Hampshire Police Authority
Statement of Accounts 2010/11

Contents	**Page**

This page left intentionally blank

Treasurer's Explanatory Foreword to the Statement of Accounts

INTRODUCTION

The Statement of Accounts sets out the overall financial position of Hampshire Police Authority for the year ending 31 March 2011. The accounts have been prepared using the International Financial Reporting Standards (IFRS), in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11. This foreword provides a brief explanation and overview of the Authority's financial performance and activities during 2010/11.

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 the second largest non-metropolitan force in England and Wales. The combined population of Hampshire and the Isle of Wight is approximately 1.9m. The 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 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 and www.hampshire.police.uk

STATEMENT OF ACCOUNTS

The Police Authority's Statement of Accounts for 2010/11 consists of the:

Statement of Responsibilities for the Statement of Accounts – Page 13
This explains the Authority and Treasurer's responsibilities in respect of the Statement of accounts, and how these responsibilities are properly carried out.

Annual Governance Statement – Page 15
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 (England) Regulations 2011 in relation to the publication of a statement on internal control.

Independent Auditors Report – Page 25
The District Auditor provides an opinion on whether the Authority's accounts present a true and fair view on the financial position together with a conclusion on the Authority's arrangements for securing value for money.

Movement in Reserves Statement – Page 29
This statement shows the movement in the year on the different reserves held by the

Authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves.

Comprehensive Income and Expenditure Statement – Page 30

This 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 Government grants and income from local taxpayers. These are presented in accordance with the requirements of the Chartered Institute of Public Finance and Accountancy's Best Value Accounting Code of Practice.

Balance Sheet - Page 31

The Balance Sheet, as at 31 March 2011, 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 current assets employed in its operations, and summarised information on the fixed assets held.

Cash Flow Statement – Page 32

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

Police Pension Fund Account – Page 33

This shows the inflows and outflows on Police Officer pensions.

Notes to the Accounts – Page 35

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

The Statement of Accounting Policies is now incorporated within these notes. These outline the accounting policies applied by the Authority in constructing the accounts. The policies are in line with the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom and Best Value Accounting Code of Practice 2010/11, and are supported by International Financial Reporting Standards (IFRS). These are applied so that the accounts are consistent one year with another.

Relationship between Accounting Statements

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

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

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

SIGNIFICANT CHANGES IN ACCOUNTING POLICIES

The main change in accounting policies for 2010/11 was the move from UK Generally Accepted Accounting Principles (UK GAAP) to International Financial Reporting Standards (IFRS) in order to bring the Authority in line with commercial organisations and Central Government bodies. Although the changes were effective from 2010/11 Hampshire Police Authority were required to produce comparative figures for the Financial Statements for the year ending 31 March 2010. The impact of this was that both the closing Balance Sheet for 31 March 2010 and the opening Balance Sheet for 1 April 2009 were restated to allow comparative information to be available.

Other changes to current practices were amendments to associated disclosure notes as well as reviewing and amending the accounting policies as appropriate to ensure full compliance with the Code of Practice. The Authority was required to calculate and make an accrual for all employee benefits in the year in which they were earned. IFRS now requires us to do this for all paid benefits as well as those benefits which may not necessarily be paid, but have nevertheless been 'earned', such as annual leave, time off in lieu and flexitime. Additionally all existing leases of land and buildings were reviewed to identify the separate land and buildings elements for all new and existing leases where these were deemed to be finance leases on inception.

REVIEW OF THE YEAR

Operational Performance

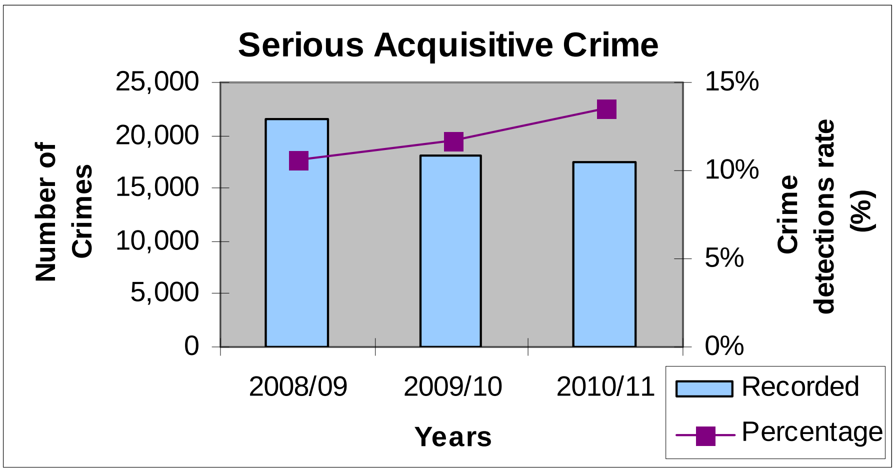
Overall crime reduced by 6% (over 8,500 fewer crimes) compared with last year whilst detection rates increased by 0.52% from 27.51% to 28.03%. In the year to March 2011, 51% of the public were confident that "the police and local council(s) were dealing with anti social behaviour and crime issues that matter in their area," according to the national measure contained within the British Crime Survey, this means that the Constabulary are 4th out of 8 within its group of most similar forces.

Performance figures:
Sanction detections

	All Crime			
	2007/08	2008/09	2009/10	2010/11
Recorded	164,152	158,901	142,152	133,585
Detected	43,714	40,154	38,965	37,444
Percentage	26.6%	25.57%	27.41%	28.03%

This year the Constabulary has continued with its focus on anti social behaviour with a particular force - wide emphasis during the peak summer months which resulted in significant end of year reductions in criminal damage (a reduction of 14.28% or over 4,000 fewer crimes compared with last year) and rowdy and nuisance behaviour including vehicle nuisance (a reduction of 14.80% or over 10,400 fewer incidents).

Serious acquisitive crime levels, made up of robbery, vehicle crime & dwelling burglary, have reduced in number compared with last year. Historically this type of crime rises during economic recessions but the Constabulary has been able to reduce acquisitive crime by 4.17% (over 750 fewer crimes) whilst increasing the detection rate by 1.63% from 11.86% to 13.49%.



Financial Overview (including economic climate)

In February 2010, the Police Authority approved funding for a net revenue budget for 2010/11 of £313.749m, which represented an increase in net budget compared to 2009/10 of £9m or 3%. This resulted in a council tax precept of £146.25 per annum for a Band D property, an increase of 2.91% which equated to a Band D rise of £4.14 per annum or 8p per week. Our budget was developed taking consideration of the Policing Priorities for 2010/11, Delivery Plans, the Force Control Strategy and Strategic Risk Register. Consideration was also given to collaboration and the use of partnerships to deliver services.

The budget was set at a time when the Constabulary was operating in an uncertain and changing environment. With the general election planned in May both Government and opposition parties announced that significant cuts in public spending could be expected from 2011/12. Furthermore, the global economy was still unstable. The budget was therefore set with an aim to relieve pressure on future years and achieve significant cashable improvements in efficiency and productivity which will be central to service delivery in the tougher financial climate.

A slowing global economy and a weaker outlook for UK economic growth due to Government spending cuts and higher taxes had a number of effects on the financial position of the Authority. The Bank of England maintained the base rate of interest at the 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 are credited to the income and expenditure account, and which helps to reduce the burden on the council tax payer, reduced accordingly. In the end, external borrowing was £10m, and interest on investments was in line with the reduced expectations.

The volatility in the banking sector and in the commercial sector was less pronounced in 2010/11 and a continuing focus on the stability of some debtors and creditors was maintained to ensure that any latent risks were mitigated. The Authority ensured that it 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 with the Authority recognising that some debts will be impaired on the basis of past experience, and has maintained a provision at the same level as 2009/10 at £150,000.

Efficiency Gains

The Police Authority target for efficiency savings was £33m over the three year period 2008/11, in line with Home Office expectations. Total efficiency savings of £23.404m were achieved during the year, which includes the 2010/11 underspend of £19.133m. This has resulted in efficiency savings of £59.833m over the three years, exceeding the target by a total of £26.833m.

Year	Cash	Non -cash	Total
08/09 actual	6,239	3,120	**9,359**
09/10 actual	19,960	7,110	**27,070**
10/11 outturn	23,035	369	**23,404**
2008/11 total	**49,234**	**10,599**	**59,833**

During 2010/11 the Constabulary set up a Change Programme team which has been co-ordinating the changes necessary to balance the budget whilst still delivering excellent service. The Change Programme produces some savings for 2010/11, but is primarily aimed at delivering transformational change from April 2012 that puts the Authority on a sustainable financial footing, given the reductions in central funding.

Borrowing

The Prudential Code allows the Authority to borrow money as long as it is prudent, affordable and sustainable. In accordance with its borrowing strategy for 2010/11 the Police Authority took new loans of £10m from the Public Works Loan Board (PWLB) at an average interest rate of 4.37%, in order to finance part of its Capital Programme, especially the completion of the new headquarters for Southampton Operational Command Unit which became operational in 2010/11. As a result, at the year end the Authority had a total of £30.2m PWLB loans at interest rates ranging between 3.85% and 8.5% and a weighted average overall rate of 4.37%, with the outstanding term remaining of 23 years. The total outstanding long-term debt stood at £31.898m at the Balance Sheet date.

Investment

The Authority has an investment portfolio consisting of reserves and short-term cash flows (including on-call cash investments). We continue to invest according to a low risk, high quality lending list. The Authority's average cash investment balance was £37.4m during 2010/11, but as at 31 March 2011 the investment holding stood at £30.42m. Interest earned was £289,000, leading to an average yield of 0.7%.

Pensions

The Authority's net pension liability has decreased by £214.1m from £2,238.5m at 31 March 2010 to £2,024.4m at 31 March 2011. This is largely accounted for by a large one-off credit adjustment of £266.52m as a consequence of the Government's decision to increase future pension payments by reference to the changes in CPI inflation as opposed to RPI inflation. This adjustment was in the range that had been forecast in the previous year's accounts. The Authority's assessed share of the actual return on the assets of the Local Government Superannuation scheme showed a loss of £10.94m while the assessed present value of the Authority's liabilities on all pension schemes decreased by £214m.

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

Reserves

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

As of 31 March 2011 the general reserve stood at £29.5m, an increase of £13.6m compared to 31 March 2010.

Material Assets Acquired or Liabilities Incurred

In March 2011 the new headquarters for Southampton Operational Command Unit became operational. The building was commissioned in order to provide an appropriate, sustainable and contemporary police station with a flexible environment to match the changing needs of policing. The old accommodation was no longer fit for purpose, with extensive maintenance needed throughout the building as well as significant improvements required to the custody centre in line with Home Office requirements. The new headquarters brought the opportunity to co-locate Southampton's operational teams and the ability to accommodate partnerships, increasing the ability of Hampshire Constabulary to deliver essential frontline policing duties as well as improving police services for the city of Southampton.

As stated above the Police Authority borrowed £10m from the Public Works Loan Board in order to finance the completion of the new Southampton Operational Command Unit headquarters amongst other items within the Capital Programme.

Unusual Charges or Credits within the accounts

Further to the Government decision to increase pensions in payment by reference to the Consumer Prices Index measure from the Retail Prices Index, there has been change in the past service costs (i.e. the value of benefits accrued and charged into the accounts) and a credit of £226.52m to the Net Cost of Police Services in the Comprehensive Income and Expenditure Statement and a corresponding reduction in the overall pensions liability on the Balance Sheet.

Additionally, the Balance Sheet reflects a £27.680m increase in the pensions' liability to reflect the likelihood that a proportion of current police officers in the police pension schemes will receive injury pensions. The liability has been assessed at 2.5% of current police scheme liabilities. The Balance Sheet has been changed to show this additional liability and this has been presented as a prior period adjustment, with the effective change being from 1 April 2009, being the transition date for IFRS and the earliest period for the comparators in these statements.

Significant Provisions or Contingencies

In order for the Police Authority to meet the pending budget reductions from 2011/12 onwards a number of applications for voluntary redundancy from police staff were approved. A provision of £907,000 has been created for staff who left at the 31st March as the redundancy payments and charges from the pension fund were not due until the new financial year.

As a result of the adoption of International Financial Reporting Standards (IFRS), the Authority is required to accrue for any annual leave, flexitime and time off in lieu which had been earned but not taken at 31 March each year. The amount accrued at 31 March 2011 was £5.278m.

Collaborative working

There is a clear Home Office, Treasury and HMIC expectation for police forces and authorities to work collaboratively. The Government and HMIC expect collaboration to form a significant part of any "value for money" plans in a new policing landscape to achieve key savings and ensure protective services have the capability and capacity to respond to future threats to the police service. Hampshire Police Authority and Hampshire Constabulary have worked collaboratively with other Police Authorities and Constabularies within the South East area on a number of projects. These include working with Surrey and Sussex on the creation of the South East Air Operations Unit, with Thames Valley, Surrey and Sussex on the creation of the South East Region Witness Protection, Covert Policing and Technical Support Units and with all five South East Forces on the introduction of the South East Region Serious and Organised Crime Directorate. Hampshire Constabulary and Thames Valley Police have also created a bilateral partnership with regard to the provision of ICT and Information Management across both forces.

Treasurer’s Explanatory Foreword to the Statement of Accounts

COMPARISON OF ACCOUNTS WITH THE REVENUE OUTTURN

The Income and Expenditure account is presented in a format that complies with the Code of Practice and shows the net cost of providing services in accordance with generally accepted accounting practices. These costs include charges for the Authority’s pension scheme (in accordance with International Accounting Standard 19) as well as depreciation and losses on disposal or impairment of fixed assets, and other adjustments. This is a different basis to the way the management accounts are produced. For the purpose of setting the council tax each year certain costs, such as depreciation of assets and the accrual of retirement benefits, need not be included in the general fund. These amended costs become the management accounts which are used during the year by the Police Authority’s Finance Committee in order to monitor our budget as well as set the precept for the following year. These management accounts provide for the cost of financing capital expenditure, revenue contributions and actual in year employer’s contributions to the pension fund instead of the charges for the pension scheme and depreciation.

As the accounts are prepared in accordance with the requirement of IAS 19 the cost of retirement benefits are recognised within the Comprehensive Income and Expenditure account and the liability relating to pensions schemes is included within the long term liabilities on the Balance Sheet. These liabilities total £2,024.4m at 31 March 2011 which has resulted in an overall negative balance of £1,870.0m. However finance is only required for the police pensions when the amounts are actually paid.

Revenue Expenditure

In 2010/11, the Authority spent £294.263m against a net expenditure budget of £313.749m on policing services for the people of Hampshire and the Isle of Wight. Of the net surplus balance, £0.353m was transferred into a revenue grants unapplied earmarked reserve and the remainder represented the general underspend of £19.133m at the year end. This was transferred into the general fund reserve. £3.466m of this was carried forward to fund specific bids from Operational Command Unit Commanders and Department Heads, much of which was required to meet commitments already entered into or ongoing at the year end.

Summary Income and Expenditure

The subjective analysis table below shows that there was a surplus of £175.080m on the provision of services for 2010/11 in the statutory financial statements. This reflects the different basis on which the Statement of Accounts is prepared, as explained above. The difference from the net position reported in the summary compared to the figures reported to the Finance Committee is due to a number of items which are not included in the management accounting reports. A principal difference in 2010/11 is that the figures in the Statement of Accounts include a one-off credit in respect of the impact of the Government’s decision to increase pensions by reference to CPI (as opposed to RPI). A credit to the cost of services of £226.52m was put through in 2010/11. Other areas of difference between the statutory and the management accounts (i.e. the revenue budget) are in respect of deprecation of assets, an adjustment in respect of capital grants received from the government and the balances on the collection fund accounts held by the billing authorities.

Treasurer's Explanatory Foreword to the Statement of Accounts

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

Subjective Analysis Table

	Revenue Budget 2010/11 Objective Analysis			Income and Expenditure Account Analysis	
	Constabulary £000	Police Authority £000	Total £000	Reconciling items to the Financial Accounts £000	Total £000
Expenditure:					
Employees	280,459	0	280,459	(243,493)	36,967
Premises	8,445	0	8,445	1,161	9,606
Transport	4,651	0	4,651	77	4,728
Travel and Subsistence	3,407	0	3,407	378	3,785
IT and Communications	12,942	0	12,942	723	13,665
Supplies and Services	16,442	0	16,442	1,520	17,962
National Levies	897	0	897	(897)	(0)
Grants Paid	1,526	0	1,526	(33)	1,493
Capital Financing (net)	2,097	0	2,097	(2,097)	0
Police Authority	0	1,683	1,683	0	1,683
Depreciation, amortisation and impairment	0	0	0	8,969	8,969
Pensions interest cost and expected return on pensions assets	0	0	0	110,110	110,110
Interest Payments	0	0	0	1,293	1,293
Precepts & Levies	0	0	0	897	897
Gain or Loss on Disposal of Fixed Assets	0	0	0	203	203
Total Expenditure	**330,866**	**1,683**	**332,549**	**(121,189)**	**211,360**
Income:					
Service Income	(11,659)	(32)	(11,691)	(11,622)	(23,313)
Additional Specific Grants	(23,274)	0	(23,274)	279	(22,995)
Interest and investment income	0	0	0	(289)	(289)
Income and council tax	0	0	0	(100,888)	(100,888)
Government grants and contributions	0	0	0	(238,955)	(238,955)
Total Income	**(34,932)**	**(32)**	**(34,964)**	**(351,476)**	**(386,440)**
Contributions to/(from) reserves	**(3,200)**	**(122)**	**(3,322)**	**3,322**	**0**
Net Expenditure/(Income)	**292,734**	**1,529**	**294,263**	**(469,342)**	**(175,080)**

Capital Expenditure

Capital expenditure is incurred in the acquisition and enhancement of the Authority's assets which have a life of more than one year. The Police Authority approved a Capital Programme of £20.158m for 2010/11 in February 2010. This was revised to £25.444m during the course of the year to include commitments carried forward and slippage in 2009/10. Total spend against the plan was £21.757m. This was mainly funded by the application of Home Office capital grant of £3.598m, revenue contributions of £3.496m and capital receipts of £1.249m, largely from sales of police houses and vehicles. The underlying need to borrow to support the capital expenditure was £13.4m of which £10m was incurred, the remainder being funded from internal cash balances, which include the statutory requirement for a minimum revenue provision for the repayment of the principal on debt incurred (i.e. MRP). A detailed view of our spend against the approved capital programme is set out below.

	2010/11 £m	2009/10 £m
Expenditure:		
Land & Buildings	16.8	18.4
Vehicles	2.1	3.9
IT & Operational Equipment	2.8	1.1
Total	**21.7**	**23.4**
Funded by:		
Government Grant	-3.6	-3.9
Capital Receipts	-1.2	-3.5
Revenue Contributions	-3.5	-5.5
Borrowing (incl. Internal)	-13.4	-10.5
Total	**-21.7**	**-23.4**

FUTURE PROSPECTS

The Coalition Government announced that total funding to the police will reduce by 20 per cent in real terms over the next four years, under the Comprehensive Spending Review. The funding announcement in December 2010 meant that the Government general grant paid to Hampshire Police Authority has been reduced by 5.1 % for 2011/12 and 6.7 % for 2012/13 as a part the four year cut. The specific grants we receive from the Government for Neighbourhood Policing and Counter Terrorism mean that the reduction in total Government funding is 3.8% in 2011/12 and 6.3% in 2012/13. For Hampshire Police Authority this means the grant has been reduced by £9m for 2011/12 and a further £14m for 2012/13. Although the reduction of Government grant for 2011/12 is £9m, inflation and other budget pressures meant that £19.981m of savings needed to be found to balance the budget.

In light of the significant savings expected to be required for 2011/12 onwards, Hampshire Constabulary created a Force Change Team who undertook an organisation-wide review to ensure that the Police Authority can continue to provide an effective and efficient service to the residents of Hampshire and the Isle of Wight. The Change Team's aim was to introduce transformational changes from 2011/12 that release significant efficiency savings to assist with meeting the financial challenges ahead. It will deliver quality of service at a lower cost, with an anticipated saving of £46m-£50m. £4m from the underspend from 2010/11 which was contributed to reserves will be made available to assist with the 2011/12 budget. This will facilitate the agreed strategy to absorb budget reductions in 2011/12 whilst sustainable transformational change is designed and implemented.

There will be a change to the current Operational Command Unit (OCU) structure under the Local Policing Process which will see the current six territorial OCUs being replaced by three policing areas, Northern, Eastern and Western, which will contain 11 districts. The three policing areas will each be led by a chief superintendent and a crime and operations superintendent, with districts overseen by either a superintendent or a chief inspector. These changes are expected happen over the next year so that they will be in place by April 2012.

Since the formation of the coalition government in May 2010 there have been many bills laid before the houses; the most significant of which is the Police Reform and Social Responsibility bill. The bill, if enacted, may result in significant governance changes for the future of policing. One of these being that the Police Authority could be replaced with an elected Police and Crime Commissioner following elections. A Police and Crime Panel would also be created which would hold the Commissioner to account.

This page left intentionally blank

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 proper practices as set out in the CIPFA/LASAAC *Code of Practice on Local Authority Accounting in the United Kingdom (the Code)*.

In preparing this Statement of Accounts, the Treasurer has:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the Local Authority Code.

The Treasurer has also:

- kept proper accounting 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 Statement of Accounts for 2010/11 was considered and approved by the Hampshire Police Authority's Governance Committee on 22 September 2011.

Signed:

Date:

THE TREASURER'S CERTIFICATE

I certify that the Statement of Accounts present a true and fair view of the financial position of the Hampshire Police Authority as at 31 March 2011 and its income and expenditure for the year then ended.

Signed:

Date:

This page left intentionally blank

Annual Governance Statement for Hampshire Police Authority 2010/11

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 The Police Authority's objectives are to secure efficient and effective policing. We aim to do this by driving through efficiencies whilst seeking an increase in performance. We also aim to increase our effectiveness in scrutinising everyday police performance in addition to greater involvement of the public in identifying policing priorities. The intention is to provide stakeholders with effective and clear feedback on whether or not the priorities they have helped to identify have been delivered.

1.3 In addition to the ongoing objective of securing efficiency and effectiveness in the delivery of policing across the two counties, the Police Authority also aims to work with communities and partners to develop a shared understanding of the risks and threats to policing in order to inform the long-term strategy. Further details of the Police Authority's purpose and objectives are available on its website at www.hampshirepoliceauthority.org.

1.4 In discharging these overall responsibilities, 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.

1.5 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 www.hampshirepoliceauthority.org or can be obtained from Hampshire Police Authority, Westgate Chambers, Staple Gardens, Winchester SO23 8AW.

1.6 This statement explains how the Authority has complied with the code and also meets the requirements of regulation 4 (paragraphs 2 and 3) of the Accounts and Audit Regulations 2011 in relation to the requirement to conduct a review of the effectiveness of its system of internal control, to consider the findings of that review and to approve an annual governance statement prepared in accordance with proper practices in relation to 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 2011 and up to the date of approval of the Annual Report and Statement of Accounts.

3. THE GOVERNANCE FRAMEWORK

3.1 The Police Authority's objectives are set by the Authority annually. These 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, the relevant Force Boards and Committees.

3.2 The Authority has various plans and policies in place. 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 and procedures 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 produced 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 operational order. It is each individual's responsibility to identify, assess and manage risk. Employees are trained in risk assessment.

3.6 The Governance Committee has responsibility for developing the corporate governance framework, reviewing internal audit and external audit plans, and for upholding the principles of good governance, making recommendations to the Authority as appropriate. The Governance Committee reviews the strategic risks registers for both the Constabulary and the Authority at each meeting, ensuring that risks are identified and assessed correctly and that mitigating actions are carried out.

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 Chief Officers' Group also receives monthly financial management reports for information, comment and action.

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'* and an accompanying Application note produced by CIPFA/SOLACE in response to CIPFA's *'Statement on the Role of the Chief Financial Officer in Local Government'* to compile the necessary assurances and evidence to support this statement. Corporate governance and the production of this statement are 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. The reviews are also informed by comments made by the external auditors and other review agencies and inspectorates in the 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 Constabulary, 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 internal audit opinion report based on the work undertaken by internal audit during the course of the preceding financial year and culminating in an 'Annual Assurance Statement' for the year in question.

4.3 In addition to reviewing progress against 2009/10'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 lead stakeholders and responsible officers in the Force and the Authority, this is then reviewed by the Force's Chief Officers' Group as part of the underlying assurances offered for the AGS.

4.4 In response to CIPFA's *Statement of the Role of the Chief Financial Officer in Local Government* (June 2009), an Application Note was produced by CIPFA/SOLACE to advise on how the CIPFA Statement fits into the governance framework. This has been incorporated into the self-assessment matrix . This identifies how compliance can be demonstrated to the CIPFA statement of the core activities and behaviours that CIPFA states belong to the role of the Chief Financial Officer (CFO) namely that :-

The Chief Financial Officer in a public service organisation:

- is a key member of the Leadership Team, helping it to develop and implement strategy and to resource and deliver the authority's strategic objectives sustainably and in the public interest;
- must be actively involved in, and able to bring influence to bear on, all material business decisions to ensure immediate and longer term implications, opportunities and risks are fully considered, and alignment with the authority's financial strategy; and
- must lead the promotion and delivery by the whole authority of good financial management so that public money is safeguarded at all times and used appropriately, economically, efficiently and effectively.

And that to deliver these responsibilities, the CFO:

- must lead and direct a finance function that is resourced to be fit for purpose
- must be professionally qualified and suitably experienced

The self-assessment has confirmed that the role of the Treasurer, as the CFO to the Police Authority, complies with the requirements of the CIPFA *Statement of the Role of the Chief Financial Officer in Local Government.*

4.5 The CIPFA Statement refers specifically to the statutory role carried out by the Treasurer in supporting the Police Authority in achieving its objectives. In the Constabulary, the Director of Finance and Resources provides a similar role in relation to the achievement of its objectives. The Director of Finance and Resources is a member of the leadership team and directs and oversees the effective, efficient and economic uses of resources across the organisation, ensuring that the Police Authority's financial regulations and standing orders are followed. The role holder also liaises effectively with the Treasurer, the internal and external audit functions and government departments and inspectorates to ensure that the needs of all stakeholders are satisfied.

4.6 The Director of Finance and Resources is professionally qualified and suitably experienced and leads teams which carry out the day to day financial management and stewardship of the Constabulary's activities and assists the Police Authority and Constabulary in key areas such as statutory accounting and strategic financial planning.

4.7 Where weaknesses in governance arrangements or system controls are identified through any of the assurance activities, action plans are produced and progress against delivery is monitored by the Governance Committee.

5. SIGNIFICANT GOVERNANCE ISSUES

5.1 The Annual Governance Statement for 2009/10 identified business or operational risk management as the one area which, whilst not being a significant control issue, was an area where further improvements were required to strengthen the control framework.

5.2 In relation to business risk management, it was reported in March 2010 that recent progress had been maintained and the Force is closer to having disaster recovery plans in place and tested for all of its major sites. Thus, some business continuity plans have been tested – with one notable example being in a live situation - and the piloting of new processes. The appointment in July 2010 of a permanent risk management co-ordinator was important and work was progressed to co-ordinate risk management activity in the Force. A key activity was to keep the strategic risk register up to date and to report this to the Police Authority, ensuring both the visibility of the risks and mitigating actions to the Governance Committee but also to ensure that there was synergy with the Authority's own strategic risk register. This was good progress and all major risks are being successfully mitigated.

5.3 Whilst operational risk management is established and business (i.e. organisational) risk management has seen some progress, the improvements which have been highlighted and other changes are ongoing to ensure that risk management is embedded in the organisation across all areas. More progress is needed, however, and the Force Change Programme has proposed the creation of a Management of Risk Unit. This unit will bring together for the first time the functions of risk management, insurance and health and safety. In addition to bringing operational efficiencies and the ability to manage risks and coordinate activity and strategies across the organisation on a consistent and comprehensive basis, this unit will report directly to the Deputy Chief Constable.

.

5.4 The Comprehensive Spending Review in the Autumn of 2010 was a landmark event in the Police Authority's year – and history – in that it introduced a series of budget reductions over the medium-term which will put significant pressure on the Authority's ability to deliver its services. The Authority had to some extent anticipated the scale of the budget reductions and had in place a blueprint to accommodate the impact of these reductions upon service delivery and its overall objectives. A Force Change Programme was implemented in the course of the year and all services were subject to a comprehensive review within the Chief Constable's overall objective of the Force becoming a top quartile performer whilst being in the lowest quartile for spending when compared to other forces in all key areas of service delivery.

5.5 At the start of 2011, the HMIC undertook a 'Preparedness Inspection' to ascertain whether the organisation was prepared to meet the financial challenges over the medium-term. The HMIC inspection provided an external scrutiny of how well the Authority and Constabulary were meeting the authority objectives 7, 8 and 9 in respect of the efficient and effective use of resources and that there was adequate resourcing available to meet known current and future challenges.

5.6 The HM Inspector's response was that it was clear that there were processes in place to restructure and to modernise the organisation in order to produce savings. A draft report was summarised for the Police Authority in April 2011. As regards one of the key questions of whether the Authority and Constabulary understood the challenge, the HMIC recognised that demand, threat and risk have been taken into account as well as local, regional and national priorities in the development of the plan. The HMIC commented that a long term view has been taken and that while the anticipated savings plan was ambitious, this does provide a secure financial position and should enable a smooth transition to a Police and Crime Commissioner should it be required.

5.7 The HMIC commented that there are strong governance arrangements in place with clear accountability with robust plans in every area for the first year in particular. They identified that where possible weaknesses in the process have been identified, these gaps have been closed.

5.8 The HMIC commented that the Authority and force have consulted with the public and partners and have made a clear commitment to protect visible policing and improve availability. That, despite significant cuts in some areas, the force priorities remain the same and that the proposed targets for the forthcoming year represent an improvement on current performance. The HMIC report states that the impact on service delivery has not yet been fully assessed, in particular the effects of budget cuts on local authority partners.

5.9 The Force Change Programme has now reached blueprint stage 2 where individual services are being designed and firm plans made for changes to service delivery and internal structures. The Chief Constable has confirmed a commitment to keep police officers and police community support officers at the heart of the community where they are most accessible. To this end he has stated that "the force will not reduce the number of neighbourhood, response and local investigation police officers until April 2012 and [it] aims to maintain that level of policing thereafter." Demonstrating effective governance, the risks and the impact of these plans are being carefully managed and are subject to Chief Officer Group and Police Authority involvement and scrutiny.

5.10 With reference to the work of the Audit Commission and the assurances they provide to the Authority, the outcome of the audit of the 2009/10 Statement of Accounts was an unqualified audit opinion and a positive value for money conclusion. Prior to its demise shortly after the election of a new government, the indicative Use of Resources Assessment for 2009/10 was a score of '3', meaning that the organisation was "performing well". In planning the work the Audit Commission would undertake in order to issue its opinion on the 2010/11 Statement of Accounts and value for money, the Audit Commission noted that it would need to understand the audited body fully, to identify any risk of material misstatement (whether because of fraud or error) in the financial statements. They would do this by:

- identifying the business risks facing the Authority, including assessing the Authority's own risk management arrangements;
- considering the financial performance of the Authority;
- assessing internal control – including reviewing the control environment, the IT control environment and Internal Audit; and
- assessing the risk of material misstatement arising from the activities and controls within the Authority's information systems.

In addition, the Audit Commission noted that it would look at two specific risks: namely the transition to International Financial Reporting Standards (IFRS) and financial pressures.

5.11 Work has been ongoing during the year to help satisfy the Audit Commission's objectives and the review of the re-stated 2009/10 Statement of Accounts on an IFRS-basis is ongoing. The Audit Commission's interim assessment was that this was on target and the audit of the 2010/11 statements has confirmed that this was completed satisfactorily. Additionally, pre-audit work to look at key controls was concluded satisfactorily and the Audit Commission have been made fully aware of the outcomes of internal audit reviews. The Audit Commission also placed some reliance on HMIC inspection work, part of which covered the preparedness to meet the financial challenges as outlined previously.

5.12 In 2010, the Audit Commission issued its report on the process that the Authority undertook to decide to purchase a site for a new police administrative headquarters at Alpha Park. The District Auditor concluded that she did not have to issue a public interest report or to make an application to court on this matter. Notwithstanding this outcome, there were some lessons learnt as a result of this. One such lesson was a requirement to make better use of independent advice in the future and this was applied with good effect in the preparation of the Authority's Estates Development Programme which made recommendations to the Police Authority in June 2011.

5.13 Finally, the Audit Commission's Annual Audit Letter, considered in December 2010, looked forward to the challenging medium-term financial prospects in the wake of the economic downturn and the budget reductions. They also noted the national reports from the HMIC and themselves which challenged authorities to review current ways of service delivery to meet public expectations in future years. They noted the progress that the Authority had made in terms of efficiencies but that these would need to be built upon.

5.14 The Annual Internal Audit Opinion 2010/11 states that the Authority and Constabulary's "framework of governance, risk management and management control is appropriate and provides reasonable assurance regarding the effective, efficient and economic achievement of their objectives". Whilst internal audit opinion cannot be definitive, it is nevertheless a valid and reliable indicator of the health of the organisation.

5.15 With reference to specific audits completed during 2010/11, the majority (21 out of 23) of audits concluded that the framework of control was appropriate with only minor exceptions in relation to individual controls. 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 Finance and Resources Board on a regular basis.

5.16 The annual opinion reported that there were significant issues arising in three areas: business continuity and disaster recovery, a contractual arrangement and the identification and oversight of grant income and expenditure. These matters are being addressed with a plan being in place to update business continuity plans during 2011, the introduction of more proactive management of the contractor in the performance of their obligations and the future centralisation of financial management which will allow more effective oversight of grants.

5.17 The Police Authority has also reviewed its own governance arrangements during the year and has made some significant improvements to expand its scope and processes. Thus, the Governance Committee undertook a review of its terms of reference to ensure that all pertinent matters are considered as part of its normal business in line with the Authority's statutory requirements, relevant codes and best practice. Additionally, in the wake of events occurring during the year and further to guidance offered on best practice by CIPFA and others, the Governance Committee now maintains an overview of the Authority's policies on 'Raising Concerns at Work' (Whistleblowing), the Anti-Fraud and Corruption Policy, the Protocol for the Management of Sensitive and Protectively Marked Information and the Authority's complaints procedure. To give this and other responsibilities and processes further validation, a self-assessment was also conducted and was scrutinised by independent members of the Standards Committee.

5.18 Part of the work which was led by internal audit in the year was a self-assessment using a CIPFA template called the 'Red Book, entitled 'Managing the Risk of Fraud'. The Constabulary's response to this was prepared in conjunction with the Financial Accounting and Professional Standards Departments and the outcome was reported to the Governance Committee in September 2010. Starting with the observation that there was a low incidence of reported fraud or corruption against the Constabulary and the Authority originating from members, staff or the public generally, the report concluded that the analysis indicated that present arrangements are generally effective and fit for purpose to help maintain this position.

5.19 The Red Book self-assessment did raise a number of issues which the Constabulary is now addressing. These issues related to the absence of a counter fraud and anti-corruption strategy and a policy for the recovery of losses incurred as a result of fraud, some gaps in the reporting of all financial irregularities to the Treasurer, and the absence of a generally publicised remit to minimise losses arising from fraud and corruption. In response to these issues a counter fraud and anti-corruption strategy has been drafted and measures are in place to publicise the work of the Constabulary's Anti-Corruption Unit and to raise their profile. In the meantime, also, there is an annual pro-active audit carried out as part of the internal audit plan.

5.20 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 lead stakeholders and responsible officers in the Force and the Authority, this is then reviewed by the Force's Chief Officer Group as part of the underlying assurances offered for the AGS.

5.21 In relation to the requirement to demonstrate compliance with CIPFA's Statement on the *'Role of the Chief Financial Officer in Local Government'*, the Authority's self-assessment has confirmed compliance, with the Treasurer being a key member of the leadership team, suitably resourced and experienced with an active involvement in strategic decisions, financial planning and financial management.

5.22 The review using the 'rough guide' has not identified any areas where the previous good governance arrangements had taken a significant backward step and generally concluded that the existing arrangements continued to be effective and ongoing. Thus, for example, the strategic risk register for the Authority is now considered alongside the Constabulary's strategic risk register at each meeting of the Governance Committee. This means that significant risks are visible and mitigating actions can be monitored and progressed or progress challenged as appropriate.

5.23 The above paragraphs note some of the challenges which the Authority and Constabulary have faced in the year and will face in the future in a period of austerity. Two key examples of where the Police Authority has demonstrated sound governance and oversight are in relation to the implementation of the International Financial Reporting Standards (IFRS) and the Force Change Programme. In relation to IFRS, which has been a significant, if not unprecedented, change in accounting arrangements affecting the Authority's ability to demonstrate effective financial management and statutory reporting, the Police Authority have been kept up to date with the requirements through formal briefings and have thereby exercised a degree of scrutiny over both the process, any inherent risks and the outcomes. The desired results of this have been a smooth transition to implementing the new arrangements and a set of financial accounting statements which meet the standards and which received an external audit opinion which is unqualified. The independent auditor's opinion in the Statement of Accounts 2010/11 is, inter alia, that the accounting statements "give a true and fair view of the state of Hampshire and Isle of Wight Police Authority's affairs as at 31 March 2011 and of its income and expenditure for the year then ended". This is the desired outcome.

5.24 In relation to the Force Change Programme, the Authority has set the framework for this and it has reviewed plans and blueprints as these have been developed. The latter has also come with some external scrutiny to give a different perspective of change and what possibilities exist for redesign of key services. This, and the detailed work being carried out within the Constabulary, has led the Audit Commission to observe in its Annual Governance Report that the Constabulary and Police Authority have "strong governance arrangements in place to ensure the Force Change Programme remains on track to transform the design of the force and secure the required budget reductions."

5.25 After the end of the financial year there was a high profile event regarding the News International Corporation and allegations of phone-hacking and alleged payments made to officers of the Metropolitan Police for information. Amongst other things this led to a proposal for an inspection of Forces by the HMIC to review their governance arrangements in the area of expenses and hospitality. Hampshire was chosen as a pilot site and was inspected in August 2011.

5.26 Whilst no specific issues or problems were raised by the HMIC, the Chief Executive has proposed that there should be a review of the current processes for authorising chief officers' expenses and hospitality, coupled with an appropriate risk assessment and audit follow up to ensure that the Authority follows best practice and has sound governance arrangements in the light of recent events nationally.

6. CONCLUSIONS

6.1 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, particularly as the Constabulary, and possibly the Authority, change their shape in an era of austerity, it is concluded that the existing arrangements for governance are sufficient.

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 Hampshire Police Authority and Hampshire Constabulary

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF HAMPSHIRE & ISLE OF WIGHT POLICE AUTHORITY

Opinion on the Authority and Pension Fund accounting statements

I have audited the accounting statements and the police pension fund accounting statements of Hampshire & Isle Of Wight (IOW) Police Authority for the year ended 31 March 2011 under the Audit Commission Act 1998. The accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the 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. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of Hampshire & IOW Police Authority in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 48 of the Statement of Responsibilities of Auditors and Audited Bodies published by the Audit Commission in March 2010.

Respective responsibilities of the Treasurer and auditor

As explained more fully in the Statement of the Treasurer's Responsibilities, the Treasurer is responsible for the preparation of the Authority's Statement of Accounts, including the police pension fund accounting statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. My responsibility is to audit the accounting statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practice's Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the accounting statements sufficient to give reasonable assurance that the accounting statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of:

- whether the accounting policies are appropriate to the Authority's and Pension Fund's circumstances and have been consistently applied and adequately disclosed;
- the reasonableness of significant accounting estimates made by the Authority and the pension fund; and
- the overall presentation of the accounting statements.

I read all the information in the Explanatory Foreword to identify material inconsistencies with the audited accounting statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Independent Auditor’s Report

Opinion on accounting statements

In my opinion the accounting statements:

- give a true and fair view of the state of Hampshire & IOW Police Authority’s affairs as at 31 March 2011 and of its income and expenditure for the year then ended;
- give a true and fair view of the financial transactions of the police pension fund during the year ended 31 March 2011 and the amount and disposition of the fund’s assets and liabilities as at 31 March 2011, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom.

Opinion on other matters

In my opinion, the information given in the Explanatory Foreword for the financial year for which the accounting statements are prepared is consistent with the accounting statements.

Conclusion on the Authority’s 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 to review regularly the adequacy and effectiveness of these arrangements.

Auditor’s responsibilities

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements 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 relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. 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.

Basis of conclusion

I have undertaken my audit in accordance with the Code of Audit Practice, having regard to the guidance on the specified criteria, published by the Audit Commission in October 2010, as to whether the Authority has proper arrangements for:

- securing financial resilience; and
- challenging how it secures economy, efficiency and effectiveness.

Independent Auditor's Report

The Audit Commission has determined these two criteria as those necessary for me to consider under the Code of Audit Practice in satisfying myself whether the Authority put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2011.

I planned my work in accordance with the Code of Audit Practice. Based on my risk assessment, I undertook such work as I considered necessary to form a view on whether, in all significant respects, the Authority had put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources.

Conclusion

On the basis of my work, having regard to the guidance on the specified criteria published by the Audit Commission in October 2010, I am satisfied that, in all significant respects, Hampshire & IOW Police Authority put in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2011.

Certificate

I certify that I have completed the audit of the accounts, including the police pension fund accounting statements, of Hampshire & IOW Police Authority 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

September 2011

This page left intentionally blank

Movement in Reserves Statement

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

	General Fund Balance	Earmarked General Fund Reserves	Capital Receipts Reserve	Capital (Revenue Contribut-ions) Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Balance at 1 April 2009	**7,106**	**2,495**	**1,780**	**5,011**	**0**	**16,392**	**(1,597,366)**	**(1,580,974)**
Movement in reserves during 2009/10								
Surplus or (deficit) on the provision of services	(79,062)	0	0	0	0	(79,062)	0	(79,062)
Other Comprehensive Income and (Expenditure)	0	0	0	0	0	0	(436,922)	(436,922)
Total Comprehensive Income and Expenditure	(79,062)	0	0	0	0	(79,062)	(436,922)	(515,984)
Adjustments between accounting basis & funding basis under regulations (note 14)	90,795	0	(1,780)	(3,125)	0	85,890	(85,890)	0
Net Increase/Decrease before Transfers to Earmarked Reserves	11,733	0	(1,780)	(3,125)	0	6,828	(522,812)	(515,984)
Transfers to/from Earmarked Reserves (Note 15)	(2,968)	2,968	0	0	0	0	0	0
Increase/Decrease in 2009/10	**8,765**	**2,968**	**(1,780)**	**(3,125)**	**0**	**6,828**	**(522,812)**	**(515,984)**
Balance at 31 March 2010 carried forward	**15,871**	**5,463**	**0**	**1,886**	**0**	**23,220**	**(2,120,178)**	**(2,096,958)**
Movement in reserves during 2010/11								
Surplus or (deficit) on the provision of services	175,080	0	0	0	0	175,080	0	175,080
Other Comprehensive Income and (Expenditure)	0	0	0	0	0	0	51,856	51,856
Total Comprehensive Income and Expenditure	175,080	0	0	0	0	175,080	51,856	226,936
Adjustments between accounting basis & funding basis under regulations (note 14)	(159,785)	0	0	(1,264)		(161,049)	161,049	0
Net Increase/Decrease before Transfers to Earmarked Reserves	15,295	0	0	(1,264)	0	14,031	212,905	226,936
Transfers to/from Earmarked Reserves (Note 15)	(1,689)	1,689	0	0		0	0	0
Increase/Decrease in Year	**13,606**	**1,689**	**0**	**(1,264)**	**0**	**14,031**	**212,905**	**226,936**
Balance at 31 March 2011 carried forward	**29,477**	**7,152**	**0**	**622**	**0**	**37,251**	**(1,907,273)**	**(1,870,022)**

Comprehensive Income and Expenditure Statement

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

2009/10				2010/11		
Gross Expenditure	Gross Income	Net Expenditure		Gross Expenditure	Gross Income	Net Expenditure
£'000	£'000	£'000		£'000	£'000	£'000
167,858	(20,580)	147,278	Local Policing	172,305	(25,782)	146,523
29,424	(683)	28,741	Dealing with the Public	32,004	(783)	31,221
28,355	(760)	27,595	Criminal Justice Arrangements	31,593	(871)	30,722
19,827	(3,425)	16,402	Road Policing	20,474	(3,414)	17,060
18,195	(2,024)	16,171	Specialist Operations	22,517	(737)	21,780
17,535	(468)	17,067	Intelligence	18,730	(413)	18,317
28,840	(811)	28,029	Specialist Investigation	29,400	(939)	28,461
14,971	(96)	14,875	Investigative Support	20,016	(443)	19,573
16,487	(15,062)	1,425	National Policing	17,069	(12,894)	4,175
1,567	(46)	1,521	Corporate & Democratic Core	1,269	(32)	1,237
690	0	690	Non-distributed costs (Note 6)	(266,520)	0	(266,520)
343,749	**(43,955)**	**299,794**	**Net Cost of Police Services**	**98,857**	**(46,308)**	**52,549**
		(18,929)	Other operating (income) and expenditure (Note 16)			(18,793)
		113,410	Financing and investment income and expenditure (Note 17)			111,114
		0	Surplus or deficit of discontinued operations			0
		(315,213)	Taxation and non-specific grant income (Note 13)			(319,950)
		79,062	**(Surplus) or Deficit on Provision of Services**			**(175,080)**
		(1,720)	(Surplus) or deficit on revaluation of Property, Plant and Equipment assets			(982)
		0	Surplus or deficit on revaluation of available for sale financial assets			0
		150	Any other (gains) or losses			0
		438,492	Actuarial (gains)/losses on pension assets/liabilities			(50,874)
		436,922	**Other Comprehensive (Income) and Expenditure**			(51,856)
		515,984	**Total Comprehensive (Income) and Expenditure**			**(226,936)**

The credit of £266.52m shown as non-distributed costs in 2010/11 represents an actuarially-assessed view of the reduced future liabilities on the pension schemes as a result of the Government's announcement in June 2010 that public sector pensions would in future be up-rated in line with the Consumer Prices Index (CPI) and not the Retail Prices Index (RPI). See note 6 for further information and analysis by scheme.

Balance Sheet

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Authority. The net assets of the Authority (assets less liabilities) are matched by the reserves held by the Authority. Reserves are reported in two categories. The first category of reserves are usable reserves, ie those reserves that the Authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is those that the Authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

The large net liability is mainly due to the police pension scheme being an unfunded scheme i.e. with no fund assets to offset future liabilities when existing police officers have all retired . However, the statutory arrangements for funding the liability mean that the Authority's financial position remains sound. The Treasurer's Foreword and the Police Pension Fund disclosure note provide more detail on how the pensions' liability is made up.

1 April 2009 (Restated)	31 March 2010		31 March 2011	Note
£'000	£'000		£'000	
138,614	155,484	Property, Plant & Equipment	166,684	[18]
0	0	Intangible Assets	0	
0	0	Long Term Investments	3,000	
659	646	Long Term Debtors	675	
139,273	**156,130**	**Long Term Assets**	**170,359**	
2,500	2,500	Short Term Investments	17,500	[25d]
307	0	Assets Held for Sale	1,128	[19]
610	892	Inventories	1,028	[26]
15,384	17,307	Short Term Debtors	18,197	[27]
14,543	15,372	Cash and Cash Equivalents	7,082	[28]
33,344	**36,071**	**Current Assets**	**44,935**	
(26,818)	(28,561)	Short Term Creditors	(28,104)	[29]
0	0	Provisions	(907)	[30]
(26,818)	**(28,561)**	**Current Liabilities**	**(29,011)**	
(17,200)	(20,200)	Long Term Borrowing	(30,200)	[25h]
(2,123)	(1,911)	Other Long Term Liabilities	(1,698)	
(1,707,450)	(2,238,487)	Liability related to pension schemes	(2,024,407)	[6]
(1,726,773)	**(2,260,598)**	**Long Term Liabilities**	**(2,056,305)**	
(1,580,974)	**(2,096,958)**	**Net Assets/ (Liabilities)**	**(1,870,022)**	
16,392	23,220	Usable Reserves	37,251	[31]
(1,597,366)	(2,120,178)	Unusable Reserves	(1,907,273)	[31]
(1,580,974)	**(2,096,958)**	**Total Reserves**	**(1,870,022)**	

Cash Flow Statement 2010/11

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

2009/10 £'000		2010/11 £'000
79,062	Net (surplus) or deficit on the provision of services	(175,080)
(91,464)	Adjustments to net surplus or deficit on the provision of services for non-cash movements (Note 38d)	158,219
(720)	Adjustment for items included in the net surplus or deficit on the provision of services that are investing and financing activities	(1,004)
(13,122)	Net cash flows from Operating Activities (Note 38a)	(17,865)
14,755	Investing Activities (Note 38b)	34,910
(2,462)	Financing Activities (Note 38c)	(8,755)
(829)	Net (increase) or decrease in cash and cash equivalents	8,290
14,543	Cash and cash equivalents at the beginning of the reporting period	15,372
15,372	Cash and cash equivalents at the end of the reporting period (note 38d)	7,082

Police Pension Fund Account

Fund Account	**2009/10**	**2010/11**
Contributions receivable	**£'000**	**£'000**
- from employer		
- normal	(30,499)	(31,413)
- early retirements	0	0
- ill-health capital equivalent charges	(675)	(319)
- from members	(13,637)	(13,840)
Transfers in		
- individual transfers in from other schemes	(557)	(566)
Benefits payable		
- pensions	50,979	53,065
- commutations and lump sum retirement benefits	13,145	10,518
- lump sum death benefits	274	306
Payments to and on account of leavers		
- refunds of contributions	20	24
- individual transfers out to other schemes	642	2,118
Net amount payable for the year	19,692	19,893
Additional contribution from the Police Authority	(19,692)	(19,893)
	0	0

Net Assets Statement	**2009/10**	**2010/11**
	£'000	**£'000**
Current Assets		
- contributions due from employer	0	0
- other current assets	0	0
Current Liabilities		
- unpaid pension benefits	0	9
- amount due to sponsoring department	0	0
- other current liabilities	0	0
	0	9

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

Most payments and employer contributions in respect of the police pension schemes are reported in the Police Pension Fund Account. Other pension costs are charged to the Comprehensive Income and Expenditure Account. This includes the ongoing costs and commuted lump sums in respect of officers who are awarded injury pensions, which totalled £1.14m in 2010/11. For officers who retire on the grounds of ill-health, the employer makes a contribution from the Comprehensive Income and Expenditure Account to the Police Pension Fund Account. This charge is the equivalent to two-years' pensionable pay and is a one off credit to the account. All ongoing payments are met by the Police Pension Fund.

Police Pension Fund Account

The Police Pension Fund is managed by the Authority but its administration is contracted out to a third party. The administrator makes all payments to existing and new pensioners and maintains the necessary records of entitlement. The Authority provides the funds to make payments to pensioners and for transfers out of the scheme. The Authority and current serving officers make contributions into the fund and any shortfall between this income and the payments made is met by a grant from the Home Office.

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

Employees in the old pension scheme (pre-2006) make contributions of 11% of salary. Officers joining the scheme after this date pay 9.5% of salary. Both schemes have different accrual rates and retirement ages. The employer made a contribution of 24.2% of pensionable salary and benefits in 2010/11. The employees contribution is set nationally by the Home Office and is subject to a triennial revaluation by the Government Actuary's Department (GAD).

The net assets statement as at 1 April 2009 has not been restated as a result of the transition to IFRS due to there being no material changes.

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

Note 6 provides further details of the IAS19 entries and the pension schemes.

Notes to the Core Financial Statements

[1] Statement of Accounting Policies and Estimation Techniques

General Principles

The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (2009). 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.

Accruals of Income and Expenditure

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

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

Amounts below £1,000 are not routinely accrued at year end even if they meet the other conditions. This is due to the fact that they are not material in the scale of the Authority's overall income and expenditure. Where items of income or expenditure fall below this amount they may still be accrued in certain circumstances such as where they are subject to specific terms and conditions relating to a grant or where there is an element of cost recovery. Items of a similar nature which are individually below this £1,000 threshold may

[1] Statement of Accounting Policies and Estimation Techniques (continued)

be aggregated if they could be said to have a similar material effect upon the reporting of a particular income, or expenditure head or cost centre.

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

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

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

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

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

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

Charges to Revenue for Non-Current Assets

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

depreciation attributable to the assets used by the relevant service

revaluation and impairment losses on assets used by the service where there are no accumulated gains in the Revaluation Reserve against which the losses can be written off

amortisation of intangible fixed assets attributable to the service.

The Authority is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement [equal to either an amount calculated on a prudent basis determined by the authority in accordance with statutory guidance (England and Wales) or loans fund principal charges (Scotland)]. Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the General Fund Balance [MRP or loans fund principal], by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

[1] Statement of Accounting Policies and Estimation Techniques (continued)

Events After the Balance Sheet Date

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

those that provide evidence of conditions that existed at the end of the reporting period – the Statement of Accounts is adjusted to reflect such events

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

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

Financial Instruments

Financial Liabilities

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

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

Gains and losses on the repurchase or early settlement of borrowing are credited and debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement in the year of repurchase/settlement. However, where repurchase has taken place as part of a restructuring of the loan portfolio that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised cost of the new or modified loan and the write-down to the Comprehensive Income and Expenditure Statement is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Comprehensive Income and Expenditure Statement, regulations allow the impact on the General Fund Balance to be spread over future years. The Authority has a policy of spreading the gain or loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Comprehensive Income and Expenditure Statement to the net charge required against the General Fund

[1] Statement of Accounting Policies and Estimation Techniques (continued)

Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

Financial Assets

Financial assets are classified into two types:

loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market

available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments.

Loans and Receivables

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

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

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

[1] Statement of Accounting Policies and Estimation Techniques (continued)

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

Available-for-Sale Assets

Available-for-sale assets are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income (e.g. dividends) is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Authority.

Assets are maintained in the Balance Sheet at fair value. Values are based on the following principles:

instruments with quoted market prices – the market price

other instruments with fixed and determinable payments – discounted cash flow analysis

equity shares with no quoted market prices – independent appraisal of company valuations.

Changes in fair value are balanced by an entry in the Available-for-Sale Reserve and the gain/loss is recognised in the Surplus or Deficit on Revaluation of Available-for-Sale Financial Assets. The exception is where impairment losses have been incurred – these are debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any net gain or loss for the asset accumulated in the Available-for-Sale Reserve.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made (fixed or determinable payments) or fair value falls below cost, the asset is written down and a charge made to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. If the asset has fixed or determinable payments, the impairment loss is measured as the difference between the carrying amount and the present value of the revised future cash flows discounted at the asset's original effective interest rate. Otherwise, the impairment loss is measured as any shortfall of fair value against the acquisition cost of the instrument (net of any principal repayment and amortisation).

Any gains and losses that arise on the derecognition of the asset are credited or debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement, along with any accumulated gains or losses previously recognised in the Available-for-Sale Reserve.

Where fair value cannot be measured reliably, the instrument is carried at cost (less any impairment losses).

[1] Statement of Accounting Policies and Estimation Techniques (continued)

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 2010/11 is to present the information in accordance with the new Police Objective Analysis which analyses the gross expenditure and gross income under nine headings which represent the main activities of the police service.

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. Changes in the SORP 2009 meant that collection fund balances are accounted for on an accruals basis in the Comprehensive Income and Expenditure Account. The Code 2010/11 recognises this and that as the billing authority is acting as an agent of the preceptor the Council Tax income included in the Comprehensive Income and Expenditure Account for the year shall be the accrued income for the year. The statutory basis for accounting for the amount to be credited to the General Fund is unchanged. Consequently, there are some adjustments through the Movement in Reserves Statement to mitigate the impact on the General Fund.

Specific Grants

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

Investments

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

Notes to the Core Financial Statements

[1] Statement of Accounting Policies and Estimation Techniques (continued)

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

Police Pension Scheme (for Police Officers only)

There are currently two police pension schemes in operation, known as the Police Pension Scheme (PPS) and the New Police Pension Scheme (NPPS) which offer different terms and benefits. Both are unfunded schemes. The 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 2010/11 the Authority paid an employer's contribution representing 19.1% of pensionable pay. The contribution rate is determined by the Fund's actuary based on valuations every three years. The rate for 2011/12 will be 13.1% of pensionable pay in addition to a 6% overall contribution based on the payroll costs at 31 March 2010.

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.

[1] Statement of Accounting Policies and Estimation Techniques (continued)

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 Accounting Policies

Cash and Cash Equivalents

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

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

Prior to the adoption of the IFRS Code, the concept of Cash Equivalents was not used. Adoption of the Code required the Authority to classify Cash and Cash equivalents in its opening IFRS Balance Sheet (1 April 2009). Reclassifying items to Cash Equivalents is a change of accounting policy, requiring restatement of comparative balance sheet figures in the 2009/10 Financial Statements. Note 39 shows the impact of these changes upon the financial statements.

Employee Benefits

Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as salaries, paid annual leave and flexitime for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at

[1] Statement of Accounting Policies and Estimation Techniques (continued)

the salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

Termination Benefits

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

Where termination benefits involve the enhancement of pensions, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or pensioner in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, appropriations are required to and from the Pensions Reserve to remove the notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

Government Grants and Contributions

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

the Authority will comply with the conditions attached to the payments, and

the grants or contributions will be received.

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

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

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

[1] Statement of Accounting Policies and Estimation Techniques (continued)

Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA *Best Value Accounting Code of Practice 2010/11* (BVACOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

Corporate and Democratic Core – costs relating to the Authority's status as a single purpose democratic organisation.

Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and impairment losses chargeable on Assets Held for Sale.

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

Leases

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

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

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

The Authority as Lessee

Finance Leases

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

Lease payments are apportioned between:

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

[1] Statement of Accounting Policies and Estimation Techniques (continued)

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

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

Operating Leases

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

The Authority as Lessor

Finance Leases

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

Lease rentals receivable are apportioned between:

a charge for the acquisition of the interest in the property – applied to write down the lease debtor (together with any premiums received), and

finance income (credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement).

The gain credited to the Comprehensive Income and Expenditure Statement on disposal is not permitted by statute to increase the General Fund Balance and is required to be treated as a capital receipt. Where a premium has been received, this is posted out of the General Fund Balance to the Capital Receipts Reserve in the Movement in Reserves Statement. Where the amount due in relation to the lease asset is to be settled by the payment of rentals in future financial years, this is posted out of the General Fund Balance to the Deferred Capital Receipts Reserve in the Movement in Reserves Statement.

[1] Statement of Accounting Policies and Estimation Techniques (continued)

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

Operating Leases

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

Disposals and Non-current Assets Held for Sale

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

If assets no longer meet the criteria to be classified as Assets Held for Sale, they are reclassified back to non-current assets and valued at the lower of their carrying amount before they were classified as held for sale; adjusted for depreciation, amortisation or revaluations that would have been recognised had they not been classified as Held for Sale, and their recoverable amount at the date of the decision not to sell.

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

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

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

[1] Statement of Accounting Policies and Estimation Techniques (continued)

Componentisation

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

The componentisation policy applies from 1 April 2010 where an item of property, plant and equipment is acquired, enhanced or revalued. In accordance with the Code, the carrying amount of a replaced or restored component is de-recognised, with the carrying amount of the new component being recognised. This accounting treatment applies regardless of whether the replaced part had been depreciated separately. Where it is not possible to determine the carrying amount of the replaced part, the cost of the new part is used as a indication of what the cost of the replaced part was at the time it was acquired or constructed.

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

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

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

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, except where non-operational, in which case they are valued at market value. Other

[1] Statement of Accounting Policies and Estimation Techniques (continued)

non-operational assets are shown at their historic cost. Capital expenditure that enhances the useful life of the asset, but does not increase the value of the asset, is charged to the capital adjustment account. Assets are revalued if their use changes.

Where assets are revalued, increases in the valuation over the current value on the Balance Sheet are matched by credits to the Revaluation Reserve to recognise unrealised gains. Exceptionally, gains might be credited to the Income and Expenditure Account where there has previously been an impairment loss charged to the cost of services. The Revaluation Reserve contains revaluation gains recognised since 1 April 2007, the date of its formal implementation. Gains arising before that date have been consolidated into the opening balance on the Capital Adjustment Account.

Capital Records

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

Intangible fixed assets are amortised on a straight line basis and no residual value is assumed unless this can be measured reliably.

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.

Notes to the Core Financial Statements

[1] Statement of Accounting Policies and Estimation Techniques (continued)

Inventories

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.

Provisions, Contingent Liabilities and Contingent Assets

Provisions

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

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

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

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

Contingent Liabilities

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

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

Contingent Assets

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

[1] Statement of Accounting Policies and Estimation Techniques (continued)

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

Reserves

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 police pension fund account in 2006/07 obviated the need for a pension reserve and the balance on that reserve was transferred into the general reserve. An IAS19 (formerly FRS17) pension reserve is still required to display the pension liability calculated in accordance with IAS19.

The IAS19 pension liability is a significant figure which represents the amount that the Authority would have to find if all officers and staff were able to claim their pension as at 31 March 2011. 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 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

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

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

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

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

[1] Statement of Accounting Policies and Estimation Techniques (continued)

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. This scheme ended on 31 March 2011.

Treasury Management

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

[2] Critical Judgements in Applying Accounting Policies

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

- There are significant cuts in levels of funding for police authorities over the next four years which the authority had anticipated during 2010/11 and was able to plan for budget reductions and how this would impact upon service delivery and performance. A review of all services was commenced during 2010/11 and the Force has determined that it will move from six geographical operational command units to three local policing areas with effect from April 2012.
- In the light of changes to the policing structure and the resource issues faced by the Authority in the short and medium term, the Authority finalised its estate development plan in June 2011, heralding major changes to service delivery and the force estate structure. This will culminate in a reduction in the current estate and a plan to invest in updating the current custody estate. This will make the estate fit for purpose for the next thirty years and more and will enable the Authority to maintain high levels of service and performance in an era of reduced resources.

[2] Critical Judgements in Applying Accounting Policies (continued)

- There are currently plans to replace police authorities with elected Policing and Crime Commissioners in 2012. The Constabulary and the Authority are well sighted on the progress of the relevant legislation and any risks incumbent in this period of uncertainty are contained in the relevant risk registers so that performance standards and service delivery can be maintained throughout this process and that effective governance will continue.

[3] Assumptions Made About the Future and Other Major Sources of Estimation Uncertainty

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

The items in the Authority's Balance Sheet at 31 March 2011 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment	Assets are depreciated over useful lives that are dependent on assumptions about the levels of repairs and maintenance that will be incurred in relation to individual assets. If there is reduced expenditure in the future in this area with reduced overall resources this could lead to useful economic lives being shorter than currently forecast.	If the useful life of assets is reduced, depreciation increases and the carrying amount of the assets falls. It is estimated that the annual depreciation charge for buildings would increase by £66,000 for every year that useful lives had to be reduced.
Pensions Liability	Estimation of net liability to pay pensions depends upon a number of complex judgements in relation to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. The Authority receives annual forecasts and regular reviews of all of its assets and liabilities from	The effects of the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumptions would result in a decrease in the Police Pension Schemes liabilities of £142.45m and a decrease in the Local Government Superannuation Scheme liabilities of £20.82m.

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
	an independent actuary to ensure that the accounts contain realistic estimates of the overall impact of these pensions liabilities.	However, the assumptions interact in complex ways. During 2010/11, the Authority's actuaries advised that the net pensions liability of the police pension schemes had decreased by £61.15m attributable to updating of the assumptions and decreased by £4.70m as a result of estimates being corrected as a result of experience. The Local Government Superannuation Scheme liabilities had decreased by £1.51m attributable to updating of the assumptions and decreased by £1.81m as a result of estimates being corrected as a result of experience.

This page left intentionally blank

Notes to the Core Financial Statements

[4] This note restates the BVACOP Income and Expenditure Account Service Expenditure Analysis transactions on a subjective analysis.

	2009/10 £'000	2010/11 £'000	Notes
Gross Expenditure			
Employees (including police pensions)	282,032	36,967	
Premises	12,086	9,606	
Transport	4,798	4,728	
Travel and Subsistence	4,036	3,785	
IT and Communications	13,999	13,665	
Supplies and Services	17,259	17,962	
Grants	1,562	1,493	
Cost of servicing Police Authority	1,550	1,682	
Depreciation and Impairment	6,427	8,969	(18)
Gross cost of services	**343,749**	**98,857**	
Service Income			
Service Income	(20,555)	(23,313)	
Additional Grants	(23,400)	(22,995)	(13)
Total Service Income	**(43,955)**	**(46,308)**	
Net Cost of Services	**299,794**	**52,549**	
Other operating (income) and expenditure	(18,929)	(18,793)	(16)
Financing and investment (income) and expenditure	113,410	111,114	(17)
Surplus or deficit of discontinued operations	0	0	
Taxation and non specific grant income	(315,213)	(319,950)	(13)
(Surplus) or Deficit on Provision of Services	**79,062**	**(175,080)**	
(Surplus) or deficit on revaluation of Property, Plant and Equipment assets	(1,720)	(982)	
Surplus or deficit on revaluation of available for sale financial assets	0	0	
Any other (gains) or losses	150	0	
Actuarial (gains)/losses on pension assets/liabilities	438,492	(50,874)	
Other Comprehensive (Income) and Expenditure	**436,922**	**(51,856)**	
Total Comprehensive (Income) and Expenditure	**515,984**	**(226,936)**	

Notes to the Core Financial Statements

[5] Amounts reported for Resource Making Decisions

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

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

The income and expenditure of the Authority's principal operational directorates and the Authority itself as recorded in the budget reports for the year is shown on the following pages. There are separate pages for 2010/11 and for 2009/10 as the comparator. The first provides a reconciliation of the income and expenditure to the operational directorates (portfolios) to the Cost of Services shown in the Comprehensive Income and Expenditure Statement (page 26). The second page reconciles the same to the Subjective analysis shown in note 4.

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

Notes to the Core Financial Statements

[5] Income and Expenditure as per updated outturn report

2009/10	**Chief Constable and ACPO £'000**	**Deputy Chief Constable £'000**	**Assistant Chief Constable Crime and Criminal Justice £'000**	**Assistant Chief Constable 'Territorial Operations' £'000**	**Assistant Chief Constable 'HR and Operations' £'000**	**Director of Finance and Resources £'000**	**General Items £'000**	**Police Authority £'000**	**Total £'000**
Expenditure:									
Employees	459	14,581	41,443	179,446	32,314	5,241	1,733		275,214
Premises		144	506	4,589	385	4,856			10,480
Transport	3	18	293	1,148	928	2,255	101		4,746
Travel and Subsistence	11	526	1,064	1,470	541	103	(0)		3,714
IT and Communications	4	12,036	378	434	110	27			12,989
Supplies and Services	120	825	7,874	4,103	1,775	942	5		15,644
Members Allowances									0
National Levies							861		861
Grants Paid		112	894	484	5				1,494
Capital Financing (net)							1,535		1,535
Police Authority								1,550	1,550
Total Expenditure	**597**	**28,242**	**52,450**	**191,673**	**36,056**	**13,424**	**4,235**	**1,550**	**328,228**
Income:									
Service Income	(5)	(1,690)	(1,340)	(2,941)	(1,240)	(1,484)	(308)	(46)	(9,054)
Additional Specific Grants		(581)	(3,301)	(1,563)	(255)		(20,143)		(25,843)
Total Income	**(5)**	**(2,271)**	**(4,641)**	**(4,504)**	**(1,496)**	**(1,484)**	**(20,451)**	**(46)**	**(34,897)**
Contributions to/(from) reserves	**0**	**856**	**(527)**	**187**	**(192)**	**57**	**3,106**	**(24)**	**3,462**
Net Expenditure	**592**	**26,827**	**47,282**	**187,357**	**34,369**	**11,997**	**(13,110)**	**1,480**	**296,794**

Reconciliation of portfolio Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement	**£000**
Net expenditure in the Portfolio Analysis	**296,794**
Net expenditure of services and support services not included in the Analysis	**0**
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis	**5,610**
Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	**(2,610)**
Cost of Services in Comprehensive Income and Expenditure Statement	**299,794**

Notes to the Core Financial Statements

[5] Reconciliation to Subjective Analysis

	Portfolio Analysis £'000	Services and Support Services not in Analysis £'000	Amounts not reported to management for decision making £'000	Amounts not included in I&E £'000	Allocation of Recharges £'000	Cost of Services £'000	Corporate Amounts £'000	Total £'000
Expenditure:								
Employees	275,214	7,633	(817)			**282,031**		**282,031**
Premises	10,480	1,606				**12,086**		**12,086**
Transport	4,746	52				**4,798**		**4,798**
Travel and Subsistence	3,714	322				**4,036**		**4,036**
IT and Communications	12,989	1,011				**14,000**		**14,000**
Supplies and Services	15,644	1,640		(26)		**17,259**		**17,259**
Members Allowances	0					**0**		**0**
National Levies	861			(861)		**0**		**0**
Grants Paid	1,494	101		(33)		**1,562**		**1,562**
Capital Financing (net)	1,535			(1,535)		**0**		**0**
Police Authority	1,550					**1,550**		**1,550**
Depreciation, amortisation and impairment			6,427			**6,427**		**6,427**
Pensions interest cost and expected return on pension assets						**0**	112,690	**112,690**
Interest Payments						**0**	898	**898**
Precepts & Levies						**0**	861	**861**
Gain or Loss on Disposal of Fixed Assets						**0**	(98)	**(98)**
Total Expenditure	**328,228**	**12,366**	**5,610**	**(2,455)**	**0**	**343,749**	**114,351**	**458,100**
Income:								
Service Income	(9,054)	(12,108)		607		**(20,555)**		**(20,555)**
Additional Specific Grants	(25,843)	(2,944)		5,387		**(23,400)**		**(23,400)**
Interest and investment income						**0**	(178)	**(178)**
Income from council tax						**0**	(98,456)	**(98,456)**
Government grants and contributions						**0**	(236,449)	**(236,449)**
Total Income	**(34,897)**	**(15,052)**	**0**	**5,994**	**0**	**(43,955)**	**(335,083)**	**(379,038)**
Contributions to/(from) reserves	**3,462**	**2,686**	**0**	**(6,149)**	**0**	**0**	**0**	**0**
Net Expenditure	**296,793**	**0**	**5,610**	**(2,610)**	**0**	**299,794**	**(220,732)**	**79,062**

Notes to the Core Financial Statements

[5] Income and Expenditure as per updated outturn report

2010/11	Chief Constable and ACPO £'000	Deputy Chief Constable £'000	Assistant Chief Constable Crime and Criminal Justice £'000	Assistant Chief Constable 'Territorial Operations' £'000	Assistant Chief Constable 'HR and Operations' £'000	Director of Finance and Resources £'000	General Items £'000	Police Authority £'000	Total £'000
Expenditure:									
Employees	394	13,669	40,126	184,007	35,298	5,332	1,632		280,459
Premises		184	452	2,751	321	4,840	(101)		8,445
Transport	3	21	308	1,326	795	2,199			4,651
Travel and Subsistence	12	305	933	1,344	715	99			3,407
IT and Communications	2	9,230	421	2,869	363	56			12,941
Supplies and Services	93	652	8,741	3,401	2,520	1,028	8		16,442
Members Allowances									0
National Levies							897		897
Grants Paid		54	842	522	108				1,526
Capital Financing (net)							2,097		2,097
Police Authority								1,683	1,683
Total Expenditure	**505**	**24,116**	**51,823**	**196,219**	**40,118**	**13,554**	**4,532**	**1,683**	**332,549**
Income:									
Service Income	(1)	(1,896)	(2,736)	(2,669)	(3,129)	(954)	(273)	(32)	(11,691)
Additional Specific Grants		(528)	(3,652)	(1,507)	(218)		(17,369)		(23,274)
Total Income	**(1)**	**(2,424)**	**(6,388)**	**(4,176)**	**(3,347)**	**(954)**	**(17,642)**	**(32)**	**(34,964)**
Contributions to/(from) reserves	**0**	**(560)**	**(34)**	**(18)**	**(761)**	**(3)**	**(1,824)**	**(122)**	**(3,322)**
Net Expenditure	**503**	**21,132**	**45,400**	**192,025**	**36,011**	**12,597**	**(14,934)**	**1,529**	**294,263**

Reconciliation of portfolio Income and Expenditure to Cost of Services in the Comprehensive Income and Expenditure Statement	**£000**
Net expenditure in the Portfolio Analysis	**294,263**
Net expenditure of services and support services not included in the Analysis	**(1)**
Amounts in the Comprehensive Income and Expenditure Statement not reported to management in the Analysis	**(243,372)**
Amounts included in the Analysis not included in the Comprehensive Income and Expenditure Statement	**1,659**
Cost of Services in Comprehensive Income and Expenditure Statement	**52,549**

Notes to the Core Financial Statements

[5] Reconciliation to Subjective Analysis

	Portfolio Analysis £'000	Services and Support Services not in Analysis £'000	Amounts not reported to management for decision making £'000	Amounts not included in I&E £'000	Allocation of Recharges £'000	Cost of Services £'000	Corporate Amounts £'000	Total £'000
Expenditure:								
Employees	280,459	8,850	(252,341)			**36,967**		**36,967**
Premises	8,445	1,173		(13)		**9,606**		**9,606**
Transport	4,651	76		1		**4,728**		**4,728**
Travel and Subsistence	3,407	378				**3,785**		**3,785**
IT and Communications	12,941	723				**13,665**		**13,665**
Supplies and Services	16,442	1,519				**17,962**		**17,962**
Members Allowances	0					**0**		**0**
National Levies	897			(897)		**0**		**0**
Grants Paid	1,526			(34)		**1,492**		**1,492**
Capital Financing (net)	2,097			(2,097)		**0**		**0**
Police Authority	1,683					**1,683**		**1,683**
Depreciation, amortisation and impairment			8,969			**8,969**		**8,969**
Pensions interest cost and expected return on pension assets						**0**	110,110	**110,110**
Interest Payments						**0**	1,293	**1,293**
Precepts & Levies						**0**	897	**897**
Gain or Loss on Disposal of Fixed Assets						**0**	203	**203**
Total Expenditure	**332,549**	**12,720**	**(243,372)**	**(3,040)**	**0**	**98,857**	**112,503**	**211,360**
Income:								
Service Income	(11,691)	(11,912)		289		**(23,313)**		**(23,313)**
Additional Specific Grants	(23,274)	(2,168)		2,446		**(22,995)**		**(22,995)**
Interest and investment income						**0**	(289)	**(289)**
Income from council tax						**0**	(100,888)	**(100,888)**
Government grants and contributions						**0**	(238,955)	**(238,955)**
Total Income	**(34,964)**	**(14,079)**	**0**	**2,736**	**0**	**(46,308)**	**(340,132)**	**(386,440)**
Contributions to/(from) reserves	(3,322)	1,358	0	1,963	0	0	0	**0**
Net Expenditure	**294,263**	**(1)**	**(243,372)**	**1,659**	**0**	**52,549**	**(227,629)**	**(175,080)**

Notes to the Core Financial Statements

[6] IAS19 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 three post employment schemes:

- The Local Government Pension Scheme (LGPS) for support staff, administered by Hampshire County Council. This is a funded defined benefit final salary scheme, meaning that the Authority and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.
- Arrangements for the award of discretionary post retirement benefits upon early retirement in respect of members of the LGPS. Liabilities are recognised when an award is made and the Authority recognises gains and losses in full, immediately through Other Comprehensive Income and Expenditure. Note that the employer's liabilities under these arrangements are not material and the relevant transactions and liabilities are included with the overall LGPS funded scheme.
- The Police Pension Schemes for police officers. These are unfunded defined benefit final salary schemes, meaning that there are no investment assets built up to meet the pensions liabilities, and cash has to be generated to meet actual pensions payments as they eventually fall due. Under the Police Pension Fund Regulations 2007, if the 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 by a central government pension top-up grant. If however the pension fund is in surplus for the year, the surplus is required to be transferred from the pension fund to the Police Authority which must then repay the amount to central government.

Notes to the Core Financial Statements

[6] Prior Period Adjustment - Injury Pensions

The Audit Commission and the actuarial profession have considered whether an adjustment should be made to the actuarially assessed liabilities to reflect a likelihood that a certain percentage of current police pension members will ultimately receive injury benefits as opposed to ordinary police pension benefits. In view of this, the actuaries have made an approximate allowance for this, based on a reasonable estimate of the accrual of injury pensions to around 2.5% of the costs of benefits accruing.

The actuarial position was to show a change to the 2010/11 opening balance of the overall pension liabilities of an additional £27.68m. The Authority's position is that this change represents a change in accounting policy and, given the size of the adjustment, has changed the 1 April 2009 opening balance sheet. The 1 April 2009 Balance Sheet date is the earliest date for the comparator financial period and the IFRS transition date. This figure will be actuarially assessed and revised at appropriate revaluation dates.

This adjustment has resulted in the following changes being made to the 2008/09 financial statements:

Balance Sheet at 31 March 2009	**Statements £'000**	**Adjustments Made £'000**
Pensions Liability	(1,679,770)	(27,680)
Pensions Reserve (part of Unusable Reserves)	(1,679,770)	(27,680)

Notes to the Core Financial Statements

[6] IAS19 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 real cost of post employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

	Police Pension Scheme (PPS)		New Police Pension Scheme		LGPS (police staff)	
	2009/10 £'000	2010/11 £'000	2009/10 £'000	2010/11 £'000	2009/10 £'000	2010/11 £'000
Comprehensive Income and Expenditure Statement						
Cost of Services						
Current service cost	32,060	41,550	2,410	5,650	8,050	10,200
Past service costs	670	(226,390)	0	(2,480)	20	(31,610)
Financing and Investment Income and Expenditure						
Interest costs	105,000	104,080	610	1,180	11,350	11,800
Expected return on assets	0	0	0	0	(5,590)	(9,550)
Total Charge to the Surplus or Deficit on the Provision of Services	**137,730**	**(80,760)**	**3,020**	**4,350**	**13,830**	**(19,160)**
Other post employment benefit charged to the Comprehensive Income and Expenditure Statement						
Actuarial (Gains)/Losses	410,280	(63,420)	7,660	(2,430)	16,990	17,030
Total post employment benefit charged to the Comprehensive Income and Expenditure Statement	**548,010**	**(144,180)**	**10,680**	**1,920**	**30,820**	**(2,130)**
Movement in Reserves Statement						
Reversal of above	**(548,010)**	**144,180**	**(10,680)**	**(1,920)**	**(30,820)**	**2,130**
Employer's contributions	**52,532**	**53,841**	**(1,665)**	**(2,216)**	**11,363**	**12,964**
Charge on General Fund	**52,532**	**53,841**	**(1,665)**	**(2,216)**	**11,363**	**12,964**

In addition to the above, the Authority paid £1.14m 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 IAS19 disclosures for this element are as below:

Retirement benefits	Injury Pensions (police officers)		All schemes - Summary	
	2009/10 £'000	2010/11 £'000	2009/10 £'000	2010/11 £'000
Comprehensive Income and Expenditure Statement				
Cost of Services				
Current service cost	0	1,530	42,520	58,930
Past service cost	0	(6,040)	690	(266,520)
Financing and Investment Income and Expenditure			0	0
Interest costs	1,320	2,600	118,280	119,660
Expected return on assets	0	0	(5,590)	(9,550)
Total Charge to the Surplus or Deficit on the Provision of Services	**1,320**	**(1,910)**	**155,900**	**(97,480)**
Other post employment benefit charged to the Comprehensive Income and Expenditure Statement				
Actuarial (Gains)/Losses	**3,580**	**(2,080)**	438,510	(50,900)
Total post employment benefit charged to the Comprehensive Income and Expenditure Statement	**4,900**	**(3,990)**	**594,410**	**(148,380)**
Movement in Reserves Statement				
Reversal of above	**(4,900)**	**3,990**	**(594,410)**	**148,380**
Employer's contributions	**1,143**	**1,140**	63,373	65,729
Charge on General Fund	**1,143**	**1,140**	**63,373**	**65,729**

Notes to the Core Financial Statements

[6] IAS19 entries

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to 31 March 2011 is a gain of £50.75M (£28.44m loss at 31 March 2010)

[6] IAS19 assets and liabilities

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

There are no material prepaid or accrued pensions contributions at 31 March 2011.

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

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

In the UK budget statement on 22 June 2010 the Chancellor announced that with effect from 1 April 2011 public sector pensions would be up-rated in line with the Consumer Prices Index (CPI) rather than the Retail Prices Index (RPI).

This has the effect of reducing Hampshire's liabilities in the Police Pension Fund and the LGPS by £266.52M and has been recognised as a past service gain (i.e. a negative past service cost) in accordance with guidance set down in UITF (Urgent Issues Task Force) Abstract 48, since the change is considered to be a change in benefit entitlement. There is no impact upon the General Fund.

Notes to the Core Financial Statements

[6] IAS19 assets and liabilities in relation to post-employment benefits

The total assets and liabilities for retirement benefits attributable to the Authority were:
Reconciliation of present value of the scheme liabilities (defined benefit obligation):

	Police Pension Scheme (PPS)		New Police Pension Scheme (NPPS)		Local Govt Pension Scheme	
	2009/10 £m	2010/11 £m	2009/10 £m	2010/11 £m	2009/10 £m	2010/11 £m
1 April	(1,576.87)	(2,072.35)	(7.16)	(19.51)	(170.91)	(234.35)
Current Service Cost	(32.06)	(41.55)	(2.41)	(5.65)	(8.05)	(10.20)
Interest Cost	(105.00)	(104.08)	(0.61)	(1.18)	(11.35)	(11.80)
Contributions by scheme participants	(12.30)	(12.12)	(1.32)	(1.69)	(3.99)	(4.17)
Actuarial gains/(losses)	(410.28)	63.42	(7.66)	2.43	(44.51)	3.35
Benefits Paid	64.83	65.96	(0.35)	(0.52)	4.48	4.82
Past service costs	(0.67)	226.39	0.00	2.48	(0.02)	31.61
31 March	(2,072.35)	(1,874.33)	(19.51)	(23.64)	(234.35)	(220.74)

	Injury Pensions (police officers)		Total	
	2009/10 £m	2010/11 £m	2009/10 £m	2010/11 £m
1 April	(47.96)	(51.72)	(1,802.90)	(2,377.93)
Current Service Cost	0.00	(1.53)	(42.52)	(58.93)
Interest Cost	(1.32)	(2.60)	(118.28)	(119.66)
Contributions by scheme participants	0.00	0.00	(17.61)	(17.98)
Actuarial gains/(losses)	(3.58)	2.08	(466.03)	71.28
Benefits Paid	1.14	1.14	70.10	71.40
Past service costs	0.00	6.04	(0.69)	266.52
31 March	(51.72)	(46.59)	(2,377.93)	(2,165.30)

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

	Local Govt Pension Scheme	
	2009/10 £m	2010/11 £m
1 April	95.45	139.47
Expected rate of return	5.59	9.55
Actuarial gains/(losses)	27.52	(20.38)
Employer contributions	11.36	13.04
Contributions by scheme participants	3.99	4.17
Benefits Paid	(4.44)	(4.86)
31 March	139.47	140.99

Notes to the Core Financial Statements

[6] IAS19 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 £10.94m (2009/10 £33.11m gain).

Scheme history

	2006/07 (Restated) £m	2007/08 (Restated) £m	2008/09 £m	2009/10 £m	2010/11 £m
Present value of liabilities:					
Local Government Pension Scheme	(154.29)	(142.64)	(170.91)	(234.39)	(220.74)
Police Pension Schemes	(1,826.90)	(1,625.96)	(1,584.03)	(2,091.86)	(1,897.97)
Police Injury Pensions	(23.12)	(20.44)	(47.96)	(51.72)	(46.59)
Fair value of assets in the LGPS	106.04	107.71	95.45	139.58	140.99
Surplus/(deficit) in the scheme					
Local Government Pension Scheme	(48.25)	(34.93)	(75.46)	(94.81)	(79.75)
Police Pension Schemes	(1,826.90)	(1,625.96)	(1,584.03)	(2,091.86)	(1,897.97)
Police Injury Pensions	(23.12)	(20.44)	(47.96)	(51.72)	(46.59)
Total	(1,898.27)	(1,681.33)	(1,707.45)	(2,238.39)	(2,024.31)

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 post employment (retirement) benefits. The total liability of £2,024m has a substantial impact on the net worth of the Authority as recorded in the balance sheet, resulting in a negative overall balance of £1,870m.

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 (i.e. before payments fall due) 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 2012 is £12.50m. Expected contributions for the Police Pension Schemes are £67.58m. In addition, the Authority expects to pay £1.18m directly to beneficiaries of injury pensions.

Notes to the Core Financial Statements

[6] IAS19 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 2011.

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

	Local Government Pension Scheme		Police Pension Schemes	
	2009/10	2010/11	2009/10	2010/11
Long-term expected rate of return on assets:				
Equity investments	8.0%	8.4%	-	-
Property	8.5%	7.9%	-	-
Government bonds	4.5%	4.4%	-	-
Corporate bonds	5.5%	5.1%	-	-
Cash	0.7%	1.5%	-	-
Other	8.0%	8.4%	-	-
Mortality assumptions:				
Longevity at 65 for current pensioners				
Men	22.3	23.8	22.1	22.2
Women	24.3	24.8	24.2	24.3
Longevity at 65 for future pensioners				
Men	24.7	25.6	24.4	24.6
Women	26.5	26.7	26.4	26.7
Financial Assumptions:				
Inflation - RPI	3.65%	3.55%	3.65%	3.45%
Inflation - CPI	N/A	2.65%	N/A	2.55%
Rate of general increase in salaries	5.15%	5.05%	5.15%	4.95%
Rate of increase to pensions in payment	3.65%	2.65%	3.65%	2.55%
Rate of increase to deferred pensions	3.65%	2.65%	3.65%	2.55%
Discount rate	5.5%	5.4%	5.5%	5.5%
Other Assumptions:				
Take-up of option to convert annual pension into retirement lump sum (90% of members convert this proportion of their pension)			25.0%	25.0%
Take-up of option to convert annual pension into retirement lump sum (100% of members convert this proportion of the maximum amount) - pre-2008/09 service (LGPS only)	25.0%	25.0%		
As above, post-2008 service (LGPS only)	75.0%	75.0%	-	-

Notes to the Core Financial Statements

[6] IAS19 assets and liabilities

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 2010	at 31 March 2011
Equities	61.3%	63.4%
Property	6.1%	7.3%
Government bonds	24.4%	23.3%
Corporate bonds	2.4%	1.7%
Cash	5.8%	4.3%
Other (e.g. Hedge funds, currency holdings etc.)	0.0%	0.0%
Total	100.0%	100.0%

History of experience gains and losses

The actuarial gains identified as movements in the Pensions Reserve in 2010/11 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 3011:

		2006/07 (Restated) %	2007/08 (Restated) %	2008/09 %	2009/10 %	2010/11 %
Differences between the expected and actual return on assets	LGPS	-0.1	-15.5	-32.1	19.7	-14.5
	Unfunded	n/a	n/a	n/a	n/a	n/a
	PPS	n/a	n/a	n/a	n/a	n/a
	NPPS	n/a	n/a	n/a	n/a	n/a
	Injury	n/a	n/a	n/a	n/a	n/a
Experience gains and losses on liabilities	LGPS	-0.1	2.4	-0.2	0.4	0.8
	Unfunded	0.0	0.0	-2.1	4.1	-2.3
	PPS	-0.2	-0.3	4.0	1.2	0.3
	NPPS	0.0	0.0	-15.3	0.0	0.0
	Injury	n/a	-1.0	4.4	2.8	0.2

[7] Corporate and Democratic Core

Corporate and Democratic Core (as defined by the Accounting Code of Practice) is that element of the service expenditure analysis which brings together the costs of democratic representation and management and corporate management. Democratic representation and management concerns corporate policy making and all other member-based activities. Corporate management concerns those activities and costs that relate to the general running of the authority. 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 Constabulary for time spent supporting and reporting to the Police Authority.

[8] Agency Income and Expenditure

The Authority paid the following levies:	**2008/09 £'000**	**2009/10 £'000**	**2010/11 £'000**
Police National Computer	786	787	821
National Public Order Information Unit	72	74	76
Central Witness Bureau (ACPO)	13	0	0
	871	**861**	**897**

Notes to the Core Financial Statements

[9] 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 2010/11 was £92,000 (£103,000 in 2009/10), resulting in a net surplus of £1,000 (£12,000 in 2009/10). The surplus was transferred to the Netley Business Plan reserve. Contributions from the reserve of £0 (£0 in 2009/10) were made in 2010/11. A balance of £73,000 as at 31 March 2011 (£25,000 at 31 March 2010) was included within earmarked reserves.

[10] Members allowances and expenses

In accordance with the Code of Practice, the amount spent on members' allowances and expenses in 2010/11 was £281,376 (£292,048 in 2009/10).

	2009/10 £000	2010/11 £000
Basic Allowance	232	231
Special Responsibility Allowance	30	21
Expenses	30	29
Total	292	281

[11] 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. Disclosure of these transactions allows readers of the accounts to assess the extent to which the Authority might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the 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 of specific additional grants received are given in note 13.

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 £31.732m to 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 £13.04m in 2010/11.

The Treasurer to the Police Authority is also the Treasurer to the County Council. The Treasurer will thus influence the spending decisions to each authority. The Authority's governance arrangements and the Treasurer's independence and professional status ensure that this relationship is not compromised.

The Code also requires members of the Authority and certain senior officers to declare if there were any related party (e.g. close family or business associates) transactions due to their ability to influence spending decisions. There are no related party transaction disclosures in 2010/11.

Notes to the Core Financial Statements

[12] Officer and Staff Remuneration

Remuneration Bands	Number of Employees	
£	2009/10	2010/11
50,000 - 54,999	185	163
55,000 - 59,999	129	141
60,000 - 64,999	45	67
65,000 - 69,999	14	13
70,000 - 74,999	5	11
75,000 - 79,999	11	12
80,000 - 84,999	13	12
85,000 - 89,999	13	6
90,000 - 94,999	4	7
95,000 - 99,999	2	4
100,000 - 104,999		2
105,000 - 109,999		0
110,000 - 114,999	1	2
115,000 - 119,999		0
120,000 - 124,999		1
125,000 - 129,999		0
130,000 - 134,999		0
135,000 - 139,999	1	0
140,000 - 144,999		
to		
165,000 - 169,999		1
170,000 - 174,999	1	0
Totals	**424**	**442**

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

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

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

[12a] Disclosure of remuneration for relevant police officers and senior employees

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

The table below provides the relevant disclosure for 2010/11 and comparative information for 2009/10 is provided in the second table. Where there have been changes in personnel during the current and prior year the part year remuneration is shown on an individual basis over more than one line. This will mean that certain posts are not comparable.

2010/11 Disclosure

Post holder information	Note	Salary, fees and allowances £	Bonuses £	Expenses Allowance £	Compensation for loss of employment £	Benefits in Kind £	Other payments (Police officers only) £	Total Remuneration excluding pensions contributions £	Employer's Pension contributions £	Total Remuneration including pensions contributions £
Chief Constable - Mr Alex Marshall		166,131	-	-	-	1,312	-	167,443	12,132	179,575
Deputy Chief Constable to 13 June 2010	1	26,298	-	-	-	-	-	26,298	6,089	32,387
Deputy Chief Constable from 13 September 2010	1	78,550	-	-	-	5,454	-	84,003	16,937	100,940
Assistant Chief Constable - Crime and Criminal Justice		114,447	-	1,368	-	4,534	-	120,349	25,293	145,642
Assistant Chief Constable - Territorial Operations		106,379	-	1,909	-	5,960	-	114,249	24,480	138,728
Assistant Chief Constable - HR and Operations		108,832		930	-	3,212	-	112,974	24,480	137,454
Chief Executive		90,000	-	-	-	13,365		103,365	17,190	120,555
Director of Finance and Resources		99,980	-	1,448	-	2,299		103,727	19,048	122,775
	2	**790,617**	**-**	**5,655**	**-**	**36,135**	**-**	**832,408**	**145,648**	**978,056**

Note 1. The previous Deputy Chief Constable left on 13 June 2010. Prior to his successor taking up post on 13 September 2010 some of the areas in his portfolio were managed by a Temporary Assistant Chief Constable.

Note 2: The Treasurer is the statutory Chief Financial Officer. This is a part-time role and the Treasurer's remuneration details are disclosed by Hampshire County Council. A recharge is made to the Police Authority from the County Council in respect of the time and cost of the statutory role carried out by the Treasurer. This charge was £37,600 in 2010/11.

Notes to the Core Financial Statements

[12a] Disclosure of remuneration for relevant police officers and senior employees (continued)

2010/11 Disclosure - 2009/10 Comparators

Post holder information	Note	Salary, fees and allowances £	Bonuses £	Expenses Allowance £	Compensation for loss of employment £	Benefits in Kind £	Other payments (Police officers only) £	Total Remuneration excluding pensions contributions £	Employer's Pension contributions £	Total Remuneration including pensions contributions £
Chief Constable - Mr Alex Marshall		160,906	3,353	-	-	9,013	-	173,272	38,939	212,212
Deputy Chief Constable		128,343	-	1,485	-	5,684	-	135,512	31,059	166,571
Assistant Chief Constable - Crime and Criminal Justice	1	108,138	-	105	-	4,418	-	112,661	26,169	138,831
Assistant Chief Constable - Territorial Operations (from 15 June 2009)	1	80,942	-	-	-	6,160	-	87,102	19,588	106,690
Assistant Chief Constable - HR and Operations (from 15 June 2009)	1	81,420		-	-	3,938	-	85,358	19,704	105,062
Chief Executive (from 3 August 2009)	2	59,516	-	-	-	-		59,516	11,070	70,586
Director of Finance and Resources		97,335	-	-	-	2,299		99,634	18,104	117,738
	3	**716,601**	**3,353**	**1,590**	**-**	**31,512**	**-**	**753,056**	**164,634**	**917,690**

Note 1: A new ACC was appointed on 15 June 2009. These figures represent a part-year where applicable.
Note 2: The Chief Executive is the statutory Monitoring Officer and was appointed on 3 August 2009. These figures represent a part-year where applicable.
Note 3: The Treasurer is the statutory Chief Financial Officer. This is a part-time role and the Treasurer's remuneration details are disclosed by Hampshire County Council.

Notes to the Core Financial Statements

[13] Grant Income

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2010/11:

	2009/10 £'000	2010/11 £'000
Credited to Taxation and Non-Specific Grant Income		
Council Tax Precept	(98,456)	(100,888)
Share of National Business Rates	(69,600)	(76,572)
Police Grant	(127,238)	(127,772)
Revenue Support Grant	(16,065)	(11,119)
Government Grant to Finance Capital Expenditure	(3,854)	(3,599)
Total	**(315,213)**	**(319,950)**

Credited to Services

	2008/09 £'000	2009/10 £'000	2010/11 £'000
Crime Fighting Fund	7,309	7,309	7,309
Chemical, Biological, Radiological and Nuclear (CBRN)	3,451	719	165
Neighbourhood Policing Fund/Community Support Officers	7,117	7,447	7,611
Dedicated Security Posts grant	3,235	3,223	3,532
Basic Command Unit grant	943	982	976
ACPO Criminal Records Office	1,249	1,913	1,207
Automatic number plate recognition grant	0	0	354
Counter terrorism grant	102	436	398
National Lead Air Support	0	0	611
Local Criminal Justice Board	149	193	183
Local Public Services Agreement (LPSAS)	115	51	2
Tackling Knives Action Programme	0	270	190
Mobile Information Project	0	434	162
Miscellaneous grants	834	423	295
Totals:	**24,504**	**23,400**	**22,995**

Notes to the Core Financial Statements

[14] Adjustments between Accounting Basis and Funding Basis Under Regulations

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

2009/10	Usable Reserves					
	General Fund Balance £'000	Earmarked General Fund Reserves £'000	Capital Receipts Reserve £'000	Capital (Revenue Contribut-ions) Reserve £'000	Capital Grants Unapplied £'000	Movement In Unusable Reserves £'000
Adjustments primarily involving the Capital Adjustment Account:						
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:						
Charges for depreciation and impairment of non-current assets	6,427					(6,427)
Revaluation losses on Property Plant and Equipment	0					0
Amortisation of intangible fixed assets	0					0
Capital grants and contributions applied	(3,854)					3,854
Revenue expenditure funded from capital under statute	0					0
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure statement	2,031					(2,031)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:						
Statutory provision for the financing of capital investment	(637)					637
Capital expenditure charged against the General Fund	0					0

Notes to the Core Financial Statements

[14] Adjustments between Accounting Basis and Funding Basis Under Regulations

2009/10	Usable Reserves					
	General Fund Balance	Earmarked General Fund Reserves	Capital Receipts Reserve	Capital (Revenue Contribut-ions) Reserve	Capital Grants Unapplied	Movement In Unusable Reserves
	£'000	£'000	£'000	£'000	£'000	£'000
Adjustments primarily involving the Capital Grants Unapplied Account:						
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement						
Application of grants to capital financing transferred to the Capital Adjustment Account						
Adjustments primarily involving the Capital Receipt Reserve:						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(1,720)		1,720			
Use of the Capital Receipts Reserve to finance new capital expenditure			(3,500)			3,500
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals	0		0			
Adjustments primarily involving the Capital (Revenue Contributions) Reserve:						
Reversal of net sum set aside in the Comprehensive Income and Expenditure Statement to cover capital expenditure not funded from other capital resources	(2,348)			2,348		
Use of the Capital (Revenue Contributions) Reserve to finance new capital expenditure				(5,473)		5,473

Notes to the Core Financial Statements

[14] Adjustments between Accounting Basis and Funding Basis Under Regulations

2009/10	Usable Reserves					
	General Fund Balance	Earmarked General Fund Reserves	Capital Receipts Reserve	Capital (Revenue Contribut-ions) Reserve	Capital Grants Unapplied	Movement In Unusable Reserves
	£'000	£'000	£'000	£'000	£'000	£'000
Adjustments primarily involving the Financial Instruments Adjustment Account:						
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(33)					33
Adjustments primarily involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see note 2)	155,900					(155,900)
Employer's pensions contributions and direct payments to pensioners payable in the year	(63,355)					63,355
Adjustments primarily involving the Collection Fund Adjustment Account :						
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(1,272)					1,272
Adjustments primarily involving the Accumulated Absences Account:						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	(344)					344
Total Adjustments	90,795	0	(1,780)	(3,125)	0	(85,890)

[14] Adjustments between Accounting Basis and Funding Basis Under Regulations

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

2010/11	Usable Reserves					
	General Fund Balance £'000	Earmarked General Fund Reserves £'000	Capital Receipts Reserve £'000	Capital (Revenue Contribut-ions) Reserve £'000	Capital Grants Unapplied £'000	Movement In Unusable Reserves £'000
Adjustments primarily involving the Capital Adjustment Account:						
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:						
Charges for depreciation and impairment of non-current assets	8,969					(8,969)
Revaluation losses on Property Plant and Equipment	0					0
Amortisation of intangible fixed assets	0					0
Capital grants and contributions applied	(3,640)					3,640
Revenue expenditure funded from capital under statute	0					0
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure statement	1,445					(1,445)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:						
Statutory provision for the financing of capital investment	(804)					804
Capital expenditure charged against the General Fund	0					0

Notes to the Core Financial Statements

[14] Adjustments between Accounting Basis and Funding Basis Under Regulations

2010/11	Usable Reserves					
	General Fund Balance £'000	Earmarked General Fund Reserves £'000	Capital Receipts Reserve £'000	Capital (Revenue Contribut-ions) Reserve £'000	Capital Grants Unapplied £'000	Movement In Unusable Reserves £'000
Adjustments primarily involving the Capital Grants Unapplied Account:						
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement						
Application of grants to capital financing transferred to the Capital Adjustment Account						
Adjustments primarily involving the Capital Receipt Reserve:						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(1,249)		1,249			
Use of the Capital Receipts Reserve to finance new capital expenditure			(1,249)			1,249
Contribution from the Capital Receipts Reserve towards administrative costs of non-current asset disposals	0		0			
Adjustments primarily involving the Capital (Revenue Contributions) Reserve:						
Reversal of net sum set aside in the Comprehensive Income and Expenditure Statement to cover capital expenditure not funded from other capital resources	(2,232)			2,232		
Use of the Capital (Revenue Contributions) Reserve to finance new capital expenditure				(3,496)		3,496

Notes to the Core Financial Statements

[14] Adjustments between Accounting Basis and Funding Basis Under Regulations

2010/11	Usable Reserves					
	General Fund Balance £'000	Earmarked General Fund Reserves £'000	Capital Receipts Reserve £'000	Capital (Revenue Contribut-ions) Reserve £'000	Capital Grants Unapplied £'000	Movement In Unusable Reserves £'000
Adjustments primarily involving the Financial Instruments Adjustment Account:						
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(34)					34
Adjustments primarily involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement (see note 2)	(97,480)					97,480
Employer's pensions contributions and direct payments to pensioners payable in the year	(65,729)					65,729
Adjustments primarily involving the Collection Fund Adjustment Account :						
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	(153)					153
Adjustments primarily involving the Accumulated Absences Account:						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	1,122					(1,122)
Total Adjustments	(159,785)	0	0	(1,264)	0	161,049

Notes to the Core Financial Statements

[15] Transfers To/(From) Earmarked Reserves

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

	Balance at 1 April 2009 £'000	Transfers Out 2009/10 £'000	Transfers In 2009/10 £'000	Balance at 31 March 2010 £'000	Transfers Out 2010/11 £'000	Transfers In 2010/11 £'000	Balance at 31 March 2011 £'000
General Fund:							
Netley Business Plan	12	0	13	25	0	48	73
Devolved Budget Carry Forwards	1,089	0	2,569	3,658	(4,408)	4,945	4,195
ACPO Criminal Records Office Surety	1,000	0	0	1,000	0	750	1,750
Insurance Reserve	394	0	0	394	0	0	394
Revenue Grants Unapplied	0	0	0	0	0	354	354
Spend to Save Reserve	0	0	386	386	0	0	386
Total	2,495	0	2,968	5,463	(4,408)	6,097	7,152

[16] Other Operating (Income)/ Expenditure

	2008/09 £'000	2009/10 £'000	2010/11 £'000
Levies to National Police Services	871	861	897
Home Office Police Pension Fund Top-up Grant	(20,602)	(19,692)	(19,893)
(Gains)/losses on the disposal of non-current assets	59	(98)	203
	(19,672)	(18,929)	(18,793)

[17] Financing and Investment Income and Expenditure

2009/10 £'000		2010/11 £'000
898	Interest payable and similar charges	1,293
112,690	Pensions interest cost and expected return on pension assets	110,110
(178)	Interest receivable and similar income	(289)
113,410		111,114

Notes to the Core Financial Statements

[18] Summary of Capital Expenditure and Fixed Asset Disposals

The movement on balances, financing of capital expenditure and sales of assets are shown below. The accounting policies are on pages 31 to 47.

Property, Plant and Equipment

Movement on Balances

Movements in 2009/10

	Operational Assets				Non-op Assets		
	Intangible Assets	Land and Buildings	Vehicles and Plant	Furniture and Equipment	Assets Under Construction	Surplus Assets	Total Fixed Assets
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Cost or valuation							
At 31 March 2009	**42**	**150,432**	**28,848**	**32,693**	**14,848**	**0**	**226,863**
SORP 2007 changes	(22)	(6,330)	(14,446)	(25,075)	0	0	(45,873)
Other changes		(45)	(397)				(442)
Additions in year	0	643	3,923	1,063	17,822	0	23,451
Revaluation increases/(decreases) recognised in the Revaluation Reserve	0	1,721	0	0	0	0	1,721
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	0	711	0	0	0	0	711
Derecognition - Disposals	0	(1,335)	(1,436)	0	0	0	(2,771)
Duplicated asset		(155)					(155)
Detail: Dwellings		(1,180)					(1,180)
Vehicles			(1,436)				(1,436)
Derecognition - Other	0	0	0	0	0	0	0
Reclassifications	0	(461)	0	6	(6)	461	0
At 31 March 2010	**20**	**145,336**	**16,492**	**8,687**	**32,664**	**461**	**203,660**
Accumulated depreciation and Impairment							
At 31 March 2009	**(42)**	**(37,967)**	**(19,821)**	**(30,419)**	**0**	**0**	**(88,249)**
SORP 2007 changes	22	6,330	14,446	25,075	0	0	45,873
Other changes		39	397				436
Depreciation Charge	0	(2,036)	(2,906)	(1,602)	0	(5)	(6,549)
Depreciation written out to the Revaluation Reserve	0	0	0	0	0	0	0
Depreciation written out to the Surplus/Deficit on the Provision of Services	0	0	0	0	0	0	0
Impairment (losses)/ reversals recognised in the Revaluation Reserve	0	0	0	0	0	0	0
Impairment (losses)/ reversals recognised in the Surplus/Deficit on the Provision of Services	0	(588)	0	0	0	0	(588)
Derecognition - Disposals	0	44	857	0	0	0	901
Derecognition - Other	0	0	0	0	0	0	0
Other movements in depreciation and impairment	0	0	0	0	0	0	0
Reclassifications	0	0	0	0	0	0	0
At 31 March 2010	**(20)**	**(34,178)**	**(7,027)**	**(6,946)**	**0**	**(5)**	**(48,176)**
Net Book Value							
At 31 March 2010	**0**	**111,158**	**9,465**	**1,741**	**32,664**	**456**	**155,484**
At 31 March 2009	**0**	**112,465**	**9,027**	**2,274**	**14,848**	**0**	**138,614**

Notes to the Core Financial Statements

[18] Summary of Capital Expenditure and Fixed Asset Disposals continued

The movement on balances, financing of capital expenditure and sales of assets are shown below. The accounting policies are on pages 31 to 47.

Property, Plant and Equipment

Movement on Balances

Movements in 2010/11

	Operational Assets				Non-op Assets		
	Intangible Assets £'000	Land and Buildings £'000	Vehicles and Plant £'000	Furniture and Equipment £'000	Assets Under Construction £'000	Surplus Assets £'000	Total Fixed Assets £'000
Cost or valuation							
At 31 March 2010	**20**	**145,333**	**16,492**	**8,687**	**32,664**	**461**	**203,657**
Additions in year	0	627	2,108	2,873	16,149	0	21,757
Revaluation increases/(decreases) recognised in the Revaluation Reserve	0	985	0	0	0	0	985
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	0	0	0	0	0	0	0
Derecognition - Disposals	0	(1,101)	(1,371)	0	0	0	(2,472)
Duplicated asset							0
Detail: Property		(1,101)					(1,101)
Vehicles			(1,371)				(1,371)
Derecognition - Other	0	(489)	0	0	0	0	(489)
Assets reclassified (to)/from held for sale		(389)	(1,624)				(2,013)
Other movements in cost or valuation		36,450			(37,518)	1,068	0
At 31 March 2011	**20**	**181,416**	**15,605**	**11,560**	**11,295**	**1,529**	**221,425**
Accumulated depreciation and Impairment							
At 31 March 2010	**(20)**	**(34,172)**	**(7,027)**	**(6,946)**	**0**	**(5)**	**(48,170)**
Depreciation Charge	0	(2,472)	(2,681)	(947)	0	(5)	(6,105)
Depreciation written out to the Revaluation Reserve	0	0	0	0	0	0	0
Depreciation written out to the Surplus/Deficit on the Provision of Services	0	0	0	0	0	0	0
Impairment (losses)/ reversals recognised in the Revaluation Reserve	0	(3)	0	0	0	0	(3)
Impairment (losses)/ reversals recognised in the Surplus/Deficit on the Provision of Services	0	(1,963)	(455)	0	0	0	(2,418)
Derecognition - Disposals	0	119	913	0	0	0	1,032
Duplicated asset							0
Detail: Property		119					119
Vehicles			913				913
Derecognition - Other	0	43	0	0	0	0	43
Assets reclassified (to)/from held for sale		24	856				880
Other movements in depreciation and impairment	0	102	0	0	0	(102)	0
At 31 March 2011	**(20)**	**(38,322)**	**(8,394)**	**(7,893)**	**0**	**(112)**	**(54,741)**
Net Book Value							
At 31 March 2011	**0**	**143,094**	**7,211**	**3,667**	**11,295**	**1,417**	**166,684**
At 31 March 2010	**0**	**111,161**	**9,465**	**1,741**	**32,664**	**456**	**155,487**

Notes to the Core Financial Statements

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

There is a requirement under the Code each year to review fixed assets for evidence of impairment, which may be occasioned by a permanent consumption of economic benefits - e.g. as a result of a fire - or by a general reduction in prices or value. In the light of the changed global economic situation, particular emphasis was given to this at the end of 2008/09. This was reviewed at the end of 2009/10 and at the end of 2010/11. However, dwellings were revalued at the start of 2009/10 and values thus reflected current market conditions or other evidence of value. The experience of the sales of dwellings in the year indicated that sale prices were holding up well against the carrying value of these assets and no futher impairment was considered to have been incurred at the end of 2010/11.

Other operational buildings had been mostly revalued during 2006/07. Here, however, in 2008/09, 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. Reviews at the end of 2009/10 and 2010/11 concluded that the conditions which gave rise to the impairment remained the same. Thus, whilst some individual assets were revalued due to a change of use or for some other reason, and the asset value changed as a result, the overall fall in prices was deemed to have remained static. This review was undertaken in-house by an appropriately qualified professional valuer (as required by the Code).

Notes to the Core Financial Statements

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

The Authority carries out revaluations of its fixed assets on a five-year rolling programme. In 2010/11 a small number of assets were subject to revaluation as part of this programme and other assets were revalued either due to becoming operational (as in the case of the new Southampton headquarters building) or where a change in the valuation method for a particular asset was deemed to be required (as in the case of the main police headquarters building in Winchester). These valuations were carried out by James Thomas MRICS, the Authority's in-house valuer.

The Southampton Police Station was completed and became operational during 2010/11. In accordance with proper accounting practice, the asset is included in the 2010/11 balance sheet with a value of £ 33.915m (which includes depreciation). As this value for accounting purposes is £ 3.072m lower than the total build and land acquisition cost (before depreciation), proper accounting practice requires this amount to be charged to the Comprehensive Income and Expenditure Statement. However, for local government, statutory provisions exist so that these accounting costs do not need to be met from the authority's general fund. This is achieved by transferring the costs to the Capital Adjustment Account in the Movement on Reserves Statement so that there is no impact on the Authority's usable reserves. Further information on the accounting requirement is provided below.

The approach for accounting for assets at value rather than cost in local government balance sheets was introduced in the 1990s. However, there have been a number of changes since 2007 particularly relating to the accounting treatment of asset value changes. The current requirements set out in the IFRS based Code of Practice are for operational land and building assets to be included in the balance sheet at fair value which is interpreted as the amount that would be paid for an asset in its existing use. This is achieved by commissioning a valuation on the basis of Existing Use Value (EUV) in accordance with UKPS 1.3 of the RICS Valuation Standards. In order for an EUV valuation to be given, there must be a market in existence for the property in which there have been a reasonable number of transactions.

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

Where insufficient market-based evidence of fair value is available because an asset is specialised and/or rarely sold, the Code permits the use of Depreciated Replacement Cost (DRC). This is a method of valuation that provides an estimate of: the market value for the existing use of the land on which a building sits (which is then accounted for separately if material) plus the current gross replacement cost of the building less allowances for physical deterioration and all relevant forms of obsolescence. The Southampton Police Station has been valued on the DRC basis due to its specialist nature. Valuation is based on the replacement of the current level of service or output, not necessarily the replacement of the actual building from which the service/output is currently being provided.

Any increases in asset values are held in an asset revaluation reserve on the balance sheet. This is an unusable reserve since it is not cash backed as the increase in asset value is not realised until the asset is sold. Any decreases in asset value are written off against the asset's individual revaluation reserve until the reserve reduces to zero, with subsequent losses charged to the income and expenditure account. This represents the true economic cost of the service using the asset and is included in the surplus or deficit on the provision of services in accordance with proper accounting practice. However, for local government, statutory provisions exist so that these costs do not need to be met from the authority's general fund. Consequently the costs are transferred to the Capital Adjustment Account in the Movement on Reserves Statement..

Where the Authority is not aware of any change in value - in addition to that resulting from the revaluation programme and annual impairment review - there is no requirement to update the valuation.

The economic downturn which had been felt in certain parts of the second-hand vehicle industry in 2008/09, generally in the larger vehicles, with smaller vehicles holding their residual values, was also considered to have remained static at the end of 2010/11. No further impairment charge was made in 2010/11 as residual values for new vehicles were set accordingly at the time of bringing these into operation.

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 capital programme for 2011/12 totals £8.3m, to which slippage on the 2010/11 programme of £3.72m will be added. As at 31 March 2011 the Authority had committed capital expenditure of £0.9m, mainly to IT schemes (£0.3m) and vehicles (£0.4m).

Notes to the Core Financial Statements

[19] Assets held for sale

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

	Current		Non-Current	
	2009/10 £'000	2010/11 £'000	2009/10 £'000	2010/11 £'000
Balance outstanding at start of year	**307**	**0**	**0**	**0**
Assets newly classified as held for sale:	0	1,133	0	0
Property, Plant and Equipment	0	0	0	0
Intangible Assets	0	0	0	0
Other assets/liabilities in disposal groups	0	0	0	0
Revaluation losses	0	(5)	0	0
Revaluation gains	0	0	0	0
Impairment losses	0	0	0	0
Assets declassified as held for sale:	0	0	0	0
Property, Plant and Equipment	0	0	0	0
Intangible Assets	0	0	0	0
Other assets/liabilities in disposal groups	0	0	0	0
Assets sold	(307)	0	0	0
Transfers from non-current to current	0	0	0	0
Other movements	0	0	0	0
Balance outstanding at year-end	**0**	**1,128**	**0**	**0**

The Authority reclassified two assets as meeting the tests of being held for sale as at the Balance Sheet date. The aircraft became held for sale after a regional air support arrangement was entered into during 2010/11. A broker was appointed to facilitate the sale of the aircraft at the optimum price and the sale is expected in 2011/12. One of the Authority's former dwellings was also empty and was being marketed for sale at 31 March 2011.

Notes to the Core Financial Statements

[20] Capital Financing Requirement

Capital financing and expenditure	2009/10 £'000	2010/11 £'000
Opening Capital Financing Requirement	25,035	35,022
Capital investment		
Operational assets	5,629	5,608
Non-operational assets	17,822	16,149
Sources of finance		
Capital receipts	(3,500)	(1,249)
Government grants and contributions	(3,854)	(3,598)
Other grants and contributions	0	(41)
Use of reserves (RCCO)	(5,473)	(3,496)
Sums from revenue (MRP)	(637)	(804)
Closing Capital Financing Requirement	**35,022**	**47,591**
Explanation of movements in year		
Increase in underlying need to borrow (supported)	1,703	1,703
Increase in underlying need to borrow (unsupported)	8,284	10,866
Increase/(decrease) in Capital Financing	**9,987**	**12,569**

£21.76m of capital expenditure was on fixed assets as shown above. The expenditure on non-operational assets in 2010/11 related to the new police station in Southampton which became operational in March 2011. 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 2010/11 was £10m (£3m in 2009/10).

Notes to the Core Financial Statements

[21] Leases

Authority as Lessee

Finance Leases

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

	31 March 2010 £'000	31 March 2011 £'000
Other Land and Buildings	3,237	3,199
Vehicles, Plant, Furniture and Equipment	0	0
Total	3,237	3,199

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

Operating Leases

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

	31 March 2010 £'000	31 March 2011 £'000
Not later than one year	72	144
Later than one year and not later than five years	2,853	1,786
Later than five years	1,731	1,458
Total	4,656	3,388

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

	31 March 2010 £'000	31 March 2011 £'000
Minimum lease payments	1,363	1,376
Contingent rents		
Less: Sub-lease payments receivable	(32)	(32)
Total	1,331	1,344

One building is sub-let to a third party and the sub-lease income receivable in respect of this is included above.

Authority as Lessor

The Authority has sub-let one previously unused floor of an operational building, the effect of which is shown above. No other significant property, plant, equipment or other assets are leased, either as finance leases or operating leases. A number of aerial sites are leased to third parties for use and the annual income received under such arrangements is in the region of £59,000. The agreements in respect of such sites are varied but the Authority would expect to receive the same level of income from such agreements each year over the medium-term.

Notes to the Core Financial Statements

[22] 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, a qualified chartered surveyor. There were some revaluations carried out in 2008/09, mainly for dwellings which had last been revalued in 2004/05. There was also a review at the year end for impairment on assets, given the ongoing state of the economy. However, it was deemed that asset values in the accounts were still valid. In 2008/09 the carrying value of vehicles had been 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. This circumstances which gave rise to this impairment were deemed to have still been in place at the Balance Sheet date. The basis for valuation is set out in the statement of accounting policies.

	Intangible Assets	Land and Buildings	Vehicles and Plant	Furniture and Equipment	Assets Under Construction	Surplus Assets	Total Property, Plant and Equipment
Valued:	£'000	£'000	£'000	£'000	£'000	£'000	£'000
at historical cost	0	650	7,211	3,667	11,295	0	22,823
at fair value in:							0
2006/07	0	85,933	0	0	0	0	85,933
2007/08	0	281	0	0	0	0	281
2008/09	0	0	0	0	0	0	0
2009/10	0	9,668	0	0	0	1,417	11,085
2010/11		46,559					46,559
Total	0	143,091	7,211	3,667	11,295	1,417	166,681

[23] 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.

[24] Insurance Provisions

The Police Authority does not have an insurance provision but does hold a reserve of £394,000 (£394,000 at 31 March 2010). The Authority self insures lower amounts but externally insures against larger risks such as loss/damage to assets and other potential liabilities.

Notes to the Core Financial Statements

[25] 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 fiar value on initial recognition is the transaction price. The financial assets of the Authority which fall within the definition of financial instruments, principally cash deposits, long-term debtors, accounts receivable and temporary lending, are classified as **loans and receivable financial instruments**. The financial liabilities of the Authority falling within the definition, principally accounts payable and temporary and long-term borrowing, are classified as **financial liabilities at amortised cost** (borrowings) or **financial liabilities carried at contract amount**.

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

	Long - term		Current	
	31 March 2011 £'000	**31 March 2010 £'000**	**31 March 2011 £'000**	**31 March 2010 £'000**
Investments				
Loans and receivables	3,000	0	17,500	2,500
Financial assets carried at fair value through profit and loss	0	0	0	0
Total investments	**3,000**	**0**	**17,500**	**2,500**
Debtors				
Loans and receivables	675	646	9,684	9,536
Financial assets carried at contract amounts				
Total Debtors	**675**	**646**	**9,684**	**9,536**
Borrowings				
Financial liabilities at amortised cost	30,200	20,200	0	0
Financial liabilities carried at fair value through profit and loss	0	0	0	0
Total borrowings	**30,200**	**20,200**	**0**	**0**
Other Long Term Liabilities				
PFI and finance lease liabilities	0	0	0	0
Total other long term liabilities	0	0	0	0
Creditors				
Financial liabilities at amortised cost	0	0	0	0
Financial liabilities carried at contract amount	0	0	10,968	11,006
Total creditors	**0**	**0**	**10,968**	**11,006**

Notes to the Core Financial Statements

[25] Financial Instruments continued

Income, Expense, Gains and Losses

	2009/10			2010/11		
	Financial Liabilities measured at amortised cost £'000	Financial Assets: Loans and receivables £'000	Total £'000	Financial Liabilities measured at amortised cost £'000	Financial Assets: Loans and receivables £'000	Total £'000
Interest expense	898	0	**898**	1,293	0	**1,293**
Losses on derecognition	0	0	**0**	0	0	**0**
Reduction in fair value	0	0	**0**	0	0	**0**
Impairment losses	0	0	**0**	0	0	**0**
Fee expenses	0	0	**0**	0	0	**0**
Total expense in Surplus or Deficit on the Provision of Services	**898**	**0**	**898**	**1,293**	**0**	**1,293**
Interest income	0	178	**178**	0	289	**289**
Interest income accrued on impaired financial assets	0	0	**0**	0	0	**0**
Increases in fair value	0	0	**0**	0	0	**0**
Gains on derecognition	0	0	**0**	0	0	**0**
Fee income	0	0	**0**	0	0	**0**
Total income in Surplus or Deficit on the Provision of Services	**0**	**178**	**178**	**0**	**289**	**289**
Gains on revaluation	0	0	**0**	0	0	**0**
Losses on revaluation	0	0	**0**	0	0	**0**
Amounts recycled to the Surplus or Deficit on the Provision of Services after impairment	0	0	**0**	0	0	**0**
Surplus/deficit arising on revaluation of financial assets in Other Comprehensive Income and Expenditure	**0**	**0**	**0**	**0**	**0**	**0**
Net gain / (loss) for the year	**(898)**	**178**	**(720)**	**(1,293)**	**289**	**(1,004)**

Notes to the Core Financial Statements

[25] Financial Instruments continued

Fair Values of Assets and Liabilities

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

- estimated ranges of interest rates at 31 March 2011 of 2.57% to 5.31% for loans from the PWLB, based on new lending rates for equivalent loans at that date
- no early repayment or impairment is recognised
- where an instrument will mature in the next 12 months, carrying amount is assumed to approximate to fair value
- the fair value of trade and other receivables is taken to be the invoiced or billed amount

The fair values calculated are as follows:

	31 March 2010		31 March 2011	
	Carrying amount £'000	Fair Value £'000	Carrying amount £'000	Fair Value £'000
Financial liabilities	31,206	30,969	41,168	41,957
Long-term creditors	0	0	0	0

The fair value of the liabilities are calculated in the context of interest rates applicable for similar liabilities at the balance sheet date. As at the balance sheet date of 31 March 2011 and 31 March 2009, the fair value of the liabilities are higher than the carrying amount of the liabilities on these dates because the Authority's portfolio of loans includes a number of fixed rate loans where the interest payable is higher than the rates available for similar loans at the Balance Sheet dates. This shows a notional loss (based on economic conditions at the balance sheet date) arising from a commitment to pay interest to lenders above current market rates at that time. As at 31 March 2010, the fair value of the financial liabilities is lower than the carrying value because interest rates prevailing at 31 March 2010 were higher than the fixed rates actually payable on the loans.

	31 March 2010		31 March 2011	
	Carrying amount £'000	Fair Value £'000	Carrying amount £'000	Fair Value £'000
Loans and receivables	12,036	12,036	30,184	30,184
Long-term debtors	646	646	675	675

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

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

[25] Financial Instruments continued

Car loans are relatively short-term advances to staff and total approximately £11,000 at 31 March 2011 (£9,000 at 31 March 2010). Market rates of interest are charged on these loans and the fair value is considered to be the value of the loans outstanding at the balance sheet date.

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

Between 2004/05 and 2007/08 £0.92m was advanced and at the end of March 2011 the outstanding sum was £0.78m. One loan of £20,000 was repaid during the financial year. In accordance with the Code these loans have been written-down to their fair value which reflects the interest foregone by making interest free loans. This interest foregone forms a charge on the income and expenditure account on initial recognition (i.e. the year the advance is made) although there is an accounting adjustment to mitigate any potential impact upon the general fund balance. 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 (£0.65m at 31 March 2010). The Financial Instruments Adjustment Account is the balance sheet account which records these adjustments to the value of the soft loans.

Trade Receivables (Debtors)

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

	31 March 2009	31 March 2010	31 March 2011
	£'000	£'000	£'000
Receivable financial instruments	13,326	9,536	9,684

Notes to the Core Financial Statements

[25] Financial Instruments continued

Loans and receivables - long - term

Complying with the Annual Investment Strategy, £3m surplus cash was invested on 23.03.2011 to mature on 22.03.2013, with a UK bank as counterparty. As the transaction took place near the year end, at a fixed rate of interest at a commercial market rate, the fair value equates to book value at the balance sheet date of 31 March 2011.

Trade Payables (Creditors)

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

	31 March 2009	31 March 2010	31 March 2011
	£'000	£'000	£'000
Trade Payables (Creditors)	11,119	11,006	10,968

Notes to the Core Financial Statements

[25] Financial Instruments continued

Financial liabilities at amortised cost (Long-term borrowing)

The Authority's borrowing strategy for 2010/11 was set in February 2010. The strategy determined that long-term fixed rate borrowing would be taken out at a target rate of 4.5% or less - or prevailing rates if the target rate proved unattainable - 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 £28m, at an average of £9m per annum. The Authority had been expected to borrow £20m in the year, largely to finance the replacement of the Southampton OCU headquarters. In the end, due to higher than anticipated cash balances, which enabled internal borrowing to take place the Authority borrowed £10m at a weighted average rate of 4.37%. It is worth noting that the Authority took these loans out in the first half of the year, prior to the Government's decision to add 1% to all PWLB long-term loans as part of the Comprehensive Spending Review in October 2010.

The Authority now has 18 fixed long-term loans from the Public Works Loans Board (PWLB). These are analysed below:-

Analysis of loans by	Average interest rate (Current)	Outstanding loans 31 March 2009 £'000	31 March 2010 £'000	31 March 2011 £'000
Between 0 and 5 years	8.50%	0	0	500
Between 6 and 10 years	-	500	500	0
Between 10 and 15 years	5.44%	350	700	700
Between 15 and 20 years	-	350	0	0
Between 20 and 25 years	4.20%	0	0	21,000
Over 25 years	4.45%	16,000	19,000	8,000
		17,200	**20,200**	**30,200**

The Code requirements in respect of accounting for financial instruments apply to long-term borrowing. There is a requirement to show the fair value of the 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 4 1/2 year loan at 31 March 2011 (being the remaining life to maturity) was 3.40%, it is this difference which becomes a premium on early repayment and the sum of these makes up the fair value of the portfolio. Where current interest rates are higher than the rate of an existing fixed rate loan, this works in reverse and makes the fair value higher than the book value.

Notes to the Core Financial Statements

[25] Financial Instruments continued

Most of the Authority's loan portfolio was taken out in 2008/09 and 2010/11 (£14m and £10m respectively, out of £30.2m). As a result, the difference between the rates at which loans were taken out and the rates in existence at 31 March 2011 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 the balance sheet, only as a disclosure note in the accounts. Consequently, the PWLB loans had a fair value of £30.989m at 31 March 2011 against a balance sheet value of £30.2m.

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 Code 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 Code, the agreement in respect of the SRP was entered into before the relevant date under the Code 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.

[25] Financial Instruments continued

Risks

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

Credit Risk:

Credit risk is the possibility that banks and financial institutions will fail to meet their contractual obligations, causing a loss to the Authority. The Authority manages credit risk by ensuring that investments are placed with the UK Government's Debt Management Office, local authorities, AAA-rated money market funds or banks and building societies having sufficiently high credit worthiness as set out in the Authority's Annual Investment Strategy. A maximum investment limit of £15 million is placed on the amount of money that can be invested with a single counterparty. No more than £10 million in total can be invested for a period longer than 364 days and up to a maximum duration of two years, although the maximum investment being placed with one institution will be restricted to £5 million. The Authority has no historical experience of counterparty default.

It should be noted that although credit ratings remain a key source of information, the Authority recognises that they have limitations and investment decisions are based on a range of market intelligence. All investments have been made in line with the Authority's Annual Investment Strategy for 2010/11, approved by the Authority on 15 February 2010.

Throughout 2010/11 the minimum criteria for new investments has been a long term Moody's rating of A2 and AAA for money market funds.

The table below summarises the nominal value of the Authority's investment portfolio at 31 March 2011, and confirms that all investments were made in line with the Authority's approved credit rating criteria:

Counterparty	Credit Rating Criteria Met When Investment	Credit Rating Criteria Met on 31 March 2011?	Balance Invested as at 31 March 2011 £000s				Total £000s
	YES / NO	YES / NO	Up to 1 month	> 1 month and < 6 months	> 6 months and < 12 months	> 12 months and < 24 months	
Banks - UK	YES	YES	5,000	5,000	2,500	3,000	15,500
Building Societies - UK	YES	YES	-	-	5,000	-	5,000
Call Accounts	YES	YES	9,920				9,920
Total			**14,920**	**5,000**	**7,500**	**3,000**	**30,420**

The above analysis shows that all deposits outstanding at 31 March 2011 met the Authority's credit rating criteria on the 31 March 2011.

Liquidity Risk:

Liquidity risk is the possibility that the Authority will be unable to raise funds to meet its payment commitments as they fall due. As the Authority has ready access to borrowing through the Public Works Loan Board and commercial banks, there is no perceived risk that the Authority will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the Authority will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates.

The Authority lessens this risk by its strategy of taking out its long-term borrowing requirements over a number of years, although there is a concentration of borrowing maturities between 20 and 25 years which relates to the financing of the new Southampton OCU headquarters.

The maturity analysis of the nominal value of the Authority's debt at 31 March 2011 was as follows:

	31/03/2011 £'000	% of total debt portfolio %
Less than 5 years	693	2
Between 5 and 10 years	0	0
Between 10 and 15 years	700	2
Between 15 and 20 years	0	0
Between 20 and 25 years	21,000	70
More that 25 years	8,000	26
Total	**30,393**	**100**

Notes to the Core Financial Statements

[25] Financial Instruments continued

Liquidity Risk (continued)

Loans and other long term liabilities outstanding (nominal value):	31 March 2010 £'000	31 March 2011 £'000
Public Works Loan Board	20,200	30,200
Temporary borrowing	81	193
Finance leases	0	0
Other	0	0
Total	**20,281**	**30,393**

Market risks:

Interest rate risk

The Authority is exposed to risks arising from movements in interest rates. The Treasury Management Strategy aims to mitigate these risks by setting an upper limit of £40.1m on external debt that can be subject to variable interest rates. At 31 March 2011, £30.2m of the debt portfolio was held in fixed rate instruments, and nil in variable rate instruments.

Investments are also subject to movements in interest rates. As investments are made at fixed rates, but for shorter periods of time, there is a greater exposure to interest rate movements. This risk has to be balanced against actions taken to mitigate credit risk.

Price risk

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.

Foreign exchange risk

The Authority has no material financial assets or liabilities denominated in a foreign currency. It therefore has no exposure to loss arising as a result of adverse movements in exchange rates.

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

	£'000
Increase in interest payable on variable rate borrowing	-
Increase in interest receivable on variable rate investments	(374)
Net cost / (saving)	(374)

Notes to the Core Financial Statements

[26] Inventories

	Consumable Stores		
	2008/09 £'000	2009/10 £'000	2010/11 £'000
Balance outstanding at start of year	720	610	892
Purchases	N/A	3,769	4,548
Recognised as an expense in the year	N/A	(3,487)	(4,407)
Written off balances	0	0	(5)
Reversal of write-offs in previous years	0	0	0
Balance outstanding at year-end	610	892	1,028

[27] Short Term Debtors

	31 March 2009 £'000	31 March 2010 £'000	31 March 2011 £'000
Central government bodies	12,446	9,085	7,965
Other local authorities	1,058	5,825	7,340
NHS Bodies	0	1	1
Public corporations and trading funds	11	9	3
Other entities and individuals	1,869	2,387	2,888
Total	**15,384**	**17,307**	**18,197**

[28] Cash and Cash Equivalents

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

31 March 2009 £'000		31 March 2010 £'000	31 March 2011 £'000
82	Cash held by the Authority	95	79
871	Bank current accounts	4,477	314
(218)	Bank overdrawn	(1,803)	(3,231)
13,808	Call accounts (same day access funds)	12,603	9,920
14,543	**Total Cash and Cash Equivalents**	**15,372**	**7,082**

[29] Short Term Creditors

	31 March 2009 £'000	31 March 2010 £'000	31 March 2011 £'000
Central government bodies	8,396	8,695	6,699
Other local authorities	2,579	5,533	8,756
NHS Bodies	4	5	4
Public corporations and trading funds	19	26	27
Other entities and individuals	15,820	14,302	12,617
Total	**26,818**	**28,561**	**28,103**

Notes to the Core Financial Statements

[30] Provisions - Current Liabilities

	Outstanding Legal Cases	Injury and Damage Compensation Claims	Other Provisions	Total
Balance at 1 April 2009	0	0	0	0
Additional provisions made in 2009/10	0	0	0	0
Amounts used in 2009/10	0	0	0	0
Unused amounts reversed in 2009/10	0			0
Unwinding of discounting in 2009/10	0	0	0	0
Balance at 31 March 2010	0	0	0	0
Additional provisions made in 2010/11	0	0	(907)	(907)
Amounts used in 2010/11	0	0	0	0
Unused amounts reversed in 2010/11	0			0
Unwinding of discounting in 2010/11	0	0	0	0
Balance at 31 March 2011	0	0	(907)	(907)

Whilst it is not classified as a provision, the Authority has recognised that some debts will be impaired on the basis of past experience. The sum recognised - which was formerly known as a provision for bad debts is £150,000 (£150,000 as at 31 March 2010). Bad debts totalling £4,471 were written off during the year.

A provision has been made in the accounts in respect of the costs of redundancies and the additional charges to the employer from the pension fund for those who have been able to retire early as a consequence of meeting certain conditions when they are made redundant. The Force accepted a number of applications for voluntary redundancy in 2010/11 largely to enable it to meet the pending budget reductions. Where staff left at the 31st March, the redundancy payments were not due until they left the organisation (i.e. in 2011/12) and charges from the pension fund were also not due until the new financial year. As neither of these amounts can be accrued but there is certainty over both the timing and amounts due, a provision has been made. In 2010/11, a provision of £907,000 has been made (£0 in 2009/10).

[31] 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 at note 32:

Usable Reserves	Balance 1 Apr 09	Gains and losses credited (+) or debited (-) to the reserve	Transact-ions with other reserves during the year	Balance 31 Mar 10	Balance 1 Apr 10	Gains and losses credited (+) or debited (-) to the reserve	Transact-ions with other reserves during the year	Balance 31 Mar 11
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
General Reserve	7,106	8,765	0	15,871	15,871	13,606	0	29,477
Unapplied Grants and Contributions	0	0	0	0	0	0	0	0
Capital Receipt Reserve	1,780	1,720	(3,500)	0	0	0	0	0
Capital (Revenue Contributions) Reserve	5,011	2,348	(5,473)	1,886	1,886	(1,264)	0	622
Earmarked Reserves	2,495	2,968	0	5,463	5,463	1,689	0	7,152
sub total	**16,392**	**15,801**	**(8,973)**	**23,220**	**23,220**	**14,031**	**0**	**37,251**

Unusable Reserves	Balance 1 Apr 09	Gains and losses credited (+) or debited (-) to the reserve	Transact-ions with other reserves during the year	Balance 31 Mar 10	Balance 1 Apr 10	Gains and losses credited (+) or debited (-) to the reserve	Transact-ions with other reserves during the year	Balance 31 Mar 11
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Capital Adjustment Account	114,525	(4,117)	9,008	119,416	119,416	(1,187)	110	118,339
Revaluation Reserve	243	1,720	(35)	1,928	1,928	946	(110)	2,764
Financial Instruments Adjustment Account	(183)	33	0	(150)	(150)	34	0	(116)
Collection Fund Adjustment Account	0	1,272	0	1,272	1,272	154	0	1,426
Available for Sale Financial Instruments Reserve	0	0	0	0	0	0	0	0
Short Term Accumulating Compensated Absences Account	(4,501)	344	0	(4,157)	(4,157)	(1,122)	0	(5,279)
IAS19 Pensions Reserve	(1,707,450)	(531,037)	0	(2,238,487)	(2,238,487)	214,080	0	(2,024,407)
sub total	**(1,597,366)**	**(531,785)**	**8,973**	**(2,120,178)**	**(2,120,178)**	**212,905**	**0**	**(1,907,273)**

Notes to the Core Financial Statements

[32a] 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 09	Gains and losses credited (+) or debited ( ) to the reserve	Transactions with other reserves during the year	Balance 31 Mar 10	Balance 1 Apr 10	Gains and losses credited (+) or debited ( ) to the reserve	Transactions with other reserves during the year	Balance 31 Mar 11
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Insurance Reserve	394	0	0	394	394	0	0	394
Spend to Save Reserve	0	386	0	386	386	0	0	386
Other Earmarked Reserves								0
- Revenue Grants Unapplied	0	0	0	0	0	354	0	354
- Netley business plan	12	13	0	25	25	48	0	73
- Devolved budget carry forwards	1,089	2,569	0	3,658	3,658	538	0	4,196
- ACPO Criminal Records Office surety	1,000	0	0	1,000	1,000	750	0	1,750
Total	**2,495**	**2,968**	**0**	**5,463**	**5,463**	**1,690**	**0**	**7,153**

[32 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.

2009/10 £'000		2010/11 £'000	2010/11 £'000
114,525	**Balance at 1 April**		**119,417**
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
(6,426)	Charges for depreciation and impairment of non-current assets	(8,969)	
0	Revaluation losses on Property, Plant and Equipment	0	
0	Amortisation of intangible assets	0	
0	Revenue expenditure funded from capital under statute	0	
(2,181)	Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(1,335)	
(8,607)			**(10,304)**
35	Adjusting amounts written out of the Revaluation Reserve		35
0	Net written out amount of the cost of non-current assets consumed in the year		0
	Capital financing applied in the year:-		
8,973	Use of the Capital Receipts Reserve to finance new capital expenditure	4,746	
3,854	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	3,640	
637	Application of grants to capital financing from the Capital Grants Unapplied Account	0	
0	Statutory provision for the financing of capital investment charged against the General Fund and HRA balances	804	
0	Capital expenditure charged against the General Fund	0	
13,464			**9,190**
0	Movements in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		0
119,417	**Balance at 31 March**		**118,338**

[32 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, with

2008/09 £'000		2009/10 £'000	2010/11 £'000
2,628	**Balance at start of year**	**1,780**	**0**
(2,055)	Capital receipts applied to finance capital expenditure	(3,500)	(1,249)
0	Capital receipts applied to repay loans	0	0
1,207	Capital receipts in year	1,720	1,249
1,780	**Balance at end of year**	**0**	**0**

Notes to the Core Financial Statements

[32 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.

2008/09 £'000		2009/10 £'000	2010/11 £'000
280	**Balance at start of year**	**243**	**1,928**
0	Revaluations during year	1,720	985
(37)	Impairments of previously revalued assets	0	(3)
0	Disposal of revalued assets	0	(110)
0	Depreciation of revaluations	(35)	(35)
243	**Balance at end of year**	**1,928**	**2,765**

[32 e] Reserves - Capital (Revenue Contributions) Reserve

The Capital (Revenue Contributions) Reserve contains general sums set aside from the Income and Expenditure Account or specific sums required to cover capital expenditure which is not funded from other capital resources.

2008/09 £'000		2009/10 £'000	2010/11 £'000
4,448	**Balance at start of year**	**5,011**	**1,886**
775	Contributions received in year	2,353	2,539
0	Contributions applied to finance capital expenditure	(5,473)	(3,496)
(212)	Contributions returned to revenue	(5)	(307)
5,011	**Balance at end of year**	**1,886**	**622**

[32 f] Collection Fund Adjustment Account

The Collection Fund Adjustment Account records the difference between the income included in the Income and Expenditure Account and the amount required by statute to be credited to the General Fund. This was established in the SORP 2009 with effect from 1 April 2008. Due to the size of the adjustments required for the Authority, no prior period adjustment was deemed appropriate, although an adjustment was required through the Statement of Recognised Gains and Losses to establish the opening balance at 1 April 2009. The movement in the year relates to the net creditor or debtor from billing authorities when accounting for collection fund balances on an accruals basis at the year end.

2008/09 £'000		2009/10 £'000	2010/11 £'000
0	**Balance at start of year**	**0**	**1,272**
0	Opening balance created as required by SORP 2009	948	
0	Collection Fund net debtor at 31 March 2010 - monies owed by billing authorities	324	153
0	**Balance at end of year**	**1,272**	**1,425**

Notes to the Core Financial Statements

[32 g] Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year (e.g. annual leave entitlement carried forward at 31 March). Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account. This account was introduced as part of the move to IFRS at the transition date of 1 April 2009. See also note 39.

2008/09 £'000		2009/10 £'000	2010/11 £'000
0	**Balance at start of year**	**4,501**	**4,157**
0	Settlement or cancellation of accrual made at the end of the preceding year	(4,501)	(4,157)
0	Amounts accrued at the end of the current year	4,157	5,279
0	**Balance at end of year**	**4,157**	**5,279**

Note that the amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements is the movement in the year. In 2010/11 this was £1.222m (£0.344m in 2009/10).

[32 h] Revenue Grants Unapplied Account

Where a grant or contribution is received for revenue purposes and which either had no conditions restricting its use when it was received or where any conditions have been met, but this grant or contribution has not been utilised, the balance is held in this account. The income is recognised in the Comprehensive Income and Expenditure Statement when the conditions (if any) are met and the balance is transferred to this earmarked reserve through the Movement in Reserves Statement. When the expenditure is incurred, the grant is transferred to the General Fund reserve, again through the Movement in Reserves Statement.

2008/09 £'000		2009/10 £'000	2010/11 £'000
0	**Balance at start of year**	**0**	**0**
0	Grants unapplied during the year	0	354
0	Grants transferred to General Fund Reserve to match expenditure	0	0
0	**Balance at end of year**	**0**	**354**

Notes to the Core Financial Statements

[33] Audit Costs

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

	2009/10 £000	2010/11 £000
Fees payable to the Audit Commission with regard to external audit services carried out by the appointed auditor for the year	102.0	104.5
Fees payable to the Audit Commission with regard to the review of the decision to buy Alpha Park	0.0	25.0
Fees payable to the Audit Commission in respect of the National Fraud Initiative	0.0	0.5
	102.0	**130.0**

[34] 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 2009/10.

A contingent liability of £1.079m is recorded in respect of injury pensions charged to the Police Pension Fund instead of the Income and Expenditure Account at the time of the transition to the new police pension funding arrangements in 2006/07. It is not certain that this will need to be repaid so long after these years of accounts have been closed and audited, but the amount is recorded herein to reflect this possibility.

At the balance sheet date there were two other potential liabilities in respect of events which have happened in the past, relating to operational matters which may lead to a claim against the Authority at some time in the future. It is not certain that either of these events would lead to rulings against the Authority or will lead to claims which are substantial or not covered by insurance. A balance sheet reserve is maintained for insurance claims which cannot be met from existing (or historic) insurance cover or budgets for settlements.

[35] 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 in a prior financial year but the final sum, provision for interest, the means of repayment and the period over which repayment will be made has yet to be settled. This matter was reported in the 2009/10 disclosures and the Force Solicitor is discussing the settlement with the third party's solicitor.

Notes to the Core Financial Statements

[36] Events after the Balance Sheet date

This Statement of Accounts was authorised for issue by the Treasurer, as the Chief Financial Officer, on 16 September 2011, being the date on which papers were submitted to the Governance Committee for approval at their meeting on 22 September further to the completion of the audit. Events taking place after 16 September 2011 are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2011, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

The financial statements and notes have not been adjusted for the following event which took place after 31 March 2011 as it provides information that is relevant to an understanding of the Authority's financial position but does not relate to conditions at that date for which adjustments should be made:

On 23 June 2011, the Police Authority considered the changes proposed to the existing estate. The Authority approved the rationalisation of its estate and the development of four new custody centres. Proposals for a core headquarters were considered and decisions were deferred pending a further review of options.

The estate review identified a number of buildings, including eighteen police stations, which will be earmarked for sale. However, in accordance with one of the Authority's strategic objectives - that of retaining a police presence in every neighbourhood - the Constabulary has committed not to move from existing neighbourhood bases until an alternative location has been found within the same community. The Police Authority paper of 23 June 2011 (available on the website) details all of the identified sites from across the two counties. These had an approximate net book value of £39.3m at 31 March 2011, although in most cases the Balance Sheet does not hold the open market valuation for each site so any capital receipts might be expected to differ from this figure.

Notwithstanding the impact of any changes to the service delivery across the two counties which come from the Force Change Programme in the light of significant budget reductions in the medium-term, the review of the estate will have implications in due course for the asset valuations held in the Balance Sheet. The estates development programme is expected to take five years to be fully realised and asset valuations and costs of new assets will vary over that timescale. At this time, therefore, the Police Authority's decision to implement this rationalisation and development of a new custody service is not deemed to be an adjusting event, primarily because it affects the future valuations and not those at the balance sheet date.

Notes to the Core Financial Statements

[36] Events after the Balance Sheet date (continued)

In the Audit Commission's last Annual Governance Report, issued in September 2010 and prepared in response to the audit of the 2009/10 Statement of Accounts, reference was made to asset valuations and the basis used for these in the accounts, primarily where assets were not of a specialist nature. The Authority's reponse was that its "accounting policy is to value non-operational assets at historic cost and to revalue these when the asset is brought into use". At the Balance Sheet date (i.e. March 2010), the Authority was pursuing the development of the Alpha Park site but had subsequently deferred this development pending the review of the Forcewide estate and the outcome of the Comprehensive Spending Review. Furthermore, the Authority added that "once this becomes clear the valuation basis for the Alpha Park site will be reviewed. The market value of the site may change in any event as the economy emerges from recession. The difference between the historic cost and the current valuation is not material in the context of the overall net worth of the Authority."

Given that the estates development plan had not been agreed at the balance sheet date and that all options remained open for the development (or otherwise) of Alpha Park, it is considered that the comments made in 2010 are still relevant and that it was not appropriate to revalue the Alpha Park site - or indeed any others which might be affected by the estates review - in 2010/11. Now that the plan has been approved, the future of some sites has become clearer. The future of the Alpha Park site, which had been purchased in 2009 as a site for the relocation of the entire headquarters function and other functions or services currently based elsewhere, is now more certain with part of the site being earmarked for redevelopment and part of it being earmarked for sale. Once final decisions are made and the programme timeline is developed further valuations for this site and all others affected will be reviewed accordingly. Where assets are reclassified or recategorised these valuations will be based on the most appropriate methodology (or closest approximation if necessary).

[37] Other disclosures

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

- There are no acquired or discontinued operations
- There have been no material post balance sheet events (see separate note on events after the Balance Sheet Date)
- The Authority does not have any Private Finance Initiative (PFI) arrangements or similar schemes
- The Authority does not have any pooled funds
- The Authority does not have any material heritage assets

Notes to the Core Financial Statements

[38] Notes to the Cash Flow Statement - 2010/11

The cash flows for operating activities include the following items:

[38a] Cash Flow Statement - Operating Activities

2009/10 £'000		2010/11 £'000
(178)	Interest received	(289)
898	Interest paid	1,293
0	Dividends received	0
720		1,004

[38b] Cash Flow Statement - Investing Activities

2009/10 £'000		2010/11 £'000
20,759	Purchase of property, plant and equipment, investment property and intangible assets	21,757
2,500	Purchase of short-term and long-term investments	20,500
0	Other payments for investing activities	0
(2,150)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(1,249)
(2,500)	Proceeds from short-term and long-term investments	(2,500)
(3,854)	Other receipts from investing activities	(3,598)
14,755	**Net cash outflow/(Inflow) from investing**	**34,910**

[38c] Cash Flow Statement - Financing Activities

2009/10 £'000		2010/11 £'000
(3,000)	Cash receipts of short- and long-term borrowing	(10,000)
(572)	Other receipts from financing activities	(260)
0	Cash payments for the reduction of the outstanding liabilities relating to finance leases	0
212	Repayment of short- and long-term borrowing	212
898	Other payments for financing activities	1,293
(2,462)	**Net cash outflow/(Inflow) from financing**	**(8,755)**

[38d] Cash and Cash Equivalents

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

2009/10 £'000		2010/11 £'000
95	Cash held by the Authority	79
4,477	Bank current accounts	314
(1,803)	Bank overdraft	(3,231)
12,603	Surplus cash deposited with approved counterparties (on immediate call)	9,920
15,372	**Total Cash and Cash Equivalents**	**7,082**

Cash Flow Statement 2010/11

[38] Notes to the Cash Flow Statement - 2010/11

[38d] Cash Flow Statement - Adjustments to net surplus or deficit on the provision of services for non-cash movements

	2010/11 £'000
Adjustments to net surplus or deficit on the provision of services for non-cash movements	158,219
Analysis:-	
Pensions	163,209
Depreciation and impairment	(8,969)
Removal of loss/gain on disposal of non-current assets	(203)
Movement in Debtors	890
Movement in Creditors	457
Provision for redundancy costs and pension top up	(882)
Capital grant (included within investing activities)	3,598
Movement in Inventories	136
Other miscellaneous adjustments	(17)
	158,219

Notes to the Core Financial Statements

[39] Impact of the Adoption of International Financial Reporting Standards (IFRS)

The Statement of Accounts for 2010/11 is the first to be prepared on an IFRS basis. Adoption of the IFRS-based Code has resulted in the restatement of various balances and transactions, with the result that some amounts presented in the financial statements for 2010/11 are different from the equivalent figures presented in the Statement of Accounts for 2009/10.

The following tables explain the material differences between the amounts presented in the 2009/10 financial statements and the equivalent amounts presented in the 2010/11 financial statements.

Effect of the Transition to IFRS on the Balance Sheet as at 1 April 2009

	UK GAAP	Effect of Transition to IFRS				IFRS
		Absences	Leases	Grants	Other	
Note ref.:		*1*		*2*	*4*	
	£'000	£'000	£'000	£'000	£'000	£'000
Property, Plant & Equipment	138,921	0	0	0	0	138,921
Long Term Debtors	659	0	0	0	0	659
Long Term Assets	**139,580**	**0**	**0**	**0**	**0**	**139,580**
Short Term Investment	16,308	0	0	0	(13,808)	2,500
Inventories	610	0	0	0	0	610
Short Term Debtors	15,384	0	0	0	0	15,384
Cash & Cash Equivalents	953	0	0	0	13,590	14,543
Current Assets	**33,255**	**0**	**0**	**0**	**(218)**	**33,037**
Bank Overdraft	(218)	0	0	0	218	0
Short Term Creditors	(22,317)	(4,501)	0	0	0	(26,818)
Provisions	0	0	0	0	0	0
Current Liabilities	**(22,535)**	**(4,501)**	**0**	**0**	**218**	**(26,818)**
Long Term Creditors	0	0	0	0	0	0
Provisions	0	0	0	0	0	0
Long Term Borrowing	(17,200)	0	0	0	0	(17,200)
Other Long Term Liabilities	(2,123)	0	0	0	0	(2,123)
Government Grants Deferred	(7,856)	0	0	7,856	0	0
Capital Grants Receipts in Advance	0	0	0	0	0	0
Liabilities relating to pension schemes	(1,679,770)	0	0	0	0	(1,679,770)
Long Term liabilities	**(1,706,949)**	**0**	**0**	**7,856**	**0**	**(1,699,093)**
Net Assets/(Liabilities)	**(1,556,649)**	**(4,501)**	**0**	**7,856**	**0**	**(1,553,294)**
Usable Reserves						
General Reserve	7,106	0	0	0	0	7,106
Capital Receipts Reserve	1,780	0	0	0	0	1,780
Capital (Revenue Contributions) Reserve	5,011	0	0	0	0	5,011
Earmarked Reserves	2,495	0	0	0	0	2,495
Total Usable Reserves	16,392	0	0	0	0	16,392
Unusable Reserves						
Capital Adjustment Account	106,669	0	0	7,856	0	114,525
Revaluation Reserve	243	0	0	0	0	243
Financial Instruments Adjustment Account	(183)	0	0	0	0	(183)
Collection Fund Adjustment Account	0	0	0	0	0	0
Accumulated Absences Account	0	(4,501)	0	0	0	(4,501)
FRS17 Pensions Reserve	(1,679,770)	0	0	0	0	(1,679,770)
Total Unusable Reserves	(1,573,041)	(4,501)	0	7,856	0	(1,569,686)
Total Reserves	**(1,556,649)**	**(4,501)**	**0**	**7,856**	**0**	**(1,553,294)**

Notes to the Core Financial Statements

[39] Impact of the Adoption of International Financial Reporting Standards (IFRS) continued

Comparatives for 2008/09 used in the Comprehensive Income and Expenditure Statement for 2009/10.

	UK GAAP	Effect of Transition to IFRS				IFRS	Notes
		Absences	Leases	Grants	Other		
Note ref.:		*1*		*2*			
	Net Expenditure 2008/09						
	£'000	**£'000**	**£'000**	**£'000**	**£'000**	**£'000**	
Local Policing	161,650	0	0	1,406	0	163,056	note1, 2
Dealing with the Public	33,167	0	0	327	0	33,494	note1, 2
Criminal Justice Arrangements	31,571	0	0	296	0	31,867	note1, 2
Road Policing	18,835	0	0	156	0	18,991	note1, 2
Specialist Operations	18,347	0	0	117	0	18,464	note1, 2
Intelligence	16,787	0	0	138	0	16,925	note1, 2
Specialist Investigation	29,358	0	0	215	0	29,573	note1, 2
Investigative Support	16,169	0	0	84	0	16,253	note1, 2
National Policing	1,123	0	0	93	0	1,216	note1, 2
Corporate & Democratic Core	1,312	0	0	0	0	1,312	
Non-distributed costs	2,590	0	0	0	0	2,590	
Net Cost of Police Services	**330,909**			**2,832**	0	**333,741**	
Other operating (income) and expenditure	(19,672)	0	0	0	0	(19,672)	
Financing and investment income and expenditure	113,734	0	0	0	0	113,734	
Surplus or deficit of discontinued operations	0	0	0	0	0	0	
Taxation and non-specific grant income	(301,427)	0	0	(2,000)	0	(303,427)	note 2
(Surplus) or Deficit on Provision of Services	**123,544**	**0**	**0**	**832**	**0**	**124,376**	
(Surplus) or deficit on revaluation of Property, Plant and Equipment assets	37	0	0	0	0	37	
Surplus or deficit on revaluation of available for sale financial assets	0	0	0	0	0	0	
Any other (gains) or losses	0	0	0	0	0	0	
Actuarial (gains)/losses on pension assets/liabilities	(100,097)	0	0	0	0	(100,097)	
Other Comprehensive (Income) and Expenditure	(100,060)	0	0	0	0	(100,060)	
Total Comprehensive (Income) and Expenditure	**23,484**	**0**	**0**	**832**	**0**	**24,316**	

Notes to the Core Financial Statements

[39] Impact of the Adoption of International Financial Reporting Standards (IFRS) continued

Effect of IFRS on the balance sheet as at 31 March 2010

	UK GAAP	Effect of Transition to IFRS				IFRS
		Absences	Leases	Grants	Other	
Note ref.:		*1*		*2*	*3,4*	
	£'000	£'000	£'000	£'000	£'000	£'000
Property, Plant & Equipment	155,484	0	0	0	0	155,484
Long Term Debtors	646	0	0	0	0	646
Long Term Assets	**156,130**	**0**	**0**	**0**	**0**	**156,130**
Short Term Investment	15,103	0	0	0	(12,603)	2,500
Inventories	892	0	0	0	0	892
Short Term Debtors	17,307	0	0	0	0	17,307
Cash & Cash Equivalents	4,572	0	0	0	10,800	15,372
Current Assets	**37,874**	**0**	**0**	**0**	**(1,803)**	**36,071**
Bank Overdraft	(1,803)	0	0	0	1,803	0
Short Term Creditors	(24,404)	(4,157)	0	0	0	(28,561)
Provisions	0	0	0	0	0	0
Current Liabilities	**(26,207)**	**(4,157)**	**0**	**0**	**1,803**	**(28,561)**
Long Term Creditors	0	0	0	0	0	0
Provisions	0	0	0	0	0	0
Long Term Borrowing	(20,200)	0	0	0	0	(20,200)
Other Long Term Liabilities	(1,911)	0	0	0	0	(1,911)
Government Grants Deferred	(8,366)	0	0	8,366	0	0
Capital Grants Receipts in Advance	0	0	0	0	0	0
Liabilities relating to pension schemes	(2,210,807)	0	0	0	0	(2,210,807)
Long Term liabilities	**(2,241,284)**	**0**	**0**	**8,366**	**0**	**(2,232,918)**
Net Assets/(Liabilities)	**(2,073,487)**	**(4,157)**	**0**	**8,366**	**0**	**(2,069,278)**
Usable Reserves						
General Reserve	15,871	0	0	0	0	15,871
Capital Receipts Reserve	0	0	0	0	0	0
Capital (Revenue Contributions) Reserve	1,886	0	0	0	0	1,886
Earmarked Reserves	5,463	0	0	0	0	5,463
Total Usable Reserves	23,220	0	0	0	0	23,220
Unusable Reserves						
Capital Adjustment Account	110,339	0	0	8,366	711	119,416
Revaluation Reserve	2,639	0	0	0	(711)	1,928
Financial Instruments Adjustment Account	(150)	0	0	0	0	(150)
Collection Fund Adjustment Account	1,272	0	0	0	0	1,272
Accumulated Absences Account	0	(4,157)	0	0	0	(4,157)
FRS17 Pensions Reserve	(2,210,807)					(2,210,807)
Total Unusable Reserves	(2,096,707)	(4,157)	0	8,366	0	(2,092,498)
Total Reserves	**(2,073,487)**	**(4,157)**	**0**	**8,366**	**0**	**(2,069,278)**

Notes to the Core Financial Statements

[39] Impact of the Adoption of International Financial Reporting Standards (IFRS) continued

Effect of IFRS on the Comprehensive Income and Expenditure Statement for the Year Ended 31 March 2010

	UK GAAP Net Expenditure 2009/10	Effect of Transition to IFRS: Absences	Leases	Grants	Other	IFRS	Notes
	£'000	£'000	£'000	£'000	£'000	£'000	
Local Policing	146,842	(241)	0	1,388	(711)	147,278	note1, 2, 3
Dealing with the Public	28,435	(32)	0	338	0	28,741	note1, 2
Criminal Justice Arrangements	27,371	(60)	0	284	0	27,595	note1, 2
Road Policing	16,297	(40)	0	145	0	16,402	note1, 2
Specialist Operations	16,060	(11)	0	122	0	16,171	note1, 2
Intelligence	16,907	5	0	155	0	17,067	note1, 2
Specialist Investigation	27,815	(14)	0	228	0	28,029	note1, 2
Investigative Support	14,799	(9)	0	85	0	14,875	note1, 2
National Policing	1,224	58	0	143	0	1,425	note1, 2
Corporate & Democratic Core	1,521	0	0	0	0	1,521	
Non-distributed costs	690	0	0	0	0	690	
Net Cost of Police Services	**297,961**	(344)		2,888	(711)	**299,794**	
Other operating (income) and expenditure	(18,929)	0	0	0	0	(18,929)	
Financing and investment income and expenditure	113,410	0	0	0	0	113,410	
Surplus or deficit of discontinued operations	0	0	0	0	0	0	
Taxation and non-specific grant income	(311,815)	0	0	(3,398)	0	(315,213)	note 2
(Surplus) or Deficit on Provision of Services	**80,627**	**(344)**	**0**	**(510)**	**(711)**	**79,062**	
(Surplus) or deficit on revaluation of Property, Plant and Equipment assets	(2,431)	0	0	0	711	(1,720)	note 3
Surplus or deficit on revaluation of available for sale financial assets	0	0	0	0	0	0	
Any other (gains) or losses	150	0	0	0	0	150	
Actuarial (gains)/losses on pension assets/liabilities	438,492	0	0	0	0	438,492	
Other Comprehensive (Income) and Expenditure	436,211	0	0	0	711	436,922	
Total Comprehensive (Income) and Expenditure	**516,838**	**(344)**	**0**	**(510)**	**0**	**515,984**	

Notes to the Core Financial Statements

[39] Impact of the Adoption of International Financial Reporting Standards (IFRS) continued

Notes

1. Short-term Accumulating Compensated Absences (Accumulated Absences Account)

Short-term accumulating compensated absences refers to benefits that employees receive as part of their contract of employment, entitlement to which is built up as they provide services to the authority. The most significant benefit covered by this heading is holiday pay.

Employees build up an entitlement to paid holidays as they work. Under the Code, the cost of providing holidays and similar benefits is required to be recognised when employees render services that increase their entitlement to future compensated absences. As a result, the authority is required to accrue for any annual leave earned but not taken at 31 March each year. Under the previous accounting arrangements, no such accrual was required.

The government has issued regulations that mean authorities are only required to fund holiday pay and similar benefits when they are used, rather than when employees earn the benefits. Amounts are transferred to the Accumulated Absences Account - an unusable Balance Sheet reserve - until the benefits are used.

Accruing for short-term accumulating compensated absences has resulted in the following changes being made to the 2009/10 financial statements:

Opening 1 April 2009 Balance Sheet

	2009/10 Statements £'000	Adjustments Made £'000
Short Term Creditors (Current Liabilities)	0	(4,501)
Accumulated Absences Account (Reserve)	0	4,501

31 March 2010 Balance Sheet

	2009/10 Statements £'000	Adjustments Made £'000
Short Term Creditors (Current Liabilities)	0	(4,157)
Accumulated Absences Account (Reserve)	0	4,157

2009/10 Comprehensive Income and Expenditure Statement

	2009/10 Statements £'000	Adjustments Made £'000
Local Policing	146,842	(241)
Dealing with the Public	28,435	(32)
Criminal Justice Arrangements	27,371	(60)
Road Policing	16,297	(40)
Specialist Operations	16,060	(11)
Intelligence	16,907	5
Specialist Investigation	27,815	(14)
Investigative Support	14,799	(9)
National Policing	1,224	58
Corporate and Democratic Core	1,521	0
Non-distributed costs	690	0
Net Cost of Police Services	**297,961**	**(344)**

Notes to the Core Financial Statements

[39] Impact of the Adoption of International Financial Reporting Standards (IFRS) continued

Notes

2. Government Grants

Under the Code, grants and contributions for capital schemes are recognised as income when they become receivable. Previously, grants were held in a Government Grants Deferred account and recognised as income over the life of the assets which they were used to fund.

As a consequence of adopting the accounting policy required by the Code, the financial statements have been amended as follows:

The balance on the Government Grants Deferred Account at 31 March 2009 has been transferred to the Capital Adjustment Account in the opening 1 April 2009 Balance Sheet.

Portions of government grants deferred were previously recognised as income in 2009/10; these have been removed from the Comprehensive Income and Expenditure Statement as well as comparative figures adjusted for amounts recognised in 2008/09.

A grant was received and fully spent in 2009/10. Following the change in accounting policy, the grant has been recognised in full. Under the old policy any grant unspent at the year end would not be recognised as income but shown in the Grants Unapplied Account within the liabilities section of the Balance Sheet. Under the new policy unspent grant will be recognised as income in full, and transferred to the Capital Grants Unapplied Account within the Reserves section of the Balance Sheet.

Capital grant income is now all recognised under the "Taxation and non-specific grant income" line in the Comprehensive Income and Expenditure Statement, even where the grant is service-specific. Under the prior policy, grant income was credited to the cost of services where in-year depreciation charges on assets acquired has been charged.

This has resulted in the following changes being made to the 2009/10 financial statements:

Opening 1 April 2009 Balance Sheet	**2009/10 Statements £'000**	**Adjustments Made £'000**
Government Grants Deferred Account (Current Liability)	(7,856)	7,856
Capital Adjustment Account (Unusable Reserve)	(106,669)	(7,856)

31 March 2010 Balance Sheet	**2009/10 Statements £'000**	**Adjustments Made £'000**
Government Grants Deferred Account (Current Liability)	(8,366)	8,366
Capital Adjustment Account (Unusable Reserve)	(110,339)	(8,366)

2009/10 Comprehensive Income and Expenditure Statement

	2009/10 Statements £'000	**Adjustments Made £'000**
Net Cost of Police Services		
Local Policing	146,842	1,388
Dealing with the Public	28,435	338
Criminal Justice Arrangements	27,371	284
Road Policing	16,297	145
Specialist Operations	16,060	122
Intelligence	16,907	155
Specialist Investigation	27,815	228
Investigative Support	14,799	85
National Policing	1,224	143
Corporate & Democratic Core	1,521	0
Non-Distributed Costs	690	0
	297,961	**2,888**
Taxation and non-specific grant income	(311,815)	(3,398)

There is no change to the General Fund Balance, as capital grant income is transferred out of the General Fund under both the previous and the current accounting policies.

[39] Impact of the Adoption of International Financial Reporting Standards (IFRS) continued

Notes

2. Government Grants continued

The change in policy has resulted in the following changes being made to the comparatives previously reported in the 2009/10 financial statements:

2009/10 Comprehensive Income and Expenditure Statement Comparatives

	2009/10 Statements Net Expenditure 2008/09 £'000	Adjustments Made £'000
Net Cost of Police Services		
Local Policing	161,650	1,406
Dealing with the Public	33,167	327
Criminal Justice Arrangements	31,571	296
Road Policing	18,835	156
Specialist Operations	18,347	117
Intelligence	16,787	138
Specialist Investigation	29,358	215
Investigative Support	16,169	84
National Policing	1,123	93
Corporate & Democratic Core	1,312	0
Non-Distributed Costs	2,590	0
	330,909	**2,832**
Taxation and non-specific grant income	(301,427)	(2,000)

There is no change to the General Fund Balance, as capital grant income is transferred out of the General Fund under both the previous and the current accounting policies.

Notes to the Core Financial Statements

[39] Impact of the Adoption of International Financial Reporting Standards (IFRS) continued

Notes

3. Accounting for Tangible Fixed Assets

Under the IFRS Code, it is implicit that a revaluation gain should be used to reverse a revaluation loss. The reversal involves crediting the Comprehensive Income and Expenditure Statement to which the original loss was charged.Under the previous regulations the reversal of a revaluation loss was conditional on the events that resulted in the decrease and the subsequent gain, being linked.Without this link the revaluation gain would have been credited to the Revaluation Reserve. Impairment losses due to the general fall in prices are reclassified as revaluation losses under the Code.

As a consequence of adopting the accounting policy required by the Code, the financial statements have been amended as follows:

Under transition to the IFRS Code a 2008/09 £27.5m impairment to land values, is reclassified as a revaluation loss, to be noted against the historic cost records, but not requiring any other amendment to the financial statements. However, a £0.711m revaluation gain relating to some of these assets in 2009/10 is treated differently under the Code. Under the prior regulations the £0.711m revaluation gain was credited to the revaluation reserve. Under the Code this adjustment is reversed and the revaluation gain is used to partially reverse the original revaluation loss ("Impairment") charged to the Comprehensive Income and Expenditure Statement.

This has resulted in the following changes being made to the 2009/10 financial statements:

31 March 2010 Balance Sheet	**2009/10 Statements**	**Adjustments Made**
Unusable Reserves [extract]	**£'000**	**£'000**
Capital Adjustment Account	110,339	711
Revaluation Reserve	2,639	(711)

2009/10 Comprehensive Income and Expenditure Statement

	2009/10 Statements	**Adjustments Made**
	£'000	**£'000**
Local Policing	146,842	(711)
Dealing with the Public	28,435	0
Criminal Justice Arrangements	27,371	0
Road Policing	16,297	0
Specialist Operations	16,060	0
Intelligence	16,907	0
Specialist Investigation	27,815	0
Investigative Support	14,799	0
National Policing	1,224	0
Corporate & Democratic Core	1,521	0
Non-Distributed Costs	690	0
Net Cost of Police Services	**297,961**	**(711)**
Other Comprehensive (Income) and Expenditure [extract]		
(Surplus) or deficit on revaluation of property, plant and equipment assets	(2,431)	711

[39] Impact of the Adoption of International Financial Reporting Standards (IFRS) continued

Notes

4. Cash and Cash Equivalents

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

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

Prior to the adoption of the IFRS Code, the concept of Cash Equivalents was not used. Adoption of the Code required the Authority to classify Cash and Cash equivalents in its opening IFRS Balance Sheet (1 April 2009).Reclassifying items to Cash Equivalents is a change of accounting policy, requiring restatement of comparative balance sheet figures in the 2009/10 Financial Statements.

In following the new accounting policy, the impact has been to reclassify short-term investments held in demand deposits, instant access bank accounts and overdraft accounts, under the heading of Cash and Cash Equivalents .

This has resulted in the following changes being made to the 2009/10 financial statements:

Opening 1 April 2009 Balance Sheet	**2009/10 Statements £'000**	**Adjustments Made £'000**
Current Assets [extract]		
Short Term Investments	16,308	(13,808)
Cash & Cash Equivalents	953	13,590
Current Liabilities [extract]		
Bank Overdraft	(218)	218

31 March 2010 Balance Sheet	**2009/10 Statements £'000**	**Adjustments Made £'000**
Current Assets [extract]		
Short Term Investments	15,103	(12,603)
Cash & Cash Equivalents	4,572	10,800
Current Liabilities [extract]		
Bank Overdraft	(1,803)	1,803

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.

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.

Collection Fund Adjustment Account
A Balance Sheet account which records the difference between the income included in the Income and Expenditure Account and the amount required by regulation to be credited to the General Fund. With effect from 2009/10 the Authority has included its proportionate share of Council Tax debtors and creditors due to the billing authority, which is deemed to be acting as an agent of the major preceptors, including the Police Authority.

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 in reserves statement.

Financial Instruments Adjustment Account
A Balance Sheet account which records the adjustments made to the value of assets and liabilities as a result of showing these at fair value or amortised cost on initial recognition and the subsequent accounting entries required to write the value of these assets and liabilities back up to the actual sum due or payable at the end of its expected life.

Glossary

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.

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
Prior to the implementation of the International Financial Reporting Standards, this applied to the amount of money given to the Authority to spend on assets that had a lasting value, for example vehicles, land and buildings. The amount was reduced each year as the value of the asset reduced due to depreciation. IFRS now requires that the capital grant is recognised in the Comprehensive Income and Expenditure Account when any conditions are met. It is transferred to the Capital Adjustment Account when the grant is applied,

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

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

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

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.

Glossary

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).