b>
Transfers (to) / from Earmarked Reserves	(724)	724	0			<b>0</b>	0	<b>0</b>
<b>(Increase) or Decrease in 2016/17</b>	<b>2,776</b>	<b>724</b>	<b>3,500</b>	<b>946</b>	<b>(40)</b>	<b>4,406</b>	<b>3,657</b>	<b>8,063</b>
<b>Balance at 31 March 2017</b>	<b>(8,700)</b>	<b>(6,386)</b>	<b>(15,086)</b>	<b>(11,229)</b>	<b>(905)</b>	<b>(27,220)</b>	<b>(81,251)</b>	<b>(108,471)</b>

## Comprehensive Income and Expenditure Statement

### Group

2016/17			2017/18		
Expenditure	Income	Net	Expenditure	Income	Net
£000	£000	£000	£000	£000	£000
106,240	0	106,240	125,498	0	125,498
6,568	0	6,568	6,276	0	6,276
65,251	0	65,251	71,899	0	71,899
1,622	0	1,622	1,853	0	1,853
2,293	0	2,293	1,526	0	1,526
1,742	0	1,742	1,862	0	1,862
5,461	0	5,461	1,488	0	1,488
9,049	0	9,049	8,397	0	8,397
25,529	0	25,529	28,481	0	28,481
4,688	0	4,688	3,455	0	3,455
9,082	0	9,082	7,397	0	7,397
0	(9,494)	(9,494)	0	(11,614)	(11,614)
<b>237,525</b>	<b>(9,494)</b>	<b>228,031</b>	<b>258,132</b>	<b>(11,614)</b>	<b>246,518</b>
931	(2,128)	(1,197)	938	(399)	539
60,748	(8,220)	52,528	56,627	(7,186)	49,441
0	(225,415)	(225,415)	0	(231,534)	(231,534)
<b>299,204</b>	<b>(245,257)</b>	<b>53,947</b>	<b>315,697</b>	<b>(250,733)</b>	<b>64,964</b>
		(478) (Surplus) or deficit on revaluation of Property, Plant and Equipment			(19,753)
		336,965 Remeasurement of the net defined benefit liability / asset			2,238
		<b>336,487 Other Comprehensive Income and Expenditure</b>			<b>(17,515)</b>
		<b>390,434 Total Comprehensive Income and Expenditure</b>			<b>47,449</b>

**OPCC**

2016/17			2017/18		
Expenditure	Income	Net	Expenditure	Income	Net
£000	£000	£000	£000	£000	£000
0	0	0 Police Payroll	0	0	0
0	0	0 Police Overtime	0	0	0
825	0	825 Staff Payroll	810	0	810
16	0	16 Staff Overtime	12	0	12
(12)	0	(12) Agency	0	0	0
6	0	6 Training	6	0	6
18	0	18 Other Payroll Costs	10	0	10
45	0	45 Premises	49	0	49
2,450	0	2,450 Supplies and Services	2,405	0	2,405
13	0	13 Transport	16	0	16
0	0	0 Depreciation	0	0	0
0	(1,431)	(1,431) Income	0	(1,370)	(1,370)
8,063	(8,063)	0 Income for services provided by the Chief Constable	10,244	(10,244)	0
<b>11,424</b>	<b>(9,494)</b>	<b>1,930 Cost of Services</b>	<b>13,552</b>	<b>(11,614)</b>	<b>1,938</b>
234,044	0	234,044 Intra-Group Funding Transfer	237,550	0	237,550
<b>245,468</b>	<b>(9,494)</b>	<b>235,974 Net Cost of Services</b>	<b>251,102</b>	<b>(11,614)</b>	<b>239,488</b>
259	(2,128)	(1,869) Other Operating Expenditure	326	(399)	(73)
0	(149)	(149) Financing and Investment Income and Expenditure	0	(122)	(122)
0	(225,415)	(225,415) Taxation and Non Specific Grant Income	0	(231,534)	(231,534)
<b>245,727</b>	<b>(237,186)</b>	<b>8,541 (Surplus) or Deficit on Provision of Services</b>	<b>251,428</b>	<b>(243,669)</b>	<b>7,759</b>
		(478) (Surplus) or deficit on revaluation of Property, Plant and Equipment			(19,753)
		0 Remeasurement of the net defined benefit liability / asset			0
		<b>(478) Other Comprehensive Income and Expenditure</b>			<b>(19,753)</b>
		<b>8,063 Total Comprehensive Income and Expenditure</b>			<b>(11,994)</b>

## Balance Sheet

31 March 2017				31 March 2018	
OPCC	Group			OPCC	Group
£000	£000	Notes		£000	£000
82,911	82,911	11	Property, Plant and Equipment	99,970	99,970
2,990	2,990	12	Intangible Assets	2,769	2,769
1,225	1,225	30	Long Term Debtors	897	897
<b>87,126</b>	<b>87,126</b>		<b>Long Term Assets</b>	<b>103,636</b>	<b>103,636</b>
495	495	15	Assets Held for Sale	0	0
284	284		Inventories	353	353
20,827	21,307	13	Short Term Debtors	20,594	21,200
25,123	25,123	14	Cash and Cash Equivalents	19,086	19,086
<b>46,729</b>	<b>47,209</b>		<b>Current Assets</b>	<b>40,033</b>	<b>40,639</b>
(23,783)	(24,276)	16	Short-Term Creditors	(22,258)	(22,860)
(1,601)	(2,081)	17	Provisions	(946)	(1,552)
<b>(25,384)</b>	<b>(26,357)</b>		<b>Current Liabilities</b>	<b>(23,204)</b>	<b>(24,412)</b>
0	(1,868,891)	25	Other Long-Term Liabilities	0	(1,928,225)
<b>0</b>	<b>(1,868,891)</b>		<b>Long Term Liabilities</b>	<b>0</b>	<b>(1,928,225)</b>
<b>108,471</b>	<b>(1,760,913)</b>		<b>Net Assets</b>	<b>120,465</b>	<b>(1,808,362)</b>
(27,220)	(27,220)	18	Usable Reserves	(23,462)	(23,462)
(81,251)	1,788,133	19	Unusable Reserves	(97,003)	1,831,824
<b>(108,471)</b>	<b>1,760,913</b>		<b>Total Reserves</b>	<b>(120,465)</b>	<b>1,808,362</b>

Ian Perkin, Treasurer of the Police and Crime Commissioner

Date:

## Cash Flow Statement

### OPCC & Group

<b>2016/17</b>		<b>2017/18</b>
<b>£000</b>		<b>£000</b>
53,947	Net (surplus) or deficit on the provision of services	64,964
(54,717)	Adjustment to surplus or deficit on the provision of services for noncash movements	(66,864)
5,495	Adjustment for items included in the net surplus or deficit on the provision of services that are investing or financing activities	5,820
<b>4,725</b>	<b>Net cash flows from operating activities</b>	<b>3,920</b>
1,519	Net cash flows from investing activities	2,782
(512)	Net cash flows from financing activities	(665)
<b>5,731</b>	<b>Net (increase) or decrease in cash and cash equivalents</b>	<b>6,037</b>
30,854	Cash and cash equivalents at the beginning of the reporting period	25,123
<b>25,123</b>	<b>Cash and cash equivalents at the end of the reporting period</b>	<b>19,086</b>

## Note 1 - Critical Judgements in Applying Accounting Policies

In applying the accounting policies, the Group has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Financial Statements are:

- Future funding levels – there is a degree of uncertainty about future levels of funding for Police and Crime Commissioners. However, the Group has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Group might be impaired as a result of a need to close facilities and reduce levels of service provision.
- Estates strategy – the timing and value of future property sales need to be considered in order to provide funds for future capital programmes.
- Income & Expenditure – a judgement has been made regarding the recognition of income and expenditure between the Police and Crime Commissioner’s and Chief Constable’s accounts to reflect financial resources of the Police and Crime Commissioner consumed at the request of the Chief Constable. All income/expenditure is received/paid by the PCC, and no actual cash transaction or events take place between the two entities.
- Comprehensive Income and Expenditure Statement (CIES) - Under CIPFA guidance the CIES is reported on the basis of an authorities’ structure, reflecting the way in which the authority operates or manages its services. For Surrey Police the CIES has been set out to show costs subjectively, reflecting the reporting basis for the monthly corporate report that is written for both the Chief Officer Group and the PCC.
- Asset values – the PCC exercises judgement in determining the carrying value of land and buildings on the PCC/PCC Group Balance Sheet by having valuations on a 5-year basis supplied by external valuers, Bruton Knowles. In addition to valuations, the local market conditions and national data are assessed as to whether there should be changes in asset values.
- Leases – the PCC has to determine whether the leases it enters should be classified as operating or finance leases. The PCC must also consider whether contractual arrangements it enters into have the substance of a lease. These judgements are made on the professional opinion of the PCC Group’s accountants and procurement manager based on contract procedure rules and the strict criteria set out in International Accounting Standard 17 (IAS 17) relating to leases.
- Working capital – the PCC controls the treasury management function and all bank accounts, therefore the majority of the working capital balances (cash, current debtors and currently liabilities) are recognised in the PCC’s Balance Sheet.

- Pensions – The cost of pension arrangements require estimates assessed by an independent qualified actuary regarding future cash flows that will arise under the scheme liabilities. The assumptions underlying the valuation used for IAS 19 reporting the responsibility of the Group are as advised by their actuaries. The financial assumptions are largely prescribed at any point and reflect market expectation at the reporting date. Assumptions are also made around life expectancy.
- Pensions - The PCC also has to determine whether items should be recognised in the PCC or Chief Constable accounts. The decision for the Pension Reserve to be recognised in the Chief Constable accounts was based on the fact that under the stage 2 transfer, that came into effect on the 1st April 2014, the Chief Constable holds the contract of employment for the majority of Police Staff, with the PCC holding contracts of employment for the team of staff in his office. A judgement has also been made not to split the Pension Reserve between the Chief Constable and the PCC. Whilst the Pension Reserve includes staff employed within the Office of the Police and Crime Commissioner it is not considered to be material or likely to influence decision or assessments of users made on the basis of the Financial Statements.
- Accumulated absences - the PCC has to determine whether the leave accrual should be accounted for in the PCC or Chief Constables accounts. As the majority of employee costs are accounted for in the Chief Constables accounts the leave accrual has been accordingly matched and accounted for on the Chief Constables Balance Sheet. The calculation is based on staff annual leave records and an average cost for each grade.
- Collaboration – the PCC has to determine how to account for collaborative arrangements. The Surrey/Sussex collaboration is accounted for as a joint operation whereby both parties have joint control of the arrangements and costs are shared in accordance with an agreed funding model.
- Insurance Reserve and Provision - The value of both the insurance reserve and provision require estimates from an independent qualified actuary to assess the appropriate insurance provisions and reserves for self-insured claims. The estimates are based on the Chain Ladder actuarial method for forecasting ultimate mature loss levels.

## Note 2 - Events After the Balance Sheet Date

The audited Statement of Accounts was approved by the Police and Crime Commissioner on XX July 2018. Where events taking place before this date provide information about conditions existing at 31 March 2018, the figures in the Financial Statements and Notes have been adjusted in all material respects to reflect the impact of this information.

There are no events after the Balance Sheet date to report.

## Note 3 - Assumptions Made about the Future and Other Major Sources of Estimation Uncertainty

The Statement of Accounts contains estimated figures that are based on assumptions made by the Group about the future or that are otherwise uncertain. Estimates are made taking into account historic evidence, current trends and other relevant factors. However, because balances cannot be determined with certainty, actual results could be materially different from the assumptions and estimates.

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

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
<b>Property, Plant and Equipment</b>	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Group will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	If the useful life of an asset is reduced, depreciation increases and the carrying amount of the asset falls. It is estimated that the annual depreciation charge for buildings increases by £110k for every year that useful lives are reduced. It is estimated that the annual depreciation charge for vehicles increases by £544k for every year that useful lives are reduced.
<b>Pensions Liability</b>	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. The Government's Actuary's Department have been engaged to provide the Group with expert advice about the assumptions to be applied for the Police Pension Schemes and Hymans Robertson LLP provides the same advice for the Police Staff Pension Scheme.	The Police Pension Scheme is governed by the Police Pensions Regulations 1987 and related regulations. An actuarial valuation is carried out every 4 years, the last being at 31 March 2016. The Group has applied the pension disclosures from Government Actuary's Department (GAD) model in accordance with the requirements of CIPFA's Code of Practice for accounting periods commencing on or after 1 April 2010. The last formal valuation of LGPS was 31 March 2016. The accuracy of the outcome relies on assumptions made in a fragile economy, and actual results may be materially different.
<b>Insurance Claims Liability</b>	The level of potential claims facing the Police and Crime Commissioner is independently assessed by professional actuaries Gallagher Heath on an annual basis. This assesses the future potential costs on the Police and Crime Commission of claims both known and unknown. Funding for these Insurance liabilities are held in the insurance reserve.	In the event that claims are higher than predicted additional resources would be required.

## Note 4 - Prior Year Adjustments

Following the introduction of Police and Crime Commissioners a judgement was made regarding the statutory accounts whereby the PCC receives all income relating to the Group and funds the Chief Constable's expenditure via an intra group adjustment. In practice however smaller operational grants and income are budgeted and accounted for within the department where the costs are incurred, accordingly the income in the statutory accounts has been separated from the intra-group funding transfer and shown within the Cost of Services.

This change has been reflected in the 2017/18 Financial Statements, whilst this adjustment does not impact on the overall PCC Group position it does however impact the individual PCC and Chief Constable statutory accounts which have been adjusted retrospectively in the Comprehensive Income and Expenditure Statement as follows:

2016/2017				2016/2017 Restated		
Group	PCC	CC		Group	PCC	CC
£'000	£'000	£'000		£'000	£'000	£'000
(9,494)	(9,494)	0	<b>INCOME</b>	(9,494)	(1,431)	(8,063)
228,031	(6,133)	234,164	<b>Cost of Services</b>	228,031	1,930	226,101
672	0	672	Levies	672	0	672
0	242,107	(242,107)	<b>Intra group adjustment</b>	0	234,044	(234,044)
390,434	8,063	382,371	<b>TOTAL COMPREHENSIVE INCOME and EXPENDITURE</b>	390,434	8,063	382,371

## Note 5 -Expenditure and Funding Analysis

The Expenditure and Funding Analysis note shows how annual expenditure is used and funded from resources (government grants and council tax) by police bodies in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices.

Net Expenditure Chargeable to the General Fund Balance	2016/17 Adjustments	Net Expenditure in the Compre- hensive Income and Expenditure Statement	Net Expenditure Chargeable to the General Fund Balance	2017/18 Adjustments	Net Expenditure in the Compre- hensive Income and Expenditure Statement	
£000	£000	£000	£000	£000	£000	
67,220	39,020	106,240	Police Payroll	81,048	44,450	125,498
6,568	0	6,568	Police Overtime	6,276	0	6,276
58,865	6,386	65,251	Staff Payroll	59,144	12,755	71,899
1,622	0	1,622	Staff Overtime	1,853	0	1,853
2,293	0	2,293	Agency	1,526	0	1,526
1,742	0	1,742	Training	1,862	0	1,862
5,461	0	5,461	Other Payroll Costs	1,488	0	1,488
9,049	0	9,049	Premises	8,397	0	8,397
25,529	0	25,529	Supplies and Services	28,481	0	28,481
4,688	0	4,688	Transport	3,455	0	3,455
0	9,082	9,082	Depreciation	0	7,397	7,397
(9,494)	0	(9,494)	Income	(11,614)	0	(11,614)
<b>173,543</b>	<b>54,488</b>	<b>228,031</b>	<b>Net Cost of Services</b>	<b>181,916</b>	<b>64,602</b>	<b>246,518</b>
(170,043)	(4,041)	(174,084)	Other Income and Expenditure	(179,884)	(1,670)	(181,554)
<b>3,500</b>	<b>50,447</b>	<b>53,947</b>	<b>Surplus or Deficit on Provision of Services</b>	<b>2,032</b>	<b>62,932</b>	<b>64,964</b>
(18,586)			Opening Combined General Fund Balance	(15,086)		
3,500			Plus / less Surplus or Deficit on the General Fund Balance for the Year (Statutory basis)	2,032		
<b>(15,086)</b>			<b>Closing Combined General Fund Balance</b>	<b>(13,054)</b>		

## Note 6 - Adjustments between Accounting Basis and Funding Basis under Regulations

The table below details the adjustments made to the Total Comprehensive Income and Expenditure Statement recognised by the Group in the year, in accordance with proper accounting practice to the resources that are specified by statutory provisions as being available to the Group to meet future capital and revenue expenditure.

<b>2017/2018</b>	<b>General Fund Balance £000</b>	<b>Capital Receipts Reserve £000</b>	<b>Capital Grants Unapplied £000</b>	<b>Movement in Unusable Reserves £000</b>
<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 cost (transferred to (or from) the Pensions Reserve)	(57,096)			57,096
Council tax and NDR (transfers to or from the Collection Fund)	(665)			665
Holiday pay (transferred to the Accumulated Absences reserve)	(109)			109
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	(11,206)		(806)	12,012
<b>Total Adjustments to Revenue Resources</b>	<b>(69,076)</b>	<b>0</b>	<b>(806)</b>	<b>69,882</b>
<b>Adjustments between Revenue and Capital Resources</b>				
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	5,014	(5,014)		
Statutory Provision for the repayment of debt (transfer to the Capital Adjustment Account)	400			(400)
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	359			(359)
<b>Total Adjustments between Revenue and Capital Resources</b>	<b>5,773</b>	<b>(5,014)</b>	<b>0</b>	<b>(759)</b>
<b>Adjustments to Capital Resources</b>				
Use of the Capital Receipts Reserve to finance capital expenditure		7,437		(7,437)
Application of capital grants to finance capital expenditure			806	(806)
<b>Total Adjustments to Capital Resources</b>	<b>0</b>	<b>7,437</b>	<b>806</b>	<b>(8,243)</b>
Other adjustments	371	0	(697)	326
<b>Total Adjustments</b>	<b>(62,932)</b>	<b>2,423</b>	<b>(697)</b>	<b>61,206</b>

<b>2016/2017</b>	<b>General Fund Balance £000</b>	<b>Capital Receipts Reserve £000</b>	<b>Capital Grants Unapplied £000</b>	<b>Movement in Unusable Reserves £000</b>
<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 cost (transferred to (or from) the Pensions Reserve)	(45,406)			45,406
Council tax and NDR (transfers to or from the Collection Fund)	(510)			510
Reversal of entries included in the Surplus or Deficit on the Provision of Services in relation to capital expenditure (these items are charged to the Capital Adjustment Account)	(10,138)		(1,088)	11,226
<b>Total Adjustments to Revenue Resources</b>	<b>(56,054)</b>	<b>0</b>	<b>(1,088)</b>	<b>57,142</b>
<b>Adjustments between Revenue and Capital Resources</b>				
Transfer of non-current asset sale proceeds from revenue to the Capital Receipts Reserve	4,351	(4,351)		
Statutory Provision for the repayment of debt (transfer to the Capital Adjustment Account)	931			(931)
Capital expenditure financed from revenue balances (transfer to the Capital Adjustment Account)	538			(538)
<b>Total Adjustments between Revenue and Capital Resources</b>	<b>5,820</b>	<b>(4,351)</b>	<b>0</b>	<b>(1,469)</b>
<b>Adjustments to Capital Resources</b>				
Use of the Capital Receipts Reserve to finance capital expenditure		5,297		(5,297)
Application of capital grants to finance capital expenditure			1,124	(1,124)
<b>Total Adjustments to Capital Resources</b>	<b>0</b>	<b>5,297</b>	<b>1,124</b>	<b>(6,421)</b>
Other adjustments	(213)	0	(76)	289
<b>Total Adjustments</b>	<b>(50,447)</b>	<b>946</b>	<b>(40)</b>	<b>49,541</b>

## Note 7 - Transfers to/from Earmarked Reserves

The table below sets out the amounts set aside from the General Fund in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2017/18.

	Balance at 1 April 2016	Transfers In 2016/17	Transfers Out 2016/17	Balance at 31 March 2017	Transfers In 2017/18	Transfers Out 2017/18	Balance at 31 March 2018
	£000	£000	£000	£000	£000	£000	£000
<b>General Fund Reserves:</b>							
Chief Constable Reserve	(571)	0	0	<b>(571)</b>	0	0	<b>(571)</b>
Estate Maintenance Reserve	(500)	0	0	<b>(500)</b>	0	250	<b>(250)</b>
Corporate Communications Local Reserve	(73)	0	0	<b>(73)</b>	0	0	<b>(73)</b>
Operation Heather	(516)	(451)	739	<b>(228)</b>	0	228	<b>0</b>
Training Reserve	(819)	(407)	787	<b>(439)</b>	0	439	<b>0</b>
Insurance Reserve - Legal	(361)	0	0	<b>(361)</b>	0	0	<b>(361)</b>
Insurance Reserve	(2,010)	(785)	1,311	<b>(1,484)</b>	(2,295)	1,519	<b>(2,260)</b>
Ill Health Reserve	(2,260)	(845)	375	<b>(2,730)</b>	0	238	<b>(2,492)</b>
PCC Innovation Reserve	0	0	0	<b>0</b>	(500)	0	<b>(500)</b>
PCC Estate Strategy Reserve	0	0	0	<b>0</b>	(400)	0	<b>(400)</b>
<b>Total General Fund</b>	<b>(7,110)</b>	<b>(2,488)</b>	<b>3,212</b>	<b>(6,386)</b>	<b>(3,195)</b>	<b>2,674</b>	<b>(6,907)</b>

### Insurance Reserve

This represents a reserve for insurance liabilities. The reserve is intended to cover likely insurance liabilities that occur and to cover risks in the areas of motor insurance, employers and public liability. In addition to this reserves a provision is held where the costs are more certain. An actuarial review is carried out annually to establish the levels to meet both the reserve and the provision.

### Estate Maintenance Reserve

The reserve has been set aside to meet the cost of improvements to the estate.

### Ill Health Reserve

This reserve is to meet the cost of Police Officers' ill health commutations in the future. For each instance of ill health the PCC has to provide for the capital equivalent charge that is required to be paid into the Police Pension Account.

## Chief Constable Reserve

This reserve has been set aside by the PCC for use by the Chief Constable, for example during 2015/16 this funding was used for policing the Magna Carta celebrations.

## Innovation Reserve

The PCC Innovation Reserve is a new initiative that will seek to pump prime transformation that will deliver future savings and repay the investment.

## Estates Strategy Reserve

This reserve is to manage the transition costs to deliver the Estate Strategy to rationalise some of the current estate and build a new operational headquarters.

## Note 8 - Taxation and Non-Specific Grant Income

The group credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2017/18:

<b>2016/17</b>		<b>2017/18</b>
<b>£000</b>		<b>£000</b>
(108,507)	Council tax income	(111,751)
(115,765)	Non-ringfenced government grants	(118,977)
(1,143)	Capital grants and contributions	(806)
<b>(225,415)</b>	<b>Total</b>	<b>(231,534)</b>

## Note 9 - Grant Income

### Grant Income Credited to Taxation and non-specific Grant Income and Expenditure

<b>31 March 2017</b>		<b>31 March 2018</b>
<b>£000</b>		<b>£000</b>
(2,461)	Council Tax and Freeze Grant	(2,461)
(62,165)	Police Grants	(61,296)
(6,759)	Localisation Support Grant	(6,759)
(29,218)	National Non-Domestic Rates	(28,809)
(15,162)	Home Office Grant Payable to the cost of Retirement Benefits	(19,652)
(1,143)	Capital Grants and Contributions	(806)
<b>(116,908)</b>	<b>Total</b>	<b>(119,783)</b>

## Credited to Services

<b>31 March 2017</b>		<b>31 March 2018</b>
<b>£000</b>		<b>£000</b>
(464)	Innovation Funding Joint Emergency Services	0
(1,197)	Counter Terrorism	(835)
(1,393)	Victim Support Grant	(1,370)
(16)	Other	(242)
<b>(3,070)</b>	<b>Total</b>	<b>(2,447)</b>

### Innovation Funding Joint Emergency Services

A home office grant to encourage innovation, collaborative and cost-saving projects aimed at transforming policing e.g. Emergency Services Collaboration programme the use of unmanned aerial vehicles.

### Counter Terrorism

A Home Office grant to cover the costs of specific counter terrorist and royalty protection posts.

### Victim Support Grant

A grant provided by the Ministry of Justice to provide funding for organisations and charities who are supporting victims of crime.

### Home Office grant payable to the cost of retirement benefits

A Home Office grant to cover the projected shortfall on the cost of police pensions under the new pensions financing arrangements which came into effect on 1st April 2006.

### Council Tax Freeze Grant

Government funding to compensate for reduced Council Tax Revenue.

## Note 10 - Capital Expenditure and Capital Financing

This table shows details of expenditure on capital items as defined within the Accounting Policies, together with the resources that have been used to finance it. Capital expenditure increases the asset worth of the Group, as shown in the Balance Sheet and associated Property, Plant and Equipment (note 11).

Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Group, this results in an increase in the Capital Financing Requirement, a measure of capital expenditure incurred historically by the Group that has yet to be financed.

## Capital Expenditure and Capital Financing

31 March 2017 £000		31 March 2018 £000
9,001	Opening Capital Financing Requirement	8,070
	Capital Investment:	
5,659	Property Plant and Equipment	7,872
1,300	Intangible Assets	731
<b>6,959</b>	<b>Total Capital Spending</b>	<b>8,602</b>
	Sources of Finance:	
(5,297)	Capital receipts	(7,437)
(1,124)	Government Grants and other contributions	(806)
	Sums set aside from revenue:	
(538)	- Direct revenue contributions	(359)
(931)	- Minimum revenue provision	(400)
<b>(7,890)</b>	<b>Total Sources of Finance</b>	<b>(9,002)</b>
<b>8,070</b>	<b>Closing Capital Financing Requirement</b>	<b>7,670</b>

## Note 11 - Property, Plant and Equipment

Changes in Non-Current Assets are summarised below:

### Movements to 31 March 2018

	Land and Buildings	Vehicles, Plant, Furniture & Equipment	Surplus Assets Under Assets Construction		Total Property, Plant and Equipment
	£000	£000	£000	£000	£000
<b>Cost or Valuation</b>					
<b>at 1 April 2017</b>	69,044	40,523	5,361	2,989	<b>117,917</b>
Additions	46	3,669	0	4,157	<b>7,872</b>
Revaluation increases/(decreases) recognised in the Revaluation Reserve	10,965	0	2,159	0	<b>13,124</b>
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	1,379	0	0	0	<b>1,379</b>
Derecognition – disposals	(430)	(3,706)	0	0	<b>(4,136)</b>
Reclassifications and transfer	(1,057)	1,290	1,120	(1,828)	<b>(475)</b>
Assets reclassified (to)/from Held for Sale	0	0	(3,443)	0	<b>(3,443)</b>
<b>at 31 March 2018</b>	<b>79,947</b>	<b>41,776</b>	<b>5,197</b>	<b>5,318</b>	<b>132,238</b>
<b>Accumulated Depreciation and Impairment</b>					
<b>at 1 April 2017</b>	(6,219)	(28,523)	(263)	0	<b>(35,006)</b>
Depreciation charge	(2,437)	(4,708)	(204)	0	<b>(7,349)</b>
Depreciation written out to the Revaluation Reserve	6,355	0	273	0	<b>6,628</b>
Derecognition – disposals	27	3,431	0	0	<b>3,458</b>
Reclassifications and transfers	163	0	(163)	0	<b>0</b>
<b>at 31 March 2018</b>	<b>(2,111)</b>	<b>(29,800)</b>	<b>(357)</b>	<b>0</b>	<b>(32,268)</b>
<b>Net Book Value</b>					
<b>at 31 March 2018</b>	<b>77,836</b>	<b>11,976</b>	<b>4,840</b>	<b>5,318</b>	<b>99,970</b>
<b>at 31 March 2017</b>	<b>62,824</b>	<b>12,000</b>	<b>5,098</b>	<b>2,989</b>	<b>82,911</b>

## Movements to 31 March 2017

	Land and Buildings	Vehicles, Plant, Furniture & Equipment	Surplus Assets	Assets Under Construction	Total Property, Plant and Equipment
	£000	£000	£000	£000	£000
<b>Cost or Valuation</b>					
<b>at 1 April 2016</b>	66,828	42,459	6,993	3,277	<b>119,557</b>
Additions	92	3,164	0	2,402	<b>5,659</b>
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(31)	0	0	0	<b>(31)</b>
Derecognition – disposals	0	(6,583)	0	0	<b>(6,583)</b>
Reclassifications and transfer	2,155	1,483	(1,722)	(2,691)	<b>(775)</b>
Assets reclassified (to)/from Held for Sale	0	0	90	0	<b>90</b>
<b>at 31 March 2017</b>	<b>69,044</b>	<b>40,523</b>	<b>5,361</b>	<b>2,989</b>	<b>117,917</b>
<b>Accumulated Depreciation and Impairment</b>					
<b>at 1 April 2016</b>	(4,044)	(29,891)	(190)	0	<b>(34,125)</b>
Depreciation charge	(2,233)	(5,018)	(74)	0	<b>(7,324)</b>
Depreciation written out to the Revaluation Reserve	30	0	0	0	<b>30</b>
Derecognition – disposals	27	6,386	0	0	<b>6,414</b>
<b>at 31 March 2017</b>	<b>(6,220)</b>	<b>(28,523)</b>	<b>(263)</b>	<b>0</b>	<b>(35,006)</b>
<b>Net Book Value</b>					
<b>at 31 March 2017</b>	<b>62,824</b>	<b>12,000</b>	<b>5,098</b>	<b>2,989</b>	<b>82,911</b>
<b>at 31 March 2016</b>	<b>62,784</b>	<b>12,568</b>	<b>6,803</b>	<b>3,277</b>	<b>85,432</b>

## Depreciation

Depreciation is calculated on a straight-line basis over the estimated life of the asset. Although it is calculated on the estimated life of the specific individual asset concerned, the approximate average depreciation periods are as follows:

Buildings	25 years
Plant, Furniture & Equipment	5 years
Vehicles	5 years

## Effects of Changes in Estimates

Assets are depreciated over useful lives that are dependent on assumptions about the level of repair and maintenance that will be incurred in relation to individual assets. If the useful life of an asset is reduced, depreciation increases and the carrying amount of the asset falls. It is estimated that the annual depreciation charge would increase by £2.0m for every year that the useful lives had to be reduced.

## Land and Buildings

All operational police stations and offices were valued by the Bruton Knowles property consultants at 31 December 2017 on the basis of value in existing use (value at 31 March 2018 £61.5m).

All police houses were valued by Bruton Knowles property consultants at 31 December 2015 on the basis of open market value at £20m (value at 31 March 2018 £16.2m).

At 31 March 2018 the Group's principal assets consisted of 15 operational stations and offices (including custody and control centres), 46 police houses and 853 police vehicles.

## Note 12 - Intangible Assets

The Group classifies its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and the hardware of the asset is classified under Property, Plant and Equipment. Intangible assets include both licences and internally generated software.

The amortisation of £1.4m (2016/17 £1.7m) was charged to the Comprehensive Income and Expenditure Statement in 2017/18.

<b>31st March 2017</b>		<b>31st March 2018</b>
<b>Total</b>		<b>Total</b>
<b>£000</b>		<b>£000</b>
Balance at start of year:		
7,139	Gross carrying amounts	4,682
(4,491)	Accumulated amortisation	(1,692)
<b>2,648</b>	<b>Net carrying amount at start of year</b>	<b>2,990</b>
Additions:		
1,300	Purchases	731
(4,532)	Other disposals	(720)
775	Reclassifications and transfers	475
(1,733)	Amortisation for the period	(1,427)
4,532	Amortisation written off on disposal	720
<b>2,990</b>	<b>Net carrying amount at end of year</b>	<b>2,769</b>
Comprising:		
4,682	Gross carrying amounts	5,168
(1,692)	Accumulated amortisation	(2,399)
<b>2,990</b>	<b>Total</b>	<b>2,769</b>

## Note 13 - Debtors

### Long Term Debtors

Long term debts are those falling due after one year. As at 31st March 2018, the Group's long term debtor balance of £0.9m (£1.2m 2016/17) consisted of outstanding advances made to employees under the housing scheme. The decrease is due to redemptions on loans of £0.3m.

### Short Term Debtors

Debts outstanding at 31st March 2018 can be analysed as follows:

<b>31 March 2017</b>			<b>31 March 2018</b>	
<b>OPCC £000</b>	<b>Group £000</b>		<b>OPCC £000</b>	<b>Group £000</b>
6,066	6,066	Central Government Bodies	6,732	6,732
9,305	9,785	Other Local Authorities	8,898	9,504
5,456	5,456	Other Entities and Individuals	4,964	4,964
<b>20,827</b>	<b>21,307</b>	<b>Total Debtors</b>	<b>20,594</b>	<b>21,200</b>

## Note 14 - Cash and Cash Equivalents

The balance of Cash and Cash Equivalents is made up of the following elements:

<b>31 March 2017 £000</b>		<b>31 March 2018 £000</b>
417	Cash and Bank balances	626
24,706	Short Term Investments	18,460
<b>25,123</b>	<b>Total Cash and Cash Equivalents</b>	<b>19,086</b>

The Group's treasury management function is carried out in conjunction with Surrey County Council. Daily transfers of cash are made between the PCC and Surrey County Council in the form of loans.

## Note 15 - Assets Held for Sale

The movement in Assets Held for Sale is shown below:

<b>Current 31 March 2017 £000</b>		<b>Current 31 March 2018 £000</b>
2,639	Balance outstanding at start of year	495
	Assets newly classified as held for sale:	
0	Property Plant and Equipment	3,443
	Assets declassified as held for sale:	
(90)	Property Plant and Equipment	0
(2,054)	Assets sold	(3,938)
<b>495</b>	<b>Balance Outstanding year end</b>	<b>0</b>

As at 31st March 2018 there were no assets held for sale. During the year, 2 police stations and 1 police house were sold.

## Note 16 - Creditors

### Short Term Creditors

Payments due at 31st March 2018 can be analysed as follows

31 March 2017			31 March 2018	
OPCC £000	Group £000		OPCC £000	Group £000
(5,949)	(5,949)	Central Government Bodies	(5,686)	(5,686)
(6,821)	(6,821)	Other Local Authorities	(7,551)	(7,551)
(11,013)	(11,506)	Other Entities and Individuals	(9,020)	(9,623)
<b>(23,783)</b>	<b>(24,276)</b>	<b>Total Creditors</b>	<b>(22,258)</b>	<b>(22,860)</b>

## Note 17 - Provisions

Provisions held at 31st March 2018 are as follows:

### Current Provisions

2017/18	Restructuring Provision £000	Insurance Provision £000	Holiday Pay Provision £000	Total £000
Opening Balance	(480)	(1,601)	0	(2,081)
Increase in provision during year	(334)	0	0	(334)
Utilised during year	208	655	0	863
<b>Closing Balance</b>	<b>(606)</b>	<b>(946)</b>	<b>0</b>	<b>(1,552)</b>

2016/17	Restructuring Provision £000	Insurance Provision £000	Holiday Pay Provision £000	Total £000
Opening Balance	(355)	(935)	(50)	(1,340)
Increase in provision during year	(208)	(666)	0	(874)
Utilised during year	83	0	0	83
Unused Amounts Reversed	0	0	50	50
<b>Closing Balance</b>	<b>(480)</b>	<b>(1,601)</b>	<b>0</b>	<b>(2,081)</b>

## Restructuring Provision

The restructuring provision has been created for restructuring costs in accordance with Strategic Change Programmes that had formal plans or supporting business cases as at the 31 March 2018. These change programmes are either in the process of being implemented or will be implemented during 2018/19. This provision is held in the Chief Constable's balance sheet and is shown here as part of the Group position.

## Insurance Provision

The insurance provision is to cover the anticipated costs of reported claims as per the actuarial report produced by Marsh & McLennan. This provision is held in the PCC's balance sheet and is shown here as part of the Group position.

## Note 18 - Usable Reserves

Movements in the Group's usable reserves are detailed in the Movements in Reserves Statement. The balances are as follows:

<b>31 March 2017</b>		<b>31 March 2018</b>
<b>£000</b>		<b>£000</b>
(8,700)	General Fund Balance	(6,147)
(6,386)	Earmarked General Fund Balance	(6,907)
(11,229)	Capital Receipts Reserve	(8,806)
(905)	Capital Grants Unapplied	(1,602)
<b>(27,220)</b>	<b>Total</b>	<b>(23,462)</b>

## Capital Receipts Reserve

<b>31 March 2017 £000</b>		<b>31 March 2018 £000</b>
(12,175)	Balance 1 April	(11,229)
(4,351)	Capital Receipts in year	(5,014)
5,297	Capital Receipts used for financing	7,437
<b>(11,229)</b>	<b>Balance 31 March</b>	<b>(8,806)</b>

This reserve comprises net proceeds arising from the sale of capital assets e.g. houses & vehicles. The use of these receipts is limited by regulation (Part 1 of the Local Government Act 2003 and the Local Authorities Regulations 2003, Capital Finance and Accounting, England). The receipts can only be used to finance capital expenditure or the repayment of debt.

## Capital Grants Unapplied

<b>31 March 2017 £000</b>		<b>31 March 2018 £000</b>
(865)	Balance 1 April	(905)
(1,088)	Capital grants recognised in year	(806)
1,124	Capital grants and contributions applied	806
0	Repaid capital grants	0
(76)	Other movements	(697)
<b>(905)</b>	<b>Balance 31 March</b>	<b>(1,602)</b>

This balance represents capital grants or contributions that have been recognised as income in the Comprehensive Income and Expenditure Statement, but the expenditure to be financed from those grants or contributions has not been incurred.

## Note 19 - Unusable Reserves

<b>31 March 2017 £000</b>		<b>31 March 2018 £000</b>
(17,707)	Revaluation Reserve	(33,481)
(61,843)	Capital Adjustment Account	(62,486)
1,868,891	Pension Reserve	1,928,225
(1,701)	Collection Fund Adjustment Account	(1,036)
493	Accumulated Absences Account	602
<b>1,788,133</b>	<b>Total</b>	<b>1,831,824</b>

## Revaluation Reserve

<b>31 March 2017 £000</b>		<b>31 March 2018 £000</b>
(18,348)	<b>Balance 1 April</b>	(17,707)
0	Upward revaluation of assets	(21,331)
0	Downward revaluation of assets and impairment losses not charged to the Surplus or Deficit on the Provision of Services	1,579
<b>0</b>	<b>Surplus or deficit on revaluation of non-current assets not charged to the Surplus or Deficit on the Provision of Services</b>	<b>(19,752)</b>
569	Difference between fair value depreciation and historical cost depreciation	916
551	Accumulated gains on assets sold or scrapped	2,955
<b>1,120</b>	<b>Amount written off to the Capital Adjustment Account</b>	<b>3,871</b>
0	Other movements	107
(479)	Other movements to Other Comprehensive Income and Expenditure	0
<b>(17,707)</b>	<b>Balance 31 March</b>	<b>(33,481)</b>

This reserve records the accumulated gains on non-current assets held by the Group and equity loans to police officers to assist in the purchase of their properties. The increases in value are as a result of inflation or other factors. Whilst the gains arising from asset revaluations increase the net worth of the Group, they would only result in an increase in spending power if the relevant assets were sold and capital receipts generated.

## Capital Adjustment Account

<b>31 March 2017 £000</b>		<b>31 March 2018 £000</b>
(64,345)	<b>Balance 1 April</b>	(61,843)
7,324	Charges for depreciation and impairment of non-current assets	7,349
0	Revaluation losses on non-current assets	(1,379)
1,733	Amortisation of intangible assets	1,427
2,224	Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	4,615
11,281	Reversal of Items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement	12,012
(1,120)	Adjusting Amounts written out of the Revaluation Reserve	(3,871)
10,161	<b>Net written out amount of the cost of non-current assets consumed in the year</b>	8,141
(5,297)	Use of Capital Receipts Reserve to finance new capital expenditure	(7,437)
(1,124)	Capital Grants and Contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	(806)
(931)	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	(400)
(538)	Capital expenditure charged against the General Fund and HRA balances	(359)
(7,890)	<b>Capital financing applied in year:</b>	(9,002)
231	Other movements	218
<b>(61,843)</b>	<b>Balance 31 March</b>	<b>(62,486)</b>

The Account accumulates the write down of the historical cost of non-current assets as they are consumed by depreciation and impairments or written off on disposal. The written down historical cost is offset by the resources that have been set aside to finance capital expenditure. The Account balance will reflect the timing difference between the cost of non-current assets consumed and the capital financing set aside to pay for them.

## Pension Reserve

<b>31 March 2017 £000</b>		<b>31 March 2018 £000</b>
1,486,520	Balance 1 April	1,868,891
336,965	Remeasurements of the net defined benefit (liability)/asset	2,238
97,224	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	114,400
(51,818)	Employer's pensions contributions and direct payments to pensioners payable in the year	(57,304)
<b>1,868,891</b>	<b>Balance 31 March</b>	<b>1,928,225</b>

The pension reserve is an accounting reserve included in the Group Accounts that equals the total pension liability (Police Officers and Police Staff).

Where the pension payments made for the year in accordance with the scheme requirements do not match the change in the Group's recognised liability for the same period, the recognised cost of pensions will not match the amount to be raised in taxation. This is represented by an appropriation to or from the pension reserve, which equals the net change in the pension liability recognised in the Group Comprehensive Income and Expenditure Statement.

Actuarial gains and losses are also recognised as movements on reserve above.

## Collection Fund Adjustment Account

<b>31 March 2017 £000</b>		<b>31 March 2018 £000</b>
(2,211)	Balance 1 April	(1,701)
510	Amount by which council tax and non-domestic rates income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	665
<b>(1,701)</b>	<b>Balance 31 March</b>	<b>(1,036)</b>

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax income in the Comprehensive Income and Expenditure Statement as it falls due compared with the statutory arrangement for paying across amounts to the General Fund from the Collection Fund.

## Accumulated Absences Account

<b>31 March 2017 £000</b>		<b>31 March 2018 £000</b>
493	<b>Balance 1 April</b>	493
(493)	Settlement or cancellation of accrual made at the end of the preceding year	(493)
493	Amounts accrued at the end of the current year	602
0	Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in year in accordance with statutory requirements	109
<b>493</b>	<b>Balance 31 March</b>	<b>602</b>

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, e.g. annual leave entitlement carried forward at 31 March 2018. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

### Note 20 - Collaborations

The PCC Group continues to develop joint working arrangements with Sussex Police through a Policing Together programme, and other agencies in the South-East region. Up to 31<sup>st</sup> March 2018 the PCC Group supported the following regional arrangements under the umbrella of the South East Regional Organised Crime Unit:

- Serious Crime Investigation Team
- Covert Operations Unit
- Technical Surveillance Unit
- Witness Protection Unit
- Cyber Crime Unit
- Prison Intelligence
- Fraud Team
- Government Agencies Intelligence Network (G.A.I.N.)

The PCC Group also supports:

- The National Police Air Service in West Yorkshire
- Counter Terrorism Policing South East – where five police forces; Thames Valley, Hampshire, Sussex, Surrey and Kent work together on counter terrorism and tackling serious and organised crime
- South East Region Integrated Policing – where four police forces, Thames Valley, Hampshire, Sussex, Surrey are working together to consider regional collaboration ambition that will lay the foundations for further regional integration

Surrey and Sussex Police Forces share collaboration costs in accordance with an agreed funding model. Each Force accounts for their share of total income and expenditure and assets in the Comprehensive Income and Expenditure Statement and Balance Sheet.

	<b>Total Cost 2016-17</b>	<b>Surrey Share 2016-17</b>	<b>Total Cost 2017-18</b>	<b>Surrey Share 2017-18</b>
	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>	<b>£'000</b>
<b>Collaborated Services</b>				
<b>Sussex</b>				
Operations	32,587	14,807	32,808	14,908
Specialist Crime	21,161	9,616	20,632	9,375
Joint IT	6,843	3,110	8,809	4,003
People Services	4,515	2,051	6,161	2,800
Finance and Services	2,619	1,190	2,995	1,361
Chief Officers	582	264	772	351
PSD - Joint Vetting	350	159	552	251
Corporate Services	312	142	2,179	990
<b>Capital Projects:</b>				
IT Capital Projects	941	428	2,023	919
ERP	748	340	0	0
Digital Enablement team	393	179	106	48
Corporate Services Capital Project	164	74	104	47
	<b>71,215</b>	<b>32,360</b>	<b>77,141</b>	<b>35,053</b>

There is a further significant joint arrangement (ERP Tri-Force) costing £0.9m split between Surrey Police (£0.2m), Sussex Police (£0.3m) and Thames Valley Police (£0.4m).

## Note 21 - Leases

As at the 31st March 2018, the Group had the following future obligations in respect of operating leases:

### Vehicles, Plant, Furniture and Equipment

The Group has not entered into any new operating leases for this category during 2017/18, the lease for printers/photocopiers will require renewing during 2018/19. Payments due in 2018/19 total £0.1m (2017/18 £0.1m).

### Land and Buildings

The Group terminated four, entered into one and renegotiated one operating lease during 2017/18. For these and existing arrangements held under operating leases during 2017/18 rental payments were £1.0m (2016/17 £0.8m).

## Commitments Under Operating Leases

The Group was committed at 31st March 2018 to making payments of £0.9m under operating leases in 2018/19 comprising the following elements:

### Authority as Lessee - Operating Leases

The future minimum lease payments due under non-cancellable operating leases in future years are set out below:

<b>31 March 2017 £'000</b>		<b>31 March 2018 £'000</b>
638	Not later than one year	947
1,551	Later than one year and not later than five years	3,519
1,748	Later than five years	3,255
<b>3,937</b>	<b>Total</b>	<b>7,721</b>

## Note 22 - Service Concession Arrangements

The Group has no assets recognised under a PFI arrangement and therefore has no outstanding contractual commitment with external organisations.

Airwave is a national PFI scheme for a replacement radio communication system. The Group has contracted with an external telecommunications provider to develop the necessary infrastructure, in return for an annual rental payable over a 15-year contract period. The contract, which ends September 2018, is based on a framework or core agreement, which has been drafted following negotiations between PITO (Home Office Police and Information Technology Organisation), police authorities in Great Britain and a consortium of external telecommunications providers.

## Note 23 - Joint Audit Committee

Under the governance arrangements for policing, the Chief Constable and the PCC have a Joint Audit Committee to provide independent and effective assurance about the adequacy of financial management and reporting. The Committee help to raise the profile of internal control, risk management and financial reporting issues within Surrey Police and provide a forum for discussion with internal and external auditors.

Members' Allowances for the Joint Audit Committee are:

Members' Allowances                      £1,680 per annum

Chair Allowance

£2,500 per annum

## Note 24 - Officers' Remuneration

This statement shows remuneration for senior employees responsible for the management of Surrey Police along with the number of employees (including Police Officers and the PCC) whose remuneration was £50,000 or more.

There are a small number of employees included that are seconded to other agencies. These costs are fully recovered.

Remuneration for Senior Officers with a salary between £50,000 and £150,000 with responsibility for the management of Surrey Police were:							
Position	Position Start Date	Position End Date	2016/2017	2017/2018			Total Remuneration
			Total Remuneration	Salary, Fees & Allowances	Employers Pension Contribution	Benefit in kind. Private Use of Vehicle	
			£	£	£	£	£
Chief Constable-N Ephgrave	18/12/2015		183,469	150,622	34,471	2,608	187,701
Deputy Chief Constable-G Stephens	19/12/2015		150,237	121,608	27,992	4,657	154,257
Temporary Assistant Chief Constable-Note 1	20/12/2015	31/03/2017	126,611				
Assistant Chief Constable	20/05/2013	08/05/2016	14,184				
Assistant Chief Constable	23/05/2016		116,087	112,343	26,594	5,560	144,497
Assistant Chief Constable	07/05/2017			89,037	21,400	2,853	113,290
Temporary Assistant Chief Constable	04/07/2016	19/09/2017	89,368	40,476	9,658	332	50,466
Chief Superintendent-Note 1	01/04/2017			91,300	20,633	4,506	116,439
Chief Superintendent	24/05/2009	04/07/2016	29,790				
Chief Superintendent	07/01/2013	01/05/2016	13,543				
Chief Superintendent	07/01/2013		108,754	86,333	20,633	4,593	111,559
Chief Superintendent	09/06/2014		109,649	87,582	20,633	6,242	114,457
Chief Superintendent	18/10/2017			38,687	9,617	2,931	51,235
Chief Superintendent	02/01/2018			21,488	4,827		26,315
Temporary Chief Superintendent	20/12/2015	02/01/2018	107,566	65,956	15,401	5,421	86,778
Chief Superintendent	20/12/2015		105,442	86,337	20,153	4,542	111,032
Assistant Chief Officer	27/08/2013		138,698	126,910	16,675		143,585
Head of Corporate Communications	30/04/2013		85,069	75,404	10,281		85,686
Head of Finance & Services	01/09/2010		102,306	90,070	11,773		101,843
Chief Information Officer-N Roberts	16/11/2015		158,029	127,102	16,675		143,777
<u>PCC</u>							
PCC	22/11/2012	11/05/2016	9,388				
PCC	12/05/2016		75,898	75,238	10,150		85,388
PCC Deputy	13/12/2012	11/05/2016	7,387				
PCC Chief Executive	27/09/2010		96,705	81,527	11,630		93,157
PCC Treasurer	09/05/2005		67,705	53,691	7,718		61,409
<b>GROUP TOTAL</b>			<b>1,895,885</b>	<b>1,621,711</b>	<b>316,914</b>	<b>44,245</b>	<b>1,982,871</b>

Note 1: The same person occupied these 2 roles. They reverted to Chief Superintendent on the date shown.

## Officer Remuneration

	Number of Employees		2017/18	
	2016/17			
	OPCC	Group	OPCC	Group
£50,001 to £55,000	0	190	1	248
£55,001 to £60,000	3	110	2	137
£60,001 to £65,000	0	26	0	49
£65,001 to £70,000	1	14	0	10
£70,001 to £75,000	0	6	0	10
£75,001 to £80,000	0	10	1	7
£80,001 to £85,000	1	6	1	10
£85,001 to £90,000	0	3	0	8
£90,001 to £95,000	0	2	0	1
£95,001 to £100,000	0	1	0	2
£100,001 to £105,000	0	0	0	0
£105,001 to £110,000	0	0	0	0
£110,001 to £115,000	0	0	0	1
£115,001 to £120,000	0	1	0	0
£120,001 to £125,000	0	1	0	1
£125,001 to £130,000	0	0	0	2
£130,001 to £135,000	0	0	0	0
£135,001 to £140,000	0	1	0	0
£140,001 to £145,000	0	0	0	0
£145,001 to £150,000	0	1	0	0
£150,001 to £155,000	0	0	0	1
<b>Total</b>	<b>5</b>	<b>372</b>	<b>5</b>	<b>487</b>

### Exit Packages

Exit package cost band (including special payments)	Total number of exit packages by cost band		Total cost of exit packages in each band (£)	
	2016/17	2017/18	2016/17	2017/18
£0-£20,000	39	5	418,702	44,396
£20,001 - £40,000	15	11	388,540	278,682
£40,001 - £60,000	0	0	0	0
£60,001 - £80,000	0	2	0	143,537
<b>Total</b>	<b>54</b>	<b>18</b>	<b>807,242</b>	<b>466,615</b>

The numbers and total amounts of exit packages paid to employees of the Group were as shown in the table above. All payments were voluntary redundancies.

There were no exit packages paid to employees of the PCC.

## Note 25 - Defined Benefit Pension Scheme

As part of the terms and conditions of employment of its officers and other employees, the Group offers retirement benefits. Although these benefits will not actually be payable until employees retire, the Group has a commitment to make the payments that need to be disclosed at the time that employees earn their future entitlement. These commitments are included in the Chief Constables Accounts and consolidated into the Group Accounts.

The Group participates in two pension schemes:

- The Local Government Pension Scheme (LGPS) for police staff employees, administered locally by Surrey County Council – this is a funded defined benefit scheme, meaning that the Group and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets. Up to 31 March 2014 the scheme was based on final salary but from 1 April 2014 the scheme has been based on career average.
- The Police Pension Scheme for police officers – this is an unfunded defined benefit final salary scheme, the funding arrangements of which are contained in the Police Pension Fund Regulations 2007 (SI 2007/1932). The Group and employees pay contributions into the fund during the year, but there is no investment assets built up to meet the pension liabilities and payments as they fall due. The regulations require that if the pension fund does not have enough funds to meet the cost of pensions in any year, the amount required to meet the deficit must be transferred from the Group to the pension fund. Subject to Parliamentary scrutiny and approval, up to 100% of this amount is then recouped by the Group in the form of a top-up grant paid by Central Government. Conversely, if the police pension fund is in surplus for the year, the surplus is required to be transferred from the pension fund to the Group, which in turn is required to pay the amount to central Government.

The costs of retirement benefits are recognised in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. In accordance with IAS 19 requirements, the amount includes current and past service costs, curtailments and settlements, together with the gains/losses on the police injury pension. The current service cost and valuation of the Schemes as at 31 March 2018 have been produced by actuaries. The following transactions reflect the total charges in the Chief Constables Comprehensive Income and Expenditure Statement. Although these benefits will not actually be payable until employees retire, the Group has a commitment to make the payments for those benefits and to disclose them at the time the employee earns them.





2016/17			Movements in the Fair Value of Scheme Liabilities	2017/18		
LGPS	Police Officers	Total		LGPS	Police Officers	Total
£000	£000	£000		£000	£000	£000
(298,750)	(1,409,130)	(1,707,880)	Opening balance at 1 April	(382,789)	(1,754,290)	(2,137,079)
(10,295)	(31,690)	(41,985)	Current service cost	(19,291)	(44,460)	(63,751)
(10,918)	(49,830)	(60,748)	Interest cost	(10,167)	(46,460)	(56,627)
(3,008)	0	(3,008)	Contributions from scheme participants	(3,137)	0	(3,137)
			Re-measurement gains and losses:			
11,095	6,150	17,245	- Actuarial gains / (losses) - experience	(122)	(12,280)	(12,402)
3,762	(3,600)	162	- Actuarial gains / (losses) from changes in demographic assumptions	0	59,610	59,610
(78,431)	(308,690)	(387,121)	- Actuarial gains / (losses) from changes in financial assumptions	9,834	(56,890)	(47,056)
(2,342)	(220)	(2,562)	Past service cost	(26)	(1,060)	(1,086)
6,098	42,720	48,818	Benefits / transfers paid	5,340	47,630	52,970
<b>(382,789)</b>	<b>(1,754,290)</b>	<b>(2,137,079)</b>	<b>Balance as at 31 March</b>	<b>(400,358)</b>	<b>(1,808,200)</b>	<b>(2,208,558)</b>

2016/17 Total		2017/18 Total
£000		£000
<b>31,770</b>	<b>Cash and cash equivalents</b>	<b>33,209</b>

#### EQUITY SECURITIES

21,758	Consumer	22,743
19,723	Manufacturing	20,617
10,812	Energy and Utilities	11,302
18,972	Financial Institutions	19,832
7,166	Health and Care	7,491
15,105	Information Technology	15,789
546	Other	571
<b>94,083</b>	<b>Subtotal EQUITY SECURITIES</b>	<b>98,344</b>

#### DEBT SECURITIES

9,310	Corporate Bonds (Investment Grade)	9,732
588	Corporate Bonds (Non Investment Grade)	614
546	UK Government	571
1,229	Other	1,285

<b>11,674</b>	<b>Subtotal DEBT SECURITIES</b>	<b>12,202</b>
<b>PRIVATE EQUITY</b>		
11,256	All	11,766
<b>11,256</b>	<b>Subtotal PRIVATE EQUITY</b>	<b>11,766</b>
<b>REAL ESTATE</b>		
15,249	UK Property	15,940
99	Overseas Property	104
<b>15,348</b>	<b>Subtotal REAL ESTATE</b>	<b>16,043</b>
<b>INVESTMENT FUNDS &amp; UNIT TRUSTS</b>		
74,370	Equities	77,737
29,315	Bonds	30,643
<b>103,685</b>	<b>Subtotal INVESTMENT FUNDS &amp; UNIT TRUSTS</b>	<b>108,380</b>
<b>DERIVATIVES</b>		
Derivatives		
372	Foreign Exchange	389
<b>372</b>	<b>Subtotal DERIVATIVES</b>	<b>389</b>
<b>268,188</b>	<b>Total Assets</b>	<b>280,333</b>

The significant assumptions used by the actuary have been:

<b>2016/17</b>	<b>LGPS</b>	<b>2017/18</b>
Long term expected rate of return on assets		
2.6%	EQUITY SECURITIES	2.7%
2.6%	DEBT SECURITIES	2.7%
2.6%	PRIVATE EQUITY	2.7%
2.6%	REAL ESTATE	2.7%
2.6%	INVESTMENT FUNDS & UNIT TRUSTS	2.7%
2.6%	DERIVATIVES	2.7%
Mortality assumptions		
Longevity at retirement for current pensioners		
22.5	Men	22.5
24.6	Women	24.6
Longevity at retirement for future pensioners		
24.1	Men	24.1
26.4	Women	26.4
Other assumptions		
2.4%	Rate of inflation	2.4%

2.7%	Rate of increase in salaries	2.7%
2.4%	Rate of increase in pensions	2.4%
2.6%	Rate for discounting scheme liabilities	2.6%

**Impact of assumptions on the obligation:**

Increase by 1%	LGPS	Decrease by 1%
£000	Assumption	£000
16,188	Rate of increase in salaries	(16,188)
85,900	Rate of increase in pensions	(85,900)
(103,436)	Rate for discounting scheme liabilities	103,436

**The significant assumptions used by the actuary have been:**

2016/17	Police Officers	2017/18
Mortality assumptions		
Longevity at retirement for current pensioners		
23.2	Men	22.6
25.2	Women	24.2
Longevity at retirement for future pensioners		
25.2	Men	24.5
27.3	Women	26.1
Other assumptions		
2.4%	Rate of inflation	2.3%
4.4%	Rate of increase in salaries	4.3%
2.4%	Rate of increase in pensions	2.3%
2.7%	Rate for discounting scheme liabilities	2.6%

**Impact of assumptions on the obligation:**

Increase by 1%	Police Officers	Decrease by 1%
£000	Assumption	£000
(43,000)	Longevity	43,000
54,000	Rate of increase in salaries	(54,000)
290,000	Rate of increase in pensions	(290,000)
(370,000)	Rate for discounting scheme liabilities	370,000

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date.

Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

The cost of retirement benefits are recognised in the reported cost of services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge required against council tax is based on the cash payable in the year, so the real cost of post-employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement.

The liabilities show the underlying commitments that the Group has in the long run to pay retirement benefits. The total liability of £1,928.8m has a substantial impact on the net worth of the Group as recorded in the Balance Sheet, resulting in a negative overall balance of £1,807.8m. However, statutory arrangements for funding the deficit mean that the financial position of the Group remains healthy.

The deficit on the Local Government Pension Scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the Scheme actuary.

Finance is only required to be raised to cover police pensions when the pensions are actually paid and is restricted to the level of employers' contribution payable by the Chief Constable and funded by the PCC.

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

## **Financing of Police Pensions**

The Chief Constable is responsible for administering the Police Pension Fund in accordance with the Police Reform and Social Responsibility Act 2011. During the year all payments and receipts are made to and from the PCC Police Fund.

The in-year cost of police pensions is financed with the contributions from police officers (old scheme 11% and new scheme 9.5%) and also a contribution from the employer at 21.3% of salary and operated through a pensions account. If there is a deficit on the Police Pensions Fund Account this is met by a transfer from the Income and Expenditure Account funded by the Home Office. Conversely, if there is a surplus this would be transferred to the Income and Expenditure Account for repayment to the Home Office.

The Pension Fund Account, shown below, shows a deficit of £21.6m, offset by a transfer from the Income and Expenditure Account, funded by a grant from the Home Office (£19.6m) and an additional contribution by the Group (£2.0m).

	2016/2017 £000	2017/2018 £000
<b>Contributions Receivable</b>		
From employer at 21.3%:		
Normal	(14,494)	(14,361)
Early retirements	0	(238)
Other	0	0
From members	(8,754)	(9,023)
<b>Transfers In</b>		
Individual transfers in from other schemes	(244)	(242)
Other	0	0
<b>Benefits Payable:</b>		
Pensions	33,314	35,265
Commutations and lump sum retirement benefits	6,404	9,664
Lump sum death benefits	416	76
Lump sum ill-health benefits	302	309
<b>Payments to and on account of leavers</b>		
Refund of contributions	69	75
Individual transfers out to other schemes	64	82
Other	0	0
<b>Sub-total for the year before transfer from the Group of amount equal to the deficit</b>	<b>17,077</b>	<b>21,607</b>
Additional 2.9% funding payable by local policing body to meet deficit for the year	(1,919)	(1,955)
<b>Additional funding payable to the Group to fund the deficit for the year</b>	<b>(15,158)</b>	<b>(19,652)</b>
<b>Total</b>	<b>0</b>	<b>0</b>

NET ASSETS STATEMENT	2016/2017 £m	2017/2018 £m
<b>Net current assets and liabilities</b>		
Contributions due from employer	0	0
Unpaid pension benefits	0	0
Amount due to sponsoring department	0	0
Other current assets and liabilities	0	0
<b>Net assets and liabilities</b>	<b>0</b>	<b>0</b>

## Note 26 - External Audit Costs

2016/17 Group £000		CC £000	2017/18 PCC £000	Group £000
54	Fees payable to external auditors with regard to external audit services carried out by the appointed auditor for the year	15	39	54
<b>54</b>	<b>Total</b>	<b>15</b>	<b>39</b>	<b>54</b>

## Note 27 - Related Parties

IAS 24 (Related Party transactions) requires the Group to disclose all material transactions with related parties, which have potential to influence the Group or to be controlled or influenced by the Group.

Central government has some control as it is responsible for providing the statutory framework and provides the majority of the funding. The value of grants received is shown in the Income and Expenditure Account and further details of specific additional grants received are given in notes 8 and 9.

The eleven Borough Councils in Surrey also have some control through their provision of precept income. During 2017/18 the total precept was £112.4m (2016/17 £109.0m).

Surrey Police has a number of collaborative arrangements with Sussex Police that are accounted for as joint operations. The total costs incurred during 2017/18 was £77.1m (2016/17 £71.2m) with Surrey's share equating to £35.0m (2016/17 £32.4m).

Employer's pension contributions paid by the Group to the Surrey County Council Pension Fund totalled £9.5m during 2017/18 (£9m in 2016/17).

The PCC has direct control over the Group finances and is responsible for setting the Police and Crime Plan. The Chief Constable retains operational independence and operates within the budget set by the PCC, to deliver his aims and objectives set out in the Police and Crime Plan. Section 28 of the Police Reform and Social Responsibility Act 2011 requires that the local authorities covered by the police area must establish a Police and Crime Panel (PCP) for that area. The PCP scrutinises the decisions of the PCC, reviews the Police and Crime Plan and has a right of veto over the precept. A survey of the related party interests of the Chief Constable and senior managers and their immediate family members was carried out in preparing the Statement of Accounts. No related party interests were disclosed.

Similarly, there was no declaration of concern made from the OPCC.

## Note 28 - Contingent Liabilities

At 31st March 2018 the Chief Constable has three contingent liabilities:

### Police officer compulsory retirements A19 Rule

Section A19 of the Police Pension Regulations 1987 allows police forces to require a police officer to retire once he or she reaches 30 years' service. Police forces' adoption of the A19

rule increased as budgets were substantially cut and forces had to find new ways to cut their expenditure.

The Group had officers who were retired under A19 during 2011 and 2012 which may have given rise to a potential liability.

An Employment Tribunal (ET) was heard in February 2013 which upheld a police officers' age discrimination claim. However this decision was overturned in July 2015 when police officers' lost their claim for age discrimination at an appeal tribunal. In August 2015 an appeal was lodged against the employment Appeal Tribunal. The Court of Appeal dismissed the police officers earlier in March 2017 and Surrey Police was advised that the officers were considering whether to seek leave to appeal to the Supreme Court. The Supreme Court refused leave to appeal. The lawyers have asked the ET to formally dismiss these claims and we are awaiting confirmation of the same. There should be no future liability in relation these claims.

#### Transitional Provisions in the Police Pension Regulations 2015

The Chief Constable of Surrey Police, along with other Chief Constables and the Home Office, currently has a number of 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. Surrey Police is waiting for the ET to set down directions for how these cases are to be dealt with. (This is large part due to the fact that similar claims have been brought by Firefighters and Judges which are working their way through the Courts. The outcome of those cases may have a bearing on these claims). Legal advice suggests that there is a strong defence against these claims. The quantum and who will bear the cost is also uncertain, if the claims are partially or fully successful and therefore at this stage it is not practicable to estimate the financial impact. For these reasons, no provision has been made in the 2017/18 Financial Statements, it is assumed that any financial settlements will be funded under current police pension regulations.

#### Forensic Service Uncertainty

The validity of evidence provided by a forensic testing company to the police service is currently under investigation and is an issue impacting on policing across England & Wales. It is reasonable to anticipate that some people may have been convicted of offences based on flawed data, and that conviction will have had a significant impact on their personal circumstances. As a result some kind of litigation may be forthcoming. At this point in time it is not possible to assess the number of likely claims or the financial exposure arising from them.

#### Note 29 - Contingent Assets

The Group has no contingent assets to disclose at 31st March 2018.

## Note 30 - Financial Instruments

Financial Instruments	Long Term		Current	
	31st March 2017 £'000	31st March 2018 £'000	31st March 2017 £'000	31st March 2018 £'000
Financial liabilities carried at contract amount	0	0	(18,874)	(17,693)
<b>Total Borrowings</b>	<b>0</b>	<b>0</b>	<b>(18,874)</b>	<b>(17,693)</b>
Loans and receivables	1,223	897	17,707	18,213
Cash and Cash Equivalents	0	0	25,123	19,086
<b>Total Investments</b>	<b>1,223</b>	<b>897</b>	<b>42,830</b>	<b>37,299</b>

In prior years Cash and Cash Equivalents were included within the Loans and Receivables figure. In the above table they have been separated out to distinguish between Cash and Debtors.

## Note 31 - Nature and Extent of Risks Arising from Financial Instruments

The Group's activities expose it to a variety of financial risks:

- Credit Risk – the possibility that other parties might fail to pay amounts due to the Group
- Liquidity Risk – the risk that the Group might not have funds available to meet its commitment to make payments
- Market Risk/Interest Rate Risk – the possibility that financial loss might arise for the Group as a result of changes in such measures as interest rates and stock market movements.
- Market Failure Risk – the risk that financial loss might arise as a result of a failure in financial markets.

The Group's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. The Head of Finance is responsible for implementing the Group's approved Treasury Management Strategy which specifies the arrangements for specific areas such as interest rate risk, credit risk and the investment of surplus cash.

Day-to-day treasury management activity is undertaken on behalf of the Group by Surrey County Council under the terms of a service level agreement.

Credit and Counterparty Risk

A prime objective of the Group's treasury management activities is the security of the principal sums it invests. The Group maintains a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing arrangements, which includes all organisations included on Surrey County Council's counterparty lists.

The Group's only direct counterparty in relation to treasury management is Surrey County Council. All investments made by Surrey County Council are made in accordance with that Council's investment policies and prevailing legislation and regulations. If the list of counterparties and their time or value limits need to be revised, amendments are presented to the Surrey County Council Audit & Governance Committee. It is considered that these arrangements minimise the risk in this area.

The maximum exposure to credit risk at the Balance Sheet date was as follows: trade receivables £8.9m (2016/17 £7.9m), and cash and temporary loan investments £19.1m (2016/17 £25.1m). The Group does not have any material exposure to concentrations of credit risk with any single counterparty.

### Liquidity Risk

The Group aims to ensure that it has adequate but not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it to have the level of funds available to it that are necessary to achieve the objectives stated in its Policing Plan.

Day-to-day cash balances are monitored on behalf of the Group under a service level agreement by Surrey County Council, whose remit is to aggregate and invest any surpluses with its own balances, and to pay interest based on its quarterly internal borrowing rate.

The Group has had sufficient available cash balances to meet its daily requirements and there was no external borrowing outstanding as at 31st March 2018. If necessary, the Group is able to borrow from either the Public Works Loans Board or Surrey County Council.

All trade and other payables are due to be paid in less than one year.

### Interest Rate Risk

The Group aims to protect itself against the risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the Group's finances.

Since the Group investment activity is undertaken by Surrey County Council, fixed and variable rate exposure limits are set so as not to conflict with that Council's prevailing limits. In order to achieve this, both fixed and variable rate upper and lower exposure limits have been set at 100% and 0% respectively.

Surrey County Council employs a treasury consultant to advise on treasury strategy, provide economic data and interest rate forecasts. This information feeds into the Group's annual budget setting process, and allows for any adverse changes to be accommodated.

As at 31st March 2018, the Group had no borrowing outstanding but held £18.5m in variable rate loan investments (2016/17 £24.7m).

## Note 32 - Financing and Investment Income and Expenditure

2016/17			2017/18	
OPCC £000	Group £000		OPCC £000	Group £000
0	52,677	Net interest on the net defined benefit liability (asset)	0	49,563
(149)	(149)	Interest receivable and similar income	(122)	(122)
<b>(149)</b>	<b>52,528</b>	<b>Total</b>	<b>(122)</b>	<b>49,441</b>

## Note 33 - Other Operating Expenditure

2016/17			2017/18	
OPCC £000	Group £000		OPCC £000	Group £000
0	672	Levies	0	612
(2,128)	(2,128)	Gains/losses on the Disposal of Non-Current Assets	(399)	(399)
259	259	Other	326	326
<b>(1,869)</b>	<b>(1,197)</b>	<b>Total Other Operating Expenditure</b>	<b>(73)</b>	<b>539</b>

## Note 34 - Cash Flow from Operating Activities

The cash flows for operating activities include the following items:

31 March 2017 £000		31 March 2018 £000	
(149)	Interest received	(122)	
<b>(149)</b>	<b>Total</b>	<b>(122)</b>	

The surplus or deficit on the provision of services has been adjusted for the following non-cash movements:

31 March 2017 £000		31 March 2018 £000	
(7,324)	Depreciation	(7,349)	
0	Impairment and downward valuations	1,379	
(1,733)	Amortisation	(1,427)	
2,117	(Increase)/decrease in creditors	1,416	
594	Increase/(decrease) in debtors	(433)	
25	Increase/(decrease) in inventories	69	
(45,406)	Movement in pension liability	(57,096)	

(2,224)	Carrying amount of non-current assets and non-current assets held for sale, sold or derecognised	(4,615)
(766)	Other non-cash movements charged to the surplus or deficit on provision of services	1,192
<b>(54,716)</b>	<b>Total</b>	<b>(66,864)</b>

The surplus or deficit on the provision of services has been adjusted for the following items which are investing and financing activities:

<b>31 March 2017</b>		<b>31 March 2018</b>
<b>£000</b>		<b>£000</b>
4,352	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	5,014
1,143	Any other items for which the cash effects are investing or financing cash flows	806
<b>5,494</b>	<b>Total</b>	<b>5,820</b>

## Note 35 - Cash Flow from Investing Activities

<b>31 March 2017</b>		<b>31 March 2018</b>
<b>£000</b>		<b>£000</b>
6,959	Purchase of property, plant and equipment, investment property and intangible assets	8,602
(4,352)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(5,014)
(1,088)	Other receipts from investing activities	(806)
<b>1,519</b>	<b>Net cash flows from investing activities</b>	<b>2,782</b>

## Note 36 - Cash Flow from Financing Activities

<b>31 March 2017</b>		<b>31 March 2018</b>
<b>£000</b>		<b>£000</b>
(512)	Other receipts from financing activities	(665)
<b>(512)</b>	<b>Net cash flows from financing activities</b>	<b>(665)</b>

### General Principles

The Accounts have been prepared in keeping with the Code of Practice on Local Authority Accounting in the U.K. 2017/18, issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), approved by the Financial Reporting Advisory Board (FRAB). The Code is based on approved accounting standards issued by the International Accounting Standards Board and interpretations of the International Financial Reporting Interpretations Committee, except where these are inconsistent with specific statutory requirements. The Code also draws on approved accounting standards issued by the International Public Sector Accounting Standards Board and the UK Accounting Standards Board where these provide additional guidance. The Accounts follow the guidance notes produced by CIPFA for practitioners on the application of the Code to Local Authorities in the UK 2017/18.

Following the passing of the Police Reform and Social Responsibility Act 2011 the Police and Crime Commissioner for Surrey (PCC) and the Chief Constable of Surrey Police (CC) were set up as two 'corporation sole' bodies. Both bodies are required to prepare separate Statement of Accounts.

The Financial Statements included here represent the accounts for the PCC and also those for the PCC Group. The term 'Group' is used to indicate individual transactions and policies of PCC and CC for the year ended 31 March 2018. Under the Police Reform and Social Responsibility Act 2011 the powers and responsibilities attributed to the PCC as the holding organisation identifies the requirement to produce group accounts.

### Fundamental Accounting Policies

The Statement of Accounts has been prepared in accordance with the following accounting concepts and principles:

- Accruals – the accruals basis of accounting establishes that the non-cash effects of transactions are reflected in the accounting period in which those effects are experienced and not in the period in which any cash is received or paid.
- Going Concern – the Accounts have been prepared on the assumption that the Group will operate for the foreseeable future. In practice this means that the Comprehensive Income and Expenditure Statement and Balance Sheet assume no intention to curtail significantly the scale of operation.
- Understandability – to ensure that the Statement of Accounts produced can be understood by its readers.
- Relevance – to ensure that the information provided about the Group's financial position, performance and cash flow is useful for assessing stewardship of public funds and for making economic decisions.
- Materiality – provides a threshold or cut-off point to ensure that the information included in the Financial Statements is of such significance as to justify its inclusion. Omissions or misstatements of items are material if they could, individually or collectively, influence users decisions or assessment of the Financial Statements.

- Reliability – to ensure that the financial information provided accurately reflects the substance of the transactions and other events that have taken place.
- Comparability – the information contained in the Financial Statements has been prepared so that it can be readily compared with similar information about the same entity for different accounting periods and with similar information about other entities.
- Primacy of Legislative Requirements – the PCC derives his powers from statute and the financial and accounting framework is closely controlled by primary and secondary legislation. Where specific legislative requirements and accounting principles conflict, the legislative requirement is applied. However, the Code deals with such conflicts by showing the position required by the Code’s accounting requirements in the Comprehensive Income and Expenditure Statement, and the effect of the legislative requirements in the Movement in Reserves Statement.

The following section sets out the Group’s significant accounting policies, which have been followed in 2017/2018.

### **Income and Expenditure**

The accounts reflect the normal accruals concept for both capital and revenue. Creditors are included within the Balance Sheet for goods and services supplied but not paid for at the year end. Debtors are included within the Balance Sheet where services have been provided but not yet reimbursed at the year end.

An exception to this is for utilities (gas, electricity, telephones, etc.), where invoices will be accounted for in the year they fall, providing that only four quarterly or twelve monthly invoices are charged in any one year.

### **Non-Current Assets - Property, Plant and Equipment**

#### **Recognition**

The cost of an item of property, plant and equipment is capitalised provided that the asset will benefit the Group for a period of more than one year, and the cost of the item can be measured reliably. Costs include the initial cost of acquisition or construction, and costs incurred subsequently to enhance, replace part of, or service the asset, provided that they meet the recognition criteria above.

When a component is replaced, restored or enhanced, the carrying amount of the old component is de-recognised, and the new component reflected in the carrying amount. The general de minimis capitalisation limit is £10,000 for all relevant expenditure. There is no de minimis limit for the purchase of land and buildings, or fleet vehicles.

#### **Measurement**

Items of property, plant and equipment are initially measured at cost, comprising all expenditure that is directly attributable to bringing the assets into working condition for their intended use. Assets are then carried in the Balance Sheet using the following measurement:

Assets under construction are measured at historical cost.

Land and buildings are valued at fair value. Fair value for land and buildings under property, plant and equipment is the amount that would be paid for the asset in its existing use. Valuations are carried out by external professionals in accordance with the basis recommended by CIPFA and according to the Statement of Asset Valuation Principles and Guidance Notes issued by the Royal Institute of Chartered Surveyors (RICS).

Non-property assets that have short useful lives or low values (or both) (i.e. plant and equipment) are valued using the depreciated historical cost basis as a proxy for fair value. This is on the assumption that the useful life is a realistic reflection of the life of the asset and the depreciation method used is a realistic reflection of the consumption of that asset class.

Assets included in the Balance Sheet at fair value are re-valued where there have been material changes in the value, or as a minimum, every 5 years. Increases in valuation are recognised in the Revaluation Reserve unless the increase is reversing a previous impairment loss or revaluation decrease charged to the Comprehensive Income and Expenditure Statement for the same asset, in which case the increase is recognised in the Comprehensive Income and Expenditure Statement.

A decrease in valuation (i.e. a significant decline in an asset's carrying amount during the period that is not specific to the asset) is recognised in the Revaluation Reserve up to the credit balance existing in respect of the asset, and thereafter in the Comprehensive Income and Expenditure Statement.

## **Depreciation**

Depreciation is calculated on a straight-line basis over the estimated life of the asset, commencing at the start of the month in which capitalisation takes place. Although depreciation is calculated on the estimated life of the specific individual asset concerned, the approximate average depreciation periods are as follows:

Buildings	25 years
Plant, Furniture & Equipment	5 years
Vehicles	5 years

The economic lives of the assets are reviewed each accounting period and revised if necessary. Land is not subject to depreciation. Assets are not depreciated until they are available for use. Accordingly assets under construction are not depreciated.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. (This is applicable to enhancement and acquisition expenditure incurred, and revaluations carried out, from 1 April 2010). Residual values are thought to be unlikely (nil or insignificant) and are only assigned if they can be measured reliably. Revaluation gains are also depreciated, with an amount equal to the difference between the current value depreciation charged and the depreciation that would have been charged based on their historic cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

## **Impairment**

Each category of asset (or individual asset where necessary) is reviewed at the end of each financial year for evidence of impairment. Examples of events and changes in circumstances that indicate impairment may have incurred include:

- a significant decline in a specific asset's carrying amount during the period;

- evidence of obsolescence or physical damage of an asset;
- a commitment by the Group to undertake a significant reorganisation; and
- a significant adverse change in the statutory or other regulatory environment in which the Group operates.

All impairment losses are recognised in the Revaluation Reserve up to the amount in the Revaluation Reserve for each respective asset and thereafter in the Comprehensive Income and Expenditure Statement.

### **Disposal**

When a non-current asset is disposed of or decommissioned, the carrying value of the asset in the Balance Sheet is written off to the Comprehensive Income and Expenditure Statement. The disposal proceeds are credited to the Comprehensive Income and Expenditure Statement and netted off against the asset's carrying value. The resulting balance represents either the gain or loss on disposal. Any revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Receipts (in excess of £10,000) from the sale of non-current assets are defined as capital receipts, and are used to fund future capital expenditure. These receipts are transferred to the Capital Receipts Reserve via the Movement in Reserves Statement. Individual receipts of less than £10,000 remain in the Comprehensive Income and Expenditure Statement.

Receipts from the sale of houses are only recognised in the accounts when cash is received, rather than when the sale is contractually committed. This is considered to be a prudent policy, in view of the uncertainties associated with property sales. The disposal value is not a charge against council tax, as the cost of non-current assets is fully provided for under a separate arrangement for capital financing. Amounts are appropriated to the Capital Adjustment Account from the Movement in Reserves Statement.

### **Assets Held for Sale**

Non-current assets are classified as Held for Sale only if they meet all of the following criteria:

- The asset is available for immediate sale in its present condition;
- The sale is highly probable. This means that the Group is committed to a plan to sell the asset and an active programme to locate a buyer and complete the plan has been initiated;
- The asset is being actively marketed for sale at a price that is reasonable in relation to its current fair value; and
- The sale is expected to complete within one year of the date of classification.

Assets Held for Sale are measured in the Balance Sheet at the lower of carrying value and fair value less costs to sell. Fair value for Assets Held for Sale is market value. If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as Held for Sale (adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale). Assets Held for Sale are not depreciated.

### **Funding of capital expenditure to purchase Non-Current Assets**

Capital expenditure is funded by borrowing, government grants, capital receipts, revenue contributions and third party contributions.

Capital contributions and grants are accounted for in the Comprehensive Income and Expenditure Statement on an accruals basis (unless the grant or contribution has an unsatisfied condition); they are then transferred to the Balance Sheet as follows:

- When a capital grant or contribution has been recognised in the Comprehensive Income and Expenditure Statement, and the expenditure to be financed from that grant or contribution has been incurred, the grant or contribution is transferred from the General Fund to the Capital Adjustment Account, reflecting the application of capital reserves to finance expenditure.
- When a capital grant or contribution has been recognised in the Comprehensive Income and Expenditure Statement, but the expenditure to be financed from that grant or contribution has not been incurred, the grant or contribution is transferred to the Capital Grants Unapplied Account, reflecting its status as a capital resource available to finance expenditure.

The above transfers are reported in the Movement in Reserves Statement.

### **Charges to Revenue for Non-Current Assets**

The Group is not permitted to raise council tax to cover charges for depreciation, impairment losses or amortisation. However it is required to make an annual provision from revenue towards the repayment of borrowing, known as the Minimum Revenue Provision (MRP).

Depreciation, impairment losses and amortisation are reversed from the General Fund via the Movement in Reserves Statement and MRP is charged as a contribution to the Capital Adjustment Account (see redemption of debt below).

### **Jointly Controlled Operations**

Jointly controlled operations are activities undertaken by the Group in conjunction with other venturers that involve the use of assets and resources of the venturers rather than the establishment of a separate entity. The Group recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs and debits and credits the Comprehensive Income and Expenditure Statement with the expenditure it incurs and share of income it earns from the activity of the operation.

### **Leases**

Leases are classified as either finance leases or operating leases based on risks and rewards of ownership. Land and building elements of a lease are classified and accounted for separately with the land element normally being an operating lease.

Arrangements that do not take the legal form of a lease, but allow the use of an asset in return for payments, are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

### **Finance Leases**

Where the Group has substantially all the risks and rewards incidental to ownership of an asset, it is accounted for as a finance lease, and is capitalised as an asset and the corresponding liability shown on the Balance Sheet. Interest costs of the lease are charged to the Comprehensive Income and Expenditure Statement.

## **Operating Leases**

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement on a straight-line basis over the life of the lease.

## **Intangible Assets**

Expenditure on non-monetary assets that do not have physical substance but are controlled by the Group as a result of past events (e.g. software licences) are capitalised when it is expected that future economic benefits will flow from the intangible asset to the Group.

Internally generated assets are capitalised where it is demonstrable that the project is technically feasible and is intended to be completed (with adequate resources being available), and the Group will be able to generate future economic benefits by being able to use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase (research expenditure cannot be capitalised).

Intangible assets are included in the Balance Sheet at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life (normally 3 years), commencing in the month the asset comes into service.

## **Debts Outstanding**

Income is accounted for on an accruals basis. Debts that cannot be collected are written off via the Comprehensive Income and Expenditure Statement. The level of any bad debt provision is reviewed annually.

## **Reserves and Provisions**

The Group maintains reserves to finance future expenditure and to protect the Group against unexpected events. Certain reserves are kept to manage the accounting processes for non-current assets, retirement, and employee benefits and do not represent usable resources for the Group – these reserves are explained in the relevant policies.

Provisions are made where an event has taken place that gives the Group a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation.

The classification of reserves and provisions is consistent with the CIPFA Code of Practice.

The nature and purpose of each reserve or provision set up by the Group is described in the Notes to the Financial Statements.

## **Employee Benefits Payable During Employment**

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include benefits such as salaries, paid annual leave and paid sick leave. An accrual is made for the cost of holiday entitlements 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 the Comprehensive Income and Expenditure Statement, but then reversed out through the Movement in Reserves Statement, resulting in holiday

benefits being charged to revenue in the financial year in which the holiday entitlement is earned.

### **Termination Benefits / Exit Packages**

Termination benefits are amounts payable as a result of a decision by the Group to terminate an employee's employment before the normal retirement date or an employee's decision to accept voluntary redundancy, and are charged on an accruals basis to the appropriate service in the Comprehensive Income and Expenditure Statement when the Group is demonstrably committed to the termination of the employment of an employee or group of employees or making an offer to encourage voluntary redundancy.

Where 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 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.

### **Long-term employee benefits – Pension arrangements**

Surrey Police pension schemes are accounted for under the International Financial Reporting Standard IAS 19 where 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 schemes are dependent on service, the liability expected to arise due to injury awards is valued annually.

The Group has decided, following actuarial advice, to rebut the IAS19 assumption that injury benefits are not subject to the same degree of uncertainty as pension payments. This means that the pension interest cost and expected return on assets is not charged to the Cost of Services, but instead has been charged to the Net Operating Expenditure, and any actuarial gain or loss charged to the total Income and Expenditure.

In the single entity accounts the cost of pensions are charged to the Chief Constable Accounts rather than the PCC Accounts. This decision has been made as the Chief Constable holds the Contract of Employment for over 99% of employees, controls terms of employment and makes decision on the overall staffing structures. These costs are included in the Group Account on consolidation.

The Group participates in different pension schemes which meet the needs of its employees. The schemes provide members with defined benefits related to pay and service. The costs of providing pensions for employees are charged to the accounts in accordance with the statutory requirements governing each scheme. The schemes are as follows:

#### **Police Officers Pension Schemes**

This scheme is un-funded and the employer's contribution is charged to the Comprehensive Income and Expenditure Statement. The fund is divided into Police Pension Scheme 1987, Police Injury Benefits, New Police Pension Scheme 2006 and Police Pension Scheme 2015, collectively known as 'The Scheme'.

No transfer values are paid for officers transferring between police forces, however, values are paid for transfers between other schemes.

The accounts are constructed on the IAS 19 accounting basis reflecting commitment in the long term to increase contributions to make up any shortfall in attributable net assets in the Pension Fund. The relationship between the Force and the Home Office is captured in the Pension Fund Account included within the Notes to the Financial Statements.

### **Local Government Pension Scheme (LGPS)**

Police Staff employees, subject to certain qualifying criteria, are eligible to join the LGPS. The pension costs that are charged to the Group's accounts in respect of these employees are equal to the contributions paid to the funded pension scheme for these employees and the net current service cost.

The attributable assets of the LGPS are measured at their fair value at the Balance Sheet date, quoted securities are valued at bid price and attributable scheme liabilities are measured on an actuarial basis using the projected unit method. The scheme liabilities comprise any benefits promised under the formal terms of the scheme and, any obligations for further benefits where a public statement or past practice by the employer has created a valid expectation in the employees that such benefit will be granted.

The pension costs included in the Notes to the Financial Statements in respect of these schemes have been determined in accordance with relevant government regulations and the 2017/18 CIPFA Code.

Where the payments made for the year in accordance with the scheme requirements do not match the change in the Group's recognised asset or liability for the same period, the recognised cost of pensions will not match the amount required to be raised in Council Tax. These differences are appropriated via the Movement in Reverses Statement.

Any unpaid contributions to the scheme are presented in the Balance Sheet as a Short Term Creditor.

Past service costs are recognised in Net Cost of Services on a straight-line basis over the period in which the increase in benefit accrues.

Losses arising on a settlement or curtailment not allowed for in the actuarial assumptions are measured at the date on which the Group becomes demonstrably committed to the transaction and recognised in Net Cost of Services at that date. Gains arising on a settlement or curtailment not allowed for in the actuarial assumptions are measured at the date on which all parties whose consent is required are irrevocably committed to the transaction and recognised in Net Cost of Services at that date.

### **Revenue Grants and Contributions**

Government grants and third party contributions are recognised as income at the date the Group satisfies the conditions of entitlement to the grant or contribution, where there is reasonable assurance that the monies will be received and the expenditure for which the grant is given has been incurred.

Net expenditure is expressed before deducting government grants in support of the overall expenditure of the Group, i.e. specific police grants, Revenue Support Grant and National Non Domestic Rates. Other smaller revenue grants are shown as income in arriving at net expenditure, and can be matched against specific items of expenditure.

### **Redemption of Debt**

Throughout 2017/2018 the Group had no external debt. Under prevailing regulation, the Group is not debt free and therefore there is a requirement to make a provision for principal repayments through the Minimum Revenue Provision (MRP), (see Charges to Revenue for Non-Current Assets above).

### **Cash and Cash Equivalents**

Cash and cash equivalents include cash in hand and deposits held with Surrey County Council. In the cash flow statement, cash and cash equivalents are shown net of bank overdrafts.

Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. Investments are held on the Balance Sheet as cash equivalents if: the investments are readily convertible to a known amount of cash, they are subject to insignificant risk of changes in value and, have a short maturity of three months or less from the date of acquisition. Investments held by Surrey County Council on behalf of the Group are classified as cash equivalents as they are low risk, short term and readily available.

### **VAT**

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

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

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

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

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

### **Accounting Standards issued but not yet adopted**

The Group is required to disclose information relating to the impact of an accounting change required by a new standard that has been issued, but not yet adopted in the 2017/18 Code, these are:

- IFRS 9 Financial Instruments  
The Financial Instruments for the PCC Group are basic (ie Debtors and Prepayments), there are no complex instruments like Derivatives or Equity Investments. Therefore it is envisaged that the impact on the Accounts from this standard will be minimal and immaterial.

- IFRS 15 Revenue from Contracts

It is anticipated that there will be minimal impact on the Accounts from this standard due to the nature of its revenue streams (the majority of which are cost recovery). This will be reviewed next year and if necessary some additional disclosure will be added.

- IAS 7 amendments to Statement of Cash-flows

The 2017/18 cash-flow statement has been aligned to the standard. The accounts show cash-flows arising from: Operating Activities, Investing Activities and Financing Activities, rather than the Direct Method.

## Glossary of Accounting Terms

### **ACCRUALS**

Expenditure or income for goods or services that have been received or supplied, but are not invoiced until the following financial year.

### **ACTUARIAL GAINS AND LOSSES**

For a defined benefit pension scheme, the changes in actuarial deficits or surpluses that arise because, either events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses), or the actuarial assumptions have changed.

### **AMORTISATION**

An annual charge made to the overall PCC budget, reducing the value of an asset to zero, over a period of time.

### **CAPITAL EXPENDITURE**

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

### **CAPITAL PROGRAMME**

A statement of proposed capital projects for current and future years.

### **CAPITAL RECEIPTS**

Proceeds of not less than £10,000 received from the disposal of buildings or other assets. They cannot be used to finance normal day to day revenue spending.

### **COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT**

The main revenue fund of the PCC receiving the precept, government grants and other income receipts, and from which the costs of providing services are met.

### **CREDITORS**

Individuals or organisations, to whom the PCC owes money at the end of the financial year.

### **CURRENT SERVICE COST (PENSIONS)**

The increase in the present value of a defined benefit scheme's liabilities expected to arise from employee service in the current period.

### **CURTAILMENT (PENSIONS)**

For a defined benefit scheme, an event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service. Curtailments include:-

- Termination of employees' services earlier than expected, and
- Termination of or amendment to the terms, of a defined benefit scheme so that some or all future service by current employees will no longer qualify for benefits or will qualify only for reduced benefits.

### **DEBTORS**

Individuals or organisations, who owe the PCC money at the end of the financial year.

### **DEFINED BENEFIT SCHEME**

A defined benefit scheme is a pension or other retirement benefit scheme other than a defined contribution scheme. Usually, the scheme rules define the benefits independently of the

contributions payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded.

#### **DEFINED CONTRIBUTION SCHEME**

A pension or other retirement benefit scheme into which an employer pays regular contributions fixed as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

#### **DEPRECIATION**

The measure of the cost, or re-valued amount of the benefit, of a non-current asset, that has been consumed during the period. Consumption includes the wearing out, using up or other reduction in the useful life of a non-current asset, whether arising from the use, passage of time or obsolescence through either changes in technology or demand for the goods and services produced by the asset.

#### **EXPECTED RATE OF RETURN ON PENSION ASSETS**

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

#### **FAIR VALUE**

The fair value of an asset is the price at which it could be exchanged in an arm's length transaction less, where applicable, any grants receivable towards the purchase or use of the asset. For land and buildings, fair value is the amount that would be paid for the asset in its existing use.

#### **FINANCE LEASE**

A finance lease is one that transfers substantially all of the risks and rewards of ownership of a non-current asset to a lessee.

#### **GENERAL FUND BALANCES**

Accumulated surpluses maintained to meet expenditure, pending the receipt of income, and to provide a cushion against expenditure being higher, or income lower, than expected.

#### **GOING CONCERN**

The concept that the PCC will remain in operational existence for the foreseeable future, in particular that the revenue accounts and Balance Sheet assume no intention to curtail significantly the scale of the operations.

#### **GOVERNMENT GRANTS**

Assistance by government and inter-government agencies and similar bodies, whether local, national or international, in the form of cash or transfers of assets in return for past or future compliance with certain conditions relating to the activities of the PCC.

#### **IMPAIRMENT**

A reduction in the value of a non-current asset below its carrying amount on the Balance Sheet due to a significant decline in its market value during the period, evidence of obsolescence or significant physical damage to the non-current asset or a significant adverse change in the statutory or regulatory environment in which the PCC operates.

#### **INTANGIBLE ASSETS**

Intangible assets occur when capital expenditure does not result in the acquisition of a non-current asset, for example software licenses and training for development purposes etc.

### **INTEREST COSTS (PENSIONS)**

For a defined benefit scheme, the expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement.

### **INVESTMENTS (PENSION FUND)**

The investments of the pensions fund will be accounted for in the statement of that fund. However, authorities are also required to disclose, as part of the disclosures relating to retirement benefits, the attributable share of pension scheme assets associated with their underlying obligations.

### **LEVIES**

A levy is an amount of money imposed by government – for example a contribution towards the Police National Computer or Police National Database.

### **LIQUID RESOURCES**

Current asset investments that are readily disposable by the PCC without disrupting its business and are either readily convertible to known amounts of cash at or close to the carrying amount or traded in an active market.

### **MINIMUM REVENUE PROVISION (MRP)**

The statutory minimum amount set aside on an annual basis, as a provision to redeem debt.

### **NET BOOK VALUE**

The amount at which non-current assets are included in the Balance Sheet, i.e. their historic cost or current value less the cumulative amounts provided for depreciation.

### **NET CURRENT REPLACEMENT COST**

The cost of replacing an asset or the nearest equivalent asset, adjusted to reflect the current condition of the existing asset.

### **NON-CURRENT ASSETS**

Tangible assets that yield benefits to the PCC and the services it provides for a period of more than one year.

### **OPERATING LEASE**

An operating lease is a lease other than a finance lease.

### **PAST SERVICE COSTS**

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

### **POLICE GRANT**

A specific grant paid to the PCC by the Home Office to support its revenue expenditure. It is a fixed sum calculated by the Government on an assumed needs basis.

### **PRECEPT**

An amount determined by the PCC (the preceptor) which is collected on its behalf by the local District Councils (the billing authorities) as part of the Council Tax.

### **PROJECTED UNIT METHOD**

A Projected Unit Method is an accrued benefits valuation method in which the scheme liabilities make allowance for projected earnings. An accrued benefits valuation method is a valuation method in which the scheme liabilities at the valuation date relate to:

- a) The benefits for pensioners and deferred pensioners (i.e. individuals who have ceased to be active members but are entitled to benefits payable at a later date) and their dependants, allowing where appropriate for future increases; and
- b) The accrued benefits for member in service on the valuation date.

### **PROVISION**

An amount set aside to provide for a liability which is likely to be incurred but the exact amount and the date on which it will arise is uncertain.

### **RELATED PARTIES**

Two or more parties are related parties when at any time during the financial period:

- (i) one party has direct or indirect control of the other party, or
- (ii) the parties are subject to common control from the same source, or
- (iii) one party has influence over the financial and operational policies of the other party to an extent that the other party might be inhibited from pursuing at all times its own separate interests, or
- (iv) the parties, in entering a transaction, are subject to influence from the same source to such an extent that one of the parties to the transaction has subordinated its own separate interests.

### **RELATED PARTY TRANSACTION**

A related party transaction is the transfer of assets or liabilities or the performance of services by, to or for a related party irrespective of whether a charge is made.

### **RESIDUAL VALUE**

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

### **REVENUE SUPPORT GRANT**

Central Government grant supporting the cost of public services.

### **SCHEME LIABILITIES**

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

### **SETTLEMENT (PENSIONS)**

An irrevocable action that relieves the employer (or the defined benefit scheme) of the primary responsibility for a pension obligation and eliminates significant risks relating to the obligation and the assets used to effect the settlement. Settlements include:-

- a lump sum cash payment to scheme members in exchange for their rights to receive specified pension benefits
- the purchase of an irrevocable annuity contract sufficient to cover vested benefits, and
- the transfer of scheme assets and liabilities relating to a group of employees leaving the scheme.

### **WORK IN PROGRESS/ASSETS UNDER CONSTRUCTION**

Completed and continuing work required on an incomplete project.