Police and Crime Commissioner for Hampshire

Statement of Accounts

2012/13

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Introduction

The Statement of Accounts sets out the overall financial position of the Police and Crime Commissioner for Hampshire, the Chief Constable of Hampshire Constabulary and the group accounts for the year ending 31 March 2013. The accounts have been prepared using the International Financial Reporting Standards (IFRS), in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13. This foreword provides a brief explanation and overview of the financial performance and activities during 2012/13.

The Police and Crime Commissioner

As a consequence of the Police Reform and Social Responsibility Act 2011, elections were held on 15 November 2012 to replace police authorities with directly elected police and crime commissioners (Commissioners). The Commissioner for Hampshire, Mr Simon Hayes, took office on 22 November 2012 for a fixed period of three and a half years.

The core functions of the Commissioner for Hampshire, who serves both counties of Hampshire and the Isle of Wight, are to secure the maintenance of the police force for the area and to secure that the police force is efficient and effective. Other key functions include

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

Although the Commissioner is ultimately accountable to the electorate via the ballot box, a Police and Crime Panel (PCP) is also established under the Police Reform and Social Responsibility Act and is charged with scrutinising and supporting the work of the Commissioner. The Panel, however, cannot hold the Chief Constable to account.

The local authorities within Hampshire and the Isle of Wight are responsible for establishing and maintaining the PCP. The Panels are made up of one councillor member from each local authority and a number of independent members. In Hampshire, the PCP comprises 15 Councillors (one from each of the Local Authorities within the Policing Area including Hampshire County, Boroughs and Districts, Isle of Wight, Portsmouth and Southampton) plus an additional 2 co-opted members. With the permission of the Secretary of State the PCP may appoint a further 3 co-opted persons.

The PCP has a range of powers and responsibilities including:

- To review the draft Police and Crime Plan

- To publicly scrutinise the Commissioner's Annual Report
- To review and scrutinise decisions and actions of the Commissioner
- To review and veto the Commissioner's proposed Council Tax precept levels
- To review the Commissioner's Conduct – the PCP can suspend the Commissioner if they are charged with a 2 year imprisonable offence and report to IPCC, however they cannot remove the Commissioner
- To confirm the Chief Constable's appointment
- To appoint an acting Commissioner, if required

The Commissioner has also established a joint audit committee with the Chief Constable. This has the following functions:-

- To support the Commissioner, Chief Constable and statutory officers in ensuring that effective governance and risk management arrangements are in place and functioning efficiently and effectively;
- to scrutinise the draft statement of accounts and consider whether appropriate accounting policies have been followed;
- to make recommendations for improvements to anti fraud and corruption strategies.

The Commissioner took up office at a time when the economy was still in a period of austerity with low growth in the national economy and the police service itself being subject to continuing budget reductions which started in 2010/11. The Commissioner's initial priorities were to set his financial budget, appoint a new chief constable and prepare his Police and Crime Plan. All of these have now been achieved and details of the Police and Crime Plan can be found on the Commissioner's website at www.hampshire-pcc.gov.uk

The vision of the Commissioner is to make Hampshire and the Isle of Wight even safer by improving community safety, cutting crime and reducing re-offending.

In policing terms Hampshire Constabulary is the second largest non-metropolitan force in England and Wales. The combined population of Hampshire and the Isle of Wight is approximately 1.9m. The policing priorities are set out in the Police and Crime Plan and further information on achievements and developments can also be found on the Commissioner's website and on the Chief Constable's website at www.hampshire.police.uk

Statement of Accounts

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

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

The Act outlined a two-staged approach to the establishment of the offices of Police and Crime Commissioners and the statutory relationship between Commissioners and Chief Constables. The FMCP outlines how the two bodies should work together in managing the finances and covers such things as schemes of consent and delegation which identify what powers the Commissioner transfers to the Chief Constable. At Stage 1, all of the assets and liabilities of the Police Authority were transferred to the Commissioner. Proposals for a Stage 2 transfer identifying what assets and liabilities will transfer from the Commissioner should be presented to the Home Secretary in time for these to be agreed and in place by 1 April 2014.

Under Stage 1, the form of the relationship between the two entities is such that the Commissioner has the ultimate control over the resources, including the Chief Constable, and all funding goes to the Commissioner. The nature of this relationship means that, on balance, transactions, benefits and liabilities sit within the accounts of the Commissioner and there are thus no transactions or balances within the Chief Constable's accounts. This is in accordance with the principles of *IAS18 Revenue Recognition*.

In addition, the Code of Practice for Local Authority Accounting 2012/13 states that merger accounting should be applied where the entity in which the interest was acquired was 100% in public sector ownership both before and after acquisition by the local authority. Thus, the demise of the Police Authority and the acquisition of all of its assets and liabilities by the Commissioner is deemed to fall under these provisions. I have determined that we will account for the establishment of the two police bodies in accordance with *FRS 6 Acquisitions and Mergers* and will restate the financial performance, position and cash flows of the entities involved as if the service or function performed had always taken place in these entities. Assets and liabilities have been transferred at their carrying amount except where otherwise required by the Code.

The Police and Crime Commissioner for Hampshire's and the Group Statements of Accounts for 2012/13 consist of the following:

Statement of Responsibilities for the Statement of Accounts – Page 16
This explains the Commissioner's, the Chief Constable's and their respective Chief Finance Officers' responsibilities in respect of the Statement of Accounts, and how these responsibilities are properly carried out.

Independent Auditor's Report – Page 17
The Independent Auditor provides an opinion on whether the accounts of the Police and Crime Commissioner and the Group Accounts present a true and fair view on the financial position together with conclusions on the Commissioner's arrangements for securing value for money.

Annual Governance Statement – Page 20
The Annual Governance Statement explains how the Commissioner has complied with his code of corporate governance, which is itself consistent with the principles of the CIPFA/SOLACE Framework: Delivering Good Governance in Local Government. This also

meets the requirements of the Accounts and Audit (England) Regulations 2011 in relation to the publication of a statement on internal control.

Movement in Reserves Statement – Page 25
This statement shows the movement in the year on the different reserves held by the Commissioner, analysed into 'usable' reserves (i.e. those that can be applied to fund expenditure or reduce local taxation) and other – i.e. 'unusable' - reserves.

Comprehensive Income and Expenditure Statement – Page 27
This shows a summary of the resources generated and consumed by the Commissioner and the Group in the year. It shows the net cost for the year of the functions for which the Commissioner is responsible and demonstrates how that cost has been financed from general Government grants and income from local taxpayers. These are presented in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's Service Reporting Code of Practice.

Balance Sheet - Page 29
The Balance Sheet as at 31 March 2013 sets out the Group's year end financial position. It shows the balances and reserves at the Commissioner's disposal and long-term indebtedness, the fixed and net current assets employed in its operations, and summarised information on the fixed assets held.

Cash Flow Statement – Page 30
The Cash Flow Statement shows the changes in cash and cash equivalents of the Commissioner and Group during the reporting period. The statement shows how the Commissioner operates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities.

Notes to the Accounts – Page 31
These provide additional information to support the figures included in the financial statements and is relevant to an understanding of them.

The Statement of Accounting Policies is incorporated within these notes. These outline the accounting policies applied by the Commissioner in constructing his accounts and the group accounts. The policies are in line with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom and Service Reporting Code of Practice 2012/13, and are supported by International Financial Reporting Standards (IFRS). These are applied so that the accounts are consistent one year with another.

Police Pension Fund Account – Page 119
This shows the inflows and outflows on Police Officer pensions.

Relationship between Accounting Statements

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

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

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

Significant changes in accounting policies

There were no significant changes in accounting policies during the year.

Underlying accounting principles

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

a) Understandability

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

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

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

b) Relevance

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

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

c) Reliability

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

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

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

d) Comparability

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

The application of the terms, accounting policies and requirements of the Chartered Institute of Public Finance and Accountancy's Code of Practice on Local Authority Accounting in England (2012/13) Statement of Recommended Practice and the Service Reporting Code of Practice is the way in which the Commissioner has ensured consistency of financial information in the financial statements leading to comparability.

Review of the year

Operational Performance

Hampshire Constabulary achieved a sixth consecutive annual reduction in overall crime across Hampshire and the Isle of Wight. Between April 2012 and March 2013 there were 108,745 reported offences, a drop of 19,945 offences or 15.5% compared with the previous year. In addition to less crime we have seen solved crime rates match the previous year's 31%. A further breakdown of the reductions in crime in some of the key areas is below:

	2011/12 (final)	**2012/13 (provisional)**	**Percentage Reduction**
House Burglaries	4,981	3,843	22.8%
Violent Crime	13,421	11,239	16.3%
Criminal Damage	22,245	18,518	16.8%
Robberies	950	738	22.3%
Vehicle Crime	9,658	7,599	21.3%

Financial Overview (including economic climate)

In February 2012, the Police Authority approved funding for a net revenue budget for 2012/13 of £305.612m, which represented a decrease in net budget compared to 2011/12 of £8.484m or 2.7%. The Authority opted to accept the terms of a Council Tax Freeze Grant, in setting a council tax precept of £146.25 per annum for a Band D property, unchanged from the previous year.

This was the second year running that the Band D council tax had been frozen. For 2011/12 the Government made a specific grant available that could be claimed by local authorities, including police authorities, if council tax precept levels were frozen. The amount available equated to 2.5% of the total council tax precept receivable for each Commissioner. The decision to freeze the council tax for 2011/12 meant that the Commissioner would receive a grant of £2.520m for four years, 2011/12 to 2014/15. However, the impact of accepting the grant for 2012/13 was that this was offered only as a one-off grant of £3.043m. This presented some funding issues in future years which were built into the medium-term financial strategy.

The Police Authority and now the Police and Crime Commissioner have been working with the Constabulary for a number of years to ensure by 2015 Hampshire Constabulary is a top quartile, low cost, high achieving constabulary and one of the best for value for money forces in the country. Both the Commissioner and the Constabulary have been taking steps to prepare themselves to meet the challenges posed by cuts in the policing budget over a number of years. The Constabulary has been able to make significant improvements in performance against a backdrop of central government spending cuts and tough economic conditions.

Austerity measures announced by the Coalition Government in December 2010 were implemented in order to bring down the budget deficit and Government borrowing and rebalance the economy and public sector finances. The total funding to the police is reducing by 20 per cent in real terms over the four years to 2014/15. This meant the general grant paid to the Commissioner was reduced by 5.1% for 2011/12 and a further 6.7% for 2012/13 as part of the four year programme of reductions. Hampshire Constabulary's Force Change Team continued to support an organisation-wide review to ensure that the Commissioner can continue to provide an effective and efficient service to the residents of Hampshire and the Isle of Wight by introducing transformational changes that release significant efficiency savings to assist with meeting the financial challenges ahead.

A target of saving £55m over the four years from 2011/12 to 2014/15 was set in order to balance the budget. Of this target, £36m was removed from the budget in the first two years and a further £6m has been removed from the budget for 2013/14. Plans are in development to achieve the remainder of the target savings.

During 2012/13, the Bank of England maintained the base rate of interest at 0.5%, which had been held since March 2009. This benefited the Commissioner in that he was able to borrow to finance the capital programme at very low rates. However, the downside – allied to the Bank of England's quantitative easing programme which injected significant amounts of cash into the financial markets – means that the interest received on surplus cash balances, which are credited to the income and expenditure account, and which helps to reduce the burden on the council tax payer, is historically low.

Whilst the UK emerged from recession during the year, indicating that the worst of the financial crisis may be behind it, there were still only tentative signs at the year end that there would be positive, sustained growth in the near future. Inflation measured by the Consumer Price Index (CPI) remained just under 3%.

Borrowing

The Prudential Code allows the Commissioner to borrow money as long as it is prudent, affordable and sustainable. In accordance with its borrowing strategy for 2012/13 the Commissioner did not take out any new loans and financed capital expenditure incurred during the year through a use of capital grant, capital receipts, earmarked reserves and internal borrowing through the use of cash balances. Some of the existing borrowing at the start of the financial year was repaid using resources set aside for such purposes.

As a result, at the year end the Commissioner had a total of £38.379m PWLB loans at actual interest rates ranging between 2.19% and 8.5% and a weighted average overall rate of 3.95%, with the average outstanding term remaining of 18 years. The total outstanding long-term debt stood at £39.693m at the Balance Sheet date, of which £1.215m of principal is repayable in 2013/14 and is classified as a current liability in the accounts.

Investment

The Commissioner has an investment portfolio consisting of reserves and short-term cash flows (including on-call cash investments). We continue to invest according to a low risk, high quality lending list as outlined in the Investment Strategy for 2012/13. Cash balances reached an average of £70.24m during the year and this generated interest of £0.69m, which was slightly down from the £0.76m achieved in 11/12, reflecting a reduced yield from 1.4% to 0.97%. At 31 March 2013 the investment holding stood at £50.25m, with an additional £4.32m of on-call investments (defined as cash in the accounting statements).

Pensions

The Commissioner's net pension liability has increased by £261.0m from £2,356.9m at 31 March 2012 to £2,617.9m at 31 March 2013. The Commissioner's assessed share of the actual return on the assets of the Local Government Superannuation scheme showed a gain of £24.20m while the assessed present value of the Commissioner's liabilities on all pension schemes increased by £295.55m.

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

Reserves

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

As of 31 March 2013 the general reserve stood at £14.3m before any additional transfers to earmarked reserves are approved by the Commissioner. This general reserve balance represents an increase of £2.0m when compared to 31 March 2012. Whilst this represents a relatively modest increase, contributions to and from other earmarked reserves were made during the year and the level of these earmarked reserves had increased by £9.845m by the end of March 2013.

The Transformation Reserve is providing funding for the cost of changing the Force structures, systems and processes to ensure high quality service delivery and performance with reduced budgets. However budget pressures and the timing of the delivery of the required savings cannot always be predicted with accuracy. In the light of this, a new Risk Reserve was set up during the year as a contingency to support the base budget and the Transformation Reserve for temporary shortfalls. The balance on the Risk Reserve stood at £6.689m at the end of the financial year. The balance on the Transformation Reserve stood at £21.037m at 31 March 2013 (£23.64m at 31 March 2012). Total usable reserves were £61.911m at 31 March 2013 (£50.08m at 31 March 2012).

The medium-term financial strategy approved by the Commissioner as part of the 2013/14 budget setting process shows how these reserves will be used to support the change programme. However, it is important to note that of these usable reserves, £8.471m belongs to the ACPO Criminal Records Office, partly as a surety but mainly to support its ongoing activity and £1.148m is in respect of income from driver training which is earmarked for a camera digitalisation programme.

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

Material Assets Acquired or Liabilities Incurred

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

Unusual Charges or Credits within the accounts

Upon taking up office, the Commissioner announced his intention to review the £83m Estates Development Programme (EDP) which the outgoing Police Authority had agreed. The Commissioner determined that a review was particularly necessary in light of a changing policing requirement, and the responsibility he had to work in partnership with other organisations across the two counties to cut crime, reduce re-offending and support victims and witnesses. Whilst understanding the rationale around the need to improve custody arrangements and the proposals to maintain Safer Neighbourhood Teams in local communities, the Commissioner said that he remained concerned about whether the Alpha Park site remained an integral part of the operational policing requirement.

The Commissioner announced his plans to deliver a new estates strategy to support future policing needs on the six month anniversary of his appointment on 22 May 2013. These plans included a proposal to downsize the current police headquarters in Winchester to a smaller building in the city. He also said that he would be selling the Alpha Park site as this was no longer a viable site or location for redevelopment and it did not fit in with the wider plans to set up prisoner investigation centres and to work in partnership in shared and third party premises wherever possible.

Whilst the decision to sell Alpha Park occurred after the balance sheet date (i.e. 31 March 2013) it was not an event which occasioned an adjustment to the figures reported in the financial statements as the carrying value of the asset had already been reviewed at the year end. Thus, prior to the final decision made by the Commissioner, the Alpha Park site was subject to an impairment review, as required by the Code for most property, plant and equipment assets. The previous valuation, which was based on the historic cost of the asset and its service potential, was deemed no longer to be appropriate given the review of the estate which was taking place, the purchase of an alternative property for a smaller headquarters for the constabulary and the recommendation to cease all work on the Alpha Park site made by the Programme Board. Consequently, the asset was revalued on a fair value basis and an impairment was charged to the Comprehensive Income and Expenditure Statement. This charge was reversed out in the Movement in Reserves Statement and there is no impact on the council tax. The asset was also reclassified as a surplus asset in the accounts as it could not be considered to be 'under construction'.

Significant Provisions or Contingencies

As a result of the adoption of International Financial Reporting Standards (IFRS), the Commissioner is required to accrue for any annual leave, flexitime and time off in lieu which had been earned but not taken at 31 March each year. The amount accrued at 31 March 2013 was £4.856m (£4.423m as at 31 March 2012).

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

Collaborative working

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

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

In addition to the above ongoing arrangements, the Commissioner signed up to the principle of joint working with Hampshire County Council and Hampshire Fire and Rescue Service on a range of support services, including Corporate Finance, Estates, Procurement and HR. The first three of these became 'early adopters' in April 2013 with the objective of providing process efficiencies, economies of scale, resilience and savings to all three organisations.

Comparison of accounts with the revenue outturn

The Income and Expenditure account is presented in a format that complies with the Code of Practice and shows the net cost of providing services in accordance with generally accepted accounting practices. These costs include charges for the Commissioner's pension scheme (in accordance with International Accounting Standard 19 – IAS19) as well as depreciation and losses on disposal or impairment of fixed assets, and other adjustments.

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

As the accounts are prepared in accordance with the requirement of IAS 19 the cost of retirement benefits are recognised within the Comprehensive Income and Expenditure Statement and the liability relating to pensions schemes is included within the long term liabilities on the Balance Sheet. These liabilities total £2,618.0m at 31 March 2013 which has resulted in an overall negative balance of £2,448.2m. However, finance is only required for the police pensions when the amounts are actually paid.

Revenue Expenditure

In 2012/13, the reported outturn position was a spend of £299.5m against a net expenditure budget of £305.6m on policing services for the people of Hampshire and the Isle of Wight. The Commissioner had budgeted for a net contribution from reserves of £2.1m at the beginning of the financial year in order to balance the budget. Instead, the Commissioner was able to make contributions to reserves that resulted in an increase to usable net reserves of £11.8m as shown in the Movement in Reserves (£12.8m increase in 2011/12). This includes the general net underspend of £6.1m.

Between March and June 2013 the Commissioner approved £3.8m of the net underspend to be carried forward to fund expenditure in 2013/14. Some of this was required to meet commitments already entered into or ongoing at the year end, such as in IT, and the balance was required for a programme of urgent repairs and maintenance work to the estate. The net unallocated underspend of £2.3m is held in the general reserve, pending a decision to transfer this into the Risk Reserve or the Transformation Reserve.

Summary Income and Expenditure

The subjective analysis table below shows that there was a deficit of £118.2m on the provision of services for 2012/13 in the statutory financial statements for the group as a whole (£141.3m deficit in 2011/12). This reflects the different basis on which the Statement of Accounts is prepared, as explained above. The difference from the net position reported in the summary compared to the figures reported to the Commissioner is due to a number of items which are not included in the management accounting reports. The principal differences between the statutory and the management accounts (i.e. the revenue budget) in 2012/13 are in respect of the deprecation and impairment of assets, the actuarially-assessed charges for police and staff pensions which are earned in the year, an adjustment in respect of capital grants received from the Government and the balances on the collection fund accounts held by the billing authorities.

The table below contains a subjective analysis of the income and expenditure incurred by the Commissioner in the format of the management accounting figures as presented to the Joint Audit Committee and updated with the final outturn figures. The table reconciles these figures to show the Income and Expenditure account service expenditure analysis as presented in the Statement of Accounts – i.e. the financial accounts.

The subjective analysis shows net contributions to reserves of £4.6m. This is before adding the general underspend of £6.1m and a £4.0m transfer to reserves for holding account balances. The total net contributions to reserves of £14.7m is greater than the net increase in usable reserves of £11.8m shown in the Movement in Reserves Statement because the net increase in usable reserves is reduced by £2.9m which has been applied from the Capital (Revenue Contributions) Reserve to unusable reserves in order to finance capital expenditure.

Subjective Analysis Table

	Revenue Budget 2012/13 Subjective Analysis			Income and Expenditure Account Analysis	
	Constabulary	PCC	Total	Reconciling items to the Financial Accounts	Total
	£000	£000	£000	£000	£000
Expenditure:					
Employees	261,266	518	261,784	23,640	285,424
Premises	10,595	172	10,767	805	11,572
Transport	4,829	0	4,829	32	4,861
Travel and subsistence	3,185	28	3,213	410	3,623
IT and communications	3,951	2	3,953	634	4,587
Supplies and services	30,764	535	31,299	1,383	32,682
Members Allowances	0	159	159	0	159
National levies	1,012	0	1,012	(1,012)	0
Grants paid	369	218	587	0	587
Capital financing (net)	3,598	0	3,598	(3,598)	0
Depreciation, amortisation and impairment	0	0	0	13,900	13,900
Pensions interest cost and expected return on pensions assets	0	0	0	107,990	107,990
Interest payments	0	0	0	1,654	1,654
Precepts and levies	0	0	0	1,012	1,012
Gain or loss on disposal of fixed assets	0	0	0	150	150
Total expenditure	319,569	1,632	321,201	147,000	468,201
Income:					
Service income	(12,913)	(3)	(12,916)	(13,086)	(26,002)
Additional specific grants	(13,218)	(135)	(13,353)	(1,429)	(14,782)
Interest and investment income	0	0	0	(689)	(689)
Income and council tax	0	0	0	(101,975)	(101,975)
Government grants and contributions	0	0	0	(206,707)	(206,707)
Total income	(26,131)	(138)	(26,269)	(323,886)	(350,155)
Contributions to/(from) reserves	4,756	(129)	4,627	(4,627)	0
Net expenditure/(income)	298,194	1,365	299,559	(181,513)	118,046

Capital Expenditure

Capital expenditure is incurred on the acquisition and enhancement of the Commissioner's assets which have a life of more than one year. The former Police Authority approved a Capital Programme of £45.083m for 2012/13 in February 2012, which included indicative costs for the first phase of the Estates Development Programme (EDP). Indicative costs were included as it was recognised that much of the EDP needed the development and the approval of full business cases before resources could be committed.

The capital programme had been updated and revised in November 2012 when the Commissioner took office to reflect commitments carried forward, slippage from 2011/12 and a reprofiling of the EDP cost. The revised programme was £21.138m.

Total spend against the revised programme was £11.065m, with an underspend of £10.073m due in the main to slippage on the EDP and the Commissioner's decision to review the programme (£5.705m underspend), a reduction of IT hardware in year spend (£0.712m) and slippage into 2013/14 on the vehicle replacement programme (£2.907m). The actual expenditure was funded mainly from general government grant, revenue contributions (including an approved £1.32m towards the airwave handset replacement programme) and prudential borrowing.

As a consequence of the slippage on expenditure and the application of grant, capital receipts and revenue contributions to fund the actual expenditure, there was an increase in the underlying need to borrow to support the capital expenditure of £2.232m. As reported earlier, no new borrowing was taken out and internal resources were used to finance this underlying need, in accordance with the treasury management strategy. When internal resources are depleted or market conditions are more favourable, external borrowing may be taken out as appropriate.

A summary of expenditure against the approved capital programme, and the financing thereof, is set out below:

2011/12 £m		2012/13 £m
	Expenditure:	
1.6	Land & Buildings	4.3
2.2	Vehicles (Including Boats) and Plant	3.2
1.6	IT & Operational Equipment	3.6
5.4	**Total**	**11.1**
	Funded by:	
(3.0)	Government Grant	(3.1)
(1.2)	Capital Receipts	(0.8)
(1.2)	Revenue Contributions	(2.9)
0.0	Borrowing (incl. Internal)	(4.3)
(5.4)	**Total**	**(11.1)**

Future Prospects

Financial

The Police and Crime Commissioner approved a net revenue budget for 2013/14 of £310.304m, which represented an increase in net budget compared to 2012/13 of £4.692m. In view of the fact that the council tax freeze grant received in 2012/13 was a one-off grant, leaving a £3.0m gap in funding for 2013/14, the impact of inflationary pressures and the reduced general grant, the Commissioner approved a 3.4% (£5) precept increase which increased the council tax rate for band D to £151.25.

The 2013/14 budget report looked forward to the medium term as decisions taken for 2013/14 have an impact on future years' financial forecasts. The report noted that the 2013/14 budget settlement announced by Government did not give any further information for 2014/15 or beyond. Therefore, the position regarding 2014/15 and beyond is uncertain. Estimates have been included within the projections based on previous Government statements and proposed allocations to the Home Office by the Treasury. The Chancellor's Autumn Statement said that a new Spending Review would take place in Spring 2013.

The medium term spending forecast shows an estimated budget shortfall of £22m by 2016/17, even after the 3.4% council tax precept increase in 2013/14 and a 3% per annum increase thereafter. If there were to be a council tax freeze each year, this would increase the shortfall by £12m by 2016/17.

The predicted budget for 2014/15 onwards assumed an additional reduction in Government funding of £4m, as a result of the Autumn Statement announcement that departmental budgets would be reduced by 2% in 2014/15. The 2013/14 departmental budget reduction of 1% has been absorbed within the Home Office budget by the Home Secretary, it is possible that the full reduction will not be passed on to police bodies. This will not be known until Spring 2013 at the earliest, therefore it was deemed prudent to budget for a reduction of grant in line with the Autumn Statement.

Operational

There are no significant changes in operational working in 2013/14, although the transformation of the constabulary and the need to make efficiencies is covering a number of areas and is looking for more savings, all of which will impact upon how policing services are delivered in the future. In addition, at the start of 2013/14, a number of support services - including corporate finance, procurement and estates - began the first phase of joint working with Hampshire County Council and Hampshire Fire and Rescue Service. More support services will follow and processes and systems will be redesigned to give greater efficiencies, economies of scale and resilience to all three partner organisations in the future.

The demise of the Police Authority and the establishment of the Police and Crime Commissioner role is a two-stage reorganisation of local policing. The Commissioner is required to present to the Home Secretary a proposal for a stage two transfer of staff and responsibilities to the Chief Constable in the autumn of 2013.

The Police and Crime Commissioner's 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. In this organisation, that officer is the Chief Finance Officer;
- Manage the organisation's affairs to secure economic, efficient, and effective use of resources and safeguard its assets;
- Approve the Statement of Accounts.

The Chief Finance Officer's Responsibilities

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

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

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

Certification of Accounts

The Chief Finance Officer's Statement

I certify that the Statement of Accounts for 2012/13 give a true and fair view of the financial position of the Commissioner and the group at 31 March 2013 and its income and expenditure for the year then ended

Signed: *Carolyn Williamson*

Date: 25 September 2013

Approval of Accounts by the Police and Crime Commissioner

In accordance with the Accounts and Audit Regulations 2011, I certify that the Statement of Accounts was approved by me on 25 September 2013

Signed: *Simon Hayes*

Date: 25 September 2013

INDEPENDENT AUDITOR'S REPORT TO THE POLICE & CRIME COMMISSIONER FOR HAMPSHIRE

Opinion on the Police & Crime Commissioner for Hampshire's financial statements

We have audited the financial statements of the Police and Crime Commissioner for Hampshire for the year ended 31 March 2013 under the Audit Commission Act 1998. The financial statements comprise the Police and Crime Commissioner for Hampshire and Group Movement in Reserves Statement, the Police and Crime Commissioner for Hampshire and Group Comprehensive Income and Expenditure Statement, the Police and Crime Commissioner for Hampshire and Group Balance Sheet, the Police and Crime Commissioner for Hampshire and Group Cash Flow Statement, the Police and Crime Commissioner for Hampshire Pension Fund Account Statements, and the related notes 1 to 41. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

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

Respective responsibilities of the Chief Finance Officer and auditor

As explained more fully in the Statement of Responsibilities for the Accounts set out on page 16, the Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13, and for being satisfied that they give a true and fair view. Our responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require us to comply with the Auditing Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Police and Crime Commissioner for Hampshire and Group's circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Chief Finance Officer; and the overall presentation of the financial statements. In addition, we read all the financial and non-financial information in the Statement of Accounts 2012/13 to identify material inconsistencies with the audited financial statements. If we become aware of any apparent material misstatements or inconsistencies we consider the implications for our report.

Opinion on financial statements

In our opinion the financial statements:

- give a true and fair view of the financial position of the Police and Crime Commissioner for Hampshire as at 31 March 2013 and of its expenditure and income for the year then ended;
- give a true and fair view of the financial position of the Group as at 31 March 2013 and of its expenditure and income for the year then ended; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2012/13.

Opinion on other matters

In our opinion, the information given in the Statement of Accounts 2012/13 by the Chief Finance Officer for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which we report by exception

We report to you if:

- in our opinion the annual governance statement does not reflect compliance with ‘Delivering Good Governance in Local Government: a Framework’ published by CIPFA/SOLACE in June 2007;
- we issue a report in the public interest under section 8 of the Audit Commission Act 1998;
- we designate under section 11 of the Audit Commission Act 1998 any recommendation as one that requires the Police & Crime Commissioner for Hampshire to consider it at a public meeting and to decide what action to take in response; or
- we exercise any other special powers of the auditor under the Audit Commission Act 1998.

We have nothing to report in these respects.

Conclusion on the Police & Crime Commissioner for Hampshire’s arrangements for securing economy, efficiency and effectiveness in the use of resources

We are required under Section 5 of the Audit Commission Act 1998 to satisfy ourselves that the Police and Crime Commissioner for Hampshire has made proper arrangements for securing economy, efficiency and effectiveness in the use of resources. We are also required by the Audit Commission’s Code of Audit Practice to report any matters that prevent us being satisfied that the audited body has put in place such arrangements.

We have undertaken our audit in accordance with the Code of Audit Practice and, having regard to the guidance issued by the Audit Commission, we have considered the results of the following:

- our review of the Annual Governance Statement;
- the work of other relevant regulatory bodies or inspectorates, to the extent the results of the work have an impact on our responsibilities; and

- our locally determined risk-based work.

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

Certificate

We certify that we have completed the audit of the accounts of the Police & Crime Commissioner for Hampshire in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Kate Handy
Director
for and on behalf of Ernst & Young LLP, Appointed Auditor
Southampton

26 September 2013

1. SCOPE OF RESPONSIBILITIES

1.1 The Police and Crime Commissioner (the Commissioner) is responsible for ensuring that his business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Commissioner also has a duty to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. In discharging this overall responsibility, the Commissioner is the recipient of all funding related to policing and crime reduction and all funding for the Constabulary must come through the Commissioner. The Commissioner is responsible for putting in place proper arrangements for the governance of its affairs, facilitating the effective exercise of its functions, and which includes arrangements for the management of risk. The Commissioner also has responsibility for maintaining an efficient and effective police force and holding the Chief constable to account for the Constabulary's performance.

1.2 The Commissioner has approved and adopted a Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework: *Delivering Good Governance in Local Government*. A copy of the Code can be obtained from the Chief Finance Officer

1.3 This statement explains how the Commissioner has complied with the code and also meets the requirements of Accounts and Audit (England) Regulations 2011, regulation 4(3), which requires all relevant bodies to prepare an annual governance statement.

2. THE PURPOSE OF THE GOVERNANCE FRAMEWORK

2.1 The governance framework comprises the systems and processes, and culture and values by which the Commissioner is directed and controlled, exercises oversight and its activities through which it accounts to and engages with the public. It enables the Commissioner to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate services and value for money.

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

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

3. THE GOVERNANCE FRAMEWORK

3.1 The annual governance statement should include a brief description of the key elements of the governance framework the Commissioner has in place. In November 2012, as a result of the Police Reform and Social Responsibility Act 2011, the police authority was replaced by the Police and Crime Commissioner for Hampshire. It also created the Chief Constable as a separate legal entity.

3.2 The governance framework until November included the Police Authority's committee structure. The Governance Committee reviewed the Code of Corporate Governance, compliance with it and the review of effectiveness. A governance transition group was created to manage the transition from the established governance arrangements of the Police Authority to the new arrangements required.

3.3 The Police Reform and Social Responsibility Act 2011 and Financial Code of Management set out the statutory posts and their respective responsibilities. The Police and Crime Commissioner is responsible for holding the Chief Constable to account for performance and value for money. Regular one to one meetings are held between the Police and Crime Commissioner and Chief Constable. There is a monthly Office of the Police and Crime Commissioner (OPCC) Leadership meeting involving the Commissioner, Chief Executive and CFO for the Commissioner, which considers strategic issues, planning and delivery monitoring. The Force Change Board is the governance board for all major change projects and is charged with identifying savings required to balance the reducing budget. The Police and Crime Commissioner, or a representative, attends the Force Change Board. The performance of the Constabulary is reviewed at monthly Force Performance Group meetings, which includes a representative from the Office of the Police and Crime Commissioner. The Commissioner also has a team within the office to assist oversight of the Constabulary's performance and has commenced regular scrutiny sessions which will be open to the public. Performance is also reviewed by inspection agencies including Her Majesty's Inspectorate of Constabulary (HMIC), external audit, internal audit, the Health & Safety Executive, other statutory agencies and volunteer schemes such as custody visitors.

3.4 The HMIC, external audit and internal audit all specifically report on internal control and value for money. Outcomes from these inspections are summarised for the independent Joint Audit Committee. The annual review of effectiveness required under Regulation 4 of the Accounts and Audit (England) Regulations 2011 is reported to the Joint Audit Committee.

3.5 The key elements of the Commissioner's arrangements for governance are:

- the Commissioner's Police & Crime Plan has been developed in consultation with key stakeholders. It has been published on the OPCC website and promoted by the Commissioner at various events and roadshows
- the arrangements for governance have been reviewed and updated to reflect the changes in structure with the introduction of the Police and Crime Commissioner
- the mission, vision and Police and Crime Plan translate into service objectives for the Constabulary and its partnerships. The objectives are turned into performance

targets which are monitored at the monthly Force Performance Group and published in the Performance Profile on the Constabulary website

- the Performance Profile measures the quality of service for users, including use of resources.
- the HMIC publishes on its website a value for money study that the Constabulary uses to assess to identify any potential improvements which the Commissioner takes account of in monitoring overall performance.
- roles and responsibilities are documented in law, in the Code of Corporate Governance and in role profiles for executive, non-executive and officer functions. The Scheme of Delegation and decision log sets out delegated powers.
- codes of conduct are in place for all officers and staff as set out in the Code of Corporate Governance. Personnel sign up to the codes of conduct on commencement of their role
- all decisions made by the Police and Crime Commissioner are logged and published on the website.
- the new post of Risk Manager has been filled. The Risk Manager is designing a revised framework for risk management across the OPCC an Constabulary. The review of risk management has highlighted a need for stronger processes
- the Force Change Board oversees a number of programmes and boards who are delivering change and transformation. The Governance Transition Board oversaw the transition from the Authority to Police and Crime Commissioner
- the Chief Finance Officer ensures that the financial management arrangements conform to the *CIPFA Statement on the Role of the Chief Financial Officer in Local Government* (2010). The Chief Finance Officer discharges the s151 responsibilities and is a member of the OPCC Leadership Group. New Financial Regulations, Standing Orders on Contracts and a Scheme of Delegation were introduced to reflect the change in governance arrangements
- the Chief Internal Auditor ensures the Commissioner's assurance arrangements conform with the governance requirements of the *CIPFA Statement on the Role of the Head of Internal Audit* (2010). This was overseen by the Police Authority's Governance Committee until 22 November 2012. Oversight was provided by the Chief Finance Officers until the end of the financial year
- the monitoring officer responsibilities are required, by law, to be discharged by the Chief Executive of the Police and Crime Commissioner
- the core functions of an audit committee, as identified in CIPFA's *Audit Committees: Practical Guidance for Local Authorities* were discharged by the Governance Committee until 22 November 2012. The core functions were covered directly by those charged with governance until the end of the financial year. A robust process was put in place to attract the appropriate calibre of individuals for the Joint Audit Committee, the first meeting being May 2013
- management ensure that relevant laws and regulations, internal policies and procedures are complied with and that expenditure is lawful. Internal and external audit assist in the review of the controls and compliance with the control framework

- a whistleblowing/confidential reporting facility is in place. This is both internal and external complaints against all personnel. Complaints are reviewed and acted upon
- a Professional Development Review process is in place. The process appraises performance but also identifies training and development needs for all officers and staff
- the OPCC and Constabulary have an increasingly joint approach to communication and consultation, using a variety of consultation survey methods to communicate with all sections of the community. Corporate Communications also communicate through public meetings, leaflets, media statements, website and social media. The communication strategy takes into account target markets so additional effort is made to communicate with hard to reach groups
- in February the Police and Crime Commissioner announced the Police and Crime Plan. The Chief Constable will be held to account for performance against a number of headings in the Plan. In addition, a series of public meetings will take place where the Police and Crime Commissioner will be visible to the public in holding the Chief Constable to account in public for service delivery and effectiveness
- delivery leads on partnerships are reminded of the need for good governance arrangements

4. REVIEW OF EFFECTIVENESS

4.1 The Commissioner has responsibility for conducting, at least annually, a review of the effectiveness of its governance framework including the system of internal control. The review of effectiveness is informed by the work of the Leadership Group within the OPCC who have responsibility for the development and maintenance of the governance environment, the head of internal audit's annual report, and also by comments made by the external auditors and other review agencies and inspectorates.

4.2 The Commissioner completes a matrix produced by CIPFA in order to review detailed aspects of governance arrangements in order to identify potential weaknesses. This takes into account findings from inspection agencies but in particular annual opinions from auditors.

4.3 During 2012/13 the Governance Committee reviewed the effectiveness until 22 November 2012. Those charged with governance took direct ownership until the end of the financial year. The Joint Audit Committee was established from May 2013. A joint approach to reviewing effectiveness has been adopted, as recommended, for efficiency purposes but also to ensure that the review of effectiveness is a review of group activities of both the Police and Crime Commissioner and the Constabulary due to the significant level of group activities.

4.4 I have been advised on the implications of the result of the review of the effectiveness of the governance framework. The arrangements continue to be regarded as fit for purpose in accordance with the governance framework. The areas already addressed and those to be specifically addressed with new actions planned are outlined below.

5 SIGNIFICANT GOVERNANCE ISSUES

5.1 Although a strategic risk register is in place, the review of effectiveness has identified a need to update supporting processes for risk management and business continuity across the OPCC and Constabulary. The change in governance structure since the end of the Governance Committee requires a revised governance framework to review strategic risk elements. The Constabulary has restructured and created a new post of Risk Manager. The Risk Manager is reviewing the current arrangements and during 2013/14 will set out a revised process for risk management covering the OPCC and Constabulary.

5.2 The Police and Crime Commissioner received a letter from the Health and Safety Executive in November 2012 requiring a plan of work to be put in place in relation to maintenance of buildings. An action plan is being led by the new joint working estates team. A budget of £2.7m is available specifically to address this issue. The Constabulary will assist to ensure that the plan is delivered. The health and safety policy has been reviewed and is owned by both the Commissioner and the Chief Constable.

5.3 During 2012/13, the Code of Corporate Governance inherited from the police authority has been updated to reflect changes to titles and roles as there are now separate codes for the Police and Crime Commissioner and the Constabulary. Both codes will be reviewed for comments by the Joint Audit Committee. New guidance is expected to be received regarding the role of the Joint Audit Committee. Ongoing learning and development will be delivered for the Joint Audit Committee and the officers supporting the Committee to ensure that the Committee is in a position to fulfil its functions.

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

5.5 Overall, the effectiveness of the governance framework remains sound.

Signed by:

Simon Hayes

Police and Crime Commissioner

Movement in Reserves Statement - Group

This statement shows the movement in the year on the different reserves held by the Commissioner and Group, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Commissioner's and Group’s services, more details of which are shown in the Comprehensive Income and Expenditure Statement. This is different from the statutory amounts required to be charged to the General Fund Balance for council tax (precept) setting. The Net Increase/Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Commissioner and Group.

Note that as there is no distinction between the Group and the Commissioner, there is no separate statement for the Commissioner. As the Chief Constable does not have any reserves, there is no requirement to produce a statement for that entity.

Movement in Reserves Statement - Group

	General Fund Balance	Earmarked General Fund Reserves	Capital Receipts Reserve	Capital (Revenue Contributions) Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Group Reserves	*Note*
Note		*17*		*18*			*35*		
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
Balance at 1 April 2011	**29,477**	**7,152**	**0**	**622**	**0**	**37,251**	**(1,907,273)**	**(1,870,022)**	
Movements during 2011/12									
Surplus or (deficit) on the provision of services	(141,260)	0	0	0	0	(141,260)	0	(141,260)	
Other Comprehensive Income and (Expenditure)	0	0	0	0	0	0	(181,787)	(181,787)	
Total Comprehensive Income and Expenditure	(141,260)	0	0	0	0	(141,260)	(181,787)	(323,047)	
Adjustments between accounting basis & funding basis under regulations	152,581	0	0	1,509	0	154,090	(154,090)	0	*16*
Net Increase/(Decrease) before Transfers to Earmarked Reserves	11,321	0	0	1,509	0	12,830	(335,877)	(323,047)	
Transfers to/from earmarked reserves	(28,792)	28,792	0	0	0	0	0	0	*17*
Increase/(Decrease) in year	**(17,471)**	**28,792**	**0**	**1,509**	**0**	**12,830**	**(335,877)**	**(323,047)**	
Balance at 31 March 2012	**12,006**	**35,944**	**0**	**2,131**	**0**	**50,081**	**(2,243,150)**	**(2,193,069)**	
Movements during 2012/13									
Surplus or (deficit) on the provision of services	(118,046)	0	0	0	0	(118,046)	0	(118,046)	
Other comprehensive income and (expenditure)	0	0	0	0	0	0	(137,053)	(137,053)	
Total Comprehensive Income and Expenditure	(118,046)	0	0	0	0	(118,046)	(137,053)	(255,099)	
Adjustments between accounting basis & funding basis under regulations	130,192	0	0	(316)	0	129,876	(129,876)	0	*16*
Net Increase/(Decrease) before Transfers to Earmarked Reserves	12,146	0	0	(316)	0	11,830	(266,931)	(255,099)	
Transfers to/from earmarked reserves	(9,846)	9,846	0	0	0	0	0	0	*17*
Increase/(Decrease) in Year	**2,300**	**9,846**	**0**	**(316)**	**0**	**11,830**	**(266,931)**	**(255,099)**	
Balance at 31 March 2013	**14,306**	**45,790**	**0**	**1,815**	**0**	**61,911**	**(2,510,081)**	**(2,448,170)**	

Comprehensive Income and Expenditure Statement - Group

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

2011/12 Group CIES				2012/13 Group CIES			*Note*
Net Expenditure	**Gross Expenditure**	**Gross Income**		**Net Expenditure**	**Gross Expenditure**	**Gross Income**	
£'000	**£'000**	**£'000**		**£'000**	**£'000**	**£'000**	
132,969	148,395	(15,426)	Local policing	138,258	152,228	(13,970)	
29,573	30,172	(599)	Dealing with the public	27,307	27,901	(594)	
27,482	28,094	(612)	Criminal justice arrangements	27,756	28,470	(714)	
15,081	18,167	(3,086)	Roads policing	11,092	14,872	(3,780)	
19,308	19,876	(568)	Specialist operations	16,549	17,591	(1,042)	
18,460	18,765	(305)	Intelligence	10,547	11,026	(479)	
57,275	58,794	(1,519)	Investigation	59,527	61,808	(2,281)	
13,542	13,754	(212)	Investigative support	11,705	11,931	(226)	
2,331	19,806	(17,475)	National policing	4,243	21,938	(17,695)	
1,507	1,517	(10)	Corporate and democratic core	1,472	1,475	(3)	*10*
29,143	29,143	0	Non distributed costs	8,155	8,155	0	
346,671	**386,483**	**(39,812)**	**Net Cost of Police Services**	**316,611**	**357,395**	**(40,784)**	
794			Other operating (income) and expenditure	1,162			*19*
110,730			Financing and investment income and expenditure	108,955			*20*
(316,935)			Taxation and non specific grant income	(308,682)			*15*
141,260			**(Surplus) / Deficit on Provision of Services**	**118,046**			
(2,701)			(Surplus) / deficit on revaluation of Property, Plant and Equipment assets	(682)			*21*
184,484			Actuarial (gains) / losses on pension assets/liabilities	137,735			*9*
4			Any other (gains) / losses	0			
181,787			**Other Comprehensive Income and Expenditure**	**137,053**			
323,047			**Total Comprehensive Income and Expenditure**	**255,099**			

Comprehensive Income and Expenditure Statement – PCC

2011/12				2012/13			Note
PCC for Hampshire				PCC for Hampshire			
Net Expenditure	Gross Expenditure	Gross Income		Net Expenditure	Gross Expenditure	Gross Income	
£'000	£'000	£'000		£'000	£'000	£'000	
(15,311)	115	(15,426)	Local policing	(13,784)	186	(13,970)	
(577)	22	(599)	Dealing with the public	(560)	34	(594)	
(590)	22	(612)	Criminal justice arrangements	(678)	36	(714)	
(3,073)	13	(3,086)	Roads policing	(3,763)	17	(3,780)	
(552)	16	(568)	Specialist operations	(1,021)	21	(1,042)	
(290)	15	(305)	Intelligence	(465)	14	(479)	
(1,471)	48	(1,519)	Investigation	(2,204)	77	(2,281)	
(201)	11	(212)	Investigative support	(210)	16	(226)	
(17,460)	15	(17,475)	National policing	(17,666)	29	(17,695)	
1,177	1,187	(10)	Corporate and democratic core	1,200	1,203	(3)	*10*
0	0	0	Non distributed costs	0	0	0	
(38,348)	**1,464**	**(39,812)**	**Net Cost of Police Services before funding**	**(39,151)**	**1,633**	**(40,784)**	
0	0	0	Intra-group funding	355,762	355,762	0	
(38,348)	**1,464**	**(39,812)**	Net Cost of Police Services	**316,611**	**357,395**	**(40,784)**	
794			Other operating (income) and expenditure	1,162			*19*
110,730			Financing and investment income and expenditure	108,955			*20*
(316,935)			Taxation and non specific grant income	(308,682)			*15*
(243,759)			**(Surplus) / Deficit on Provision of Services**	**118,046**			
(2,701)			(Surplus) / deficit on revaluation of Property, Plant and Equipment assets	(682)			*21*
184,484			Actuarial (gains) / losses on pension assets/liabilities	137,735			*9*
4			Any other (gains) / losses	0			
181,787			**Other Comprehensive Income and Expenditure**	**137,053**			
(61,972)			**Total Comprehensive Income and Expenditure**	**255,099**			

Balance Sheet - Group

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Commissioner and Group. Note that as there is no distinction between the Group and the Commissioner, there is no separate statement for the Commissioner. As the Chief Constable does not have any reserves, hold any assets or have any liabilities, there is no requirement to produce a statement for that entity.

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

31 March 2012		31 March 2013	Note
£'000		£'000	
160,942	Property, plant and equipment	155,162	21
7,000	Long term investments	13,000	28.1
685	Long term debtors	689	28.3
168,627	**Long Term Assets**	**168,851**	
28,000	Short term investments	37,250	28.1
1,064	Assets held for sale	3,857	23
883	Inventories	970	29
26,263	Short term debtors	30,231	30
14,867	Cash and cash equivalents	4,330	31
71,077	**Current Assets**	**76,638**	
(1,449)	Short term borrowing	(1,440)	
(482)	Grants received in advance - revenue	(1,169)	15
0	Grants received in advance - capital	(6,052)	15
(212)	Other short-term liabilities	(212)	
(30,764)	Short term creditors	(28,318)	32
(551)	Provisions	(65)	33
(33,458)	**Current Liabilities**	**(37,256)**	
(38,378)	Long term borrowing	(37,164)	28.9
(1,487)	Other long term liabilities	(1,274)	28.9
(2,593)	Grants received in advance - capital	0	15
(2,356,857)	Liability related to pension schemes	(2,617,965)	9
(2,399,315)	**Long Term Liabilities**	**(2,656,403)**	
(2,193,069)	**Net Assets/(Liabilities)**	**(2,448,170)**	
50,081	Usable reserves	61,911	MiRS
(2,243,150)	Unusable reserves	(2,510,081)	35
(2,193,069)	**Total Reserves**	**(2,448,170)**	

Cash Flow Statement – Group

The Cash Flow Statement shows the changes in cash and cash equivalents of the Commissioner during the reporting period. Note that as there is no distinction between the Group and the Commissioner, there is no separate statement for the Commissioner.

The statement shows how the Group generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Group are funded by way of taxation and grant income or from the recipients of services provided by the Group. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Group's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Group.

2011/12 £'000		**2012/13 £'000**	*Note*
141,260	Net (surplus) or deficit on the provision of services	118,046	*CIES*
(159,732)	Adjustments to net surplus or deficit on the provision of services for non-cash movements	(135,134)	*41.1*
3,426	Adjustment for items included in the net surplus or deficit on the provision of services that are investing and financing activities	2,747	*41.2*
(15,046)	Net cash flows from Operating Activities	(14,341)	
15,672	Investing Activities	22,487	*41.3*
(8,411)	Financing Activities	2,391	*41.4*
(7,785)	Net (increase) or decrease in cash and cash equivalents	10,537	
7,082	Cash and cash equivalents at the beginning of the reporting period	14,867	
14,867	Cash and cash equivalents at the end of the reporting period	4,330	*41.5*

Index of Explanatory Notes to the Core Financial Statements

1 - Statement of Accounting Policies and Estimation Techniques

1.1 General Principles

The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (2012/13). This code is recognised by statute as representing proper accounting practices. Any significant non-compliance is explained in the following notes. The accounts have been compiled by applying the most appropriate policies and estimation techniques, taking into account the accounting concepts of qualitative characteristics of financial information (i.e. relevance, reliability, comparability and understandability), materiality and the pervasive accounting concepts (i.e. accruals, going concern and primacy of legislative requirements). All material income and expenditure including receipts, grants and employee costs have been accrued to the financial year to which they relate.

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

1.2 Accruals of Income and Expenditure

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

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

Amounts below £1,000 are not routinely accrued at year end even if they meet the other conditions. This is due to the fact that they are not material in the scale of the

Commissioner's overall income and expenditure. Where items of income or expenditure fall below this amount they may still be accrued in certain circumstances such as where they are subject to specific terms and conditions relating to a grant or where there is an element of cost recovery. Items of a similar nature which are individually below this £1,000 threshold may be aggregated if they could be said to have a similar material effect upon the reporting of a particular income or expenditure head or cost centre.

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

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

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

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, 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 Commissioner's financial position or financial performance. Where a change is made, it is applied retrospectively (unless stated otherwise) by adjusting opening balances and comparative amounts for the prior period as if the new policy had always been applied.

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

1.4 Charges to Revenue for Non-Current Assets

Services, support services and trading accounts are debited with the following amounts to record the cost of holding fixed assets during the year:

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

The Commissioner is not required to raise the council tax precept to fund depreciation, revaluation and impairment losses or amortisations. However, he is required to make an annual contribution from revenue towards the reduction in his overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Commissioner in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the General Fund Balance – the Minimum Revenue Provision (MRP) - by way of an adjusting transaction with the Capital

Adjustment Account in the Movement in Reserves Statement for the difference between the two.

1.5 Events After the Reporting Period

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

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

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

1.6 Financial Instruments

1.6.1 Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the Commissioner becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value and are carried at their amortised cost. Annual charges to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. The effective interest rate is the rate that exactly discounts estimated future cash payments over the life of the instrument to the amount at which it was originally recognised.

For most of the borrowings that the Commissioner has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

1.6.2 Financial Assets

Financial assets are classified into two types:

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

1.6.3 Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the Commissioner becomes a party to the contractual provisions of a financial instrument and are initially measured at fair value. They are subsequently measured at their amortised cost. Annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For most of the loans that the Commissioner has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable (plus accrued interest) and interest credited to the Comprehensive Income and Expenditure Statement is the amount receivable for the year in the loan agreement.

However, the previous Police Authority made a number of small loans to officers to enable them to purchase property at less than market rates. These are referred to as soft loans. When soft loans are made, a loss is recorded in the Comprehensive Income and Expenditure Statement (debited to the appropriate service) for the present value of the interest that will be foregone over the life of the instrument, resulting in a lower amortised cost than the outstanding principal. Interest is credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement at a marginally higher effective rate of interest than the rate receivable from the individuals, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the relevant service (for receivables specific to that service) or the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate.

Any gains and losses that arise on the derecognition of an asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

1.7 Service Expenditure Analysis

The *Service Reporting Code of Practice 2012/13 (SeRCOP)* specifies the headings to present the statutory income and expenditure accounts and defines those headings. The requirement for 2012/13 is to present the information in accordance with the Police Objective Analysis which analyses the gross expenditure and gross income under nine headings which represent the main activities of the police service.

1.8 Central Support

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

1.9 VAT

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

1.10 Precept Income

Precept income is included at the figure precepted on the collection funds of billing authorities in Hampshire and the Isle of Wight and is not subject to revision. Collection fund balances are accounted for on an accruals basis in the Comprehensive Income and Expenditure Account. As the billing authority is acting as an agent of the preceptor the Council Tax income included in the Comprehensive Income and Expenditure Account for the year shall be the accrued income for the year. The statutory basis for accounting for the amount to be credited to the General Fund is unchanged. Consequently, there are some adjustments through the Movement in Reserves Statement to mitigate the impact on the General Fund.

1.11 Specific Grants

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

1.12 Investments

Surplus cash is invested in short term deposits to earn interest. Investments on deposit are valued at their nominal value. Investment income is recognised on receipt. The value of long-term (i.e. greater than one year) investments and loans is shown on the balance sheet with the 'current portion' of debt (i.e. that which is due in the following accounting period) being attributed to current liabilities (i.e. creditors) or current assets (i.e. debtors). The balance on these long-term liabilities or assets is shown in the appropriate category on the balance sheet.

1.13 Interest

Interest payable on borrowings is accounted for in the year to which it relates, on a basis that reflects the overall effect of the loan or investment. Interest receivable is accounted for on the same basis.

1.14 Foreign Currency Translation

Where the Commissioner has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective. Where amounts in foreign currency are outstanding at the year-end, they are reconverted at the spot exchange rate at 31 March. Resulting gains or losses are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement.

Where grants are received in a foreign denomination and their use is to be subsequently accounted for in the same foreign denomination, a foreign currency account may be maintained to obviate the risk to the Commissioner of exchange rate fluctuations. The foreign currency holding is converted to the sterling equivalent using the spot exchange rate at 31 March and a creditor is shown in the accounts for the grant not used. In these circumstances, no gains or losses are recognised in the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement as the exchange rate risk is not borne by the Commissioner.

1.15 Debtors and Creditors

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

1.16 Government Grants and Contributions

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

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

Amounts recognised as due to the Commissioner are not credited to the Comprehensive Income and Expenditure Statement until conditions attached to the grant or contribution have been satisfied. Conditions are stipulations that specify that the future economic benefits or service potential embodied in the asset acquired using the grant or contribution are required to be consumed by the recipient as specified, or future economic benefits or service potential must be returned to the transferor.

Monies advanced as grants and contributions for which conditions have not been satisfied are carried in the Balance Sheet as creditors. When conditions are satisfied, the grant or contribution is credited to the relevant service line (attributable revenue grants and contributions) or Taxation and Non-Specific Grant Income (non-ring fenced revenue grants and all capital grants) in the Comprehensive Income and Expenditure Statement.

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

1.17 Employee Benefits

Benefits Payable During Employment

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

Termination Benefits

Termination benefits are amounts payable as a result of a decision by the Commissioner 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 relevant service line in the Comprehensive Income and Expenditure Statement when the Commissioner 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 Commissioner to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Post-employment benefits

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

The Commissioner participates in three post-employment schemes:

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

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

Police Pension Scheme (for Police Officers only)

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

Local Government Pension Scheme

Police staff are eligible to join the Local Government Pension Scheme administered by Hampshire County Council. This is a funded scheme. In 2012/13 the Commissioner paid an employer's contribution representing 13.1% of pensionable pay in addition to a 6% overall contribution based on the payroll costs at 31 March 2010. The contribution rate is determined by the Fund's actuary based on valuations every three years. The rate for 2013/14 will be on the same basis.

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

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

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

1.18 Liquid Resources

The Commissioner includes cash, stock and short-term investments in its categorisation of liquid resources, on the basis that these are either actually held as cash or are readily convertible to cash in the short-term.

1.19 Cash and Cash Equivalents

Under the IFRS Code, Cash and Cash Equivalents are to be disclosed on the face of the Balance Sheet. Cash comprises cash in hand and repayable on demand deposits. The latter typically consisting of cash held in deposit accounts but subject to repayment on demand, and cash held in deposit accounts but subject to instant access. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. The Code also stipulates that they are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. The Commissioner excludes term deposits or investment accounts requiring notice for withdrawal from the classification of Cash Equivalents as in terms of liquidity they are not equivalent to cash.

The Commissioner routinely uses short-term bank overdraft facilities which are repayable on demand, as an integral part of its cash management policy. Under these circumstances bank overdrafts are included as a component of cash and cash equivalents.

1.20 Trading Account

The Commissioner has one trading account in respect of venue hire and functions at its Training and Support Headquarters. The income and expenditure is now included within the net cost of services to give clearer reconciliations between the financial ledger and the statement of accounts. Any net surplus or deficit is credited or debited to an earmarked reserve at the year end. In light of the relatively immaterial size of the turnover of this account (c £125,000) no separate disclosure is made of this account.

1.21 Overheads and Support Services

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

- Corporate and Democratic Core – costs relating to the Commissioner's status as a single purpose, democratic organisation;
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on assets held for sale.

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

1.22 Leases

1.22.1 Introduction

Leases are classified as finance leases where the terms of the lease transfer substantially all the risks and rewards incidental to ownership of the property, plant or equipment from the lessor to the lessee. All other leases are classified as operating leases.

Where a lease covers both land and buildings, the land and buildings elements are considered separately for classification.

Arrangements that do not have the legal status of a lease but convey a right to use an asset in return for payment are accounted for under this policy where fulfilment of the arrangement is dependent on the use of specific assets.

1.22.2 The Commissioner as Lessee

Finance Leases

Property, plant and equipment held under finance leases is recognised on the Balance Sheet at the commencement of the lease at its fair value measured at the lease's inception (or the present value of the minimum lease payments, if lower). The asset recognised is matched by a liability for the obligation to pay the lessor. Initial direct costs are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

- a charge for the acquisition of the interest in the property, plant or equipment – applied to write down the lease liability, and
- a finance charge (debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

Property, Plant and Equipment recognised under finance leases is accounted for using the policies applied generally to such assets, subject to depreciation being charged over the lease term if this is shorter than the asset's estimated useful life (where ownership of the asset does not transfer to the Commissioner at the end of the lease period).

The Commissioner is not required to raise the precept to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contribution is made from revenue funds towards the deemed capital investment in accordance with statutory requirements. Depreciation and revaluation and impairment losses are therefore substituted by a revenue contribution in the General Fund Balance, by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a rent-free period at the commencement of the lease).

1.22.3 The Commissioner as Lessor

Finance Leases

Where the Commissioner grants a finance lease over a property or an item of plant or equipment, the relevant asset is written out of the Balance Sheet as a disposal. At the commencement of the lease, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. A gain, representing the Commissioner's net investment in the lease, is credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal), matched by a lease (long-term debtor) asset in the Balance Sheet.

Lease rentals receivable are apportioned between:

- a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and
- finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General

Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement.

The written-off value of disposals is not a charge against the precept, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

Operating Leases

Where the Commissioner grants an operating lease over a property or an item of plant or equipment, the asset is retained in the Balance Sheet. Rental income is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease). Initial direct costs incurred in negotiating and arranging the lease are added to the carrying amount of the relevant asset and charged as an expense over the lease term on the same basis as rental income.

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

1.23 Property, Plant and Equipment (PP&E), Non-current assets

1.23.1 Recognition

Property, plant and equipment (PP&E) assets yield benefits to the Commissioner for a period of more than one year. PP&E assets are shown in the balance sheet at their written-down value after taking account of depreciation. All expenditure above the de minimis limit of £10,000 (£6,000 for vehicles) on the acquisition, creation or enhancement of fixed assets is capitalised on an accruals basis.

1.23.2 Measurement

Assets are valued on the basis recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA) in accordance with the Statement of Asset Valuation Principles and Guidance Notes issued by the Royal Institution of Chartered Surveyors (RICS). All assets are initially valued at the depreciated historic cost until formally revalued. Intangible assets are valued at depreciated historical cost. Operational land and buildings are revalued at depreciated replacement cost. Houses and dwellings are revalued at their existing use value, except where non-operational, in which case they are valued at market value. Other non-operational assets are shown at their historic cost. Capital expenditure that enhances the useful life of the asset, but does not increase the value of the asset, is charged to the capital adjustment account. Assets are revalued if their use changes.

Where assets are revalued, increases in the valuation over the current value on the Balance Sheet are matched by credits to the Revaluation Reserve to recognise unrealised gains.

Exceptionally, gains might be credited to the Income and Expenditure Account where there has previously been an impairment loss charged to the cost of services. The Revaluation Reserve contains revaluation gains recognised since 1 April 2007, the date of its formal implementation. Gains arising before that date were consolidated into the opening balance on the Capital Adjustment Account.

1.23.3 Capital Receipts

For all receipts over a de minimis limit of £6,000 (£0 for vehicles), a Capital Receipts Reserve is maintained. This is used to fund future capital expenditure. Upon disposal of an asset the Code requires the gain or loss on disposal to be recognised in the accounts. This gain or loss is the difference between the written down (i.e. 'book') value of the asset and the sale proceeds. When making this calculation, however, no distinction is drawn between receipts below and above the de minimis limit in the Comprehensive Income and Expenditure Account.

1.23.4 Impairment

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

Where impairment losses are identified, they are accounted for by:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against the balance (up to the amount of the accumulated gains)
- Where there is no balance in the Revaluation Reserve or an insufficient balance, the carrying amount of the asset is written down against the relevant service line(s) in the Comprehensive Income and Expenditure Statement.

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

1.23.5 Componentisation

The Code recognises that an asset may consist of several different and physical components. If an item of Property, Plant and Equipment (PP&E) comprises two or more significant components with substantially different useful lives, then each component is treated separately for depreciation purposes – i.e. as if each component were a separate in its own right – and depreciated over its individual useful life.

In accordance with the Code, the carrying amount of a replaced or restored component is de-recognised with the carrying amount of the new component being recognised. This accounting treatment applies regardless of whether the replaced part had been depreciated separately. Where it is not possible to determine the carrying amount of the replaced part, the cost of the new part is used as an indication of the cost of the replaced part at the time it was acquired or constructed.

For the purposes of componentisation, the Commissioner has applied a de minimis limit for each individual component of £500,000 and 20% of the overall asset cost. Thus, component assets that are part of a larger asset which has a value of at least £2.5m and the estimated cost of the component is at least £500,000 and 20% of the cost of the larger asset will be recorded and depreciated separately if that component has a materially different useful life and/or method of depreciation to the main asset. Items below these limits are not considered to be material.

Where expenditure on refurbishing or replacing elements of PP&E is incurred, and which is below the materiality threshold but which is properly recorded as being capital, the written down value of the replaced or refurbished element of the main asset will be written out of the asset register to avoid double-counting of expenditure which does not add value.

Any Revaluation Reserve balances associated with componentised assets will be attributed to the building component (s) as it is considered unlikely that plant and equipment components will give rise to revaluation gains and losses independently of the structure of the building. However, the plant and equipment components may be subject to impairment.

1.23.6 Depreciation

Depreciation is defined as the measure of the wearing out, consumption, or other reduction in the useful economic life of a fixed asset. Depreciation is charged on all assets, with the exception of land where no depreciation is charged. Where is it charged, depreciation is calculated on the following basis:-

- Property, plant and equipment assets (PP&E), with the exception of vehicles, are depreciated on a straight line basis over the useful life of the property as estimated by the valuer. Buildings and other non-vehicle assets have a half-year depreciation in the year of acquisition and sale;
- Vehicles are depreciated on a straight line basis over the useful life of the asset less an estimated residual value which is excluded from this calculation. Where a vehicle has reached the end of its expected life but the vehicle is retained, the residual value is revised and this forms the depreciation charge for the year. Vehicles have a full year of depreciation in the year of purchase but are not depreciated in the year of sale;
- Intangible fixed assets are amortised on a straight line basis and no residual value is assumed unless this can be measured reliably.

The above methodologies reflect the relative speed of depreciation of buildings and vehicles.

The useful lives of land and buildings are advised by a qualified valuer on an asset by asset basis. Buildings have variable asset lives, with most operational buildings having assumed to have a useful life of 90 years at the point of construction, and dwellings having a life of 61 years. New buildings are valued at the point of completion and the asset life for accounting purposes assessed at that time.

Useful lives of vehicles are advised by the Force's Transport Department for each individual vehicle. Vehicles are typically given an asset life of between 3 and 5 years, although this represents the extent of their useful life for operational purposes and the residual value represents an estimate of their economic value at the anticipated point of disposal.

IT and other short-life equipment are generally assigned a useful economic life of between 5 and 10 years.

Useful lives of other assets are advised by a suitably qualified individual. There are no changes to the methodology.

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

1.23.7 Disposals and Non-current Assets Held for Sale

When it becomes probable that the carrying amount of an asset will be recovered principally through a sale transaction rather than through its continuing use, it is reclassified as an Asset Held for Sale. The asset is revalued immediately before reclassification and then carried at the lower of this amount and fair value less costs to sell. Where there is a subsequent decrease to fair value less costs to sell, the loss is posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement. Gains in fair value are recognised only up to the amount of any previous losses recognised in the Surplus or Deficit on Provision of Services. Depreciation is not charged on Assets Held for Sale.

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, and their recoverable amount at the date of the decision not to sell.

Assets that are to be abandoned or scrapped are not reclassified as Assets Held for Sale.

When an asset is disposed of or decommissioned, the carrying amount of the asset in the Balance Sheet (whether Property, Plant and Equipment or Assets Held for Sale) is written off to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals (if any) are credited to the same line in the Comprehensive Income and Expenditure Statement also as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains accumulated for the asset in the Revaluation Reserve are transferred to the Capital Adjustment Account.

1.24 Minimum Revenue Provision for the repayment of debt

The Commissioner is required by law to make a 'minimum revenue provision' (MRP) for the repayment of debt. The regulations in place prior to 2007/08 required this MRP to be set at 4% of the Commissioner's capital financing requirement less the 'relevant amount', which is a statutory measure of the Commissioner’s net indebtedness to fund capital expenditure.

The Commissioner has adopted the policy first approved in June 2008 to calculate the minimum revenue provision for the repayment of debt - which is a statutory charge to the Comprehensive Income and Expenditure Account - on the basis of the previous regulations in respect of capital expenditure supported by Government grant. The MRP for all unsupported borrowing will be based on the asset life.

1.25 Heritage Assets

Heritage assets may be tangible or intangible by nature. A tangible heritage asset may be defined as a tangible asset with historical, artistic, scientific, technological, geophysical or environmental qualities that is held and maintained for its contribution to knowledge and culture. An intangible heritage asset is defined as an intangible asset with cultural, environmental or historical significance such as recordings of significant historical events. Heritage assets differ from community assets by being maintained principally for their contribution to knowledge and culture. Where the distinction is not clear for a particular asset, the Code permits the Commissioner to measure community assets in the same way as heritage assets.

The Commissioner does not currently record any heritage assets on the Balance Sheet but if required its policy will be to recognise and measure such assets in accordance with the Code of Practice and FRS 30 and to update this policy accordingly.

1.26 Inventories

Stock accounts are maintained for uniforms, vehicle spares, fuel, computer consumables and computer equipment and these are valued at latest buying price. This is a departure from SSAP 9, but the differences are not material to the accounts.

Stock accounts are no longer maintained for stationery and vending machine supplies as these are not material items and changed administration arrangements mean that these items are managed centrally rather than locally.

1.27 Provisions, Contingent Liabilities and Contingent Assets

1.27.1 Provisions

Provisions are made where an event has taken place that gives the Commissioner a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential, and a reliable estimate can be made of the amount of the obligation. For instance, the Commissioner may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged as an expense to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year that the Commissioner becomes aware of the obligation. They are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

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

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

1.27.2 Contingent Liabilities

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

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

1.27.3 Contingent Assets

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

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

1.28 Reserves

The general reserve represents the surplus of revenue income over expenditure. It can be used to supplement council tax precepts and grant income in future years, or to meet unforeseen items during the year.

The introduction of the police pension fund account in 2006/07 obviated the need for a pension reserve and the balance on that reserve was transferred into the general reserve. An IAS19 pension reserve is still required to display the pension liability calculated in accordance with IAS19.

The IAS19 pension liability is a significant figure which represents the amount that the Commissioner would have to find if all officers and staff were able to claim their pension as at 31 March 2013. The figure is high for police officers as police pensions are unfunded.

The Capital Adjustment Account is a credit balance which reflects the net surplus of resources set aside to finance capital expenditure and the depreciation, impairment and write-off of the historical cost of fixed assets. The Revaluation Reserve records the accumulated gains on assets held by the Commissioner arising from increases in value, netted off for disposals and certain depreciation adjustments

A Financial Instruments Adjustment Account and an Available-for-sale Financial Instruments Reserve was set up in 2007/08 for the various entries required to account for financial instruments. Financial instruments should be shown at fair value or amortised cost and where the fair value is different to the carrying (i.e. book) value, the difference on initial recognition is charged to the Income and Expenditure Account and reversed out to ensure that the general fund balance is not affected. Subsequent to this entries are required in the accounts to write the asset or liability back up to the actual sum due or to be repaid at the end of its expected life.

A Capital Grants Unapplied earmarked reserve holds capital grants and contributions that have been received, usually for a specific purpose, but have not been applied to finance capital expenditure yet.

A Capital Receipts Reserve is maintained for the proceeds of the sale of capital assets such as the disposal of police houses and the sale of vehicles. Individual receipts of less than £6,000 have been credited to revenue income, with the exception of vehicle sales which are all credited to the capital receipts reserve in view of the significant volume of sales in each financial year.

Capital (Revenue Contributions) Reserve holds amounts of money that have been taken from revenue to fund future capital expenditure.

Other earmarked reserves exist to carry forward balances for activities which are ring-fenced (such as ACRO) or for trading units (such as the Netley Business Plan) or for other approved, specific purposes.

1.29 Treasury Management

Treasury management is an activity which is carried out by Hampshire County Council on the Commissioner's behalf. The Commissioner approves an Annual Investment Strategy for cash balances and a borrowing strategy for long-term requirements to support planned capital expenditure in February each year for the following year.

Whilst the intention is that the Commissioner's cash position is managed separately from that of the County Council, the Commissioner has agreed that any cash losses potentially arising from the failure of a bank or building society where cash had been deposited will be shared on a pro rata basis where this formed part of a pooled cash balance with other parties, such as Hampshire County Council. Where deposits are made specifically on behalf of the Commissioner the risk will be borne fully by the Commissioner.

1.30 Fair Value

For financial assets and financial liabilities carried in the statements at fair value, this has been assessed by using discounted cash flow analysis, using the most appropriate Public Works Loans Board (PWLB) rate at the time the transaction was entered into or recognised and measured.

1.31 Revenue Expenditure Funded From Capital Under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but that does not result in the creation of a non-current asset has been charged as expenditure to the relevant service in the Comprehensive Income and Expenditure Statement in the year. Where it is determined that the cost of this expenditure will be met from existing capital resources or by borrowing, a transfer in the Movement in Reserves Statement from the

General Fund to the Capital Adjustment Account then reverses out the amounts charged so that there is no impact on the level of council tax.

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

1.32 Accounting for collaborative working

The Commissioner has entered into a number of collaborative arrangements to provide policing services on a regional basis. Each collaboration is managed through a joint board but each has a 'lead Force' in the collaboration arrangements. All direct income and expenditure on collaborative units is coded across the relevant standard subjective headings. The non-lead Forces invoice the lead Force for the expenditure they have incurred; the lead Force will in turn then recharge each other Force the correct proportion of the total, in line with the cost apportionment agreement. Income and expenditure between the collaborative Forces resulting from cost sharing is shown under specific account codes within the 'Service Income' and 'Supplies and Services ' subjective headings.

1.33 Bad debt

The Commissioner reviews the exposure to debtors failing to pay amounts which are due to the Commissioner on an annual basis and assesses whether there is a likelihood that a proportion of debts may be considered to be impaired on the basis of experience that some debts will be unrecoverable. The sum assessed as impairment of bad and doubtful debts is £150,000.

1.34 Changes in Accounting Policies

There were no changes to the accounting policies in 2012/13. The Commissioner and the Chief Constable follow a standard set of financial regulations and this Statement of Accounts has been presented on a consistent basis. The impact of this is that there has been no requirement to restate any balances to make the policies consistent in the accounting statements.

1.35 Rounding convention

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

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

The *Code of Practice on Local Authority Accounting in the United Kingdom 2012/13* ('the Code') has introduced several changes in accounting policies which will be required from 1

April 2013, the following changes are not considered to have a significant impact on the Statement of Accounts as demonstrated below:

- IAS 1 Presentation of Financial Statements – The changes require authorities to disclose separately the gains or losses re-classifiable into the Surplus or Deficit on the Provision of Services. This is a presentational issue and has no financial impact;
- IAS 12 Income taxes – This change in the accounting policy particularly affects investment properties. The Commissioner does not own any properties which meet this definition and there will thus be no impact in the Statement of Accounts of this change;
- IFRS 7 Financial Instruments: Disclosures – The change in accounting policy is in relation to the offsetting of financial assets and liabilities. Within the cash and cash equivalents line on the balance sheet there is a bank overdraft and note 42.5 provides a breakdown of this item;

There have been several significant changes in relation IAS 19 Employee Benefits. A revised IAS19 (IAS19R) will come into force for accounting periods beginning on or after 1 January 2013. The impact will be different according to whether the pension scheme is funded or not.

For unfunded schemes, such as the Police Pension Schemes, if this revised IAS19 were adopted for the accounting period ending 31 March 2013 then this will marginally change the allocation of expenses between current service cost and the interest cost, leaving the total expense recognised in the Surplus or Deficit on the Provision of Services unchanged. There is no effect on the Balance sheet.

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

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

If IAS19R were to be applied to 2012/13 this would result in a £2.58m expense increase in the CIES.

3 – Prior Period Adjustments

Changes to the management of functions within the Constabulary

During 2012/13 an Assistant Chief Constable was appointed for the Joint Operations Unit. Following this the responsibility for the Joint Operations Unit transferred from the Deputy Chief Constable to the new Assistant Chief Constable.

Also during 2012/13 the Director of Finance and Resources left the constabulary. Consequently the management structures for various support functions were changed. Management responsibility for the corporate estate moved to the Deputy Chief Constable and responsibility for the transport department moved to the Director of Corporate Services and HR.

The Amounts reported for Resource Making Decisions as note 8 reflect these changes and the comparators for 2011/12 have been restated accordingly. The impact of these changes is as below:-

	Deputy Chief Constable 2011/12 Original £'000	Deputy Chief Constable 2011/12 Restated £'000	Amount of restatement £'000	Assistant Chief Constable: Operations 2011/12 Original £'000	Assistant Chief Constable: Operations 2011/12 Restated £'000	Amount of restatement £'000	Head of Human Resources 2011/12 Original £'000	Director of Corporate Services and HR 2011/12 Restated £'000	Amount of restatement £'000	Director of Finance and Resources 2011/12 Original £'000	Chief Finance Officer 2011/12 Restated £'000	Amount of restatement £'000
Expenditure:												
Employees	33,574	29,481	(4,093)	0	5,182	5,182	13,035	14,174	1,139	3,952	1,724	(2,228)
Premises	602	4,939	4,337	0	329	329	39	370	331	4,997	0	(4,997)
Transport	1,187	1,123	(64)	0	79	79	90	1,894	1,804	1,819	0	(1,819)
Travel & Subsistence	771	680	(91)	0	135	135	193	198	5	85	36	(49)
IT & Communications	805	763	(42)	0	57	57	47	57	10	54	29	(25)
Supplies & Services	16,062	15,268	(794)	0	957	957	507	549	42	697	492	(205)
Members' Allowances	0	0	0	0	0	0	0	0	0	0	0	0
National Levies	0	0	0	0	0	0	0	0	0	0	0	0
Grants Paid	38	38	0	0	0	0	0	0	0	0	0	0
Capital Financing (net)	0	0	0	0	0	0	0	0	0	0	0	0
Total Expenditure	**53,039**	**52,292**	**(747)**	**0**	**6,739**	**6,739**	**13,911**	**17,242**	**3,331**	**11,604**	**2,281**	**(9,323)**
Income:												
Service Income	(7,095)	(2,951)	4,144	0	(4,546)	(4,546)	(218)	(499)	(281)	(926)	(244)	682
Additional Specific Grants	(319)	(302)	17	0	(18)	(18)	0	0	0	(10)	(10)	0
Total Income	**(7,414)**	**(3,253)**	**4,161**	**0**	**(4,564)**	**(4,564)**	**(218)**	**(499)**	**(281)**	**(936)**	**(254)**	**682**
Contributions to/(from) reserves	**(1,338)**	**(1,344)**	**(6)**	**0**	**6**	**6**	**(3,055)**	**(3,035)**	**20**	**(922)**	**(942)**	**(20)**
Net Expenditure	**44,287**	**47,695**	**3,408**	**0**	**2,181**	**2,181**	**10,638**	**13,708**	**3,070**	**9,746**	**1,085**	**(8,661)**

A further adjustment to the figures for the prior period relates to the costs of the Office of the Police and Crime Commissioner (OPCC) and how these are presented in the same table as those shown above. Prior to the establishment of the OPCC, the costs of the Police Authority were shown as a single row and column with no analysis over the subjective expenditure headings as this was how it was presented in the reports to the Police Authority. With the advent of the OPCC, these costs have been allocated over the appropriate headings. As the total gross expenditure for running the Police Authority in 2011/12 was £1.464m (i.e. as opposed to the costs of the Authority and the Constabulary combined), no further disclosure is deemed necessary and the restated table shows the revised analysis.

4 - Critical Judgements in Applying Accounting Policies

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

- There are significant cuts in levels of funding for Commissioners over the next three years which the former police authority had anticipated during 2010/11 and was able to plan for budget reductions and how this would impact upon service delivery and performance. There remains a degree of uncertainty about longer term levels of funding beyond 2014/15.
- In the light of changes to the policing structure and the resource issues faced by the Commissioner in the short and medium term, the Commissioner finalised his estate development plan in June 2013, heralding major changes to service delivery and the force estate structure. This will culminate in a reduction in the current estate, a plan to invest in updating the current custody estate through the creation of prisoner investigation centres and through the extension of joint working and co-location with other local authorities and other partners as bases for safer neighbourhood teams. This will make the estate fit for purpose and will enable the Commissioner to maintain high levels of service and performance at a time when significant budget reductions are being experienced.
- The assets and liabilities of the former police authority have transferred to the Commissioner as a consequence of the Police Reform and Social Responsibility Act 2011. Consequently, these accounts are prepared on a going concern basis as a result of this statutory transfer as there has been a seamless transfer and continuity of service. A Stage 2 transfer of responsibilities and assets is expected to take place by 1 April 2014.

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

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

The items in the Commissioner's Balance Sheet at 31 March 2013 for which there is a risk of adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions	If the useful life of assets is reduced, depreciation increases and the carrying

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
	about the levels of repairs and maintenance that will be incurred in relation to individual assets. If there is reduced expenditure in the future in this area with reduced overall resources this could lead to useful economic lives being shorter than currently forecast.	amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by £84,000 for every year that useful lives had to be reduced.
Pensions Liability	Estimation of net liability to pay pensions depends upon a number of complex judgements in relation to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. The Commissioner receives annual forecasts and regular reviews of all of its assets and liabilities from an independent actuary to ensure that the accounts contain realistic estimates of the overall impact of these pensions liabilities.	The effects of the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumptions would result in a decrease in the Police Pension Schemes liabilities of £197.74m and a decrease in the Local Government Superannuation Scheme liabilities of £27.28m. However, the assumptions interact in complex ways. During 2012/13, the Commissioner's actuaries advised that the net pensions liability of the police pension schemes had increased by £0.56m as a result of estimates being corrected as a result of experience and increased by £174.33m attributable to updating of the assumptions. The Local Government Superannuation Scheme liabilities had decreased by £9.64m attributable to updating of the assumptions and increased by £0.08m as a result of estimates being corrected as a result of experience.

6 – Organisation changes as a result of the Police Reform and Social Responsibility Act 2011

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

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

The assets and liabilities of the Police Authority transferred to the Commissioner as the successor authority and note 25 summarises what these were at the beginning of the year that the Commissioner succeeded the authority.

The accounting recognition of assets, liabilities and reserves during the first period of transition reflects the powers and responsibilities of the Commissioner as designated by the Police Reform and Social Responsibility Act 2011 and the Home Office Financial Management Code of Practice for the Police Service, England and Wales 2012. This accounting treatment is also underpinned by the relationships as defined by local regulations, local agreement and practice. On 23 November 2012 the assets, liabilities and reserves of the HPA were transferred directly to the Commissioner and during this first phase of transition they remain under the Commissioner's control. Statutory and local arrangements determine that the Commissioner holds all the assets, liabilities and the reserves and is responsible for the police pension liability. All payments for the Group are made by the Commissioner from the police fund and all income and funding is received by the Commissioner. The Commissioner has the responsibility for managing the financial relationships with third parties and has legal responsibilities for discharging the contractual terms and conditions of suppliers.

The International Accounting Standards Board (IASB) Framework states that assets, liabilities and reserves should be recognised when it is probable that any 'future' benefit associated with the item will flow to, or from, the entity. Based on the statutory responsibilities and local arrangements within which the Commissioner operates in conjunction with the IASB guidance, it has been deemed that all the assets, liabilities and reserves are recognised on the Commissioner's Balance Sheet and consequently there is a single Balance Sheet at 31 March 2013 and single Movement in Reserves Statement and Cash Flow Statement for the year representing both the Commissioner and the Group during this first phase of transition. In accounting terms, the Chief Constable is a wholly-owned and controlled subsidiary reporting to the Commissioner and forming part of the

Group accounts (i.e. with the Commissioner's own accounting statements). The Chief Finance Officer to the Commissioner is responsible for making arrangements for the preparation of the consolidated group accounts.

The Chief Constable provides policing services with the consent of the Commissioner who provides a budget for the delivery of policing services, but who retains ultimate control and ownership of the assets and resources – including staffing - which provide these services. The Chief Constable's accounts include a memorandum cost statement in respect of the services which are provided upon request using the financial resources of the Commissioner. Where appropriate, details of the Chief Constable are included in the Commissioner's statement of accounts and further analysis is given in the notes to the accounts where this is required to aid the readers' understanding.

It should be noted that the accounting policies contained within these accounts are the same for the Commissioner and the Chief Constable. As a result, there are no restatements in the group accounts, which would have been required to achieve uniformity, in the event of any differences.

Additionally, the reserves transferred from the Police Authority to the Commissioner under the statute have not been adjusted in any way as a result of accounting for the changes which took place on 22 November 2012 as a merger.

The 2012/13 Comprehensive Income and Expenditure Statements (CIES) for the Commissioner and the Group are also identical at 'summary level'. This is because the 'net cost of policing' sub-total within the Commissioner's CIES includes not only the cost of administering the Commissioner's office itself, but also payment for Commissioner resources consumed at the request of the Chief Constable. The decision to account for this expenditure within the Commissioner 'net cost of policing services' is in accordance with the *Service Reporting Code of Practice* (SeRCOP) definition of total cost of services. In contrast in the Chief Constable's accounts, the net cost of policing is nil for 2012/13 as the 'PCC Financial resources consumed at the request of the Chief Constable' are completely offset by the intra-group adjustment.

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

2011/12 PCC £'000	2011/12 CC £'000	2011/12 Group £'000	CIES Subjective	2012/13 PCC	2012/13 CC	2012/13 Group £'000	Note
			Gross Expenditure				
497	315,808	316,305	Employees (including police pensions)	519	284,905	285,424	
138	10,836	10,974	Premises	172	11,400	11,572	
0	4,866	4,866	Transport	0	4,861	4,861	
15	3,429	3,444	Travel and Subsistence	28	3,595	3,623	
1	4,939	4,940	IT and Communications	2	4,585	4,587	
421	31,041	31,462	Supplies and Services	535	32,147	32,682	
125	1,126	1,251	Grants	218	369	587	
267	0	267	Members Allowances	159	0	159	
0	12,974	12,974	Depreciation and Impairment	0	13,900	13,900	*21, 23*
1,464	**385,019**	**386,483**	**Gross cost of services**	**1,633**	**355,762**	**357,395**	
			Service Income				
(23,921)	0	(23,921)	Service Income	(26,002)	0	(26,002)	
(15,891)	0	(15,891)	Additional Grants	(14,782)	0	(14,782)	*15*
(39,812)	**0**	**(39,812)**	**Total Service Income**	**(40,784)**	**0**	**(40,784)**	
385,019	(385,019)	0	Intra group adjustment	355,762	(355,762)	0	
346,671	**0**	**346,671**	**Net Cost of Services**	**316,611**	**0**	**316,611**	
		794	Other operating income and expenditure			1,162	*19*
		110,730	Financing and investment income and expenditure			108,955	*20*
		(316,935)	Taxation and non specific grant income			(308,682)	*15*
		141,260	**(Surplus) or Deficit on Provision of Services**			**118,046**	
		(2,701)	(Surplus) / deficit on revaluation of Property, Plant and Equipment assets			(682)	*21*
		4	Any other (gains) / losses			0	
		184,484	Actuarial (gains) / losses on pension assets/liabilities			137,735	*9*
		181,787	**Other Comprehensive Income and Expenditure**			**137,053**	
		323,047	**Total Comprehensive Income and Expenditure**			**255,099**	

8 - Amounts reported for Resource Making Decisions

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

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

The income and expenditure of the Chief Constable's principal operational directorates and the Commissioner itself as recorded in the budget reports for the year is shown on the following pages. There are separate pages for 2012/13 and for 2011/12 as the comparator. The first provides a reconciliation of the income and expenditure to the operational directorates (portfolios) to the Cost of Services shown in the Comprehensive Income and Expenditure Statement. The second page reconciles the same to the subjective analysis shown in note 7.

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

Note that changes to the organisational structure/operational portfolios in the constabulary in 2012/13 have been reported as a prior period adjustment due to the scale of those changes. The 2011/12 comparator figures in the table below are the restated figures. See note 3 for further details of the changes made.

2012/13	Chief Constable and Chief Officers Group £'000	Deputy Chief Constable £'000	Assistant Chief Constable: Crime and Criminal Justice £'000	Assistant Chief Constable: Territorial Operations £'000	Assistant Chief Constable: Operations £'000	Direcector of Corporate Services & HR £'000	Chief Finance Officer £'000	General Items £'000	Police and Crime Commissioner £'000	Group Total £'000
Expenditure:										
Employees	237	26,414	53,596	145,197	17,876	11,044	1,321	5,584	518	**261,787**
Premises	-	10,534	13	33	2	13	-	-	172	**10,767**
Transport	8	527	355	1,403	562	1,973	-	-	-	**4,828**
Travel and Subsistence	11	993	894	850	176	214	46	-	28	**3,212**
IT and Communications	-	723	193	2,869	29	103	34	-	2	**3,953**
Supplies and Services	44	16,508	9,155	1,977	621	654	1,643	163	535	**31,300**
Members' Allowances	-	-	-	-	-	-	-	-	159	**159**
National Levies	-	-	-	-	-	-	-	1,012	-	**1,012**
Grants Paid	-	68	176	116	8	-	-	-	218	**586**
Capital Financing (net)	-	-	-	-	-	-	-	3,598	-	**3,598**
Total Expenditure	**300**	**55,767**	**64,382**	**152,445**	**19,274**	**14,001**	**3,044**	**10,357**	**1,632**	**321,202**
Income:										
Service Income	-	(6,310)	(2,714)	(727)	(1,823)	(477)	(185)	(677)	(3)	**(12,916)**
Additional Specific Grants	-	-	(4,018)	(12)	(1,623)	-	-	(7,564)	(135)	**(13,352)**
Total Income	**0**	**(6,310)**	**(6,732)**	**(739)**	**(3,446)**	**(477)**	**(185)**	**(8,241)**	**(138)**	**(26,268)**
Contributions to/(from) reserves	**0**	**(3,073)**	**(488)**	**(797)**	**(174)**	**(994)**	**0**	**10,281**	**(129)**	**4,626**
Net Expenditure	**300**	**46,384**	**57,162**	**150,909**	**15,654**	**12,530**	**2,859**	**12,397**	**1,365**	**299,560**

Reconciliation of portfolio Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement	**£000**
Net expenditure in the Portfolio Analysis	**299,560**
Net expenditure of services and support services not included in the Analysis	**385**
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis	**29,214**
Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	**(12,545)**
Cost of Services in Comprehensive Income and Expenditure Statement	**316,614**

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

Restated 2011/12	Chief Constable and Chief Officers Group £'000	Deputy Chief Constable £'000	Assistant Chief Constable: Crime and Criminal Justice £'000	Assistant Chief Constable: Territorial Operations £'000	Assistant Chief Constable: Operations	Head of Human Resources £'000	Chief Finance Officer £'000	General Items £'000	Police and Crime Commissioner £'000	Total £'000
Expenditure:										
Employees	391	29,481	44,727	169,664	5,182	14,174	1,724	4,350	497	**270,190**
Premises	-	4,939	397	3,802	329	370	-	-	138	**9,975**
Transport	5	1,123	331	1,426	79	1,894	-	-	-	**4,858**
Travel and Subsistence	12	680	848	1,110	135	198	36	1	15	**3,035**
IT and Communications	3	763	438	2,936	57	57	29	-	1	**4,284**
Supplies and Services	103	15,268	8,774	3,742	957	549	492	-	421	**30,306**
Members' Allowances	-	-	-	-	-	-	-	-	267	**267**
National Levies	-	-	-	-	-	-	-	1,057	-	**1,057**
Grants Paid	-	38	762	346	-	-	-	-	125	**1,271**
Capital Financing (net)	-	-	-	-	-	-	-	3,214	-	**3,214**
Total Expenditure	**514**	**52,292**	**56,277**	**183,026**	**6,739**	**17,242**	**2,281**	**8,622**	**1,464**	**328,457**
Income:										
Service Income	-	(2,951)	(3,071)	(1,438)	(4,546)	(499)	(244)	(833)	(10)	**(13,592)**
Additional Specific Grants	-	(302)	(3,714)	(106)	(18)	-	(10)	(10,610)	-	**(14,760)**
Total Income	**0**	**(3,253)**	**(6,785)**	**(1,544)**	**(4,564)**	**(499)**	**(254)**	**(11,443)**	**(10)**	**(28,352)**
Contributions to/(from) reserves	**0**	**(1,344)**	**180**	**116**	**6**	**(3,035)**	**(942)**	**12,463**	**(60)**	**7,384**
Net Expenditure	**514**	**47,695**	**49,672**	**181,598**	**2,181**	**13,708**	**1,085**	**9,642**	**1,394**	**307,489**

Reconciliation of portfolio Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement	**£000**
Net expenditure in the Portfolio Analysis	**307,491**
Net expenditure of services and support services not included in the Analysis	**(158)**
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the	**51,007**
Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	**(11,669)**
Cost of Services in Comprehensive Income and Expenditure Statement	**346,671**

Restated 2011/12	Portfolio Analysis £'000	Services and Support Services not in Analysis £'000	Amounts not reported to management for decision making £'000	Amounts not included in I&E £'000	Allocation of Recharges £'000	Cost of Services £'000	Corporate Amounts £'000	Total £'000
Expenditure:								
Employees	270,190	8,093	38,023	-		**316,306**	-	**316,306**
Premises	9,975	999	-	-	-	**10,974**	-	**10,974**
Transport	4,858	8	-	-	-	**4,866**	-	**4,866**
Travel and Subsistence	3,035	409	-	-	-	**3,444**	-	**3,444**
IT and Communications	4,284	655	-	-	-	**4,939**	-	**4,939**
Supplies and Services	30,306	1,155	-	-	-	**31,461**	-	**31,461**
Members Allowances	267	-	-	-	-	**267**	-	**267**
National Levies	1,057	-	-	(1,057)	-	**0**	-	**0**
Grants Paid	1,271	16		(36)	-	**1,251**	-	**1,251**
Capital Financing (net)	3,214	-	-	(3,214)	-	**0**	-	**0**
Depreciation, amortisation and impairment	-	-	12,974	-	-	**12,974**	-	**12,974**
Pensions interest cost and expected						**0**	109,960	**109,960**
return on pension assets	-	-	-	-	-			
Interest Payments	-	-	-	-	-	**0**	1,531	**1,531**
Precepts & Levies	-	-	-	-	-	**0**	1,057	**1,057**
Assets	-	-	-	-	-	**0**	(263)	**(263)**
Total Expenditure	**328,457**	**11,335**	**50,997**	**(4,307)**	**0**	**386,482**	**112,285**	**498,767**
Income:								
Service Income	(13,592)	(11,091)	-	761	-	**(23,922)**	-	**(23,922)**
Additional Specific Grants	(14,760)	(1,141)	10	-	-	**(15,891)**	-	**(15,891)**
Interest and investment income	-	-	-	-	-	**0**	(761)	**(761)**
Income from council tax	-	-	-	-	-	**0**	(101,644)	**(101,644)**
Government grants and contributions	-	-	-	-	-	**0**	(215,291)	**(215,291)**
Total Income	**(28,352)**	**(12,232)**	**10**	**761**	**0**	**(39,813)**	**(317,696)**	**(357,509)**
Contributions to/(from) reserves	**7,385**	**738**	**0**	**(8,123)**	**0**	**0**	**0**	**0**
Net Expenditure	**307,490**	**(159)**	**51,007**	**(11,669)**	**0**	**346,669**	**(205,411)**	**141,258**

9 - IAS19 (Pensions Accounting) entries and disclosures

Participation in pensions schemes

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

The Commissioner participates in three post employment schemes:

- The Local Government Pension Scheme (LGPS) for support staff, administered by Hampshire County Council. This is a funded defined benefit final salary scheme, meaning that the Commissioner and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets;

- Arrangements for the award of discretionary post retirement benefits upon early retirement in respect of members of the LGPS. Liabilities are recognised when an award is made and the Commissioner recognises gains and losses in full, immediately through Other Comprehensive Income and Expenditure. Note that the employer's liabilities under these arrangements are not material and the relevant transactions and liabilities are included with the overall LGPS funded scheme;

- The Police Pension Schemes for police officers. These are unfunded defined benefit final salary schemes, meaning that there are no investment assets built up to meet the pensions liabilities, and cash has to be generated to meet actual pensions payments as they eventually fall due. Under the Police Pension Fund Regulations 2007, if the amount receivable by the pensions fund for the year is less than amount paid out, the Police Commissioner must annually transfer an amount required to meet the deficit to the pension fund. Subject to parliamentary approval, up to 100% of this cost is met by a central government pension top-up grant. If however the pension fund is in surplus for the year, the surplus is required to be transferred from the pension fund to the Police Commissioner which must then repay the amount to central government.

Transactions relating to retirement benefits

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

	Police Pension Scheme (PPS) 2011/12 £'000	Police Pension Scheme (PPS) 2012/13 £'000	New Police Pension Scheme 2011/12 £'000	New Police Pension Scheme 2012/13 £'000	LGPS (police staff) 2011/12 £'000	LGPS (police staff) 2012/13 £'000
Comprehensive Income and Expenditure Statement						
Cost of Services						
Current service cost	39,890	40,830	5,230	7,280	8,440	9,100
Past service costs	28,290	0	0	0	830	480
Financing and Investment Income and Expenditure						
Interest costs	103,930	101,270	1,500	2,260	12,090	12,350
Expected return on assets	0	0	0	0	(10,130)	(10,180)
Total Charge to the Surplus or Deficit on the Provision of Services	**172,110**	**142,100**	**6,730**	**9,540**	**11,230**	**11,750**
Other post employment benefit charged to the Comprehensive Income and Expenditure Statement						
Actuarial (Gains)/Losses	150,259	126,380	17,585	11,405	17,170	(4,420)
Total post employment benefit charged to the Comprehensive Income and Expenditure Statement	**322,369**	**268,480**	**24,315**	**20,945**	**28,400**	**7,330**
Movement in Reserves Statement						
Reverse charge to Provision of Services	**(172,110)**	**(142,100)**	**(6,730)**	**(9,540)**	**(11,230)**	**(11,750)**
Actual Amount charged against the General Fund Balance for pensions						
Employer's contributions to the scheme	**28,159**	**25,870**	**4,605**	**4,905**	**12,000**	**11,508**
Benefits paid direct to beneficiaries	**0**	**0**	**0**	**0**	**0**	**22**
Charge on General Fund	**28,159**	**25,870**	**4,605**	**4,905**	**12,000**	**11,530**

	Injury Pensions (police officers) 2011/12 £'000	Injury Pensions (police officers) 2012/13 £'000	All schemes - Summary 2011/12 £'000	All schemes - Summary 2012/13 £'000
Comprehensive Income and Expenditure Statement				
Cost of Services				
Current service cost	1,340	1,430	54,900	**58,640**
Past service cost	0	0	29,120	**480**
Financing and Investment Income and Expenditure				
Interest costs	2,570	2,290	120,090	**118,170**
Expected return on assets	0	0	(10,130)	**(10,180)**
Total Charge to the Surplus or Deficit on the Provision of Services	**3,910**	**3,720**	**193,980**	**167,110**
Other post employment benefit charged to the Comprehensive Income and Expenditure Statement				
Actuarial (Gains)/Losses	**(530)**	**4,370**	184,484	**137,735**
Total post employment benefit charged to the Comprehensive Income and Expenditure Statement	**3,380**	**8,090**	**378,464**	**304,845**
Movement in Reserves Statement				
Reverse charge to Provision of Services	**(3,910)**	**(3,720)**	**(193,980)**	**(167,110)**
Actual Amount charged against the General Fund Balance for pensions				
Employer's contributions payable to the scheme	**0**	**0**	**44,764**	**42,283**
Benefits paid direct to beneficiaries	**1,250**	**1,430**	**1,250**	**1,452**
Charge on General Fund	**1,250**	**1,430**	**46,014**	**43,735**

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to 31 March 2013 is a loss of £287.76m (£113.84m loss at 31 March 2012)

IAS19 Assets and Liabilities

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

There are no material prepaid or accrued pensions contributions at 31 March 2013.

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

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

IAS19 Assets and Liabilities in relation to post-employment benefits

The total assets and liabilities for retirement benefits attributable to the Commissioner were:

Reconciliation of present value of the scheme liabilities (defined benefit obligation):

	Police Pension Scheme (PPS)		New Police Pension Scheme (NPPS)		Local Govt Pension Scheme	
	2011/12 £m	2012/13 £m	2011/12 £m	2012/13 £m	2011/12 £m	2012/13 £m
1 April	(1,874.33)	(2,168.54)	(23.64)	(43.35)	(220.74)	(253.27)
Current Service Cost	(39.89)	(40.83)	(5.23)	(7.28)	(8.44)	(9.10)
Interest Cost	(103.93)	(101.27)	(1.50)	(2.26)	(12.09)	(12.35)
Contributions by scheme participants	(11.78)	(12.27)	(1.79)	(2.11)	(3.71)	(3.66)
Actuarial gains/(losses)	(186.07)	(169.62)	(10.89)	(4.15)	(13.88)	(9.60)
Benefits Paid	75.75	81.38	(0.30)	(0.24)	6.42	4.95
Past service costs	(28.29)	0.00	0.00	0.00	(0.83)	(0.48)
31 March	(2,168.54)	(2,411.15)	(43.35)	(59.39)	(253.27)	(283.51)

	Injury Pensions (police officers)		Total	
	2011/12 £m	2012/13 £m	2011/12 £m	2012/13 £m
1 April	(46.59)	(48.72)	(2,165.30)	(2,513.88)
Current Service Cost	(1.34)	(1.43)	(54.90)	(58.64)
Interest Cost	(2.57)	(2.29)	(120.09)	(118.17)
Contributions by scheme participants	0.00	0.00	(17.28)	(18.04)
Actuarial gains/(losses)	0.53	(4.37)	(210.31)	(187.74)
Benefits Paid	1.25	1.43	83.12	87.52
Past service costs	0.00	0.00	(29.12)	(0.48)
31 March	(48.72)	(55.38)	(2,513.88)	(2,809.43)

Reconciliation of fair value of the scheme assets:

	Police Pension Scheme (PPS)		New Police Pension Scheme (NPPS)		Injury Pensions (police officers)	
	2011/12 £m	2012/13 £m	2011/12 £m	2012/13 £m	2011/12 £m	2012/13 £m
1 April	0.00	0.00	0.00	0.00	0.00	0.00
Expected rate of return	0.00	0.00	0.00	0.00	0.00	0.00
Actuarial gains/(losses)	35.81	43.24	(6.70)	(7.25)	0.00	0.00
Employer contributions	28.16	25.87	4.61	4.90	1.25	1.43
Contributions by scheme participants	11.78	12.27	1.79	2.11	0.00	0.00
Benefits Paid	(75.75)	(81.38)	0.30	0.24	(1.25)	(1.43)
31 March	0.00	0.00	0.00	0.00	0.00	0.00

	Local Govt Pension Scheme	
	2011/12 £m	2012/13 £m
1 April	140.99	157.12
Expected rate of return	10.13	10.18
Actuarial gains/(losses)	(3.29)	14.02
Employer contributions	12.00	11.53
Contributions by scheme participants	3.71	3.66
Benefits Paid	(6.42)	(4.95)
31 March	157.12	191.56

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 actual return on scheme assets in the year was a gain of £24.20m (2011/12 £6.84m gain).

Scheme history

	2008/09	2009/10	2010/11	2011/12	2012/13
	£m	£m	£m	£m	£m
Present value of liabilities:					
Local Government Pension Scheme	(170.91)	(234.39)	(220.74)	(253.27)	(283.51)
Police Pension Schemes	(1,584.03)	(2,091.86)	(1,897.97)	(2,211.89)	(2,470.54)
Police Injury Pensions	(47.96)	(51.72)	(46.59)	(48.72)	(55.38)
Fair value of assets in the LGPS	95.45	139.58	140.99	157.12	191.56
Surplus/(deficit) in the scheme					
Local Government Pension Scheme	(75.46)	(94.81)	(79.75)	(96.15)	(91.95)
Police Pension Schemes	(1,584.03)	(2,091.86)	(1,897.97)	(2,211.89)	(2,470.54)
Police Injury Pensions	(47.96)	(51.72)	(46.59)	(48.72)	(55.38)
Total	(1,707.45)	(2,238.39)	(2,024.31)	(2,356.76)	(2,617.87)

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

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

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

The total contributions expected to be made to the Local Government Pension Scheme by the Commissioner in the year to 31 March 2014 are £11.38m. In addition, Strain on Fund Contributions may be required.

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

Basis for estimating assets and liabilities

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

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

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

	Local Government Pension Scheme		Police Pension Schemes	
	2011/12	2012/13	2011/12	2012/13
Long-term expected rate of return on assets:				
Equity investments	8.1%	**7.8%**		
Property	7.6%	**7.3%**		
Government bonds	3.1%	**2.8%**		
Corporate bonds	3.7%	**3.8%**		
Cash	1.8%	**0.9%**		
Other	8.1%	**7.8%**		
Mortality assumptions:				
Longevity at 65 for current pensioners				
Men	23.9	**24.0**	22.5	**22.6**
Women	24.9	**25.0**	24.9	**25.0**
Longevity at 65 for future pensioners				
Men	25.6	**25.7**	24.2	**24.3**
Women	26.8	**26.9**	26.8	**26.9**
Financial Assumptions:				
Inflation - RPI	3.30%	**3.40%**	3.25%	**3.35%**
Inflation - CPI	2.30%	**2.50%**	2.25%	**2.45%**
Rate of general increase in salaries	4.80%	**4.40%**	4.75%	**4.35%**
Rate of increase to pensions in payment	2.30%	**2.50%**	2.25%	**2.45%**
Rate of increase to deferred pensions	2.30%	**2.50%**	2.25%	**2.45%**
Discount rate	4.8%	**4.7%**	4.7%	**4.3%**
Other Assumptions:				
Take-up of option to convert annual pension into retirement lump sum (90% of members convert this proportion of their pension)			25.0%	**25.0%**
Take-up of option to convert annual pension into retirement lump sum (100% of members convert this proportion of the maximum amount) - pre-01/04/10 service (LGPS only)	25.0%	**25.0%**	-	**-**
As above, post-01/04/10 service (LGPS only)	75.0%	**75.0%**	-	**-**

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

at 31 March 2012		at 31 March 2013
55.1%	Equities	57.6%
7.7%	Property	7.8%
27.0%	Government bonds	24.9%
1.5%	Corporate bonds	1.3%
4.1%	Cash	2.3%
4.6%	Other (e.g. Hedge funds, currency holdings etc.)	6.1%
100.0%	Total	100.0%

History of Experience Gains and Losses

The actuarial gains identified as movements in the Pensions Reserve in 2012/13 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 3013:

		2008/09	2009/10	2010/11	2011/12	2012/13
		%	%	%		%
Differences between the expected and actual return on assets	LGPS	-32.1	19.7	-14.5	-2.1	7.3
	Unfunded	n/a	n/a	n/a	n/a	n/a
	PPS	n/a	n/a	n/a	n/a	n/a
	NPPS	n/a	n/a	n/a	n/a	n/a
	Injury	n/a	n/a	n/a	n/a	n/a
Experience gains and losses on liabilities	LGPS	-0.2	0.4	0.8	-0.4	0.0
	Unfunded	-2.1	4.1	-2.3	-6.3	-2.0
	PPS	4.0	1.2	0.3	-3.3	0.0
	NPPS	-15.3	0.0	0.0	-6.8	0.0
	Injury	4.4	2.8	0.2	8.8	0.0

10 – Corporate and Democratic Core

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

CDC income and expenditure are shown separately on the face of the Comprehensive Income and Expenditure Statement in the analysis in the Net Cost of Police Services section. The Group Comprehensive Income and Expenditure Statement shows a net cost of CDC in 2012/13 of £1.472m (£1.507m in 2011/12).

11 – Members Allowances and Expenses

The following was paid to members of the Police Authority prior to its abolition and the creation of the OPCC in 2012/13:

2011/12 £'000		2012/13 £'000
230	Basic Allowance	147
10	Special Responsibility Allowance	2
28	Expenses	9
268	**Total**	158

The comparator for the expenses is different to the 2012/13 disclosure as the latter is for a part year and includes the expenses of independent custody visitors (£12,766) who were not members of the authority. The total for the comparator has not been restated in the above table as it is not material but would be £0.255m if it was restated.

12 – Related Parties

The Commissioner and the Group are required to disclose material transactions with related parties – i.e. bodies or individuals that have the potential to control or influence the Commissioner or to be controlled or influenced by the Commissioner. Disclosure of these transactions allows readers of the accounts to assess the extent to which the Commissioner might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Commissioner. In this disclosure, the Chief Constable, as a wholly-owned subsidiary, is included and the note covers the Group as a whole.

Government

The UK Government exerts significant influence through legislation and grant funding. The value of grants received is shown in the Income and Expenditure Account and further details of specific additional grants received are given in note 15.

Pensions Schemes

The Commissioner makes contributions to pension schemes for both uniformed officers and non-uniformed staff. The Police Pension Schemes are administered by the Commissioner and the Commissioner paid £30.753m to the Police Pension Fund as contributions in respect of existing officers and those retiring due to ill-health in the year (£32.761m in 2011/12). The Local Government Pension Scheme is administered by Hampshire County

Council and the Commissioner made employer's contributions of £11.53m in 2012/13 (£11.97m in 2011/12).

Collaborations and partnerships

The Commissioner and the Constabulary continue to work with police bodies, including the National Police Air Service, the South East Region Witness Protection Unit, Covert Policing and Technical Support Units with Thames Valley, Surrey and Sussex and the South East Region Serious and Organised Crime Directorate with all five South East Forces. Hampshire Constabulary is also collaborating with Hampshire County Council on a joint laboratory facility.

In addition, Hampshire Constabulary and Thames Valley Police have also created a bilateral partnership in respect of a joint Information & Communications Technology (ICT) and Information Management department. Under this arrangement, the Head of Department has direct responsibility for the provision of ICT and information management assurance for both Forces. A Joint Operations Unit is also in place with the same two parties, thereby allowing strategic operations, roads policing and dogs units to be run in collaboration between the two forces across departmental and geographical boundaries.

The Commissioner has signed up to the principle of joint working with Hampshire County Council and Hampshire Fire and Rescue Service on a range of support services, including Corporate Finance, Estates, Procurement and HR. The first three of these became ‘early adopters’ in April 2013 with the objective of providing process efficiencies, economies of scale, resilience and savings to all three organisations.

All of the above collaborative agreements and partnerships are subject to either Section 23 agreements or other formal agreements which outline how each party contributes financially and how each partnership is managed and governed. Section 23 agreements with other forces identify the lead authority for operational purposes but their influence is managed through the agreement itself and the governance arrangements which ensure that each party is represented in key decisions made.

In addition to the above collaborations, Hampshire County Council provides some services to the PCC, including treasury management, internal audit and police pensions administration, in addition to the CFO role for the Commissioner (see below). These activities are outlined in various service level agreements or memoranda of understanding and the PCC and Chief Constable oversee the services provided and determine, as necessary, the strategic approach for each of these activities.

Key staff, Chief Officers and members of the Office of the PCC

The Chief Finance Officer (CFO) to the Commissioner is also the Chief Finance Officer to the County Council. The County Council CFO will thus influence the spending decisions to each authority. The Commissioner's governance arrangements and the Chief Finance Officer's independence and professional status ensure that this relationship is not compromised.

The Code also requires members of the Office of the Police and Crime Commissioner, Chief Officers in the Constabulary and certain other senior officers to declare if there were any related party (e.g. close family or business associates) transactions due to their ability to influence spending decisions. There were no related party transaction disclosures in 2012/13 (none in 2011/12).

The Chief Constable is an unpaid trustee of the Blue Lamp Trust, which is a private company, limited by guarantee. The Blue Lamp Trust is also a charitable trust, providing support to vulnerable people, grants to local schemes which work towards reducing crime, the fear of crime and the risk of fire and operates a driver education and training facility. The Chief Constable's liability is limited and the purposes of the company will be clear from its memorandum of association; however, as one of a small number of trustees, the Chief Constable exerts influence over the company and its objectives and operations. The Commissioner also made grants to the company to enable it to fulfil its objectives. In 2012/13, grants to the trust and payments for services received by the constabulary totalled £110,000. Whilst not material to the Group, these grants represent a significant proportion of the turnover of the Trust.

13 – Officer and Staff Remuneration

All Remuneration over £50,000 in bandings of £5,000 - Group

Remuneration Band	2011/12 Number of employees CC	PCC	Group Total	2012/13 Number of employees CC	PCC	Group Total
£50,000 - £54,999	157	0	157	189	1	190
£55,000 - £59,999	123	0	123	123	0	123
£60,000 - £64,999	71	0	71	61	0	61
£65,000 - £69,999	11	0	11	19	0	19
£70,000 - £74,999	3	0	3	3	0	3
£75,000 - £79,999	7	0	7	5	0	5
£80,000 - £84,999	9	0	9	7	0	7
£85,000 - £89,999	9	0	9	7	0	7
£90,000 - £94,999	7	0	7	1	0	1
£95,000 - £99,999	3	0	3	6	0	6
£100,000 - £104,999	1	0	1	0	0	0
£105,000 - £109,999	1	0	1	1	0	1
£110,000 - £114,999	0	0	0	1	0	1
£115,000 - £119,999	1	0	1	0	0	0
£120,000 - £124,999	1	0	1	2	0	2
£125,000 - £129,999	1	0	1	0	0	0
£130,000 - £134,999	0	0	0	0	0	0
£135,000 - £139,999	1	0	1	0	0	0
£140,000 - £144,999	0	0	0	0	0	0
£145,000 - £149,999	0	0	0	0	0	0
£150,000 - £154,999	0	0	0	2	0	2
£155,000 - £159,999	0	0	0	0	0	0
£160,000 - £164,999	1	0	1	1	0	1
Totals	**407**	**0**	**407**	**428**	**1**	**429**

The Commissioner's Chief Executive is the only member of the Commissioner's staff reported in the above table as the Commissioner did not commence until November 2012. The comparator for 2011/12 has been updated to include these changes.

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

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

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

Remuneration for relevant police officers and senior employees

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

The table below provides the relevant disclosure for 2012/13 and comparative information for 2011/12 is provided in the second table. Where there have been changes in personnel during the current and prior year the part year remuneration is shown on an individual basis over more than one line. This will mean that certain posts are not comparable. The tables show the distinction between the Office of the PCC and those officers and staff reporting directly to the Chief Constable, although in reality all officers and staff are paid by the Commissioner.

2012/13 Disclosure
Post holder information

Post holder information	Salary, fees and allowances £	Bonuses £	Expenses Allowance £	Compensation for loss of employment £	Benefits in Kind £	Other payments (Police officers only) £	Total Remuneration excluding pensions contributions £	Employer's Pension contributions £	Total Remuneration including pensions contributions £	Note
Office of the PCC										
PCC For Hampshire & Isle of Wight (started 19/11/12)	30,458	-	-	-	-	-	30,458	3,990	34,448	
Chief Executive	90,000	-	-	-	-	-	90,000	11,790	101,790	
Constabulary										
Chief Constable - Mr Andy Marsh (04/02/13 to 31/3/13)	22,444	-	-	-	277	-	22,721	8,159	30,880	
Chief Constable - Mr Alex Marshall (01/04/12 to 03/02/13)	161,475	-	-	-	-	-	161,475	-	161,475	
Acting Deputy Chief Constable (04/02/12 to 31/3/13)	17,041	-	-	-	1,091	-	18,132	3,930	22,062	
Deputy Chief Constable (01/04/12 to 03/02/13)	109,940	13,997	-	-	1,528	-	125,465	25,662	151,127	
Acting Assistant Chief Constable - Crime and Criminal Justice (04/02/13 to 31/03/13)	15,779	-	-	-	-	-	15,779	3,633	19,412	
Assistant Chief Constable - Crime and Criminal Justice (03/09/12 to 03/02/13)	46,864	2,449	-	-	2,981	-	52,294	10,808	63,102	
Assistant Chief Constable - Crime and Criminal Justice (01/04/12 to 02/09/12)	49,051	-	-	-	1,920	-	50,971	10,878	61,849	
Assistant Chief Constable - Territorial Operations (03/09/12 to 31/03/13)	66,456	-	-	-	2,602	-	69,058	14,738	83,796	
Assistant Chief Constable - Territorial Operations (01/04/12 to 02/09/12)	47,168	2,812	-	-	3,039	-	53,019	10,878	63,897	
Head of Finance (22/11/12 to 31/3/13)	25,576	-	-	-	612	-	26,188	3,350	29,538	
Director of Finance and Resources (01/04 - 21/11/12)	64,670	-	1,536	109,237	2,986	-	178,429	8,470	186,899	
Head of Human Resources	92,754	-	-	-	1,441	-	94,195	11,947	106,142	
	839,676	**19,258**	**1,536**	**109,237**	**18,477**	**0**	**988,184**	**128,233**	**1,116,417**	1,2

Note 1: The Director of Corporate Resources at Hampshire County Council (HCC) has a part-time role as the statutory Chief Financial Officer to the PCC. Her remuneration details are disclosed by HCC and a recharge is received in respect of the time and cost of this role. In 2012/13 this charge was £38,500.

Note 2: The individual figures and total figures shown in this table are rounded to the nearest £. Thus, the total shown may not be the sum of the rounded entries which make up the total.

2011/12 Disclosure
Post holder information

	Salary, fees and allowances £	Bonuses £	Expenses Allowance £	Compensation for loss of employment £	Benefits in Kind £	Other payments (Police officers only) £	Total Remuneration excluding pensions contributions £	Employer's Pension contributions £	Total Remuneration including pensions contributions £	Note
Office of the PCC										
Chief Executive	90,000	-	-	-	-	-	90,000	11,790	101,790	
Constabulary										
Chief Constable - Mr Alex Marshall	165,921	-	-	-	-	-	165,921	-	165,921	1
Deputy Chief Constable	130,950	-	1,490	-	5,134	-	137,574	30,794	168,368	
Assistant Chief Constable - Crime and Criminal Justice	116,781	-	2,480	-	3,998	-	123,259	25,615	148,874	
Assistant Chief Constable - Territorial Operations	110,452	-	1,367	-	5,789	-	117,608	25,433	143,041	
Assistant Chief Constable - HR and Operations	39,674	-	345	-	1,669	-	41,688	8,388	50,076	2
Director of Finance and Resources	100,935	-	1,419	-	2,547	-	104,901	13,203	118,104	3
Head of Human Resources	58,868	-	-	-	719	-	59,587	7,604	67,191	2,3
	813,581	**-**	**7,101**	**-**	**19,856**	**-**	**840,538**	**122,827**	**963,365**	4,5

Note 1: The Chief Constable was eligible for a bonus, but this was declined and a donation was made at his request by Hampshire Constabulary of £5,000 to the Hampshire Constabulary Welfare Fund

Note 2: The Assistant Chief Constable HR and Operations was on secondment from 1st August 2011. His costs from that date were refunded in full to the Force. The table above shows his costs until 1st August 2011. The Head of HR took over a number of the responsibilities from 1st August 2011. Her costs are shown from 1st August 2011 to 31st March 2012.

Note 3: The pension rate for staff changes from 19.1% of pensionable pay in 2010/11 to 13.1% in 2011/12. An additional lump sum was payable to the LGPS in respect of all relevant employees. This represented approximately an additional 6% on top of contributions per individual employee.

Note 4: The Director of Corporate Resources at Hampshire County Council (HCC) is the statutory Chief Financial Officer to the PCC. This is a part-time role and her total remuneration details are disclosed by HCC. A recharge is made to the Commissioner from HCC in respect of the time and cost of the statutory role carried out by the Director of Corporate Resources. This charge was £37,600.

Note 5: The individual figures and total figures shown in this table are rounded to the nearest £. Thus, the total shown may not be the sum of the rounded entries which make up the total.

Exit Packages in Bands of £20,000

Exit Package cost band (including special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2011/12 No.	2012/13 No.	2011/12 No.	2012/13 No.	2011/12 No.	2012/13 No.	2011/12 £'000	2012/13 £'000
£0 - £20,000	24	3	183	43	207	46	1,480	319
£20,001 - £40,000	2		6	1	8	1	129	32
£40,001 - £60,000	0		1		1	0	43	
£60,001 - £80,000	0		0		0	0	0	
£80,001 - £100,000	0		0	1	0	1	0	82
£100,001 - £150,000	0		0		0	0	0	
Additional provision in the Comprehensive Income and Expenditure Statement	0	1	39	2	39	3	318	24
Reversal of previous year's provision (included in bandings in following year when payments due)	(5)		(79)	(39)	(84)	(39)	(725)	(318)
Totals	**21**	**4**	**150**	**8**	**171**	**12**	**1,245**	**139**

The Comprehensive Income and Expenditure Statement includes a provision of £0.024m which has been agreed and is payable to 3 officers; these costs are not included in the bands and therefore an additional line has been added to reconcile to the total cost of termination benefits reported in the Comprehensive Income and Expenditure Statement. An additional line has also been added to ensure that provisions included in the prior year are not double-counted when payments are made in the following year. Note also that there were a total of 39 exit packages agreed in 2011/12, not 52 as reported in the 2011/12 Statement of Accounts.

In addition to the payments made to staff leaving the organisation, the Commissioner also made payments to the Local Government Superannuation Scheme which it bears as the employer for the early retirement of eligible staff who are made redundant. Charges to the Comprehensive Income and Expenditure Statement to cover the actual or expected payments due amounted to £0.189m in 2012/13 (£0.926m in 2011/12).

14 – Termination Benefits

The Commissioner terminated the contracts of a number of employees in 2012/13, incurring liabilities of £0.139m (£1.245m in 2011/12). See note 13 for the number of exit packages and total cost per band.

15 – Grant Income

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

2011/12 £'000		2012/13 £'000
	Credited to Taxation and Non-Specific Grant Income	
(101,644)	Council Tax Precept	(101,975)
(56,748)	Share of National Business Rates	(71,036)
(137,967)	Police Grant	(131,181)
(17,541)	Revenue Support Grant	(1,404)
(3,035)	Government Grant to Finance Capital Expenditure	(3,086)
(316,935)	**Total**	**(308,682)**

Credited to Services

2011/12 £'000		2012/13 £'000
(7,609)	Neighbourhood Policing Fund/Community Support Officers	(7,564)
(3,745)	Dedicated Security Posts grant	(3,701)
(2,520)	Council tax Freeze grant	0
(888)	ACPO Criminal Records Office	(1,357)
(19)	Automatic number plate recognition grant	0
(108)	Counter terrorism grant	(269)
(226)	National Police Air Service project	(42)
(64)	Local Criminal Justice Board	(30)
(14)	Local Public Services Agreement (LPSAS)	0
(177)	Mobile Information Project	
(481)	Special grant - Riots	0
0	Special grant - Olympics	(1,623)
0	Youth Crime Prevention	(135)
(40)	Miscellaneous grants	(61)
(15,891)	**Totals:**	**(14,782)**

The Council Tax freeze grant became part of the funding formula for the Police Grant in 2012/13.

The Commissioner has received a number of grants that have yet to be recognised as income as they have conditions attached to them. If the conditions are not satisfied the grant will be returned to the provider. These grants may be of a revenue or a capital nature and may be incorporated in the accounts as either current liabilities (i.e. the conditions are expected to be met or the funds returned within 12 months of the balance sheet date) or long-term liabilities (i.e. where the period is greater than 12 months). The balances at the year end are as follows:-

Current Liabilities

Grants Receipts in Advance - Capital Grants

2011/12 £'000		2012/13 £'000
0	National Police Air Service implementation	(6,052)
0		**(6,052)**

Grants Receipts in Advance - Revenue Grants

2011/12 £'000		2012/13 £'000
182	Local Area Agreement performance reward grant	170
187	National Police Air Service implementation	0
90	Other Police body funding for operational unit	0
0	EU grant for ACRO	931
23	Other miscellaneous grants	68
482		**1,169**

Long-term Liabilities

Grants Receipts in Advance - Capital Grants

2011/12 £'000		2012/13 £'000
(2,593)	National Police Air Service implementation	0
(2,593)		**0**

16 – Adjustments between accounting basis and funding under regulations

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

2012/13	Usable Reserves					
	General Fund Balance	Earmarked General Fund Reserves	Capital Receipts Reserve	Capital (Revenue Contributions) Reserve	Capital Grants Unapplied	Movement In Unusable Reserves
	£'000	£'000	£'000	£'000	£'000	£'000
Adjustments primarily involving the Capital Adjustment Account:						
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:						
Charges for depreciation and impairment of non-current assets	13,900					(13,900)
Revaluation losses on Property Plant and Equipment	49					(49)
Amortisation of intangible fixed assets	0					0
Capital grants and contributions applied	(3,086)					3,086
Revenue expenditure funded from capital under statute	59					(59)
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	726					(726)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:						
Statutory provision for the financing of capital investment	(2,015)					2,015
Capital expenditure charged against the General Fund						0

2012/13	Usable Reserves					
	General Fund Balance £'000	Earmarked General Fund Reserves £'000	Capital Receipts Reserve £'000	Capital (Revenue Contributions) Reserve £'000	Capital Grants Unapplied £'000	Movement In Unusable Reserves £'000
Adjustments primarily involving the Capital Grants Unapplied Account:						
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	0				0	
Application of grants to capital financing transferred to the Capital Adjustment Account					0	0
Adjustments primarily involving the Capital Receipt Reserve:						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(626)		626			
Use of the Capital Receipts Reserve to finance new capital expenditure			(626)			626
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals						
Adjustments primarily involving the Capital (Revenue Contributions) Reserve:						
Reversal of net sum set aside in the Comprehensive Income and Expenditure Statement to cover capital expenditure not funded from other capital resources	(2,630)			2,630		
Use of the Capital (Revenue Contributions) Reserve to finance new capital expenditure				(2,946)		2,946

2012/13	Usable Reserves					
	General Fund Balance	Earmarked General Fund Reserves	Capital Receipts Reserve	Capital (Revenue Contributions) Reserve	Capital Grants Unapplied	Movement In Unusable Reserves
	£'000	£'000	£'000	£'000	£'000	£'000
Adjustments primarily involving the Financial Instruments Adjustment Account:						
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(34)					34
Adjustments primarily involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	167,110					(167,110)
Employer's pensions contributions and direct payments to pensioners payable in the year	(43,735)					43,735
Adjustments primarily involving the Collection Fund Adjustment Account :						
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	43					(43)
Adjustments primarily involving the Accumulated Absences Account:						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	433					(433)
Total Adjustments	130,194	0	0	(316)	0	(129,878)

2011/12	Usable Reserves					
	General Fund Balance	Earmarked General Fund Reserves	Capital Receipts Reserve	Capital (Revenue Contributions) Reserve	Capital Grants Unapplied	Movement In Unusable Reserves
	£'000	£'000	£'000	£'000	£'000	£'000
Adjustments primarily involving the Capital Adjustment Account:						
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:						
Charges for depreciation and impairment of non-current assets	12,974					(12,974)
Revaluation losses on Property Plant and Equipment	0					0
Amortisation of intangible fixed assets	0					0
Capital grants and contributions applied	(3,035)					3,035
Revenue expenditure funded from capital under statute	0					0
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	898					(898)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:						
Statutory provision for the financing of capital investment	(1,683)					1,683
Capital expenditure charged against the General Fund	0					0

2011/12	Usable Reserves					
	General Fund Balance	Earmarked General Fund Reserves	Capital Receipts Reserve	Capital (Revenue Contributions) Reserve	Capital Grants Unapplied	Movement In Unusable Reserves
	£'000	£'000	£'000	£'000	£'000	£'000
Adjustments primarily involving the Capital Grants Unapplied Account:						
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	0				0	
Application of grants to capital financing transferred to the Capital Adjustment Account					0	0
Adjustments primarily involving the Capital Receipt Reserve:						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(1,161)		1,161			
Use of the Capital Receipts Reserve to finance new capital expenditure			(1,161)			1,161
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals	0		0			
Adjustments primarily involving the Capital (Revenue Contributions) Reserve:						
Reversal of net sum set aside in the Comprehensive Income and Expenditure Statement to cover capital expenditure not funded from other capital resources	(2,681)			2,681		
Use of the Capital (Revenue Contributions) Reserve to finance new capital expenditure				(1,172)		1,172

2011/12	Usable Reserves					
	General Fund Balance	Earmarked General Fund Reserves	Capital Receipts Reserve	Capital (Revenue Contributions) Reserve	Capital Grants Unapplied	Movement In Unusable Reserves
	£'000	£'000	£'000	£'000	£'000	£'000
Adjustments primarily involving the Financial Instruments Adjustment Account:						
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(36)					36
Adjustments primarily involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	193,980					(193,980)
Employer's pensions contributions and direct payments to pensioners payable in the year	(46,014)					46,014
Adjustments primarily involving the Collection Fund Adjustment Account :						
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	195					(195)
Adjustments primarily involving the Accumulated Absences Account:						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(856)					856
Total Adjustments	152,581	0	0	1,509	0	(154,090)

17 – Transfers to/from Earmarked Reserves

This note sets out the amounts set aside from the General Fund balance in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund Expenditure in 2012/13.

	Balance 31 March 2011	Transfers 2011/12		Balance 31 March 2012	Transfers 2012/13		Balance 31 March 2013
		Out	In		Out	In	
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
ACRO Surety	1,750	0	0	1,750	0	500	2,250
AVCIS Surety	0	0	0	0	0	300	300
Carry Forward Reserve	4,195	(3,795)	4,631	5,031	(5,031)	11,562	11,562
Equipment Reserve	0	0	1,000	1,000	0	0	1,000
Insurance Reserve	394	0	500	894	0	0	894
Netley Business Plan	73	0	25	98	0	30	128
Performance Reserve	0	0	2,500	2,500	(800)	0	1,700
Risk Reserve	0	0	0	0	0	6,689	6,689
Revenue Grants Unapplied	354	(354)	644	644	(470)	56	230
Spend to Save Reserve	386	0	0	386	(386)	0	0
Transformation Reserve	0	(3,375)	27,016	23,641	(7,724)	5,120	21,037
Total	7,152	(7,524)	36,316	35,944	(14,411)	24,257	45,790

Earmarked reserves are held for the following purposes:

- The ACRO surety is a sum held to meet any liabilities in the event that the ACRO service is ceased or transferred out of the Commissioner's stewardship at short notice;
- The AVCIS surety is a sum held in the event that the ACPO Vehicle Crime Intelligence Service is ceased or transferred out of the Commissioner's stewardship at short notice;
- The Carry Forward Reserve is for approved budget carry forwards from surpluses generated from devolved budgets or from the ACPO Criminal Records Office (ACRO);
- The Equipment reserve acts as a sinking fund to pay for the regular replacement of essential equipment such as body armour and Chemical Biological, Radiological and Nuclear (CBRN) kit. The intention is to provide a facility for contributions to be made, ideally on an annual basis, to smooth out the cost of large scale replacements;
- The Insurance Reserve is held to meet the costs of any unforeseen increases in settlements made during the year;
- The Netley Business Plan holds the accumulated surpluses of the net trading activity of the use of the Netley site for functions such as weddings. The surplus is held for subsequent reinvestment in the site;
- The Performance Reserve is held with the purpose of boosting performance at a time when forces nationally have to contend with budget reductions, whilst directly meeting the priorities of the Commissioner and Force;

- The Revenue Grants Unapplied reserve holds grants for which there are no outstanding conditions but where the expenditure has not been incurred at the year end;
- The Risk Reserve has been established as a contingency against delays or shortfalls in achieving savings or further and unexpected budget reductions;
- The Spend to Save reserve is held to pump prime initiatives that need initial investment to generate future efficiencies, which may accrue a number of years after the initial investment. This reserve was closed in 2012/13;
- The Transformation reserve is held to meet the necessary costs of changing structures and processes in the force to ensure that performance is maintained in an environment of reduced and reducing budgets.

18 – Other usable reserve – Capital (Revenue Contributions) Reserve

The Capital (Revenue Contributions) Reserve receives sums from the revenue budget to fund future capital expenditure. These sums may be part of the original budget or additional sums earmarked during the year for capital schemes. Where a scheme is proposed but does not ultimately happen or does not require all of the funds identified, contributions are returned to the revenue budget.

2011/12 £'000		2012/13 £'000
622	**Balance at start of year**	**2,131**
2,681	Contributions received in year	2,630
(1,172)	Contributions applied to finance capital expenditure	(2,946)
0	Contributions returned to revenue	0
2,131	**Balance at end of year**	**1,815**

19 – Other operating income/expenditure

2011/12 £'000		2012/13 £'000
1,057	Levies to National Police Services	1,012
(29,116)	Home Office Police Pension Fund Top-up Grant	(35,985)
29,116	Transfer of Home Office Grant to the Police Pension Fund	35,985
(263)	(Gains)/losses on the disposal of non-current assets	150
794		1,162

20 – Financing and investment income and expenditure

2011/12 £'000		2012/13 £'000
1,531	Interest payable and similar charges	1,654
109,960	Pensions interest cost and expected return on pension assets	107,990
(761)	Interest receivable and similar income	(689)
110,730		108,955

21 – Property, Plant and Equipment (PP&E) movements – Group and Commissioner

Property, Plant and Equipment Movement on balances

This statement summarises capital expenditure incurred on fixed assets which will be of use to the Group in future financial years. Future, as well as current, taxpayers will benefit from these assets and such costs are therefore not necessarily charged to the revenue account in the year that the asset is acquired. All non-operational assets are assets under construction. When these are completed and brought into use the asset is reclassified.

As there is no distinction between the Group and the Commissioner, there is no separate statement for the Commissioner. Additionally, as the Chief Constable does not hold any assets, there is no requirement to produce a statement for that entity.

Movement on balances 2012/13

	Land and Buildings £'000	Vehicles and Plant £'000	Furniture and Equipment £'000	Assets under construction £'000	Surplus Assets £'000	Total Property, Plant and Equipment £'000
Cost or valuation						
At 31 March 2012	**144,008**	**15,801**	**13,191**	**12,198**	**1,220**	**186,418**
Adjustment to opening balance	**(330)**	**263**	**(7,049)**			(7,116)
Revised value as at 31 March 2012	**143,678**	**16,064**	**6,142**	**12,198**	**1,220**	**179,302**
Additions in year	828	3,228	3,568	3,382	0	11,006
Revaluation increases/(decreases) recognised in the Revaluation Reserve	532	0	0	0	250	782
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	0	0	0	0	(7,511)	(7,511)
Derecognition - Disposals	0	(1,895)	0	0	0	(1,895)
Derecognition - Other	0	0	0	0	0	0
Assets reclassified (to)/from held for sale	(1,937)	0	0	0	(1,470)	(3,407)
Other movements in cost or valuation		520		(12,531)	12,011	0
At 31 March 2013	**143,101**	**17,917**	**9,710**	**3,049**	**4,500**	**178,277**
Accumulated depreciation and Impairment						
At 31 March 2012	**(6,976)**	**(9,312)**	**(9,124)**	**0**	**(64)**	**(25,476)**
Adjustment to opening balance	**330**	**(263)**	**7,049**			7,116
Revised value as at 31 March 2012	**(6,646)**	**(9,575)**	**(2,075)**	**0**	**(64)**	**(18,360)**
Depreciation Charge	(2,450)	(2,148)	(1,706)		(35)	(6,339)
Depreciation written out on revaluation	64	0	0	0	89	153
Impairment (losses)/ reversals recognised in the Revaluation Reserve	(100)	0	0	0	0	(100)
Impairment (losses)/ reversals recognised in the Surplus/Deficit on the Provision of Services	0	0	0	(29)	0	(29)
Derecognition - Disposals	0	1,465	0	0	0	1,465
Derecognition - Other	0	0	0	0	0	0
Assets reclassified (to)/from held for sale	85	0	0	0	10	95
Other movements in depreciation and impairment	0	0	0	0	0	0
At 31 March 2013	**(9,047)**	**(10,258)**	**(3,781)**	**(29)**	**0**	**(23,115)**
Net Book Value						
At 31 March 2013	**134,054**	**7,659**	**5,929**	**3,020**	**4,500**	**155,162**
At 31 March 2012	**137,032**	**6,489**	**4,067**	**12,198**	**1,156**	**160,942**

Adjustments to the opening balances as at 1 April 2012 have been made in the table to correct an issue identified with the accounting for accumulated depreciation. There is a requirement under the Code to eliminate the balance on cost and depreciation for assets derecognised in the year. Whilst this has been completed for the majority of assets, it has been identified during 2012/13 that this was not completed in previous years for some assets, principally within the Furniture and Equipment category. The value of the change is £7.116m but as this only affects the disclosure note and not the net book value of assets carried in the Balance Sheet – which have always been stated at the correct value – this adjustment reflects the correction of a presentational error and not one which requires the accounts to be restated. In all other respects the accounting for the assets is consistent with the Code.

Movement on balances 2011/12

	Land and Buildings £'000	Vehicles and Plant £'000	Furniture and Equipment £'000	Assets under construction £'000	Surplus Assets £'000	Total Property, Plant and Equipment £'000
Cost or valuation						
At 31 March 2011	**151,436**	**15,150**	**11,560**	**11,295**	**1,529**	**190,970**
Additions in year	1,343	1,691	1,631	903	0	5,568
Revaluation increases/(decreases) recognised in the Revaluation Reserve	2,742	0	0	0	0	2,742
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(10,046)	0	0	0	0	(10,046)
Derecognition - Disposals	(200)	(1,040)	0	0	(301)	(1,541)
Derecognition - Other	(914)	0	0	0	0	(914)
Assets reclassified (to)/from held for sale	0	0	0	0	(361)	(361)
Other movements in cost or valuation	(353)	0	0	0	353	0
At 31 March 2012	**144,008**	**15,801**	**13,191**	**12,198**	**1,220**	**186,418**
Accumulated depreciation and Impairment						
At 31 March 2011	**(8,342)**	**(7,939)**	**(7,893)**	**0**	**(112)**	**(24,286)**
Depreciation Charge	(2,446)	(2,122)	(1,231)	0	(23)	(5,822)
Depreciation and impairment written out on revaluation	3,714	0	0	0	0	3,714
Impairment (losses)/ reversals recognised in the Revaluation Reserve	0	0	0	0	(38)	(38)
Derecognition - Disposals	0	749	0	0	54	803
Derecognition - Other	92	0	0	0	0	92
Assets reclassified (to)/from held for sale	0	0	0	0	61	61
Other movements in depreciation and impairment	6	0	0	0	(6)	0
At 31 March 2012	**(6,976)**	**(9,312)**	**(9,124)**	**0**	**(64)**	**(25,476)**
Net Book Value						
At 31 March 2012	**137,032**	**6,489**	**4,067**	**12,198**	**1,156**	**160,942**
At 31 March 2011	**143,094**	**7,211**	**3,667**	**11,295**	**1,417**	**166,684**

Impairment Review

There is a requirement under the Code each year to review fixed assets for evidence of impairment, which may be occasioned by a permanent consumption of economic benefits - e.g. as a result of a fire - or by a general reduction in prices or value. One asset was considered to have been impaired at the end of 2012/13.

A decision was made by the Commissioner to sell Alpha Park after the balance sheet date (i.e. 31 March 2013) which he announced on 22 May 2013. However, prior to this final decision, the Alpha Park site was subject to an impairment review, as required by the Code for most property, plant and equipment assets. The previous valuation, which was based on the historic cost of the asset and its service potential, was deemed no longer to be appropriate given the review of the estate which was taking place, the purchase of an alternative property for a smaller headquarters for the constabulary and the recommendation to cease all work on the Alpha Park site made by the Programme Board. Consequently, the asset was revalued on a fair value basis and an impairment was charged to the Comprehensive Income and Expenditure Statement.

This charge was reversed out in the Movement in Reserves Statement and there is no impact on the council tax. The asset was also reclassified as a surplus asset in the accounts as it could not be considered to be ‘under construction’. The ‘Movement on Balances 2012/13’ reflects this impairment and reclassification.

No other assets were deemed to have been impaired in the year.

Capital commitments

As at 31 March 2013 the Commissioner had committed capital expenditure of £2.582m. This was related to land and buildings, including retention payments for completed properties (£1.760m), IT and Communications (£0.280m) and the vehicle fleet replacement programme (£0.542m).

Intangible assets

Prior to the introduction of IFRS, intangible assets were shown in the same disclosure as what are now property, plant and equipment assets. These are now shown separately. However, the Commissioner has no material intangible assets and those which he does have are fully amortised.

22 – Valuation Information

The Commissioner carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years.

The statement below shows the progress of the Commissioner's rolling programme for the revaluation of property, plant and equipment assets. The Force's dwellings (i.e. beat houses) were revalued in 2010/11 and the operational buildings were revalued in 2011/12 by in-house, suitably-qualified professionals. Valuations in 2012/13 were carried out by Mr. Chris Jelliffe FRICS. Other valuations are carried out when there has been a change of use or any evidence of impairment. The basis for valuation is set out in the statement of accounting policies.

Valued:	Land and buildings £'000	Vehicles and plant £'000	Furniture and equipment £'000	Assets under construction £'000	Surplus assets £'000	Total property, plant and equipment £'000
At historical cost	59	7,661	5,930	3,019	0	16,669
At fair value in:						
2008/09	0	0	0	0	0	0
2009/10	3,183	0	0	0	0	3,183
2010/11	33,575	0	0	0	0	33,575
2011/12	96,963	0	0	0	0	96,963
2012/13	271	0	0	0	4,500	4,771
Total	134,051	7,661	5,930	3,019	4,500	155,161

Measurement Bases

The following measurement bases are used for each category of Property, Plant and Equipment:

- Infrastructure, community assets, furniture and equipment, vehicles and plant – Depreciated historic cost;
- Dwellings – market value;
- Other operational land and buildings - Existing Use Value (EUV) or Depreciated replacement cost (DRC) if EUV cannot be determined;
- Assets under construction – Historic cost (not subject to depreciation until operational);
- Surplus assets – EUV or DRC of last operational use

23 – Assets held for sale

Subject to meeting certain tests an asset may be defined as 'held for sale' and measured at the lower of its carrying value and its fair value less costs to sell. In most cases such assets will be deemed to be 'current', meaning that they are expected to be sold within 12 months of being re-classified. In rare instances, where a sale is delayed and is likely to take it beyond 12 months from the balance sheet date, the asset may be re-classified as non-current. Where an asset no longer meets the test of being held for sale it will be de-classified. Assets held for sale are not subject to depreciation charges.

	Current		Non-Current	
	2011/12 £'000	2012/13 £'000	2011/12 £'000	2012/13 £'000
Balance outstanding at start of year	**1,128**	**1,064**	**0**	**0**
Assets newly classified as held for sale:				
- Property, Plant and Equipment	296	3,263	0	0
Revaluation gains/(losses)	0	(174)	0	0
Assets sold	(360)	(296)	0	0
Balance outstanding at year-end	**1,064**	**3,857**	**0**	**0**

The Commissioner holds a number of assets which meet the tests of being held for sale as at the Balance Sheet date:-

- The aircraft became held for sale during 2010/11 and a broker was appointed to facilitate the sale of the aircraft at the optimum price. A contract for a sale of the aircraft was agreed in 2012/13 and a deposit was received towards the end of the financial year. The aircraft will be sold in 2013/14 for the contracted sum. The carrying value of the asset was reviewed at the year end and the value written down to the fair value less costs to sell. This write-down is shown as a revaluation loss in the above table;
- A number of dwellings and unused, small police stations were held for sale in accordance with the policy of disposing of beat houses once they are vacant and the Commissioner's plans for the rationalisation of the operational estate.

24 – Assets, Liabilities and reserves acquired on the creation of the Office of the Police and Crime Commissioner

Further to the demise of the Police Authority and the creation of the Office of the Police and Crime Commissioner on 22 November 2012 in accordance with the provisions of the Police Reform and Social Responsibility Act 2011, the assets, liabilities and reserves transferred. The CIPFA *Code of Practice for Local Authority Accounting* outlines the principles which apply to group reorganisations and LAAP Bulletin 95 offered further advice on the requisite accounting arrangements.

Applying the principle that local authorities are under common control, the Commissioner and Chief Constable have determined that they to follow the principles of merger accounting using FRS 6 *Acquisitions and Mergers* as a guide. This is presented in these financial statements by restating the financial performance, position and cash flows as if the services or functions of the Commissioner and Chief Constable had always taken place in these entities. As such, assets and liabilities are required by the Code to be transferred at their carrying value, with certain exceptions (none of which are applicable in this instance).

In recognition of the above, the table below summarises the assets and liabilities which transferred from the Hampshire Police Authority to the Police and Crime Commissioner for Hampshire at the beginning of the year that the transfer occurred (i.e. 1 April 2012):-

Balance Sheet at start of year	31 March 2012
	£'000
Property, plant and equipment	160,942
Long term investments	7,000
Long term debtors	685
Long Term Assets	**168,627**
Short term investments	28,000
Assets held for sale	1,064
Inventories	883
Short term debtors	26,263
Cash and cash equivalents	14,867
Current Assets	**71,077**
Short term borrowing	(1,449)
Grants received in advance - revenue	(482)
Short term creditors	(30,976)
Provisions	(551)
Current Liabilities	**(33,458)**
Long term borrowing	(38,378)
Other long term liabilities	(1,487)
Grants received in advance - capital	(2,593)
Liability related to pension schemes	(2,356,857)
Long Term Liabilities	**(2,399,315)**
Net Assets/(Liabilities)	**(2,193,069)**
Usable reserves	50,081
Unusable reserves	(2,243,150)
Total Reserves	**(2,193,069)**

25 – Capital financing requirement

2011/12 £'000	Capital financing and expenditure	2012/13 £'000
47,591	*Opening Capital Financing Requirement*	45,908
	Capital investment	
4,465	Operational assets	7,625
903	Non-operational assets	3,382
0	Revenue Expenditure funded from capital under statute	58
	Sources of finance	
(1,161)	Capital receipts	(786)
(3,024)	Government grants and contributions	(3,086)
(12)	Other grants and contributions	0
(1,171)	Use of reserves (RCCO)	(2,946)
(1,683)	Sums from revenue (MRP)	(2,015)
45,908	*Closing Capital Financing Requirement*	**48,140**
	Explanation of movements in year	
(1,683)	Increase/(Decrease) in underlying need to borrow (unsupported)	2,232
(1,683)	*Increase/(decrease) in Capital Financing*	**2,232**

£11.01m of capital expenditure was on fixed assets as shown above, with a small sum being expended on premises which the Commissioner does not own but is occupied by his staff and officers under joint-working arrangements. The expenditure on non-operational assets in 2012/13 relates to the first phase of the programme to rationalise operational property across the force area, to provide neighbourhood offices for safer neighbourhood teams and for the purchase of a site in Winchester for a small operational headquarters for the Chief Constable and key strategic functions.

Under the Prudential Code arrangements, the Commissioner is permitted to borrow money to finance capital expenditure as long as the borrowing is prudent, affordable and sustainable. No new borrowing was taken out in 2012/13 (£10m in 2011/12).

26 – Leases

26.1 Commissioner as Lessee

Finance Leases

The Commissioner has one building which was acquired under a finance lease under IAS17. It has not identified any other assets which have been acquired under finance leases. The operational building is carried as Property, Plant and Equipment in the Balance Sheet at the following net amount:

31 March 2012 £'000		31 March 2013 £'000
3,338	Other Land and Buildings	3,298
0	Vehicles, Plant, Furniture and Equipment	0
3,338	**Total**	3,298

The Commissioner paid a premium when taking the building on a 999-year lease in March 2001 and is paying a peppercorn rent for the remainder of the lease term. These minimum lease payments are thus not recognised as a long-term liability in the Commissioner's accounts due to the value being de minimis. The annual lease payment is recognised as a revenue expense.

Operating Leases

The Commissioner leases a number of operational buildings. The future minimum lease payments due under non-cancellable leases in future years are:

31 March 2012 £'000		31 March 2013 £'000
47	Not later than one year	1,277
2,531	Later than one year and not later than five years	3,114
0	Later than five years	267
2,578	**Total**	4,658

The expenditure charged to the net cost of services in the Comprehensive Income and Expenditure Statement during the year in relation to these leases was:

31 March 2012 £'000		31 March 2013 £'000
1,296	Minimum lease payments	1,347
0	Contingent rents	0
(9)	Less: Sub-lease payments receivable	0
1,287	**Total**	1,347

26.2 Commissioner as Lessor

No significant property, plant, equipment or other assets are leased, either as finance leases or operating leases. A number of aerial sites are leased to third parties for use and the annual income received under such arrangements is in the region of £46,000. The agreements in respect of such sites are varied but the Commissioner would expect to receive the same level of income from such agreements each year over the medium-term.

27 – Insurance Provisions

The Commissioner does not have an insurance provision but does hold a reserve of £894,000 (£894,000 at 31 March 2012). The Commissioner self insures lower amounts but externally insures against larger risks such as loss/damage to assets and other potential liabilities.

28 – Financial Instruments

28.1 Introduction

A financial instrument is defined as "any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument of another".

The term 'financial instrument' covers both financial assets and financial liabilities. These range from straightforward trade receivable and trade payables to more complex transactions such as financial guarantees, derivatives and embedded derivatives. The Commissioner's borrowing, finance leases and investment transactions are also classified as financial instruments.

In accordance with these standards, financial assets and financial liabilities should be measured initially at fair value less transaction costs. Fair value is the amount for which an asset could be exchanged or a liability settled. The best evidence for fair value on initial recognition is the transaction price. The financial assets of the Commissioner which fall within the definition of financial instruments, principally cash deposits, long-term debtors, accounts receivable and temporary lending, are classified as loans and receivable financial instruments. The financial liabilities of the Commissioner falling within the definition, principally accounts payable and temporary and long-term borrowing, are classified as financial liabilities at amortised cost (i.e. borrowings) or financial liabilities carried at contract amount. Current operational creditors are valued at contract amount given their short-term nature.

The following categories of financial instrument are carried in the Balance Sheet:

	Long - term		Current	
	31 March 2013 £'000	31 March 2012 £'000	31 March 2013 £'000	31 March 2012 £'000
Investments				
Loans and receivables	13,000	7,000	37,250	28,000
Total investments	**13,000**	**7,000**	**37,250**	**28,000**
Debtors				
Loans and receivables	689	685	18,460	14,904
Total Debtors	**689**	**685**	**18,460**	**14,904**
Borrowings				
Financial liabilities at amortised cost	37,164	38,378	1,215	1,215
Total borrowings	**37,164**	**38,378**	**1,215**	**1,215**
Creditors				
Financial liabilities at amortised cost	0	0	12,815	14,586
Total creditors	**0**	**0**	**12,815**	**14,586**

Creditor balances are for operational or contractual creditors only and exclude government creditors (local and central), collection fund creditors, short-term borrowing and the accrual for employee benefits. Debtor balances are also for operational or contractual debtors and exclude payments in advance, government debtors (local and central), collection fund debtors and the provision for bad debts. As a consequence of these exclusions, the creditor and debtor balances will differ from that shown on the face of the Balance Sheet.

28.2 Income, Expense, Gains and Losses

	2011/12			2012/13		
	Financial Liabilities measured at amortised cost £'000	Financial Assets: Loans and receivables £'000	Total £'000	Financial Liabilities measured at amortised cost £'000	Financial Assets: Loans and receivables £'000	Total £'000
Interest expense	1,531	0	**1,531**	1,583	0	**1,583**
Impairment losses	0	0	**0**	71		**71**
Total expense in Surplus or Deficit on the Provision of Services	**1,531**	**0**	**1,531**	**1,654**	**0**	**1,654**
Interest income	0	761	**761**	0	689	**689**
Total income in Surplus or Deficit on the Provision of Services	**0**	**761**	**761**	**0**	**689**	**689**
Net gain / (loss) for the year	**(1,531)**	**761**	**(770)**	**(1,654)**	**689**	**(965)**

28.3 Fair values of Assets and Liabilities

Financial liabilities, financial assets represented by loans and receivables and long-term debtors and creditors are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments, using the following assumptions:

- PWLB rates have been discounted at the published interest rates for new certainty rate loans arranged on 31st March;
- no early repayment or impairment is recognised;
- where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value;
- the fair value of trade and other receivables is taken to be the invoiced or billed amount.

The fair values calculated are as follows:

31 March 2012 Carrying amount £'000	31 March 2012 Fair value £'000		31 March 2013 Carrying amount £'000	31 March 2013 Fair value £'000
54,179	60,720	Financial liabilities	51,194	59,232
0	0	Long-term creditors	0	0

31 March 2012 Carrying amount £'000	31 March 2012 Fair value £'000		31 March 2013 Carrying amount £'000	31 March 2013 Fair value £'000
49,904	49,949	Loans and receivables	68,710	68,770
685	685	Long-term debtors	689	689

Liabilities

The fair values of the liabilities are calculated in the context of interest rates applicable for similar liabilities at the balance sheet date. As at the balance sheet date of 31 March 2013 and the previous year end, the fair value of the liabilities are higher than the carrying amount of the liabilities on these dates because the Commissioner's portfolio of loans includes a number of fixed rate loans where the interest payable is higher than the rates available for similar loans at the Balance Sheet dates. This shows a notional loss (based on economic conditions at the balance sheet date) arising from a commitment to pay interest to lenders above current market rates at that time.

Assets

Short term debtors and creditors are carried at cost as this is a fair approximation of their value.

Long term debtors shown on the balance sheet consist of car loans and housing assistance loans. The carrying value of both types of long-term debtor is fair value.

Car loans are relatively short-term advances to staff and total approximately £15,500 at 31 March 2013 (£24,900 at 31 March 2012). Market rates of interest are charged on these loans and the fair value is considered to be the value of the loans outstanding at the balance sheet date.

Housing assistance loans were offered to police officers and operational police staff between 2004/05 and 2007/08. Interest free loans of up to £20,000 were made. A charge was placed on the property purchased and this becomes repayable at the end of 15 years or earlier in the case of a sale. Because the prevailing interest rate at the time the advance was made was greater than the actual rate of interest applied (i.e. 0%) in accordance with the previous SORP, transactions of this nature are termed 'soft loans'. As such, the fair value of such loans is less than the amount of the cash lent. The sum by which the amount lent exceeds the fair value of the loan must be charged to the Income and Expenditure Account.

Between 2004/05 and 2007/08 £0.92m was advanced and at the end of March 2013 the outstanding sum was £0.72m (£0.74m at 31 March 2012). Loans totalling £20,800 were repaid during the financial year. In accordance with the Code these loans have been written-down to their fair value which reflects the interest foregone by making interest free loans. This interest foregone forms a charge on the income and expenditure account on initial recognition (i.e. the year the advance is made) although there is an accounting adjustment to mitigate any potential impact upon the general fund balance. The interest presumed to have been foregone is written back to the balance sheet through the income and expenditure account, over the expected life of the loan. On the basis that these loans are for an individual's first property purchase and have a maximum life of 15 years, with some already having been repaid, an expected life of 8 years has been assumed.

On the basis of the above, the fair value of housing assistance loans is £0.67m (£0.66m at 31 March 2012). The Financial Instruments Adjustment Account is the balance sheet account which records these adjustments to the value of the soft loans.

28.4 Trade Receivables (Debtors)

Within debtors, accounts receivable, classified as receivable financial instruments, are due within one year with no interest being payable. As such, the fair value of these receivables is the same as the original invoice amount. Other debtor balances such as payments in advance and government debtors (relating, for example, to vat refunds due and rates) are non contractual and outside the scope of the "financial instruments" regulations.

31 March 2012 £'000		31 March 2013 £'000
14,904	Receivable financial instruments	18,460

Trade debtors were impaired by £71,541 during the year as this debt (or proportion thereof) was deemed uncollectable.

28.5 Loans and receivables – long-term

In accordance with the Annual Investment Strategy, £13m of surplus cash was invested in a total of eight loans at the balance sheet date, with various dates of maturity between 30.05.14 and 17.10.14, all with UK local authorities as counterparties. With interest rates being fixed at rates which are close to the discount rate and these investments being repaid at various points during this period, the fair value of these investments is £13.060m. This difference is not significant and the investments are held at carrying value as a proxy for fair value at the Balance Sheet date.

28.6 Trade Payables (Creditors)

Trade payables (creditors), classified as financial liabilities, are paid within 30 days of the date shown on the invoice. As such, the fair value of these liabilities is the same as the original invoice amount.

31 March 2012 £'000		31 March 2013 £'000
14,586	Trade Payables (Creditors)	12,815

28.7 Financial liabilities at amortised cost (Long-term borrowing)

The Commissioner's borrowing strategy for 2012/13 was set by the former Police Authority in February 2012. The strategy was to take a more proactive approach to managing the portfolio of existing borrowing. This approach would look for opportunities which might arise in an environment of changing interest rates to refinance some borrowing to offer improved revenue costs of capital financing. However, it was recognised that the gap between short and long term interest rates was still large and that internal financing might be the most cost effective means of financing capital expenditure, especially as this difference between short and long term interest rates was expected to continue.

The Commissioner has 20 fixed long-term loans from the Public Works Loans Board (PWLB). These are analysed below:-

Analysis of loans by maturity	Average interest rate (Current)	Outstanding loans 31 March 2012 £'000	Outstanding loans 31 March 2013 £'000
Less than 5 years	2.84%	6,571	6,571
Between 5 and 10 years	2.57%	3,321	2,108
Between 10 and 15 years	5.44%	700	700
Between 15 and 20 years	4.09%	4,000	8,000
Between 20 and 25 years	4.33%	21,000	19,000
More than 25 years	4.41%	4,000	2,000
		39,592	**38,379**

The Code requirements in respect of accounting for financial instruments apply to long-term borrowing. There is a requirement to show the fair value of the Commissioner's fixed rate loans. This effectively shows the fair value of each loan in the context of rates applicable for similar loans at the balance sheet date. The PWLB calculates the fair value on these loans on the basis of what it would cost to redeem the loans early. Thus, if current interest rates are lower than the loan rate, then the repayment sum will be higher than the principal amount. Where current interest rates are higher than the rate of an existing fixed rate loan, this works in reverse and makes the fair value higher than the book value.

Much of the Commissioner's loan portfolio of £38.4m was taken out between 2008/09 and 2011/12 (£34m). As a result, the difference between the rates at which loans were taken out and the rates in existence at 31 March 2013 is relatively low, which is reflected in a relatively small difference between the book value of the loans and the fair value. The PWLB loans had a fair value of £46.4m at 31 March 2013 (£46.1m at 31 March 2012).

28.8 Financial guarantee contracts

When a financial guarantee is given, whereby the liabilities of a third party are guaranteed in the event of a default, the Code requires that this is recognised in the accounts at fair value. The fair value is assessed in relation to the level of the financial guarantee and the probability of this being called.

By being the signatory to property leases and by being the employer of all of the staff, the Commissioner has effectively guaranteed the leasing payments for premises occupied by the ACPO Criminal Records Office (ACRO). However, in respect of the ACRO premises and any prospective redundancy costs, a surety has been received and is held as a deposit in the event that the service is discontinued. The sum held represents the maximum liability to pay outstanding leasing payments under the lease and any redundancy costs which may arise. As such, this sum is not a premium paid to the Commissioner for bearing a potential risk. Rather, it is a deposit held to pay all sums due in the event of the ACRO arrangements ceasing with insufficient notice. Consequently, there is no recognition of this arrangement as a financial guarantee in the statement of accounts.

During 2012/13, similar arrangements were entered into on behalf of the ACPO Vehicle Crime Intelligence Service, which had previously been operated by Wiltshire Constabulary. This transferred across to ACRO. In view of this, a separate surety of £300,000 was received to offset any potential losses in the event of an early termination of the unit's activity. As with ACRO, no financial guarantee is deemed to be in place.

28.9 Risks

The Commissioner has adopted CIPFA's Code of Practice on Treasury Management (and subsequent amendments) and complies with The Prudential Code for Capital Finance in Local Authorities (both revised in November 2011). As part of the adoption of the Treasury Management Code, the Commissioner approves a Treasury Management Strategy before the commencement of each financial year. The Strategy sets out the parameters for the management of risks associated with Financial Instruments. The Commissioner also produces treasury management practices specifying the practical arrangements to be followed to manage these risks.

The Treasury Management Strategy includes an Annual Investment Strategy in compliance with the CLGv requirements for local authorities. This Guidance emphasises that priority is to be given to security and liquidity, rather than yield. The Commissioner's Treasury Strategy, together with its treasury management practices are based on seeking the highest rate of return consistent with the proper levels of security and liquidity.

The Commissioner is exposed to several risks arising from the use of financial instruments:

- Credit risk – i.e. the possibility that other parties might fail to pay amounts due to the Commissioner;

- Liquidity risk – i.e. the possibility that the Commissioner might not have funds available to meet its commitments to make payments;
- Market risk – i.e. the possibility that financial loss might arise for the Commissioner as a result of changes in such measures as interest rates or stock market movements.

Credit Risk

Credit risk is the possibility that banks and financial institutions will fail to meet their contractual obligations, causing a loss to the Commissioner. The Commissioner manages credit risk by ensuring that investments are only placed with organisations of high credit quality as set out in the Treasury Management Strategy. These include commercial entities with a minimum long-term credit rating of A-, and other local authorities without credit ratings. Recognising that credit ratings are imperfect predictors of default, the Commissioner has regard to other measures including credit default swap and equity prices when selecting commercial organisations for investment. A maximum investment limit of £15 million is placed on the amount of money that can be invested with a single counterparty. No more than £20million in total can be invested for a period longer than 364 days and up to a maximum duration of two years.

The Commissioner's maximum exposure to credit risk in relation to its investments in banks and building societies of £30.6m cannot be assessed generally as the risk of any institution failing to make interest payments or repay the principal sum will be specific to each individual institution. Recent experience has shown that it is rare for such entities to be unable to meet their commitments. A risk of irrecoverability applies to all of the Commissioner's deposits, but there was no evidence at the 31 March 2013 that this was likely to crystallise. The Commissioner has no historical experience of counterparty default.

It should be noted that although credit ratings remain a key source of information, the Commissioner recognises that they have limitations and investment decisions are based on a range of market intelligence. All investments have been made in line with the Commissioner's Annual Investment Strategy for 2012/13, approved by the Hampshire Police Authority, which preceded the Commissioner, on 7 February 2012.

The table below summarises the nominal value of the Commissioner's investment portfolio at 31 March 2013, and confirms that all investments were made in line with the Commissioner's approved credit rating criteria:

Counterparty	Credit Rating Criteria Met When Investment Placed?	Credit Rating Criteria Met on 31 March 2013?	Balance Invested as at 31 March 2013 £000s					Total £000s
	YES / NO	YES / NO	Call accounts	Up to 1 month	> 1 month and < 6 months	> 6 months and < 12 months	> 12 months	
Banks - UK	Yes	Yes	4,323	2,002	17,267	3,008	0	26,600
Building Societies - UK	Yes	Yes	0	0	2,002	2,005	0	4,007
Local Authorities	Yes	Yes	0	0	6,039	5,021	13,046	24,106
Total			**4,323**	**2,002**	**25,308**	**10,034**	**13,046**	**54,713**

Call accounts are included in the above for reference but it should be noted that these accounts do not form part of investments. Call accounts are included within cash and cash equivalents.

Liquidity Risk

Liquidity risk is the possibility that the Commissioner will be unable to raise funds to meet its payment commitments as they fall due. As the Commissioner has ready access to borrowing through the Public Works Loan Board and commercial banks, there is no perceived risk that the Commissioner will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the Commissioner will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. This risk is managed by maintaining a spread of fixed rate loans, limiting the amount of the Commissioner’s borrowing that matures in any one financial year.

The maturity analysis of the nominal value of the Commissioner’s debt at 31 March 2013 was as follows:

Outstanding debt - maturity periods	31 March 2012	% of total debt portfolio	31 March 2013	% of total debt portfolio
	£’000	%	£’000	%
Less than 5 years	6,806	17	6,797	18
Between 5 and 10 years	3,321	8	2,108	5
Between 10 and 15 years	700	2	700	2
Between 15 and 20 years	4,000	10	8,000	21
Between 20 and 25 years	21,000	53	19,000	49
More than 25 years	4,000	10	2,000	5
Total	**39,827**	**100**	**38,605**	**100**

31 March 2012 £'000	Loans and other long term liabilities outstanding (nominal value):	31 March 2013 £'000
39,593	Public Works Loan Board	38,379
234	Temporary borrowing	226
39,827	**Total**	38,605

Note that the loans and other long-term liabilities include accrued interest (£0.226m) and that part of the long-term borrowing which is due to be repaid in the 12 months after the Balance Sheet date (£1.214m); both of these elements are classified as short-term liabilities on the Balance Sheet.

Market Risks

Interest Rate Risk. The Commissioner is exposed to risks arising from movements in interest rates. The Treasury Management Strategy aims to mitigate these risks by setting an upper limits on his exposure to fixed and variable interest rates. At 31 March 2013 all £38.4m of the debt portfolio was held in fixed rate instruments, and £0 in variable rate instruments.

Investments are also subject to movements in interest rates. The Commissioner's investments with less than one year to maturity (£41.7m at 31 March 2013) are classed as being held at variable rates and exposed to interest rate risk.

If all interest rates had been 1% higher (with all other variables held constant) the financial effect would be:

	£'000
Increase in interest payable on variable rate borrowing	0
Increase in interest receivable on variable rate investments	(416)
Net cost / (saving)	(416)

The approximate impact of a 1% fall in interest rates would have been as above but with the movement being reversed.

Price Risk. The Commissioner does not invest in equity shares and has no shareholdings in joint ventures or local industry. There is, therefore, no exposure to price risk.

Foreign Exchange Risk. The Commissioner has one financial asset denominated in a foreign currency (i.e. Euros), which it holds in a designated Euro currency bank account. Whilst the account balance is included in the Balance Sheet under cash and cash equivalents at the spot exchange rate pertaining on 31 March 2013, this is for accounting and reporting purposes only. The Euro account is held so that the Commissioner can account for the use of the EU grant it relates to and the donor bears the risk of any losses or benefits from any gains arising from movements in exchange rates. The Commissioner therefore has no exposure to loss arising as a result of adverse movements in exchange rates.

29 – Inventories

2011/12 £'000	Consumable Stores	2012/13 £'000
1,028	**Balance outstanding at start of year**	**883**
3,771	Purchases	3,620
(3,916)	Recognised as an expense in the year	(3,456)
0	Written off balances	(77)
0	Reversal of write-offs in previous years	0
883	**Balance outstanding at year-end**	**970**

30 – Short-term debtors

31 March 2012 £'000		31 March 2013 £'000
18,288	Central government bodies	16,189
5,383	Other local authorities	7,530
0	NHS Bodies	0
0	Public corporations and trading funds	0
2,592	Other entities and individuals	6,512
26,263	**Total**	**30,231**

Note that in 2012/13, a large short-term debtor of £4.521m is included in 'Other entities and individuals' in respect of pensions payments paid in advance for April 2013 which were paid early in accordance with a requirement to pay pensions on or before the first day of the month to which they relate.

31 – Cash and cash equivalents

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

31 March 2012 £'000		31 March 2013 £'000
50	Cash held by the Authority	53
1,407	Bank current accounts	1,377
(2,880)	Bank overdrawn	(1,420)
16,290	Call accounts (same day access funds)	4,320
14,867	**Total Cash and Cash Equivalents**	**4,330**

32 – Short-term creditors

31 March 2012 (restated) £'000		31 March 2013 £'000
4,651	Central government bodies	6,212
11,745	Other local authorities	9,234
65	NHS Bodies	70
23	Public corporations and trading funds	21
14,280	Other entities and individuals	12,781
30,764	**Total**	**28,318**

The short-term creditors total in the comparator year has been updated to match the relevant figure on the face of the Balance Sheet. Previously this table included other items such as accrued interest and the principal on long-term borrowing due to be paid in the 12 months after the balance sheet date: these are now shown under Current Liabilities.

33 – Provisions – Current Liabilities

	Redundancy and pension strain £'000	Other Provisions £'000	Total £'000
Balance at 31 March 2012	**(551)**	**0**	**(551)**
Additional provisions made in 2012/13	(65)	0	(65)
Amounts used in 2012/13	551	0	551
Unused amounts reversed in 2012/13	0	0	0
Unwinding of discounting in 2012/13	0	0	0
Balance at 31 March 2013	**(65)**	**0**	**(65)**

A provision has been made in the accounts in respect of the costs of redundancies and the additional charges to the employer from the pension fund for those who are eligible to retire early at the point at which they are made redundant. No extra entitlement, such as added years, are generally offered by the Commissioner but pensions can be taken early without a penalty. As a result of the change programme, the force made a number of members of police staff redundant in 2010/11 and 2011/12, largely through the employees' application to take voluntary redundancy, which enabled the force to meet budget reductions targets. In 2012/13 the number of redundancies was significantly reduced.

Where staff left at the 31st March, the redundancy payments were not due until after they had left the organisation and charges from the pension fund were also not due until the new financial year. As neither of these amounts could be accrued but there is certainty over both the timing and the amounts due, a provision has been made. In 2012/13, a provision of £65,000 has been made (£551,000 in 2011/12).

Whilst it is not classified as a provision, the Commissioner has recognised that some debts will be impaired on the basis of past experience. The sum recognised - which was formerly known as a provision for bad debts - is £150,000 (£150,000 as at 31 March 2012). Bad debts and impairments totalling £73,141 were accounted for during the year (£9,719 in 2011/12).

34 – Usable Reserves

Movements in the Commissioner's usable reserves are detailed in the Movement in Reserves Statement.

Usable reserves include earmarked balances which are held for a number of specific purposes. Notes 17 and 18 provide details of the balances and the purposes of each reserve.

35 – Unusable Reserves

35.1 Unusable Reserves – Summary

31 March 2012 £'000		31 March 2013 £'000
111,694	Capital Adjustment Account	105,810
5,286	Revaluation Reserve	5,791
(80)	Financial Instruments Adjustment Account	(46)
1,230	Collection Fund Adjustment Account	1,187
(4,423)	Accumulated Absences Account	(4,856)
(2,356,857)	Pensions Reserve	(2,617,967)
(2,243,150)		**(2,510,081)**

35.2 Reserves – Capital Adjustment Account

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

The account contains revaluation gains accumulated on Property, Plant and Equipment before 1 April 2007, the date the Revaluation Reserve was created to hold such gains.

Note 16 provides details of the source of all the transactions posted to the account, apart from those involving the Revaluation Reserve.

2011/12 £'000		2012/13 £'000	2012/13 £'000
118,338	**Balance at 1 April**		**111,694**
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
(12,974)	• Charges for depreciation and impairment of non-current assets	(13,900)	
0	• Revenue expenditure funded from capital under statute	(59)	
(901)	• 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	(775)	
(13,875)	**Sub-Total**		**(14,734)**
180	Adjusting amounts written out of the Revaluation Reserve		177
(13,695)	Net written out amount of the cost of non-current assets consumed in the year		**(14,557)**
	Capital financing applied in the year:		
1,161	• Use of the Capital Receipts Reserve to finance new capital expenditure	786	
1,172	• Use of the Capital (Revenue Contributions) Reserve to finance new capital expenditure	2,946	
3,035	• Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	3,086	
1,218	• Statutory provision for the financing of capital investment charged against the General Fund balance	1,314	
465	• Voluntary provision for the financing of capital investment charged against the General Fund balance	701	
7,051	**Sub-Total**		**8,833**
0	Write-down of capital debtors		**(160)**
111,694	**Balance at 31 March**		**105,810**

35.3 Reserves – Revaluation

The Revaluation Reserve records the accumulated gains on assets arising from increases in the value of its Property, Plant and Equipment Assets. The balance is reduced when assets with accumulated gains are:-

- Revalued downwards or impaired and the gains are lost;
- Used in the provision of services and the gains are consumed through depreciation, or
- Disposed of and the gains are realised

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

2011/12 £'000		2012/13 £'000
2,765	**Balance at start of year**	**5,286**
2,894	Revaluations during year	782
(193)	Impairments of previously revalued assets	(100)
(86)	Disposal of revalued assets	(45)
(94)	Depreciation of revaluations	(132)
5,286	**Balance at end of year**	**5,791**

35.4 Reserves – Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefitting from gains per statutory provisions. The Commissioner uses the account to manage the adjustments which need to be shown in the accounts for soft loans, namely loans previously given to enable officers to make a deposit on a property purchase but for which no interest is charged.

2011/12 £'000		2012/13 £'000
(116)	**Balance at start of year**	**(80)**
36	Effective interest credited to Comprehensive Income and Expenditure Statement	34
(80)	**Balance at end of year**	**(46)**

35.5 Reserves – Collection Fund Adjustment Account

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

2011/12 £'000		2012/13 £'000
1,425	**Balance at start of year**	**1,230**
(195)	Collection Fund net debtor/(creditor) at 31 March - monies owed by/(to) billing authorities	(43)
1,230	**Balance at end of year**	**1,187**

35.6 Reserves – Accumulated Absences Account

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

2011/12 £'000		2012/13 £'000	2012/13 £'000
(5,279)	**Balance at start of year**		**(4,423)**
5,279	Settlement or cancellation of accrual made at the end of the preceding year	4,423	
(4,423)	Amounts accrued at the end of the current year	(4,856)	
856	Amount by which amounts charged to the Comprehensive Income and Expenditure Statement are different from the cost of settlements chargeable in the year in accordance with statutory requirements		(433)
(4,423)	**Balance at end of year**		**(4,856)**

Note that the amount by which employee remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements is the movement in the year. In 2012/13, this was an increase of £0.433m (A reduction of £0.856m in 2011/12).

35.7 Reserves – Pensions Reserve

The Pensions Reserve absorbs the timing differences arising from the different arrangements for accounting for post-employment benefits and for funding benefits in accordance with statutory provisions. The Commissioner accounts for post-employee benefits in the Comprehensive Income and Expenditure Statement as the benefits are earned by employees accruing years of service, updating the liabilities recognised to reflect inflation, changing assumptions and investments returns on any resources set aside to meet the costs. However, statutory arrangements require benefits to be financed as the Commissioner makes employer's contributions to pension funds or eventually pays any pensions for which he is directly responsible. The debit balance on the Pensions Reserve therefore shows a substantial shortfall in the benefits earned by past and current employees and the resources the Commissioner has set aside to meet them. The statutory arrangements will ensure that funding will have been set aside by the time the benefits come to be paid.

2011/12 £'000		2012/13 £'000
(2,024,407)	**Balance at start of year**	**(2,356,857)**
(184,484)	Actuarial gains/(losses) on pensions assets and liabilities	(137,735)
(193,980)	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	(167,110)
46,014	Employer's pension contributions and direct payments to pensioners payable in the year	43,735
(2,356,857)	**Balance at end of year**	**(2,617,967)**

36 – Audit costs

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

2011/12 £'000		2012/13 £'000
	Police and Crime Commissioner:	
91.9	Fees payable to the Audit Commission with regard to external audit services carried out by the appointed auditor for the year	(1.5)
0.0	Fees payable to Ernst & Young with regard to external audit services carried out by the appointed auditor for the year	61.0
5.9	Additional fees payable to the Audit Commission with regard to external audit services carried out by the appointed auditor for the previous year	0.0
0.5	Fees payable to the Audit Commission in respect of the National Fraud Initiative	0.5
	Chief Constable:	
0.0	Fees payable to Ernst & Young with regard to external audit services carried out by the appointed auditor for the year	25.0
98.3		**85.0**

The credit of £1,500 from the Audit Commission represents a rebate in respect of audit fees for 2012/13. This was due to the revised structure and business model of the Audit Commission which focused on their core functions for the period until their closure and enabled them to reduce their costs further.

Ernst & Young LLP were appointed to audit the accounts of the Police and Crime Commissioner for Hampshire, the Group accounts and the accounts of the Chief Constable for Hampshire for five years starting with the accounts to 31 March 2013. The fees in respect of each party are shown in the above table.

37 – Contingent liabilities

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

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

There are some claims which have been received for which the Chief Constable, through the Commissioner, is not insured and, again, the reserve or existing budgets would cover any awards of costs and damages. It is not certain that these or related events which might arise in the future would lead to rulings against the Commissioner or will lead to claims which are substantial. The insurance reserve was increased by £500,000 in 2011/12. This gave a new balance of £894,000 to cover uninsured losses. There was no cause to draw down any of this reserve balance in 2012/13.

38 – Contingent assets

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

Further to a court case which was settled against the Commissioner, costs and damages were awarded to the plaintiff. The Police Commissioner did not indemnify the officer involved and has subsequently sought to recover from the officer the costs it has incurred and the costs and damages it has paid to the plaintiff. At the balance sheet date, a sum of approximately £133,500 had been paid by the Commissioner in a prior financial year but the final sum, provision for interest, the means of repayment and the period over which repayment will be made has yet to be settled. This matter was reported in the 2009/10 disclosure. Negotiations with the third party's solicitor are nearing completion.

39 – Events after the reporting period

The Commissioner announced his plans to deliver a new estates strategy to support future policing needs on the six month anniversary of his appointment on 22 May 2013. These plans included a proposal to downsize the current police headquarters in Winchester to a smaller building in the city. The Commissioner also said that he would be selling the Alpha Park site as this was no longer a viable site or location for redevelopment and it did not fit in with the wider plans to set up prisoner investigation centres and to work in partnership in shared and third party premises wherever possible.

At the year and – i.e. prior to the final decision made by the Commissioner - the Alpha Park site was subject to an impairment review, as required by the Code for most property, plant and equipment assets. The previous valuation, which was based on the historic cost of the asset and its service potential, was deemed no longer to be appropriate given the review of the estate which was taking place, the purchase of an alternative property for a smaller headquarters for the constabulary and the recommendation to cease all work on the Alpha Park site made by the Programme Board. Consequently, the asset was revalued on a fair value basis and an impairment was charged to the Comprehensive Income and Expenditure Statement. This charge was reversed out in the Movement in Reserves Statement and there is no impact on the council tax. At the same time, the asset was reclassified as a surplus asset.

Thus, whilst the decision to sell Alpha Park occurred after the balance sheet date (i.e. 31 March 2013), this in itself was not an ‘adjusting’ event (i.e. which would have adjusted the figures reported in the financial statements) as the carrying value of the asset had already been reviewed at the year end.

40 – Other disclosures

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

- There are no acquired or discontinued operations;
- The Commissioner does not have any Private Finance Initiative (PFI) arrangements or similar schemes;
- The Commissioner does not have any material heritage assets;
- The Commissioner does not have any pooled funds;
- The Commissioner does not have any of the following:-
    - Investment properties
    - Material construction contracts
    - Operating activities
    - Material trading operations
    - Trust funds
- The Commissioner has not capitalised any borrowing costs

41 – Notes to the cash flow statement 2012/13

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

2011/12 £'000		2012/13 £'000
(159,732)	Adjustments to net surplus or deficit on the provision of services for non-cash movements	(135,134)
	Analysis:-	
(147,966)	Pensions	(123,375)
(12,974)	Depreciation and impairment charged to CIES	(13,900)
(2,701)	Revaluation adjustments	682
8,066	Increase/(Decrease) in Debtors	3,968
(4,803)	(Increase)/Decrease in Creditors	1,768
(145)	Increase/(Decrease) in Inventories	87
356	(Increase)/Decrease in Provisions	486
(898)	Carrying amount of non-current asset and non-current assets held for sale, sold or de-recognised	(573)
1,333	Other non-cash items charged to the net surplus or deficit on the provision of services	(4,277)
(159,732)		(135,134)

41.2 Adjustments to the net surplus or deficit on the provision of services for investing and financing activities

2011/12 £'000		2012/13 £'000
3,426	Adjustment for items included in the net surplus or deficit on the provision of services that are investing and financing activities	2,747
	Analysis:-	
1,161	Proceeds from the sale of PP&E, investment property and intangible assets	626
3,035	Capital grant (included within investing activities)	3,086
(770)	Any other items for which the cash effects are investing or financing cash flows	(965)
3,426		2,747

41.3 Investing activities

2011/12 £'000		2012/13 £'000
5,368	Purchase of property, plant and equipment, investment property and intangible assets	11,007
14,500	Purchase of short-term and long-term investments	15,250
0	Other payments for investing activities	(58)
(1,161)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(626)
0	Proceeds from short-term and long-term investments	0
(3,035)	Other receipts from investing activities	(3,086)
15,672	**Net cash outflow/(inflow) from investing**	**22,487**

41.4 Financing activities

2011/12 £'000		2012/13 £'000
(10,000)	Cash receipts of short- and long-term borrowing	0
(761)	Other receipts from financing activities - interest received	(689)
0	Cash payments for the reduction of the outstanding liabilities relating to finance leases	0
819	Repayment of short- and long-term borrowing	1,426
1,531	Other payments for financing activities - interest paid	1,654
(8,411)	**Net cash outflow/(inflow) from financing**	**2,391**

41.5 Cash and cash equivalents

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

2011/12 £'000		2012/13 £'000
50	Cash held	53
1,407	Bank current accounts	1,377
(2,880)	Bank overdraft	(1,420)
16,290	Surplus cash deposited with approved counterparties (on immediate call)	4,320
14,867	**Total Cash and Cash Equivalents**	**4,330**

2011/12 £'000	Police Pension Fund Account	2012/13 £'000
	Contributions receivable	
	- from employer	
(30,775)	- normal	(29,175)
0	- early retirements	0
(1,986)	- ill-health capital equivalent charges	(1,603)
(13,654)	- from members	(14,382)
	Transfers in	
(298)	- individual transfers in from other schemes	(307)
	Benefits payable	
56,303	- pensions	61,445
19,336	- commutations and lump sum retirement benefits	19,059
75	- lump sum death benefits	0
	Payments to and on account of leavers	
82	- refunds of contributions	8
33	- individual transfers out to other schemes	940
29,116	**Net amount payable for the year**	**35,985**
(29,116)	**Additional contribution from the Commissioner**	(35,985)
0		0

2011/12 £'000	Net Assets Statement	2012/13 £'000
	Current Assets	
0	- contributions due from employer	0
0	- other current assets	0
	Current Liabilities	
0	- unpaid pension benefits	0
0	- amount due to sponsoring department	0
0	- other current liabilities	0
0		0

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

Most payments and employer contributions in respect of the police pension schemes are reported in the Police Pension Fund Account. Other pension costs are charged to the Comprehensive Income and Expenditure Statement. This includes the ongoing costs and commuted lump sums in respect of officers who are awarded injury pensions, which totalled £1.43m in 2012/13. For officers who retire on the grounds of ill-health, the employer makes a contribution from the Comprehensive Income and Expenditure Account to the Police Pension Fund Account. This charge is the equivalent to two years' pensionable pay and is a one off credit to the account. All ongoing payments are met by the Police Pension Fund.

Debtors and creditors of the Police Pension Fund Account are included within the main Commissioner financial statements as a result of the reimbursement of the top up grant and the cash being transferred between the Commissioner and Pension Fund bank accounts on a daily basis.

The Police Pension Fund was established under the Police Pension Fund Regulations 2007 (SI 2007/1932).

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

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

Employees in the old pension scheme (pre-2006) make contributions of 12.25% or 12.50% of salary (according to salary threshold). Officers joining the scheme after this date pay 10.1% or 10.5% of salary. Both schemes have different accrual rates and retirement ages. The employer made a contribution of 24.2% of pensionable salary and benefits in 2012/13. The employee's contribution is set nationally by the Home Office and is subject to a triennial revaluation by the Government Actuary's Department (GAD).

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

Note 9 provides further details of the IAS19 entries and the pension schemes.

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

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

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

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

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

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

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

Debtors
Individuals or organisations who owe the Commissioner money at the end of the financial year.

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

Financial Instruments Adjustment Account
A Balance Sheet account which records the adjustments made to the value of assets and liabilities as a result of showing these at fair value or amortised cost on initial recognition and

the subsequent accounting entries required to write the value of these assets and liabilities back up to the actual sum due or payable at the end of its expected life.

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

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

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

International Financial Reporting Standards (IFRS)
International Financial Reporting Standards were introduced in 2010/11 and were generally deemed to be retrospective, rather than prospective. In accordance with IFRS 1, a transition date of 1 April 2009 was approved in the Code of Accounting Practice. All accounts and comparators were restated to this date.

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

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

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

Revenue Contributions to Capital Outlay (RCCO)
Amounts paid from revenue funds (charged to the Income and Expenditure Account) to purchase capital assets.

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

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

- NOT PROTECTIVELY MARKED -