Hampshire Police Authority
Statement of Accounts 2008/09

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Treasurer's Explanatory Foreword - Introduction

Introduction

This foreword provides an introduction to Hampshire Police Authority's Statement of Accounts for 2008/09. It includes summaries of:

* the role of the Police Authority and the content of the Statement of Accounts;
* achievements and developments and the financial position relating to both revenue and capital expenditure over the course of the year.

The Role of the Police Authority

Hampshire Police Authority covers the whole of Hampshire and the Isle of Wight. In policing terms Hampshire Constabulary is one of the largest non-metropolitan forces in England and Wales. The combined population of Hampshire and the Isle of Wight is approximately 1.8m. The aims of the Authority are to:

* secure an efficient and effective police service for everyone in Hampshire and the Isle of Wight
* be a leading Police Authority that is recognised and respected at local, national and regional level.

The strategic objectives are set out in the Local Policing Plan which is on the Authority and Constabulary websites. Further updates on achievements and developments can also be found on the websites:

www.hampshirepoliceauthority.org
www.hampshire.police.uk

Statement of Accounts

The Police Authority's Statement of Accounts for 2008/09 consist of the:

* Statement of accounting policies
* Statement of Responsibilities for the Statement of Accounts
* Annual Governance Statement
* Income and Expenditure Account, presented in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's Best Value Accounting Code of Practice;
* Statement of Movement on the General Fund Balance;
* Statement of Total Recognised Gains and Losses;
* Balance Sheet as at 31 March 2009;
* Cash Flow Statement
* Police Pension Fund Account and Net Assets Statement
* Notes to the accounts

The purpose of the main elements of the Statement of Accounts is described on the next page.

Treasurer's Explanatory Foreword - Introduction (continued)

The **Statement of Accounting Policies** outlines the accounting policies aplied by the Authority in constructing the accounts. The Policies are in line with the CIPFA Statement of Recommended Accounting Practices (the 'SORP) and are applied so that the accounts are consistent one year with another.

The **Annual Governance Statement** explains how the Authority has complied with its code of corporate governance, which itself is 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 Regulations 2003 (Amended in 2006) in relation to the publication of a statement on internal control.

The **Income and Expenditure Account** shows a summary of the resources generated and consumed by the Authority in the year. It shows the net cost for the year of the functions for which the Authority is responsible and demonstrates how that cost has been financed from general Govenrment grants and income from local taxpayers.

The **Statement of Movement on the General Fund Balance** shows adjustments that are needed to the Income and Expenditure Account to reflect the true effect on the General Fund.

The **Statement of Total Recognised Gains and Losses** shows gains and losses in the year that by their nature are not reflected in the Income and Expenditure Account. They reflect a combination of capital cash items and accounting transactions arising from movements in the Balance Sheet. The largest of these reflects the actuarial adjustment for pensions liabilities.

The **Balance Sheet** sets out the Authority's year end financial position. It shows the balances and reserves at the Authority's disposal and its long-term indebtedness, the fixed and net curent assets employed in its operations, and summarised information on the fixed assets held.

The **Cash Flow Statement** summarised the inflows and outflows of cash arising with third parties for capital and revenue purposes.

Treasurer's Explanatory Foreword - Review of the Year

Establishing Safer Neighbourhood Teams and having an active presence in every neighbourhood remained a key priority in the year, and there are now over 150 teams covering the two counties. The Policing Pledge was introduced late in the year which outlined the standards of service which communities could expect. Other strategic priorities were to strengthen public protection and reduce and detect crime. Overall crime reduced by 2.9% (almost 4,800 fewer offences) and detection rates reduced slightly from 26.6% to 25.2%. In the year to December 2008, the Force was 16th nationally in the British Crime Survey, which measures public confidence.

Performance figures: Sanctioned detections

	All Crime		
	2006/07	2007/08	**2008/09**
Recorded	**180,894**	**164,152**	**159,403**
Detected	**40,909**	**43,714**	**40,170**
Percentage	**22.6%**	**26.6%**	**25.2%**

General Statistics:

Numbers of:	31 March 2008	31 March 2009
Employees (headcount)	6,963	6,817
Operational buildings	69	69
Vehicles	1,054	1,084
Dwellings	40	36

This performance was achieved at a time when the Force had overspent in the previous financial year and was facing other budget pressures at the start of the new financial year. It was also a time when the global economy was experiencing a major downturn and confidence in financial institutions was low. The Force took immediate and sustained action to bring its spending into line with its resources whilst striving to maintain operational performance. Despite this changing and unpredictable climate, the performance figures showed improvements in some of the key areas and the Force budget was underspent by £2.1m at the year end.

The changed global economic climate had a number of effects on the financial position of the Authority:

* The value of fixed assets fell and values for vehicles and property were subsequently written down by £27.7m to reflect an impairment of land values and reduced residual values of vehicles.
* The Bank of England reduced interest rates progressively during the year to an all-time record low of 0.5% in a bid to stimulate investment and aid recovery. This led to the Authority being able to borrow to finance its capital programme at very low rates. On the other side of the equation, however, the interest received on surplus cash balances, which is credited to the income and expenditure account - and which helps to reduce the burden on the council tax payer - reduced accordingly.

Treasurer's Explanatory Foreword - Review of the Year (continued)

* There was volatility in the banking sector and in the commercial sector which increased the risks on investments and affected the stability of some debtors and creditors. The Authority was not exposed to a loss of investments due to a sound treasury management policy which placed restrictions on which counterparties surplus cash could be placed with. Most debtors are other public sector organisations and thus the risk of default was less than in other parts of the economy. Those debtors from the private sector were managed accordingly: nevertheless, the provision for bad debts was increased by £0.155m to reflect the potential for debts to go bad.

It was in this changed environment that the Authority embarked upon its most significant capital programme since it became an independent body. Thus, in addition to the ongoing capital project for the development of a new headquarters for the Southampton OCU, the Authority purchased a site for a new Constabulary headquarters in the year. External borrowing of £14m was required to support these and other schemes in the capital programme during the year and the medium-term projection was adjusted accordingly to reflect the need to service these and future loans. The average rate secured for the new loans was just under 4.2% which was historically very low.

The entries required to comply with Financial Reporting Standard 17 (FRS17) Retirement Benefits, results in a -£1,680m FRS17 pension reserve and an overall net worth of -£1,557m. The large negative FRS17 pension reserve is 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 Authority's financial position remains sound.

The Force achieved £9.4m of efficiency savings towards the three year target of £30m in 2008/09.

There were some changes in accounting policy during the year relating to FRS17 retirement benefits and different accounting treatment of interest due and the portion of long-term debt which is due in the following year are to be shown in the balance sheet. These changes were required by the Statement of Recommended Practice 2008 (the 'SORP'), which governs how the financial performance of the Authority should be accounted for and what disclosures are required to help the reader understand the statements and underlying performance. The impact of the changes in accounting policy in 2008/09 was minimal and is explained in the notes to these accounts.

In 2008/09, the Authority spent £292.0m against a net expenditure budget of £294.1m on policing services for the people of Hampshire and the Isle of Wight. This net figure included a repayment into the general reserve of £2.3m in respect of an overspend in previous years. The general underspend of £2.1m at the year end was put into the general fund reserve and is the subject of bids for additional spending and carry forwards by OCU Commanders and Department Heads.

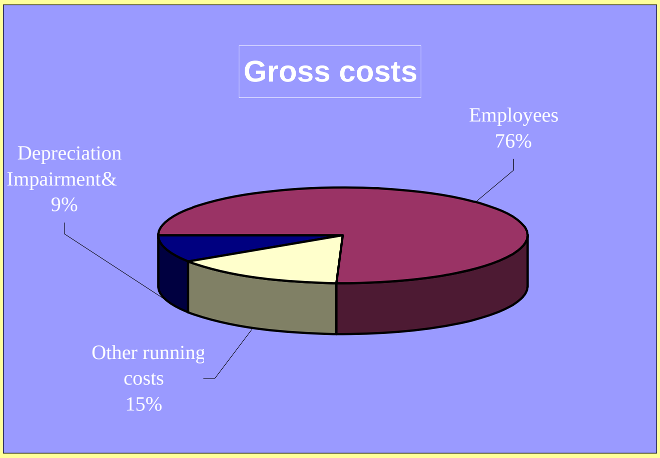
Treasurer's Explanatory Foreword - Review of the Year (continued)

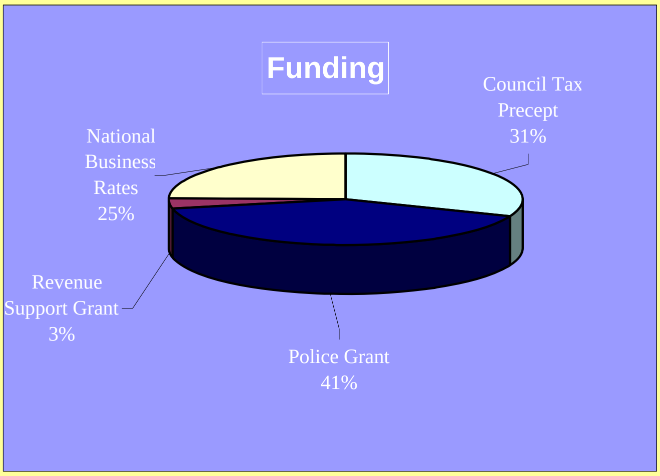
A summary of the revenue and capital expenditure and income follows this review of the year. The summary shows that the amount met from government grants and local taxpayers was £295.9m. Nowithstanding the fact that the Statement of Accounts is produced on a different basis from the management accounts, as explained in the notes to these accounts, the £3.9m difference from the net position reported in the summary compared to the figures reported to the Finance Committee is due to the different presentation of the general underspend and an adjustment in respect of capital grants received from the government. Thus, the underspend of £2.1m is part of the net transfer to reserves figure in the summary herein and a £1.8m adjustment in respect of the capital grant received from the Government does not feature in the figures reported to the Finance Committee.

Notwithstanding the resilience shown during the year to the changed economic circumstances and the subsequent financial performance achieved, the medium term presents some challenges which the Authority is bringing into its projections and strategies. The implications for government grants, pay and price inflation, short and long-term interest rates, changes to capping limits and a general election within the next 14 months all have to be forecast and the impact upon resource availability and service delivery managed so that local and national policing priorities continue to be met.

Summary of Revenue and Capital Expenditure and Income

Revenue expenditure and income reflects the amount spent and received in respect of providing police services in the financial year.





Summary Income and Expenditure

	£m	£m
Gross cost of services		
Employees	285.1	
Other running costs	57.0	
Depreciation & Impairment	34.9	
Total police services		377.0
Income		
Service income	-18.8	
Additional grants	-29.9	
Govt Grant Deferred	-2.8	-51.5
Net Cost of Services		325.5
Other		
Levies	0.9	
Financing	-30.2	
Pensions related	-5.1	
Transfer to reserves	1.9	
Increase in General Fund	2.9	
Amount met from Government grants and local taxpayers		**295.9**
Council Tax Precept		-91.9
Police Grant		-120.3
Revenue Support Grant		-10.2
National Business Rates		-73.5
		-295.9

Capital expenditure is incurred in the acquisition and enhancement of the Authority's assets which have a life of more than one year. Total expenditure in 2008/09 was £19m. The Home Office provided a general capital grant of £3.9m.

Capital receipts are the proceeds from the sale of capital assets. In 2008/09, £1.2m of receipts were received from the disposal of police houses, where all proceeds are used to finance further capital expenditure.

Capital Income and Expenditure

	£m
Expenditure	
Land and buildings	14.8
Vehicles	3.9
IT & operational equipment	0.3
	19.0
Funded by	
Government grant	-3.9
Capital receipts	-2.0
Borrowing	-13.1
	-19.0

The Prudential Code allows the Authority to borrow money as long as it is prudent, affordable and sustainable. New loans totalling £14m were taken out in 2008/09.

Statement of Accounting Policies	
General Principles	The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice (2008). 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.
Service Expenditure Analysis	The Best Value Accounting Code of Practice specifies the headings to present the statutory income and expenditure accounts and defines those headings. The requirement for 2008/09 is, again, to present most of the gross expenditure and gross income under the description 'Police services'.
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.
VAT	VAT is not included as income or expenditure of the Authority in accordance with Statement of Standard Accounting Practice (SSAP) 5.
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.
Specific Grants	Specific grants are included in the accounts on the basis of notification from the Government. Capital grants are credited to the Government grants deferred account and will be released over the life of the assets.
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 attibuted to current liabilities (i.e. creditors) or current assets (i.e. debtors) in accordance with Local Authority Accounting Panel Bulletin 81. The balance on these long-term liabilities or assets is shown in the appropriate category on the balance sheet.
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.

Statement of Accounting Policies

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 Authority 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.
Pensions	Pension costs included in the income and expenditure account and balance sheet have been determined in accordance with FRS17 Retirement Benefits as required by the Code of Practice. The main impact of FRS17 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 Statement of Movement on the General Fund Balance. 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 Authority 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 Authority is responsible for the costs of injury pensions. Ill-health pensions costs are met by a capital equivalent transfer from the Income and Expenditure Account to the Police Pension 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 2008/09 the Authority paid an employer's contribution representing 18.1% of pensionable pay. The contribution rate is determined by the Fund's actuary based on valuations every three years. At the 31 March 2007 valuation the actuary recommended a phased increase in employer contribution rates over the next three years. The rate for 2009/10 will be 18.6% of pensionable pay.

Statement of Accounting Policies

	Additional contributions are payable to cover the cost of any early retirements except those due to ill-health. In addition the Authority 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.
Liquid Resources	The Authority 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.
Trading Account	The Authority 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.
Changes in Account-ing Policies	Under the 2008 SORP the Authority has adopted the amendment to FRS17, Retirement Benefits. As a result, quoted securities held as assets in the defined benefit pension scheme (i.e. LGPS) are now valued at bid price rather than mid-market value. The effect of this change is a decrease of £0.15m, resulting in an increase of the pension deficit by the same amount. As this figure is not material in the context of the overall net liability, no prior period adjustment has been made and the change to the liability has been accounted for in 2008/09. Changes to the SORP in 2007 determined that interest accrued (i.e. due but not yet paid) at the end of the financial year should be added to the book value of the loan. The SORP 2008 repeated this advice. However, an accounting bulletin (LAAP 81) received from CIPFA in relation to the closure of the 2008/09 accounts, and in anticipation of the SORP 2009 and the necessary changes required for adoption of the International Financial Reporting Standards, advises that this practice should be ceased. The accounts have been prepared on this basis and the 2007/08 figures restated to aid comparison. In compliance with LAAP 81 the current portion of long-term debt i.e that element of the principal and interest which is due in the 12 months after the balance sheet date - is now shown as a current liability in the balance sheet. As the impact is minimal, the comparative figures are not restated. The Authority has adopted a policy of calculating the minimum revenue provision for supported borrowing on the former basis and for unsupported borrowing on the basis of asset lives.

Statement of Accounting Policies	
Assets	Assets yield benefits to the Authority for a period of more than one year. 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.
	Assets are valued on the basis recommended by the Chartered Institute of Public Finance and Accountancy 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. 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 fixed asset restatement account. Assets are revalued if their use changes.
	Beat houses and police houses were revalued in 2004/05 in order to comply fully with the requirements of Financial Reporting Standard (FRS) 15. All other operational assets were revalued during 2006/07. All valuations were undertaken by Hampshire Constabulary Property Services Staff.
	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 have been consolidated into the opening balance on the Capital Adjustment Account.
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, assets are depreciated on a straight line basis, although vehicles have 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. Buildings have a half year depreciation in the year of acquisition and sale. Vehicles have a full year of depreciation in the year of purchase but are not depreciated in the year of sale. This reflects the relative speed of depreciation of buildings and vehicles.

Statement of Accounting Policies

Leases	Leases are accounted for in accordance with SSAP 21 and FRS 5 where issues of substance over form need to be considered. A finance lease transfers substantially all the risks and rewards of ownership of an asset to the lessee. All other leases are operating leases.
Minimum Revenue Provision	The Authority is required by law to make a 'minimum revenue provision' for the repayment of debt. The regulations in place prior to 2007/08 required this MRP to be set at 4% of the Authority's capital financing requirement less the 'relevant amount', which is a statutory measure of the Authority's net indebtedness to fund capital expenditure. The Authority adopted a policy in June 2008 to calculate the minimum revenue provision for the repayment of debt - which is a statutory charge to the 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. This decision was based on options provided by a change of legislation which came into force on 31 March 2008.
Stocks	Stock accounts are maintained for uniforms, vehicle spares, fuel, vending provision, computer consumables, computer equipment and stationery and these are valued at latest buying price. This is a departure from SSAP 9, but the differences are not material to the accounts.
Reserves and Provisions	The general reserve represents the surplus of revenue income over expenditure. It can be used to supplement council taxes and grant income in future years, or to meet unforeseen items during the year. The introduction of the new police pension fund account obviated the need for a pension reserve and the balance on that reserve was transferred into the general reserve. An FRS17 pension reserve is still required to display the pension liability calculated in accordance with FRS17. The FRS17 pension liability is a significant figure which represents the amount that the Authority would have to find if all officers and staff were able to claim their pension as at 31 March 2008. The figure is high for police officers as police pensions are unfunded. The new police pension scheme introduced by the Home Office for all new officers from April 2006 was designed to help address this issue. The Capital Adjustment Account and the Revaluation Reserve replaced the Fixed Asset Restatement Account and the Capital Financing Account on 31 March 2007. 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 Authority arising from increases in value, netted off for disposals and certain depreciation adjustments

Statement of Accounting Policies	
	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.
	Unapplied grants and contributions holds capital grants that have been received, usually for a specific purpose, but have not been applied to finance capital expenditure yet.
	Capital receipts are 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.
	Capital (Revenue Contributions) Reserve holds amounts of money that have been taken from revenue to fund future capital expenditure.
	Earmarked reserves have been established to enable budget holders under the devolved financial management scheme to carry forward over/underspendings, thereby promoting strategic management of budgets within the Constabulary.
Prior period adjustments	Where there are material adjustments applicable to prior years which arise either from changes in accounting policies or from the correction of fundamental errors the results of such changes are disclosed and the impact on previous years' financial statements reported where practicable.
Treasury Manage-ment	The Authority 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.
Cash investment capital losses	The Authority 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 Authority the risk will be borne fully by the Authority.
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.
Bad debt	The provision for bad and doubtful debts is £200,000.

Statement of Responsibilities for the Statement of Accounts

The Police Authority's Responsibilities

The Police Authority 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 Authority, that officer is the Treasurer;
* manage its affairs to secure economic, efficient, and effective use of resources and safeguard its assets;
* approve the Statement of Accounts. In practice this is delegated to the Governance Committee.

The Treasurer's Responsibilities

The Treasurer is responsible for the preparation of the Authority's Statement of Accounts in accordance with the terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom (the Code of Practice or SORP).

In preparing this Statement of Accounts, the Treasurer has:

* selected suitable accounting policies and applied them consistently;
* made judgments and estimates that were reasonable and prudent;
* complied with the SORP.

The Treasurer has also :

* kept proper records which were up-to-date;
* taken reasonable steps for the prevention and detection of fraud and other irregularities.

The Chairman of Governance Committee's Statement:

I certify that the amended Statement of Accounts for 2008/09 was considered and re-approved by the Hampshire Police Authority's Governance Committee on 24 September 2009.

Signed: Venables

Date: 24th September 2009

The Treasurer's Certificate:

I certify that the Statement of Accounts for the year ended 31 March 2009 required by the Accounts and Audit Regulations are set out on the following pages. I further certify that the Statement of Accounts presents fairly the financial position of Hampshire Police Authority as at 31 March 2009 and its income and expenditure for the year then ended.

Signed:

Date: 29/6/09

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Annual Governance Statement for Hampshire Police Authority 2008/09

1 Scope of responsibilities

1.1 Hampshire Police Authority is responsible for ensuring that its 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 Authority also has a duty under the Local Government Act 1999 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.

1.2 In discharging this overall responsibility, the Authority is also responsible for putting in place proper arrangements for the governance of its affairs and facilitating the exercise of its functions, which includes ensuring a sound system of internal control is maintained through the year and that arrangements are in place for the management of risk.

1.3 The Authority 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 is on its website at hampshirepoliceauthority.org or can be obtained from Hampshire Police Authority, Westgate Chambers, Staple Gardens, Winchester SO23 8AW. This statement explains how the Authority has complied with the code and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of a statement on internal control.

2 The purpose of the governance framework

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

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

2.3 The governance framework has been in place at the Authority for the year ended 31 March 2009 and up to the date of approval of the Annual Statement of Accounts.

3 The governance framework

3.1 The Police Authority's objectives are set by the Authority annually. These objectives take into account objectives set nationally by the Home Office and inform objectives set locally at Force and Command Unit/Department level. The achievement of Authority objectives is monitored through the relevant Authority committees. The achievement of Force objectives is monitored by the Chief Officers Group (ACPO Group), the relevant Force Boards and Committees.

3.2 The Authority has various plans and policies which are approved by the Authority. In addition there are formal terms of reference, codes of conduct, Financial Regulations and Standing Orders to enhance the control framework.

3.3 The Force has supplemented these with policies and procedures. Each policy and procedure has a designated owner. There is a standard format for all Force policies and procedures. All policies and procedures are subject to consultation and must state how they are to be monitored and reviewed to ensure that they remain up to date. All policies are published on the Force intranet.

3.4 Compliance with Financial Regulations, Standing Orders, policies, procedures, laws and regulations is ensured through a variety of internal and external mechanisms using controls such as mandatory data entry, validation, clear forms, training, supervision, segregation of duties and inspection through self inspection, Professional Standards Department, Her Majesty's Inspector of Constabulary, Surveillance Commissioner, Home Office, internal audit, external audit, Her Majesty's Revenue and Customs and other professional and government bodies. In addition, monitoring reports are made to ensure compliance.

3.5 The Force has established a strategic risk register to identify, monitor and manage significant risks. More detailed risks are identified in each policy and procedure, and in each operation order. It is each individual's responsibility to identify, assess and manage risk. Employees are trained in risk assessment. Whilst operational risk management is both dynamic and established, it is acknowledged that further work is required to improve operational risk management such as testing of continuity plans and risk management training to embed risk management within the organisation.

3.6 The Governance Committee has responsibility for developing the corporate governance framework, reviewing internal audit and external audit plans, monitoring the implementation of audit recommendations and for upholding the principles of good governance, making recommendations to the Authority as appropriate.

3.7 The Treasurer has overall responsibility for the administration of the Police Authority's financial affairs. The Finance Committee receives financial management reports and approves or recommends courses of action to take to ensure probity, stewardship and best value. The Director of Finance and Resources is responsible to the Chief Constable for financial activities undertaken within the Force. The Force's Resource Management Board also receives financial management reports for information, comment and recommendations.

3.8 Performance is rigorously measured and managed at all levels of the Authority. The Performance Committee is a key contributor to monitoring the achievement of the Authority's objectives and challenging Force performance in the context of the annual Policing Plan. Financial monitoring, medium-term financial planning and monitoring the achievement of efficiency targets is the responsibility of the Finance Committee. The Chief Constable reviews performance through the Force Performance Review Group. The internal audit arrangements provide assurances regarding the effective, efficient and economic achievement of the Authority's objectives.

3.9 The Authority has utilised the CIPFA *'Rough Guide to the Annual Governance Statement'* to compile the necessary assurances and evidence to support this statement. Corporate governance and the production of this statement is overseen by the Governance Committee.

4 Review of effectiveness

4.1 The Authority has responsibility for conducting, at least annually, a review of the effectiveness of the governance framework, including the system of internal audit and the system of internal control. These reviews have been informed by the work of the internal auditors and the executive managers within the Authority who have responsibility for the development and maintenance of the governance environment, and also by comments made by the external auditors and other review agencies and inspectorates in their annual audit letter and other reports.

4.2 The effectiveness of the system of internal control is reviewed through the submission of reports to the Police Authority and its committees. Reports are submitted by the Force, internal audit, external audit and other external agencies. Authority members scrutinise reports submitted and are able to question report owners. Members of the Authority have access to all information and may ask for additional work to be undertaken where they feel it is necessary. The Governance Committee monitors corporate governance and the effectiveness of the system of internal control. In particular, assurance is gained from the Treasurer's Annual Audit Opinion report based on the work undertaken by internal audit during the course of the preceding financial year.

4.3 Action plans are produced to address significant control issues and progress against delivery is monitored by the Governance Committee.

5 Significant governance issues

5.1 The Annual Governance Statement which was approved in June 2008 identified four areas which, whilst not being significant control issues, were areas where further improvements were required to strengthen the control framework. These were partnership governance, partnership risk registers, data quality and budgetary control and management.

5.2 Preparatory work for this Statement identified that partnerships are an area which has seen some improvement over the course of the last year with the creation of a partnership database and a manual of guidance, called a Framework for Partnership Working, which assists those involved in partnerships with governance arrangements. Whilst this progress is seen as useful, the pace of this progress is something which the Force is currently reviewing. The outcome of this will be to reappraise and, if necessary, revise the strategic direction for overseeing the Constabulary's involvement in partnerships.

5.3 The Audit Commission reported in its Annual Audit Letter in December 2008 that "action has been taken to reinforce the importance of data quality and data integrity throughout the organisation, including the implementation of a new data quality policy. There has been ongoing work to reinforce roles and skills to support data quality that has been reflected in improvement in Her Majesty's Inspectorate of Constabulary (HMIC) assessments." A subsequent review, which reported in February 2009, recognised the significant progress made and recommended that the Force should continue to reinforce the importance of data quality and that the Force and Authority should promote the corporate information management strategy, especially explaining how all initiatives fit together to support service delivery.

5.4 In relation to organisational data quality, as distinct from operational data quality, this is being reviewed as a prerequisite to a possible integrated HR/Finance IT solution. In light of these developments and the progress reported above, data quality is not considered to be a significant issue in the Force.

Annual Governance Statement for Hampshire Police Authority 2008/09

5.5 In response to the budgetary control issues which emerged at the end of 2007/08, when the Force reported an unforeseen overspend, the Force has implemented additional budgetary controls and management reporting arrangements. Regular, enhanced, reports are sent to ACPO Group, Force Performance Review Group and key members of the Authority monthly. During the course of the year, the Force improved its financial position from a projected outturn overspend of £4.5M to an underspend of £2.1M. Whilst the economic climate remains volatile and the Force faces a number of challenges over the medium term, the progress made in 2008/09 will stand the Authority in good stead in meeting these challenges effectively.

5.6 When planning its work for 2008/09, the Audit Commission identified a number of areas which could pose significant risks to the Authority achieving its objectives. These included partnerships, data quality, budgetary pressures and neighbourhood policing delivering desired community outcomes. In planning its work for 2009/10, the Audit Commission will not undertake any specific reviews and will instead cover any emerging issues through its statutory audit work and the Use of Resources Assessment. Whilst these two areas are nevertheless comprehensive and cover all aspects of financial management and governance arrangements, it is nevertheless indicative that there may be no significant governance issues from the Audit Commission's viewpoint.

5.7 The Annual Internal Audit Opinion 2008/09 states that the Authority "has an appropriate framework of control that provides reasonable assurance regarding the effective, efficient and economic acheivement of the Authoriity's objectives". The opinion further reports that whilst this overall level of assurance is unchanged from 2007/08, "there has been an improvement in compliance with controls". Whilst internal audit opinion cannot be definitive, it is nevertheless a valid and reliable indicator of the health of the organisation.

5.8 With reference to specific audits completed during 2008/09, an internal audit opinion of an incomplete framework of control was given in respect of payroll control accounts, central control over partnerships, procurement arrangements for term contactors for small building works and services and pricing for training courses. Management action has been taken or is proposed to address all of these issues and progress on outstanding audit recommendations is reported to the Force's Resource Management Board on a regular basis.

Annual Governance Statement for Hampshire Police Authority 2008/09

5.9 In addition to reviewing progress against last year's areas of concern and the opinions and findings of internal and external audit, the Force and Authority undertake an internal review of its governance arrangements as a key part of preparing this Statement. This review is conducted at or around the year end and follows guidance issued by CIPFA (a 'Rough Guide') which is based on the CIPFA/SOLACE Framework. A comprehensive matrix is completed by all lead stakeholders and responsible officers in the Force and the Authority, this is then reviewed by the Force's Resource Management Board and submitted to the Governance Committee as part of the underlying assurances offered for the AGS.

5.10 The review concluded that there were two overarching areas where assurances were less than ideal: firstly, in relation to partnership working and the achievement of shared values and the management and sharing of risk; and, secondly, in relation to organisational risk management, a strategic review of risk and embedding this in the organisation through effective and extensive training, the use of appropriate information systems and regular testing of business continuity plans.

5.11 In reaching its conclusions in the formulation of this Statement, the Authority has taken account of the observations of internal and external audit and its own review using the CIPFA recommended methodology. Whilst there are some areas which need to be monitored to ensure that these do not become significant risks in the future, those areas which are being developed or are most in need of development during the course of 2009/10 are:-

* Partnership governance
* Business risk management

5.12 Partnerships are an area where the Force acknowledges that it needs to review what progress it has made in identifying all of its key partnerships, how the Force engages with those partners and how any risks are allocated and managed. The Partnership Development Manager has been asked to take the initial step to review progress and this will inform future strategy and a risk assessment.

Annual Governance Statement for Hampshire Police Authority 2008/09

5.13 Business risk management is an area which has improved greatly over the years but is one which needs constant development and levels of awareness raising. A change in personnel and a refocussing of efforts will be the initial impetus in this area.

Signed by:

Chair of Hampshire Police Authority

Chief Constable of Hampshire Constabulary

Chief Executive of Hampshire Police Authority

On behalf of the members and senior officers of the Hampshire Police Authority and Hampshire Constabulary

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Independent auditor's report to the Members of Hampshire Police Authority

Opinion on the financial statements

I have audited the accounting statements, the police pension fund accounting statements and related notes of Hampshire Police Authority for the year ended 31 March 2009 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, Balance Sheet, Statement of Total Recognised Gains and Losses, Cash Flow Statement, and the related notes. The police pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial statements and police pension fund accounting statements have been prepared under the accounting policies set out within them.

This report is made solely to the members of Hampshire Police Authority in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Treasurer and auditor

The Treasurer's responsibilities for preparing the financial statements, including the police pension fund accounting statements, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities.

My responsibility is to audit the accounting statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the accounting statements, the police pension fund accounting statements and related notes present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2008:

- the financial position of the Authority and its income and expenditure for the year; and
- the financial transactions of its police pension fund during the year and the amount and disposition of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year

I review whether the governance statement reflects compliance with the CIPFA/SOLACE framework 'Delivering Good Governance in Local Government' which was published in June 2007. I report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

Independent auditor's report to the Members of Hampshire Police Authority

I read other information published with the accounting statements, the police pension fund accounting statements and related notes and consider whether it is consistent with the audited accounting statements, the police pension fund accounting statements and related notes. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the accounting statements, the police pension fund accounting statements and related notes. My responsibilities do not extend to any other information.

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounting statements, the police pension fund accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the accounting statements, the police pension fund accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the accounting statements, the police pension fund accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the accounting statements, the police pension fund accounting statements and related notes.

Opinion

In my opinion:

- the accounting statements and related notes present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Authority as at 31 March 2009 and its income and expenditure for the year then ended; and
- the police pension fund accounting statements present fairly, in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2008, the financial transactions of the police pension fund during the year ended 31 March 2009, and the amount and disposition of the fund's assets and liabilities as at 31 March 2009 other than liabilities to pay pensions and other benefits after the end of the scheme year.

Independent auditor's report to the Members of Hampshire Police Authority

Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's Responsibilities

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

Auditor's Responsibilities

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for police authorities. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for police authorities specified by the Audit Commission and published in May 2008 and updated in February 2009, and the supporting guidance, I am satisfied that, in all significant respects, Hampshire Police Authority made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009.

Certificate

I certify that I have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Kate Handy, District Auditor
Audit Commission
Collins House, Bishopstoke Road, Eastleigh, Hampshire. SO50 6AD

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Income and Expenditure Account - Best Value Accounting Code of Practice

This statement summarises the revenue transactions of the Authority. It shows the day-to-day running costs of all services which are paid for by precepts, government grants and other revenue income. The service analysis of expenditure and income is based on guidance given by CIPFA in its Best Value Accounting Code of Practice.

Net Expenditure 2007/08 £'000	Service Expenditure Analysis	Gross Expenditure 2008/09 £'000	Gross Income 2008/09 £'000	Net Expenditure 2008/09 £'000
309,616	Police services	370,909	-49,348	321,561
107	National police services undertaken locally	1,937	-1,878	59
1,204	Corporate & Democratic Core	1,578	-266	1,312
36,820	Non-distributed costs	2,590	0	2,590
347,747	**Net Cost of Services**	**377,014**	**-51,492**	**325,522**
-691	Net (gain)/loss on the disposal of fixed assets			59
777	Levies to National Police Services			871
-12,701	Home Office Police Pension Fund Top-up Grant			-20,602
337	Interest payable and similar charges			457
0	Investment losses			0
-1,313	Interest and investment income			-883
99,230	Pensions interest cost and expected return on pension assets			114,160
433,386	**Net Operating Expenditure**			**419,584**
-84,633	Council Tax Precept			-91,944
-115,702	Police Grant			-120,326
-11,725	Revenue Support Grant			-10,237
-69,865	Share of National Business Rates			-73,533
151,461	**(Surplus)/Deficit for the year**			**123,544**

Statement of Movement on the General Fund Balance

2007/08 £'000		2008/09 £'000
151,461	Deficit for the year on Income and Expenditure Account	123,544
-145,672	Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year	-126,495
5,789	(Increase)/Decrease in General Fund Balance for the Year	-2,951
-9,944	General Fund Balance brought forward	-4,155
	Closure of Pension Reserve	
-4,155	General Fund Balance carried forward	-7,106

The Income and Expenditure Account shows the Authority's actual financial performance for the year, measured in terms of the resources consumed and generated over the last twelve months. However, the Authority is required to raise council tax on a different accounting basis, the main differences being:

- Capital investment is accounted for as it is financed, rather than when the fixed assets are consumed.
- Retirement benefits are charged as amounts become payable to pension funds and pensioners, rather than as future benefits are earned.

The General Fund Balance compares the Authority's spending against the council tax that it raised for the year, taking into account the use of reserves built up in the past and contributions to reserves earmarked for future expenditure.

This reconciliation statement summarises the differences between the outturn on the Income and Expenditure Account and the General Fund Balance.

Breakdown of reconciling items in the Statement of Movement on the General Fund Balance

2007/08 £'000		2008/09 £'000
	Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the General Fund Balance for the year	
-9	Amortisation of intangible fixed assets	-11
-7,287	Depreciation and impairment of fixed assets	-34,871
5,056	Government Grants Deferred Amortisation	4,691
691	Net gain/(loss) on disposal of fixed assets	-431
-64	Differences between statutory debits/credits recognised as income and expenditure in relation to financial instruments	31
-197,460	Net charges made for retirement benefits in accordance with FRS17	-161,607
-199,073		-192,198
	Amounts not included in the Income and Expenditure Account but required by statute when determining the Movement on the General Fund Balance for the year	
362	Minimum revenue provision	347
354	Capital expenditure charged to the General Fund Balance	563
41,004	Employer's contribution payable to the Pension Fund and retirement benefits payable direct to pensioners	42,318
12,701	Additional employer's contribution payable to the Pension Fund but offset by Home Office top-up grant	20,602
54,421		63,830
	Transfers to or from the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year	
-1,020	Net transfer to/(from) reserves	1,873
-1,020		1,873
-145,672	Net additional amount required to be credited to the General Fund balance for the year	-126,495

The net gain/(loss) on the disposal of fixed assets excludes the impact of de minimis capital receipts (i.e. which total £0.372M but where each individual receipt is less than £6,000): these are included in the Income and Expenditure Account.

Statement of Total Recognised Gains and Losses

2007/08 £'000		2008/09 £'000
151,461	Deficit for the year on the Income and Expenditure Account	123,544
150	Adjustment to opening balance on recognition of financial instruments	
-273	(Surplus)/Deficit arising on revaluation of fixed assets	-35
293	De minimis capital disposals	0
-360,289	Actuarial (gains)/losses on pension fund assets and liabilities	-100,030
-208,658	Total recognised (gains)/losses for the year	23,479
-208,658	Movement on balance sheet	23,479

Balance Sheet

The balance sheet shows the Authority's net financial position at 31 March 2009	31 March 2008	31 March 2009	Note
	£'000	£'000	
Intangible fixed assets	11	0	
Tangible fixed assets			
Operational land and buildings	141,633	112,772	
Operational vehicles and plant	8,617	9,027	
Other operational assets	4,466	2,274	
Non-operational assets	1,720	14,848	
Total fixed assets	**156,447**	**138,921**	[13]
Long-term debtors	645	659	[17]
Total long-term assets	**157,092**	**139,580**	
Current assets			
Stocks	720	610	
Debtors etc.	18,709	15,384	
Short-term investments	8,000	16,308	
Cash	4,133	953	
Total current assets	**31,562**	**33,255**	[17]
Total assets	**188,654**	**172,835**	
Current liabilities			
Deposits	-1,428	-1,200	
Bank overdrawn	-320	-218	
Creditors	-24,425	-21,117	
Total current liabilities	**-26,173**	**-22,535**	[17]
Total assets less current liabilities	**162,481**	**150,300**	
Long-term liabilities			
Long-term borrowing	-3,230	-17,200	[17]
Government Grants Deferred	-8,693	-7,856	[20]
Deferred liabilities	-2,548	-2,123	
Liability related to pension schemes	-1,681,180	-1,679,770	[2]
Total assets less liabilities	**-1,533,170**	**-1,556,649**	
Financed by			
Capital Adjustment Account	136,095	106,669	[19]
Revaluation Reserve	280	243	[19]
Financial Instruments Adjustment Account	-214	-183	[17]
Available for sale Financial Instruments Reserve	0	0	
Unapplied Grants and Contributions	0	0	[19]
Capital Receipt Reserve	2,628	1,780	[19]
Capital (Revenue Contributions) Reserve	4,448	5,011	[19]
General Reserve	4,155	7,106	[19]
Insurance Reserve	394	394	[19]
Spend to Save Reserve	0	0	[19]
Earmarked Reserves	224	2,101	[19]
FRS17 Pensions Reserve	-1,681,180	-1,679,770	[19]
Total Equity	**-1,533,170**	**-1,556,649**	

Balance Sheet (continued)

These financial statements replace the unaudited financial statements authorised at the meeting of the Governance Committee on 26 June 2009.

In accordance with the SORP 2008, the Treasurer is required to sign and date the Balance Sheet. This is presented below:

The Treasurer's Certificate:

I certify that the Balance Sheet presents fairly the financial position of Hampshire Police Authority as at 31 March 2009

Signed:

Date: 30/09/09

Cash Flow Statement

This statement shows the movement in cash during the year. It is consolidated and therefore, excludes significant internal transfers between accounts that do not involve transactions with third parties and excludes non-cash transactions.

	£'000	£'000
Revenue Activities:		
Cash Outflows:		
Employees	300,649	
Other	61,162	
	361,811	
Cash Inflows:		
Revenue Support Grant	-10,237	
Share of Business Rate	-73,533	
Police Grant	-118,472	
Council Tax	-91,944	
Service Income	-22,461	
Home Office Police Pension Fund Top-up Grant	-20,602	
Additional Grant	-29,891	
	-367,140	
Net Revenue Activities:		**-5,329**
Returns on Investments and Servicing of Finance		
Interest Received	-883	
Interest Paid	457	
Disposal of Investments	0	
Net Cash Inflow From Return on Investment and Servicing of Finance:	-426	**-426**
Capital Activities		
Cash Outflows:		
Purchase of Fixed Assets	19,014	
Other capital payments	0	
Cash Inflows:		
Sales of Assets	-1,208	
Government Grant	-3,854	
	13,952	
Net Cash Outflow/(Inflow) from Capital Activities:		**13,952**
Management of Liquid Resources		
Net Increase/(Decrease) in		
Short-Term Investments	8,308	
Stock	-110	
Deposits movement	228	**8,426**
Financing Transactions:		
Principal Repayments	425	
New Loans raised	-13,970	
Net outflow/(inflow) from financing transactions:		**-13,545**
Decrease/(Increase) in Cash (reconciles to note 27):		**3,078**

Police Pension Fund Account

Fund Account	2007/08 £'000	2008/09 £'000
Contributions receivable		
- from employer		
- normal	-29,655	-29,993
- early retirements	0	0
- ill-health capital equivalent charges	-348	-452
- from members	-13,248	-13,510
Transfers in		
- individual transfers in from other schemes	-917	-769
Benefits payable		
- pensions	43,201	46,635
- commutations and lump sum retirement benefits	12,777	18,037
- lump sum death benefits	226	124
Payments to and on account of leavers		
- refunds of contributions	24	23
- individual transfers out to other schemes	641	507
Net amount payable for the year	12,701	20,602
Additional contribution from the Police Authority	-12,701	-20,602
	0	0

Net Assets Statement	2007/08 £'000	2008/09 £'000
Current Assets		
- contributions due from employer	1,531	2,253
- other current assets	0	0
Current Liabilities		
- unpaid pension benefits	-1,531	-2,253
- amount due to sponsoring department	0	0
- other current liabilities	0	0
	0	0

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 Income and Expenditure Account. This includes the ongoing costs and commuted lump sums in respect of officers who are awarded injury pensions, which totalled £1.06m in 2008/09. For officers who retire on the grounds of ill-health, the employer makes a contribution from the 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.

The Police Pension Fund Account has been prepared in accordance with the extant Police Pensions Regulations and the accounting policies detailed on page 7.

Note 2 provide further details of the FRS17 entries and the pension schemes.

Notes to the Core Financial Statements

[1] This note restates the income and expenditure account transactions on a subjective analysis.

	2007/08 £'000	2008/09 £'000	Notes
Gross Expenditure			
Employees (including police pensions)	335,784	285,149	
Premises	11,393	13,174	
Transport	4,778	5,066	
Travel and Subsistence	5,010	4,600	
IT and Communications	14,108	13,284	
Supplies and Services	18,834	17,968	
Grants	2,295	1,472	
Cost of servicing Police Authority	1,322	1,419	
Depreciation and Impairment	7,296	34,882	(11)
Gross cost of services	**400,820**	**377,014**	
Service Income			
Service Income	-14,430	-18,764	
Additional Grants	-33,587	-29,891	(10)
Government Grant Deferred	-5,056	-2,837	(20)
Total Service Income	**-53,073**	**-51,492**	
Net Cost of Services	**347,747**	**325,522**	
Net (gain)/loss on the disposal of fixed assets	-691	59	
Levies to national policing agencies	777	871	(4)
Home Office Police Pension Fund Top-up Grant	-12,701	-20,602	
Interest payable and similar charges	337	457	
Investment losses	0	0	
Interest and investment income	-1,313	-883	
Pensions interest cost and expected return on pension assets	99,230	114,160	(2)
Net Operating expenditure	**433,386**	**419,584**	
Council Tax Precept	-84,633	-91,944	
Police Grant	-115,702	-120,326	
Home Office Police Pension Fund Top-up Grant	0	0	
Revenue Support Grant	-11,725	-10,237	
Share of National Business Rates	-69,865	-73,533	
(Surplus)/Deficit for the year	**151,461**	**123,544**	

Notes to the Core Financial Statements

[2] FRS17 entries

Participation in pensions schemes

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

The Authority participates in two pensions 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 Authority and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.
- The Police Pension Scheme for police officers. This is an unfunded defined benefit final salary scheme, meaning that there are no investment assets built up to meet the pensions liabilities, and cash has to be generated to meet actual pensions payments as they eventually fall due. Under the Police Pension Fund Regulations 2007, if the amounts receivable by the pensions fund for the year is less than amounts receivable, the Police Authority 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 be 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 Authority which must then repay the amount to central government.

Change of accounting policy

Under the 2008 SORP the Authority has adopted the amendment to FRS17, Retirement Benefits. As a result, quoted securities held as assets in the defined benefit pension scheme (i.e. LGPS) are now valued at bid price rather than mid-market value. The effect of this change is that the value of scheme assets at 31 March 2008 has been restated from £107.86m to £107.71m, a decrease of £0.15m, resulting in an increase of the pension deficit by the same amount. As this figure is not material in the context of the overall net liability, no prior period adjustment has been made and the change to the liability has been accounted for in 2008/09.

Notes to the Core Financial Statements

[2] FRS17 entries

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 economic cost of retirement benefits is reversed out in the Statement of Movement in the General Fund Balance. The following transactions have been made in the Income and Expenditure Account and Statement of Movement in the General Fund Balance during the year:

	Police Pension Scheme (PPS)		New Police Pension Scheme		LGPS (police staff)	
	2007/08 £'000	2008/09 £'000	2007/08 £'000	2008/09 £'000	2007/08 £'000	2008/09 £'000
Income and Expenditure Account						
Net Cost of Services						
Current service cost	47,830	36,270	2,220	1,740	11,360	6,820
Past service costs	35,020	2,520	0	0	1,800	70
Net Operating Expenditure						
Interest costs	96,860	109,890	160	320	8,510	9,950
Expected return on assets	0	0	0	0	-7,490	-7,350
Net Charge to the Income & Expenditure Account	**179,710**	**148,680**	**2,380**	**2,060**	**14,180**	**9,490**
Movement of General Fund Balance						
Reversal of above	**-179,710**	**-148,680**	**-2,380**	**-2,060**	**-14,180**	**-9,490**
Employer's contributions	**43,863**	**52,454**	**-1,159**	**-1,170**	**9,933**	**10,581**
Charge on General Fund	**43,863**	**52,454**	**-1,159**	**-1,170**	**9,933**	**10,581**

In addition to the above, the Authority paid £1.06m in ongoing injury pension payments which are a charge upon the operating account but are not a charge to the Police Pension Fund Account. The FRS17 disclosures for this element are as below:

<u>**Retirement benefits**</u>	Injury Pensions (police officers)	
	2007/08 £'000	2008/09 £'000
Income and Expenditure Account		
Net Cost of Services		
Current service cost	0	0
Past service cost	0	0
Net Operating Expenditure		
Interest costs	1,190	1,350
Expected return on assets	0	0
Net Charge to the Income & Expenditure Account	**1,190**	**1,350**
Movement of General Fund Balance		
Reversal of above	**-1,190**	**-1,350**
Employer's contributions	**1,068**	**1,055**
Charge on General Fund	**1,068**	**1,055**

Notes to the Core Financial Statements

[2] FRS17 entries

In addition to the gains and losses included in the Income and Expenditure Account, net actuarial gains of £100.03m (£360.73m in 2007/08 as restated) were included in the Statement of Total Recognised Gains and Losses. This net gain included £0.150m as a consequence of a change in the valuation of assets in the LGPS from mid-market value to bid price at the closing balance sheet date in 2007/08. Whilst noteworthy, this figure was not material and is not deemed to require a prior period adjustment. The cumulative net amount of gains recognised in the Statement of Total Recognised Gains and Losses is £410.07m.

[2] FRS17 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 2009.

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 (£40,000), especially as all FRS17 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.

Notes to the Core Financial Statements

[2] FRS17 assets and liabilities

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

Reconciliation of present value of the scheme liabilities:

	Police Pension Scheme (PPS)		New Police Pension Scheme (NPPS)		Local Govt Pension Scheme	
	2007/08 £m	2008/09 £m	2007/08 £m	2008/09 £m	2007/08 £m	2008/09 £m
1 April	-1,825.58	-1,622.68	-1.32	-3.28	-154.30	-142.64
Current Service Cost	-47.83	-36.27	-2.22	-1.74	-11.36	-6.82
Interest Cost	-96.86	-109.89	-0.16	-0.32	-8.51	-9.95
Contributions by scheme participants	-12.53	-12.46	-0.70	-1.03	-3.38	-3.83
Actuarial gains/(losses)	338.77	142.04	1.56	-0.65	34.31	-10.95
Benefits Paid	56.37	64.91	-0.44	-0.14	2.40	3.35
Past service costs	-35.02	-2.52	0.00	0.00	-1.80	-0.07
31 March	-1,622.68	-1,576.87	-3.28	-7.16	-142.64	-170.91

	Injury Pensions (police officers)		Total	
	2007/08 £m	2008/09 £m	2007/08 £m	2008/09 £m
1 April	-23.12	-20.44	-2,004.32	-1,789.04
Current Service Cost	0.00	0.00	-61.41	-44.83
Interest Cost	-1.19	-1.35	-106.72	-121.51
Contributions by scheme participants	0.00	0.00	-16.61	-17.32
Actuarial gains/(losses)	2.82	0.45	377.46	130.89
Benefits Paid	1.05	1.06	59.38	69.18
Past service costs	0.00	0.00	-36.82	-2.59
31 March	-20.44	-20.28	-1,789.04	-1,775.22

Reconciliation of fair value of the scheme assets:
(funded schemes only - i.e. LGPS)

	Local Govt Pension Scheme	
	2007/08 £m	2008/09 £m
1 April	106.04	107.71
Expected rate of return	7.48	7.35
Actuarial gains/(losses)	-16.74	-30.71
Employer contributions	9.91	10.58
Contributions by scheme participants	3.38	3.83
Benefits Paid	-2.36	-3.31
31 March	107.71	95.45

Notes to the Core Financial Statements

[2] FRS17 assets and liabilities

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 loss of £23.36m (2007/08 £9.26m loss).

Scheme history

	2004/05 £m	2005/06 £m	2006/07 (Restated) £m	2007/08 (Restated) £m	2008/09 £m
Present value of liabilities:					
Local Government Pension Scheme	-112.73	-137.60	-154.29	-142.64	-170.91
Police Pension Schemes	-1,599.90	-1,777.80	-1,826.90	-1,625.96	-1,584.03
Police Injury Pensions	0.00	0.00	-23.12	-20.44	-20.28
Fair value of assets in the LGPS	67.74	90.98	106.04	107.71	95.45
Surplus/(deficit) in the scheme					
Local Government Pension Scheme	-44.99	-46.62	-48.25	-34.93	-75.46
Police Pension Schemes	-1,599.90	-1,777.80	-1,826.90	-1,625.96	-1,584.03
Police Injury Pensions	0.00	0.00	-23.12	-20.44	-20.28
Total	-1,644.89	-1,824.42	-1,898.27	-1,681.33	-1,679.77

The Authority has elected not to restate fair value of scheme assets for 2004/05 and 2005/06 as permitted by FRS17 and the SORP 2008

Note that prior to 2006/07 there was only one Police Pension Scheme which included injury pensions. Whilst not being part of the Police Pension Schemes, injury pensions are shown above for the purposes of completeness

The liabilities show the underlying commitments that the Authority has in the long run to pay retirement benefits. The total liability of £1,680m has a substantial impact on the net worth of the Authority as recorded in the balance sheet, resulting in a negative overall balance of £1,557m.

However, statutory arrangements for funding the deficit mean that the financial position of the Authority remains healthy:

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

The total contributions expected to be made to the Local Government Pension Scheme by the Authority in the year to 31 March 2010 is £11.48m. Expected contributions for the Police Pension Schemes are £54.06m. In addition, the Authority expects to pay £1.1m directly to beneficiaries of injury pensions.

Notes to the Core Financial Statements

[2] FRS17 assets and liabilities

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 Authority 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 2009.

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

	Local Government Pension Scheme		**Police Pension Schemes**	
	2007/08	2008/09	2007/08	2008/09
Long-term expected rate of return on assets:				
Equity investments	7.6%	7.0%	-	-
Property	6.6%	6.0%	-	-
Government bonds	4.6%	4.0%	-	-
Corporate bonds	6.8%	5.8%	-	-
Cash/Other	6.0%	1.6%	-	-
Mortality assumptions:				
Longevity at 65 for current pensioners				
Men	21.3	22.2	21.8	22.0
Women	23.4	24.2	24.6	24.1
Longevity at 65 for future pensioners				
Men	23.2	24.5	22.6	24.3
Women	24.6	26.4	25.2	26.4
Financial Assumptions:				
Inflation	3.7%	3.6%	3.7%	3.4%
Rate of general increase in salaries	5.2%	5.1%	5.2%	4.9%
Rate of increase to pensions in payment	3.7%	3.6%	3.7%	3.4%
Rate of increase to deferred pensions	3.7%	3.6%	3.7%	3.4%
Discount rate	6.8%	6.5%	6.8%	6.7%
Other Assumptions:				
Take-up of option to convert annual pension into retirement lump sum	50.0%	25.0%	-	25.0%
As above, post-2008 service (LGPS only)	-	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 2008	at 31 March 2009
Equity investments	61.9%	55.2%
Property	5.8%	7.3%
Government bonds	26.6%	27.4%
Corporate bonds	0.0%	3.9%
Cash/Other	5.7%	6.2%
Total	100.0%	100.0%

Notes to the Core Financial Statements

[2] FRS17 assets and liabilities

History of experience gains and losses

The actuarial gains identified as movements in the Pensions Reserve in 2008/09 can be analysed into the following categories:

		2004/05 %	2005/06 %	2006/07 (Restated) %	2007/08 (Restated) %	2008/09 %
the experience adjustments (gains/(losses)) on assets in the year as a percentage of all assets at the balance sheet date	LGPS	Not available	18.2	-0.1	-15.5	-32.1
	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
the experience adjustments (gains/(losses)) on liabilities in the year as a percentage of all liabilities at the balance sheet date	LGPS	0.0	0.0	-0.1	2.4	-0.2
	Unfunded	0.0	0.0	0.0	0.0	-2.1
	PPS	0.0	5.1	-0.2	-0.3	4.0
	NPPS	n/a	n/a	0.0	0.0	-15.3
	Injury	n/a	n/a	n/a	-1.0	4.4

[3] Corporate and Democratic Core

Corporate and Democratic Core (as defined by the Accounting Code of Practice) covers governance structures of authorities and the infrastructure that enables information required for public accountability purposes to be provided. For the Authority, Corporate and Democratic Core represents Police Authority costs excluding grants paid out and internal audit costs which are reapportioned as a support service cost over the net cost of service. Corporate and Democratic Core also includes an element of the costs of the senior management of the Constabulary for time spent supporting and reporting to the Police Authority.

[4] Agency Income and Expenditure

The Authority paid the following levies:	2007/08 £'000	2008/09 £'000
Police National Computer	707	786
National Public Order Information Unit	70	72
Central Witness Bureau (ACPO)	0	13
	777	**871**

[5] Trading Operations

The Netley Business Plan is the only trading operation. Surplus capacity at the Netley site is utilised to generate income. Any surplus is re-invested into the facilities at Netley. The turnover for 2008/09 was £107,000 (£136,000 in 2007/08), resulting in a net surplus of £11,000 (£15,000 in 2007/08). The surplus was transferred to the Netley Business Plan reserve. Contributions from the reserve of £223,000 (£94,000 in 2007/08) were made in 2008/09 resulting in a balance of £13,000 as at 31 March 2009 (£225,000 at 31 March 2008) included within earmarked reserves.

Notes to the Core Financial Statements

[6] Officer and Staff Emoluments

Salary Bands	Number in Band	
£	2007/08	2008/09
50,000 - 59,999	292	312
60,000 - 69,999	29	41
70,000 - 79,999	24	20
80,000 - 89,999	7	15
90,000 - 99,999	2	6
100,000 - 109,999	2	0
110,000 - 119,999	1	0
120,000 - 129,999	1	1
130,000 - 139,999	0	1
140,000 - 149,999	0	0
150,000 - 159,999	1	0
Totals	**359**	**396**

The Code requires the Authority to report on the number of employees who received taxable pay and benefits totalling more than £50,000 in the year. This is shown in the table above. The bandings are determined by the Code. The numbers also include people seconded to national roles whose costs are reimbursed.

Employee costs include pay and taxable allowances paid to officers and staff. It does not include employer pension contributions. However, the SORP states that emoluments should not be shown net of employees' pension contributions. Note that in 2008/09 the Chief Constable, the Deputy Chief Constable and an Assistant Chief Constable retired part way through the year.

[7] Expenditure on publicity

Section 5 of the Local Government Act 1986 requires the Authority to declare its third party expenditure on publicity. This amounted to £287,185 (£545,658 in 2007/08) of which £97,845 (£270,856 in 2007/08) related to recruitment advertising.

[8] Members allowances and expenses

In accordance with the Code of Practice, the amount spent on members' allowances and expenses in 2008/09 was £284,641 (£264,238 in 2007/08).

[9] Related Parties

The Authority is required to disclose material transactions with related parties - bodies or individuals that have the potential to control or influence the Authority or to be controlled or influenced by the Authority. Central government has some control as it is responsible for providing the statutory framework and provides the majority of the funding. The value of grants received is shown in the income and expenditure account and further details are given in note 10.

Notes to the Core Financial Statements

[9] Related Parties (continued)

The Authority makes contributions to pension schemes for both its uniformed officers and its non-uniformed staff. The Police Pension Schemes are administered by the Authority and the Authority paid £30.445m in the Police Pension Fund as contributions in respect of existing officers and those retiring due to ill-health in the year. The Local Government Pension Scheme is administered by Hampshire County Council and the Authority made employer's contributions of £10.581m in 2008/09.

The SORP also requires members of the Authority and certain senior officers to declare if there were any related party (i.e. close family or business associates) transactions due to their ability to influence spending decisions. There is one related party transaction disclosure in 2008/09. One member of the Authority is a director of a company which provides physiotherapy and other rehabilitation services to the Authority. The value of the transactions with this third party in 2008/09 was not material.

[10] Additional Grants

	2007/08	2008/09
In 2008/09 the following additional grants were received:	£'000	£'000
Crime Fighting Fund	7,309	7,309
Chemical, Biological, Radiological and Nuclear (CBRN) - see note	5,800	3,451
Neighbourhood Policing Fund/Community Support Officers	7,218	7,117
Dedicated Security Posts grant	3,136	3,235
Single Non Emergency Number	1,561	0
Rule 2 Grants - see note	5,244	5,387
Basic Command Unit grant	1,231	943
Procurement Excellence in the Police Service (PEPS)	120	0
ACPO Criminal Records Office	900	1,249
Counter terrorism grant	224	102
Local Criminal Justice Board	158	149
Local Public Services Agreement (LPSAS)	111	115
UK Central Authority	120	0
Miscellaneous grants	455	834
Totals:	**33,587**	**29,891**

Hampshire Police Authority acts as a conduit for the Home Office's CBRN centre and the ACPO Criminal Records Office. These two centres uses Hampshire Police Authority's facilities, services and contractual arrangements. Grant is received from the Home Office and the NPIA to cover the costs of operation. Rule 2 grants include the former specific grants relating to special priority payments, South East Allowance, DNA database cost recovery, the rural fund and the training grant. These were shown separately in previous years but they are now amalgamated into one by the Home Office, a move designed to give police authorities more control over the way these grants are used. The Crime Fighting Fund is now cash limited.

Notes to the Core Financial Statements

[11] Summary of Capital Expenditure and Fixed Asset Disposals

The value of assets, capital expenditure on them, financing of capital expenditure and sales of assets are shown below. The accounting policies are on pages 7 to 12.

	Intangible Assets	Land and Buildings	Vehicles and Plant	Furniture and Equipment	Non-Op Assets	Total Fixed Assets
	£'000	£'000	£'000	£'000	£'000	£'000
Cost or valuation balance as at 31 March 2008	42	150,092	25,542	32,386	1,720	209,782
Accumulated depreciation & impairment	-31	-8,459	-16,925	-27,920	0	-53,335
Net book value as at 31 March 2008	**11**	**141,633**	**8,617**	**4,466**	**1,720**	**156,447**
Movement in 2008/09						
Additions	0	1,691	3,903	309	13,128	19,031
Disposals	0	-1,039	-596	-3	0	-1,638
Reclassifications	0	0	0	0	0	0
Revaluations	0	-37	0	0	0	-37
Depreciation & impairment	-11	-29,476	-2,897	-2,498	0	-34,882
Net book value as at 31 March 2009	**0**	**112,772**	**9,027**	**2,274**	**14,848**	**138,921**

Note that the impairment and revaluation figures in 2008/09 exclude those assets which were sold, whether a gain or loss was realised on disposal. The net gain or loss on disposals is shown separately in the Income and Expenditure Account.

There is a requirement under the SORP 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. In the light of the changed global economic situation, particular emphasis was given to this at the end of 2008/09. Experience of the sales of dwellings indicated that sale prices were holding up well against the carrying value of these assets and no impairment was thought to have been incurred. This was partly explained also by the fact that these assets had last been valued in 2004/05 and there was evidence that prices had risen during the intervening period and where they had fallen they had not fallen below the prices at the last valuation.

Notes to the Core Financial Statements

[11] Summary of Capital Expenditure and Fixed Asset Disposals (continued)

There is a requirement under the SORP 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. In the light of the changed global economic situation, particular emphasis was given to this at the end of 2008/09. Experience of the sales of dwellings indicated that sale prices were holding up well against the carrying value of these assets and no impairment was thought to have been incurred. This was partly explained also by the fact that these assets had last been valued in 2004/05 and there was evidence that prices had risen during the intervening period and where they had fallen they had not fallen below the prices at the last valuation.

Other operational buildings had been mostly revalued during 2006/07. Here, however, there was evidence of impairment as land values had reduced significantly across the Force area, although building costs, which are a key element of the valuation method for operational buildings, had not fallen. Hence an impairment charge of £27.5m was made to the Income and Expenditure Account in 2008/09. This review was undertaken by the Force's Property Services Team and was signed off by the Property Services Manager as

The economic downturn was also felt in the second-hand vehicle industry, generally in the larger vehicles, with smaller vehicles holding their residual values. A review of residual values was carried out at the year end and an impairment charge of £0.18m was made in 2008/09.

This statement summarises capital expenditure incurred on fixed assets which will be of use to the Authority 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.

The updated capital programme presented to the Authority's Finance Committee on 9th February 2009 had a value of £34.4m for 2009/10, before any slippage on the 2008/09 programme is taken into account. As at 31 March 2009 the Authority had committed capital expenditure of £29.7m to premises-related schemes.

Notes to the Core Financial Statements

[11] Summary of Capital Expenditure and Fixed Asset Disposals (continued)

Capital financing and expenditure	2007/08 £'000	2008/09 £'000
Opening Capital Financing Requirement	12,622	12,260
Capital investment		
Operational assets	4,093	5,903
Non-operational assets	1,583	13,128
Keyworker housing	440	0
Sources of finance		
Capital receipts	-2,249	-2,055
Government grants and contributions	-3,867	-3,854
Sums from revenue (MRP, RCCO)	-362	-347
Closing Capital Financing Requirement	**12,260**	**25,035**

Explanation of movements in year		
Increase in underlying need to borrow (supported)	0	1,703
Increase in underlying need to borrow (unsupported)	-362	11,072
Increase/(decrease) in Capital Financing	**-362**	**12,775**

£19.03m of capital expenditure was on fixed assets as shown above. Under the Prudential Code arrangements, the Authority is permitted to borrow money to finance capital expenditure as long as the borrowing is prudent, affordable and sustainable. Total borrowing in 2008/09 was £14m.

[12] Leases

The Authority does not lease out any of its assets. The Authority has no finance leases but does have operating leases for several buildings. In 2008/09 payments totalling £1.21m for 25 premises (£0.87m for 22 premises in 2007/08) were made. The totals for 2007/08 have been restated due to 3 small sites, with an annual charge of £9,800, being leased during 2007/08 but not previously recognised within the accounts. As at 31 March 2009, the Authority was committed to making operating lease payments, all for land and buildings, of £1.36m in 2009/10. The commitments in 2009/10 include £0.4m in respect of 2 separate leases which will be recharged to the ACPO Criminal Records Office.

Commitments in 2009/10 - split by expiry dates	£'000
Leases expiring in 2009/10	170
Leases expiring between 2010/11 and 2014/15	841
Leases expiring after 2014/15	347
Total	**1,358**

Notes to the Core Financial Statements

[13] Valuation Information

The statement below shows the progress of the Authority's rolling programme for the revaluation of fixed assets. The majority of the Force's fixed assets were revalued in 2006/07 by the Force's Property Services Manager who is a qualified chartered surveyor, as required by the SORP. There were no revaluations in 2008/09 but there was a review at the year end for impairment given the downturn in the economy. The carrying value of vehicles was reduced by £185,000 as a result of changed residual values and the carrying value of operational buildings was reduced by £27.54m as a result of changed land values since the last formal revaluation. The basis for valuation is set out in the statement of accounting policies.

	Intangible Assets	Land and Buildings	Vehicles and Plant	Furniture and Equipment	Non-Op Assets	Total Fixed Assets
Valued:	£'000	£'000	£'000	£'000	£'000	£'000
at historical cost	0	1,315	9,027	2,274	14,848	27,464
at current value in:						0
2004/05	0	7,482	0	0	0	7,482
2005/06	0	389	0	0	0	389
2006/07	0	103,288	0	0	0	103,288
2007/08	0	298	0	0	0	298
Total	0	112,772	9,027	2,274	14,848	138,921

[14] Depreciation Methodologies

Depreciation is charged on all assets, except land, on a straight line basis. In addition, an estimated residual value is provided for vehicles which is not take into account in the depreciation charge. Buildings have a half year depreciation in the year of acquisition and sale. Vehicles have a full year of depreciation in the year of purchase but are not depreciated in the year of sale. This reflects 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. Useful lives of vehicles are advised by the Force's Transport Department for each individual vehicle. Useful lives of other assets are advised by a suitably qualified individual. There are no changes to the methodology.

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. Buildings have variable asset lives, with most operational buildings having assumed to have had 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. IT and other short-life equipment is generally assigned a useful economic life of between 5 and 10 years.

Notes to the Core Financial Statements

[15] Intangible Fixed Assets

The intangible assets entry relates to software licenses purchased in 2004/05. The asset was depreciated on a straight line basis over the 5 year life of the asset, with the final year of depreciation being in 2008/09.

[16] Insurance Provisions

The Police Authority does not have an insurance provision but does hold a reserve of £394,000 (£394,000 at 31 March 2008). The Authority self insures lower amounts but externally insures against larger risks such as loss/damage to assets and other potential liabilities.

[17] Financial Instruments

Financial Reporting Standards 25, 26 and 29 introduced requirements regarding the recognition, measurement and reporting of financial instruments. 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". This is a broad spectrum and ranges from cash deposits at one end to derivatives and forward contracts at the other.

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. This fair value may be affected by a number of factors and the SORP indicates the relevant treatment where the fair value is different to the transaction price. The financial assets of the Authority, principally cash, long-term debtors, debtors and temporary lending, are classified as **loans and receivable financial instruments**. The financial liabilities of the Authority, principally creditors and temporary and long-term borrowing, are classified as **financial liabilities at amortised cost**.

The Authority has adopted the CIPFA Code of Practice on Treasury Management. This Code provides guidance on the proper practices to be employed for treasury management in local authorities. It provides advice on how the Authority should deal with all borrowing and investment activities and covers areas such as effective management of risk, responsibility of staff, performance measurement and reporting.

Loans and Receivable Financial Instruments

[a] Long-Term Debtors

The long-term debtors shown on the balance sheet consist of car loans and housing assistance loans.

Car loans are relatively short-term advances to staff and total approximately £1,000 at 31 March 2009 (£19,000 at 31 March 2008). 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.

Notes to the Core Financial Statements

[17] Financial Instruments continued

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. In accordance with the SORP, transactions of this nature are termed 'soft loans' where 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 2009 the outstanding sum was £0.84m. No loans were repaid during the financial year. In accordance with the SORP 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. Using a technique called the equivalent interest rate, the interest presumed to have been foregone is then 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 £0.66m (£0.63m at 31 March 2008). The Financial Instruments Adjustment Account is the balance sheet account which records these adjustments to the value of the soft loans.

[b] Debtors

Debtors, 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.

Debtors includes £8.2m Pension fund account debtor (£7.4m as at 31 March 2008), a VAT refund debtor of £1.0m at 31 March (£1.4m as at 31 March 2008) and a debtor of £0.6m for the Safer Roads Partnership.

	31 March 2008	31 March 2009
	£'000	£'000
Debtors	17,179	14,491
Payments in advance	1,575	1,093
Less bad debt provision	-45	-200
	18,709	**15,384**

Payments in advance include insurance premiums (£0.3m) and software maintenance charges (£0.5m). The provision for bad debt has increased to £200,000.

[17] Financial Instruments continued

The SORP contains detailed requirements concerning the impairment of financial assets. A financial asset or a group of financial assets are impaired if there is objective evidence of impairment as a result of a past event that occurred subsequent to the initial recognition of the asset. Debtors to the Authority are treated collectively and relevant risks of non-payment have been assessed at the balance sheet date through a review of the constituent elements of the outstanding debt.

Outstanding general debt is pursued as a matter of course and, generally, low levels of debt have been written off each year. In 2008/09 the debt written off totalled £6,124 (£20,182 in 2007/08). The level of all non-current debt (i.e. past the due date of invoice) outstanding at the end of the month reduced from an average of £1.8m in 2007/08 to £1.1m in 2008/09, with the actual figure at 31 March 2009 being £0.45m. The majority of aged debt relates to other central and local government bodies and thus has a lower risk of becoming unrecoverable. Collectively, therefore, the current policy of maintaining a provision meets the needs of the Authority and there is no requirement to recognise any separate impairment in the Income and Expenditure Account for 2008/09. The provision has been increased in 2008/09 to reflect some issues with particular debtors which may lead to write-offs, but this is not thought to be certain.

[c] Payments in advance

The balance on payments in advance reflects payments which are made towards the end of the year where the goods and services will be provided in the following financial year, such as IT service and maintenance agreements. Where material, the value of payments made at the end of the year, the proportion which relates to the next year are moved forward. As this is simply a question of timing, the fair value is deemed to be the invoice value.

[d] Short-term investments and short-term borrowing

Short-term investments and short-term borrowing are essentially the temporary lending and borrowing of money to and from Hampshire County Council or other third parties as part of the normal cash flow management of resources to cover the timing of expenditure. Where there is a forecast surplus or deficit on the cash resources decisions are made to either borrow temporarily from the County Council, lend surplus resources to the County Council or to other third parties for periods up to a year.

The Annual Investment Strategy and borrowing strategy sets out the requirements for borrowing and the policy on investing surplus cash on a temporary basis. This is approved by the Authority on February each year and is available on the website. The investment strategy which applied in 2008/09 placed limits on the minimum credit rating of counterparties (e.g. Moody's A2 or above for banks and building societies) and maximum amounts which could be placed with any one party. In reality, most short-term investment and borrowing is to or from Hampshire County Council. Risks are minimised through these restrictions and the treasury management function reviews individual counterparty risks on an ongoing basis.

Notes to the Core Financial Statements

[17] Financial Instruments continued

There were no short-term borrowing requirements at 31 March 2009. Surplus cash balances were loaned to Hampshire County Council (£13.8m) with the balance (£2.5m) being lent to NatWest Bank plc. for a 3 month period ending on 18 June 2009.

Given the short-term nature of these transactions, the fair value of short-term investments is deemed to be equivalent to the cash invested or borrowed. The book value of short-term investments at 31 March 2009 was £16.3m.

Financial Liabilities at Amortised Cost

[e] Deposits

Deposits are held from various sources, mainly seized and forfeited monies which may become repayable or may be forfeited depending upon the outcome of court cases. In 2007/08 there was an additional deposit of £0.5m received from ACRO as a surety for rental payments on the property which has been leased on their behalf. This indemnifies the Authority against potential future liabilities.

Other deposits held in the accounts are credited with interest on the basis of market rates. As such, the fair value of the sums held is deemed to be the same as the actual value. The book value of deposits at 31 March 2008 was £1.43m.

[f] Creditors

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.

Creditors have decreased due to reduced payments outstanding at the year end (£0.4m), less temporary borrowing requirements (£1.9m) and a reduced level of receipts in advance (£0.8m), offset by an increase in additional commuted lump sums payable (£0.7m).

	31 March 2008	31 March 2009
	£'000	£'000
Creditors	20,311	17,850
Receipts in advance	4,114	3,267
	24,425	**21,117**

Receipts in advance includes a number of specific grants that have been carried over, such as CBRN (£1.3m), ANPR funding (£0.5m) and grants and contributions towards PCSOs (£0.4m).

[g] Receipts in advance

Receipts in advance are income which is received towards the end of the year where relevant expenditure will be made or the service provided in the following financial year, such as grants. Where material, the value of receipts received at the end of the year, the proportion which relates to the next year is moved forward. As this is simply a question of timing, the amortised cost in the balance sheet is deemed to be the fair value.

[17] Financial Instruments continued

[h] Long-term borrowing

The Authority's borrowing strategy for 2008/09 was set in February 2008 but was revised during the year to reflect changes to the capital programme, principally the purchase of a site for a new police headquarters. The strategy did, however, determine that long-term fixed rate borrowing would be taken out at rates of 4.5% or less and that the opportunity could be taken to take new long-term, fixed-rate loans. This decision was based on a forecast external borrowing requirement over the medium-term of £50m. The Authority borrowed £14m in the year which was applied to finance the costs of the acquisition of the new headquarters site and the ongoing project to replace the Southampton OCU headquarters. A small element of the total borrowing was in advance of further commitments for both of these schemes at a rate which was well below the 4.50% trigger point.

The Authority now has 11 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 2008 £'000	Outstanding loans 31 March 2009 £'000
Between 0 and 5 years	-	-	-
Between 6 and 10 years	8.50%	500	500
Between 10 and 15 years		-	-
Between 15 and 20 years	5.44%	700	700
Over 20 years	4.19%	2,000	16,000
		3,200	**17,200**

Changes to the SORP in 2007 determined that interest accrued (i.e. due but not yet paid) at the end of the financial year should be added to the book value of the loan. The SORP 2008 repeated this advice. However, an accounting bulletin (LAAP 81) received from CIPFA in relation to the closure of the 2008/09 accounts, and in anticipation of the SORP 2009 and the necessary changes required for adoption of the International Financial Reporting Standards, advises that this practice should be ceased. The loan balance at 31 March 2009 does not include any accrued interest and the comparative figures for 31 March 2008 have been restated on the same basis (previously £3.23m).

The SORP changes in respect of accounting for financial instruments apply to long-term borrowing. There is a requirement to show the fair value of the Authority'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. As an example, the Authority has a loan of £500,000 due to be repaid in October 2015. Interest is being paid at 8.50%. As the current rate of interest on a 6 year loan at 31 March 2009 was 2.52%, it is this difference which becomes a premium on early repayment and the sum of these makes up the fair value of the portfolio.

Notes to the Core Financial Statements

[17] Financial Instruments continued

Most of the Authority's loan portfolio was taken out in 2008/09 (£14m out of £17.2m). As a result, the difference in rates is minimal, which is reflected in a relatively small difference between the book value of the loans and the fair value. In accordance with LAAP Bulletin 73, there is no requirement to show the fair value of PWLB loans on balance sheet, only as a disclosure note in the accounts. Consequently, the PWLB loans had a fair value of £18.025m at 31 March 2009 against a balance sheet value of £17.2m.

[i] Financial Guarantee Contracts

When a financial guarantee is given by a local authority where the liabilities of a third party are guaranteed in the event of a default, the SORP requires that this is recognised in the accounts of the local authority 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, the Authority has effectively guaranteed the leasing payments for premises occupied by the Safer Roads Partnership (SRP) and the ACPO Criminal Records Office (ACRO). In terms of disclosure under the SORP, the agreement in respect of the SRP was entered into before the relevant date under the SORP and is a long-standing partnership where there is a low probability of the leasing costs being defaulted upon. As regards the ACRO premises, 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. As such, this sum is not a premium paid to the Authority 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.

[17] Financial Instruments continued

[j] Risks

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

Credit risk - the potential for other parties to not pay amounts due to the Authority

Liquidity risk - the potential that the Authority might not have funds available to meet its payment commitments as they fall due

Market risk - the potential that financial loss might arise as a result of changes in interest rates or stock market movements

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Authority's debtors. As surplus cash is temporarily invested with Hampshire County Council or other institutions with a suitable credit rating the Authority is therefore exposed to minimal risk. The Authority's debtors are generally Government Departments (including HMRC) and other public sector bodies. Other debtors are managed through effective credit control which focuses on prompt payment of debt.

The Authority has ready access to borrowing through the PWLB and the financial markets or through temporary borrowing from the County Council's cash surpluses. This means that there is no significant risk of not being able to raise finance. The risk is that when long-term borrowings need to be replaced this will be at a period when interest rates are historically unfavourable. This risk is mitigated by planning long-term borrowings required to support investment through the Treasury Management Strategy.

Market risk can occur through interest rates, prices and foreign currency risks. Interest rates have varied considerably over the last year and interest on cash balances has reduced. These cash balances have reduced as they have been used as internal borrowing to support capital expenditure, which in turn reduces the need for external borrowing and limits exposure at that end. The Treasury Management Policy and the Annual Investment Strategy approved in February 2008 set out the approach the Authority would take to mitigate any risks. The medium term financial strategy and prudential borrowing ensure that the financial impact is assessed and taken into account in the planning process.

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

The Authority does not have any material financial assets or liabilities denominated in foreign currencies. There is thus no exposure to losses arising from movements in exchange rates.

In summary, the risks to which the Authority is exposed are minimal, given the nature of its counterparties for both borrowing and investments, the fact that most debtors are generally other public sector bodies (in financial and volume terms), the fact that other debtors are subject to a rigorous debt collection and recovery regime and the fact that the Authority has no shareholdings and no material foreign currency dealings. Given this, it is considered that there is no requirement to perform any analysis on the above risks to factor in any reasonable likelihood that these risks are sensitive to any changes which could have a material impact on these accounts.

Notes to the Core Financial Statements

[18] Provisions

The Authority maintains a provision for bad debt of £200,000 (£45,000 as at 31 March 2008). Bad debts totalling £4,351 were written off during the year. The provision was restored to the former level through contributions from the relevant services whose income had proved to be unrecoverable.

The bad debt provision was reviewed at the year end to take account of the general state of the economy and the prospects for recovering all sums which were due to the Authority. In addition, there had been an emphasis throughout the year on reducing the overall levels of debtors outstanding, which had reduced the levels of all non-current debt from £1.61m to £0.45m at the balance sheet date. This ongoing work and the year end review had highlighted those debts which were proving problematic to recover or which might become so in the future. In the light of these general circumstances and the specific circumstances of a number of key debtors, an additional provision for bad debts of £155,000 has been made.

Notes to the Core Financial Statements

[19] Reserves - Summary

The Authority maintains a number of reserves in the balance sheet. Some are required to be held for statutory reasons, some are needed to comply with proper accounting practice and others have been set up voluntarily to earmark resources for future spending purposes. An explanation of each reserve is given in the accounting policies. Reserves are summarised below and further detail on the key reserves follows:

Reserve	Balance 1 Apr 08	Net transfers in or (out)	Net transfer (to) or from other reserves	Balance 31 Mar 09
	£'000	£'000	£'000	£'000
Capital Adjustment Account	136,095	-29,463	37	106,669
Revaluation Reserve	280	0	-37	243
Financial Instruments Adjustment Account	-214	31	0	-183
Available for sale Financial Instruments Reserve	0	0	0	0
Unapplied Grants and Contributions	0	0	0	0
Capital Receipt Reserve	2,628	-848	0	1,780
Capital (Revenue Contributions) Reserve	4,448	563	0	5,011
General Reserve	4,155	2,951	0	7,106
Insurance Reserve	394	0	0	394
Spend to Save Reserve	0	0	0	0
Earmarked Reserves	224	1,877	0	2,101
FRS17 Pensions Reserve	-1,681,180	1,410	0	-1,679,770
Total	**-1,533,170**	**-23,479**	**0**	**-1,556,649**

[19 a] Reserves - Earmarked reserves

Earmarked reserves are held for a number of specific purposes. One major purpose is to enable budget holders under the devolved financial management scheme to carry forward over/underspendings, thereby promoting strategic management of budgets within the Constabulary. The table below analyses the main components of the reserve.

Reserve	Balance 1 Apr 08	Net transfers in or (out)	Net transfer (to) or from other reserves	Balance 31 Mar 09
	£'000	£'000	£'000	£'000
Netley business plan	224	-212	0	12
Devolved budget carry forwards	0	1,089	0	1,089
ACPO Criminal Records Office surety	0	1,000	0	1,000
Total	**224**	**1,877**	**0**	**2,101**

Notes to the Core Financial Statements

[19 b] Reserves - Capital Adjustment Account

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.

£'000		£'000	£'000
138,267	**Balance at start of year**		**136,095**
	Resources to Finance Capital Expenditure		
2,249	Capital receipts	2,055	
0	Contributions from capital (revenue contributions) reserve	0	
5,056	Government grant and contributions deferred	4,691	
7,305			**6,746**
	Write-Down of Fixed Assets		
-7,122	Depreciation of tangible assets	-7,179	
-9	Amortisation of intangible assets	-11	
-157	Impairments and revaluation adjustments	-27,691	
-2,551	Disposals	-1,638	
-9,839			**-36,519**
362	Minimum Revenue Provision		347
136,095	**Balance at end of year**		**106,669**

[19 c] Reserves - Capital Receipts Reserve

Capital receipts are 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.

£'000		£'000
1,924	**Balance at start of year**	**2,628**
-2,249	Capital receipts applied to finance capital expenditure	-2,055
-40	Capital receipts applied to repay loans	0
2,993	Capital receipts in year	1,207
2,628	**Balance at end of year**	**1,780**

[19 d] Reserves - Revaluation Reserve

The Revaluation Reserve records the accumulated gains on assets arising from increases in value, netted off for disposals and certain depreciation adjustments

On disposal of an asset, its Revaluation Reserve balance is written out to the Capital Adjustment Account. The overall balance on this Reserve thus represents the amount by which the current value of fixed assets carried on the Balance Sheet is greater because they are carried at revalued amounts rather than at depreciated historical cost.

£'000		£'000
0	**Balance at start of year**	**280**
1,148	Revaluations during year	0
0	Impairments of previously revalued assets	-37
-868	Disposal of revalued assets	
0	Depreciation of revaluations	0
280	**Balance at end of year**	**243**

Notes to the Core Financial Statements

[20] Government Grants Deferred

This account contains grants received to finance capital expenditure. Grant is released to offset depreciation charges generated by the relevant assets over the life of those assets.

	31 March 2008 £'000	31 March 2009 £'000
Opening balance	9,882	8,693
Grant received	3,867	3,854
Grant released	-5,056	-4,691
Closing balance	**8,693**	**7,856**

[21] Audit Costs

In accordance with the Code of Practice, the amount spent on statutory external audit in 2008/09 was £113,300 (£95,100 in 2007/08). In addition, payments were made in respect of the National Fraud Initiative (£500). There were no additional services in 2007/08.

[22] Sponsorship

The Police Act 1996 and the Code of Practice on Financial Management allow the Authority to accept gifts of money, or gifts or loans of other property, if they enable the Force to either extend or to enhance the service it would normally be expected to provide. The terms on which gifts or loans are accepted may allow commercial sponsorship of some police activities. A detailed set of procedures govern the circumstances in which such offers may be accepted. Loans or sponsorship received during 2008/09 totalled £333,123 (2007/08 £150,784) an increase which reflects successes in generating sponsorship across the OCUs, some of whom have local champions for targeting sponsorship opportunities. The value of loans or sponsorship received in 2008/09 is within the threshold of 1% of the annual budget beyond which there is a risk of the Authority losing a proportion of its Government grant.

Note that the comparator figure for 2007/08 has been restated (from £283,069) to take out partnership income from local authority partners as generally this income supports the objectives of existing partnerships and is thus different to the other income which is received from other public sector organisations and commercial bodies

[23] Authorisation Of Issue

The financial statements were approved for issue by the Treasurer on 19 June 2009, being the deadline for the despatch of reports for the Governance Committee meeting on 26 June 2009.

Notes to the Core Financial Statements

[24] Contingent liabilities

The Authority has paid out Special Priority Payments to officers to the value of the grant received from Government. However, the Home Office guidelines would require a higher amount to be paid out, if the Home Office insists that the guidelines are fully applied. The matter is still to be concluded but, if the Home Office guidelines are applied, it would cost the Authority an additional £0.5m for each year in respect of 2006/07 to 2008/09.

When clarification was received after the end of the 2007/08 financial year it became clear that police injury pensions should be funded from the Income and Expenditure Account and not from the Police Pension Fund. The 2007/08 accounts showed this revised treatment and £1.055m was accounted for in this way in 2008/09. The guidance made it clear that this should have been the case from 1 April 2006, which is the date the new pension arrangements were set up. Consequently, in the 2006/07 audited accounts, the Police Pension Fund Account included £1.079m in respect of injury pensions which should have been charged to the Income and Expenditure Account. However, those accounts - including the Pension Fund Account - have been audited and are now closed. It is not clear in the circumstances if there will be a requirement to make a refund to the Home Office. Hence, a contingent liability of £1.079m is recorded.

[25] Contingent assets

Further to a court case which was settled against the Authority, costs and damages were awarded to the plaintiff. The Police Authority 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 Authority 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. The Force Solicitor is discussing the settlement with the third party's solicitor.

[26] Other notes that are required by the SORP but nothing to report

The Authority has no interests that would require the production of Group Accounts.
There were no acquired, discontinued operations or outstanding liabilities.
There are no undischarged obligations arising from long term contracts.
There were no Business Improvement District schemes involving the Authority in operation in 2008/09.
There were no activities entered into under Local Authority (Goods and Services) Act.
There were no discretionary expenditure or pooled funds under the Health Act 1999.
The Authority has no PFI arrangements, interests in companies or capital instruments.
There were no known events after the balance sheet date which materially affect the amounts included in these accounts.
The Authority does not administer any trust funds.

Notes to the Core Financial Statements

[27] Notes to the cash flow statement

[i] Analysis of Additional Grants

	£'000
See note 10 for breakdown of additional grants received	29,891

[ii] Reconciliation to Income & Expenditure Account

	£'000	£'000
Deficit for the year		123,544
Interest paid		-457
Interest received		883
Changes in:		
Increase/(Decrease) in debtors	-3,325	
(Increase)/Decrease in creditors	3,308	-17
Non cash transactions:		
Pensions adjustments		-98,687
Financing transactions		-30,622
Net cash outflow/(Inflow) from revenue activities:		**-5,356**

[iii] Movements in short term investments

	£'000
Short term investments at 31 March 2008:	8,000
Short term investments at 31 March 2009:	16,308
Decrease/(Increase) in short term investments:	**-8,308**
Deposits at 31 March 2008:	1,428
Deposits at 31 March 2009:	1,200
Decrease/(Increase) in deposits:	**228**

Note: Deposits comprise of seized and forfeited money and assets.

[iv] Movements in long term borrowing

a) Deemed debt

	£'000
Deemed debt at 31 March 2008:	2,548
Deemed debt at 31 March 2009:	2,123
Decrease/(Increase) in deemed debt:	**425**

b) Other loans

	£'000
Long term loans at 31 March 2008	3,230
Long term loans at 31 March 2009	17,200
Decrease/(Increase) in other loans:	**-13,970**

[v] Movements in Stock holdings

	£'000
Stock at 31 March 2008	720
Stock at 31 March 2009	610
Decrease/(Increase) in stock:	**110**

Notes to the Core Financial Statements

[27] Notes to the cash flow statement

[vi] Analysis of cash balances

	£'000	£'000
At 31 March 2008:		
Bank overdrawn	-320	
Cash	4,133	3,813
At 31 March 2009:		
Bank overdrawn	-218	
Cash	953	735
Decrease/(increase) in cash:		**3,078**

[vii] Reconciliation of movement in cash to movement in net debt

	31 March 2009 £'000	31 March 2008 £'000	Movement in year £'000
Decrease/(increase) in cash			**3,078**
Movement in net debt:-			
Short term borrowing	0	0	0
Long-term borrowing	-19,296	-5,778	-13,518
Short-term investments	16,308	8,000	8,308
Short-term deposits	-1,200	-1,428	228
Long-term investments	0	0	0
			-4,982
Net movement from revenue activities			**-5,356**
Net movement from servicing of finance			**-426**
(Decrease)/increase in stock			**-110**
Net movement from capital activities			**13,952**
			3,078

Glossary

Agency Services
Services which are performed by or for another authority 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. The reserve came into being on 31 March 2007 and the balance was created by transferring the balances on the Capital Financing Account and the Fixed Asset Restatement Account.

Capital Expenditure
Expenditure on the provision and improvement of assets such as land, buildings, vehicles and major items of equipment providing benefit to the Authority 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.

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 buildings, land and equipment.

Creditors
Individuals or organisations to whom the Authority 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 Authority 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 on general fund balance reconciliation.

Glossary

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 (for police authorities 1 April to 31 March).

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

Fixed Asset Restatement Account
A capital reserve designed to reflect the valuation surplus arising from the difference between the book value of fixed assets prior to the implementation of the capital Accounting Code of Practice at 1 April 1994 and revalued amounts, adjusted for subsequent revaluations and disposals. This Account was closed on 31 March 2007 on the creation of the Capital Adjustment Account and Revaluation Reserve.

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 Authority. Specific grants (included within additional grants) are also paid to the Authority, but are ring-fenced for spending in specific areas.

Government Grants Deferred Account
The amount of money given to the Authority to spend on assets that have a lasting value, for example vehicles, land and buildings. The amount is reduced each year as the value of the asset reduces due to depreciation.

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

OCU
Operational Command Units (OCUs) were formerly known as BCUs. Six OCUs provide geographically based policing focused on the community they serve. There are also a Crime OCU and Operations OCU.

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

Glossary

Revaluation Reserve
A Balance Sheet reserve which records the accumulated gains on assets held by the Authority arising from increases in value, netted off for disposals and certain depreciation adjustments. The reserve came into being on 31 March 2007.

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).