Hampshire Police Authority

Statement of Accounts 2011/12

Contents

Introduction

The Statement of Accounts sets out the overall financial position of Hampshire Police Authority for the year ending 31 March 2012. 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 2011/12. This foreword provides a brief explanation and overview of the Authority's financial performance and activities during 2011/12.

The Role of the Police Authority

Hampshire Police Authority is the independent body responsible for overseeing the work of Hampshire Constabulary and ensuring effective and efficient policing in Hampshire and the Isle of Wight. The 17 members of the Authority consist of nine councillors from local authorities and eight independent members appointed from the public, who represent the views of the people of Hampshire, the Isle of Wight, Portsmouth and Southampton. The vision of the Authority is:

- to ensure that our communities receive an effective, efficient and high-quality policing service which has their full support, confidence and co-operation so that the two counties are places that feel safe and are safe.

In policing terms Hampshire Constabulary is the second largest non-metropolitan force in England and Wales. The combined population of Hampshire and the Isle of Wight is approximately 1.9m. The policing priorities are set out in the 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 2011/12 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.

Independent Auditor's Report – Page 14
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.

Annual Governance Statement – Page 17
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.

Movement in Reserves Statement – Page 33
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 – i.e. 'unusable' - reserves.

Comprehensive Income and Expenditure Statement – Page 34
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 Service Reporting Code of Practice.

Balance Sheet - Page 36
The Balance Sheet, as at 31 March 2012, 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 37
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.

Notes to the Accounts – Page 38
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 Service Reporting Code of Practice 2011/12, and are supported by International Financial Reporting Standards (IFRS). These are applied so that the accounts are consistent one year with another.

Police Pension Fund Account – Page 120
This shows the inflows and outflows on Police Officer pensions.

Relationship between Accounting Statements
The different accounting statements are linked in several important ways. The Movement in Reserves Statement shows the movement in the year on the different reserves held by the 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 2011/12 is that the Authority is required to change its accounting policy for heritage assets and to measure them at valuation. Previously, heritage assets were either recognised as community assets (at cost) in the property, plant and equipment classification on the Balance Sheet or were not recognised in that accounting statement where it was not possible to obtain cost information on the assets.

In the absence of an International Financial Reporting Standard (IFRS), the Authority has adopted FRS 30 Heritage Assets and IPSAS 31 Intangible Assets, both of which provide guidance on reporting requirements.

Review of the year

Operational Performance

Hampshire Constabulary achieved a fifth consecutive annual reduction in overall crime across Hampshire and the Isle of Wight. Between April 2011 and March 2012 there were 129,327 offences, a drop of 4,135 offences or 3% compared with the previous year. In addition to less crime we have seen solved crime rates increase to 31%, from 28% last year and Hampshire Constabulary also achieved and exceeded all targets set for it by the Police Authority. A further breakdown of the reductions in crime in some of the key areas is below:

	2010/11	2011/12	Percentage Reduction
House Burglaries	5,201	4,995	4.0%
Violent Crime	14,118	13,465	4.6%
Criminal Damage	24,473	22,325	8.8%
Robberies	1,057	951	10.0%
Vehicle Crime	11,178	9,697	13.2%

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

Financial Overview (including economic climate)

In February 2011, the Police Authority approved funding for a net revenue budget for 2011/12 of £314.096m, which represented an increase in net budget compared to 2010/11 of only £0.347m or 0.11% This resulted in a council tax precept of £146.25 per annum for a Band D property, unchanged from the previous year. The budget was developed taking consideration of the Policing Priorities for 2011/12, Delivery Plans, the Force Control Strategy and the Strategic Risk Register. Consideration was also given to collaboration and the use of partnerships to deliver services.

For 2011/12 the Government made a specific grant available that could be claimed by local authorities, including police authorities, if council tax precept levels were frozen. The amount available equated to 2.5% of the total council tax precept receivable for each authority. Hampshire Police Authority took the decision to freeze the council tax for 2011/12 and received a grant of £2.520m for four years, 2011/12 to 2014/15.

During 2011/12 the austerity measures announced by the Coalition Government in December 2010 were implemented in order to bring down the budget deficit and Government borrowing and rebalance the economy and public sector finances. The total funding to the police would reduce by 20 per cent in real terms over the following four years. This meant the Government general grant paid to Hampshire Police Authority was reduced by 5.1 % for 2011/12 and would be reduced by a further 6.7 % for 2012/13 as part of the four year cut. The specific grants received from the Government for Neighbourhood Policing and Counter Terrorism meant that the reduction in total Government funding was 3.8% for 2011/12. For Hampshire Police Authority this meant that the grant had been reduced by £9m for the 2011/12 financial year, however due to inflation and other budget pressures it meant that £19.981m of savings needed to be found to balance the budget.

In light of the significant savings required for 2011/12 onwards, Hampshire Constabulary created a Force Change Team which supported 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 aim was to introduce transformational changes from 2011/12 that release significant efficiency savings to assist with meeting the financial challenges ahead.

The Bank of England maintained the base rate of interest at 0.5%, which has been held since March 2009. This led to the Authority being able to borrow to finance its capital programme at very low rates. 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, have previously reduced annually since 2007/08 but increased slightly during 2011/12. In the end, external borrowing was £10m, and interest on investments increased to an average yield of 1.4%.

At the beginning of the 2011/12 there were tentative signs that the UK was emerging from recession with the worst of the financial crisis behind it. Recovery in growth during 2011/12 was expected to be slow as the austerity measures were implemented. Inflation measured by the Consumer Price Index (CPI) remained above 3%. Unemployment was at a 16-year high at 2.5 million and was expected to rise further as the public and private sector contracted.

Efficiency Gains

The Constabulary set up a Force Change Programme in November 2010 which is primarily aimed at delivering transformation change that puts the Authority on a sustainable financial footing, given the reduction in central funding. As part of the Programme 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. The implementation of this Programme has taken place throughout 2011/12 with the majority of reviews being complete by 31st March 2012. The Change Programme aims to save at least £55m from base budgets for the spending review period 2011/15. At present it has identified total savings of £48m, including the budget reduction of £16m in 2011/12.

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 2011/12 the Police Authority took new loans of £10m from the Public Works Loan Board (PWLB) at an average interest rate of 2.42%, in order to finance part of its Capital Programme or past expenditure such as the new police station for Southampton which became operational in 2010/11. As a result, at the year end the Authority had a total of £39.593m PWLB loans at actual interest rates ranging between 2.19% and 8.5% and a weighted average overall rate of 4.37%, with the average outstanding term remaining of 23 years. The total outstanding long-term debt stood at £41.079m at the Balance Sheet date, of which £1.215m of principal is repayable in 2012/13 and is classified as a current liability in the accounts.

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 as outlined in the Investment Strategy for 2011/12. The Authority's average cash investment balance was £53.9m during 2011/12, and at 31 March 2012 the investment holding stood at £51.29m. Interest earned was £761,000, leading to an average yield of 1.4%.

Pensions

The Authority's net pension liability has increased by £332.5m from £2,024.4m at 31 March 2011 to £2,356.9m at 31 March 2012. The Authority's assessed share of the actual return on the assets of the Local Government Superannuation scheme showed a gain of £6.84m while the assessed present value of the Authority's liabilities on all pension schemes increased by £348.58m.

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 2012 the general reserve stood at £11.3m before any additional transfers to earmarked reserves as approved by the Authority in June 2012. This general reserve balance represented a decrease of £17.5m when compared to 31 March 2011. However, a number of new earmarked reserves were set up in the year, including a Transformation Reserve which will provide resources towards the cost of changing the Force structures, systems and processes to ensure high quality service delivery and performance in an era of reduced budgets. This reserve - and a number of other reserves - received contributions from the Force underspend and the general reserve during 2011/12. Consequently, the balance on the Transformation Reserve stood at £23.64m at 31 March 2012. Total usable reserves were £50.08m at 31 March 2012.

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

Material Assets Acquired or Liabilities Incurred

The Authority borrowed £10m from the Public Works Loan Board in order to finance the capital programme and the increase in the underlying need to borrow which resulted from the delivery of a new police station for Southampton.

Unusual Charges or Credits within the accounts

The Police Pensions Schemes and other non-scheme liabilities were revalued at 31 March 2011. This revaluation is done on a triennial basis so that there is an accurate calculation of the employer's liabilities which can be used as a basis for the IAS19 figures used in the financial accounts. The revaluation takes up to date information on the membership of pensions schemes and also makes assumptions about such factors as future discount rates, inflation and longevity.

The 2011 revaluation noted that the liabilities of the employer have increased by £406.3m since 31 March 2008. The main factors for this increase were the interest on liabilities, changes in assumptions and an allowance for the future payment of injury awards to a proportion of current active members. However, these increases have been mitigated in part by the benefits paid out and the change from increasing pensions in payment by reference to changes in the CPI (as opposed to the RPI) inflation index, both of which have reduced the liabilities.

The impact of the revaluation and changed assumptions – coupled with similarly changed assumptions in the Local Government Superannuation Scheme - is that in 2011/12 a charge is made to the Comprehensive Income and Expenditure Statement of £184.5m in respect of actuarial losses on pension assets and liabilities.

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 £551,000 (£907,000 in 2010/11) has been created for staff who left on the 31 March 2012 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 2012 was £4.423m (£5.279m as at 31 March 2011).

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

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 continue to work with police authorities and constabularies within the South East area on a number of projects, including the South East Air Operations Unit with Surrey and Sussex, the South East Region Witness Protection, Covert Policing and Technical Support Units with Thames Valley, Surrey and Sussex and the South East Region Serious and Organised Crime Directorate with all five South East Forces. Hampshire Constabulary is also collaborating with Hampshire County Council on a joint laboratory facility.

Hampshire Constabulary and Thames Valley Police have also created a bilateral partnership. Hampshire Police Authority has entered into a Section 23 agreement with Thames Valley in order to create a joint Information & Communications Technology (ICT) department, with the Head of Department having direct responsibility for the provision of ICT for both Forces. A Joint Operation Unit has also been created using another Section 23 agreement with Thames Valley Police Authority allowing strategic operations, including Gold Support, Force Policies and Procedures, emergency planning and planning for strategic events, to be done in collaboration between the two forces across departmental and geographical boundaries.

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 – IAS19) as well as depreciation and losses on disposal or impairment of fixed assets, and other adjustments.

This is a different basis to the way the management accounts are produced. For the purpose of setting the council tax each year certain 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 reported to the Police Authority's Finance Committee throughout the year in order for the Authority to monitor our budget, as well as set the precept for the following year. The management accounts provide for the cost of financing capital expenditure, revenue contributions and actual in year employer's contributions to the pension fund instead of the charges for the pension scheme and depreciation.

As the accounts are prepared in accordance with the requirement of IAS 19 the cost of retirement benefits are recognised within the Comprehensive Income and Expenditure account and the liability relating to pensions schemes is included within the long term liabilities on the Balance Sheet. These liabilities total £2,356.9m at 31 March 2012 which has resulted in an overall negative balance of £2,193.1m. However finance is only required for the police pensions when the amounts are actually paid.

Revenue Expenditure

In 2011/12, the reported outturn position, subject to audit, was a spend £307.5m against a net expenditure budget of £314.1m on policing services for the people of Hampshire and the Isle of Wight. The Authority had budgeted for a net contribution from reserves of £4.2m at the beginning of the financial year in order to balance the budget. Instead, the Authority was able to make contributions to reserves that resulted in an increase to usable net reserves of £12.8m as shown in the Movement in Reserves (£14.0m increase in 2010/11). This includes the general net underspend of £6.6m.

The Finance Committee meeting in June 2012 approved £2.4m of the net underspend to be carried forward to fund expenditure in 2012/13, much of which was required to meet commitments already entered into or ongoing at the year end. The remaining underspend of £4.2m was transferred to the Transformation Reserve to contribute towards the cost of change.

Summary Income and Expenditure

The subjective analysis table below shows that there was a deficit of £141.3m on the provision of services for 2011/12 in the statutory financial statements (£155.2m surplus in 2010/11). 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. The principal differences between the statutory and the management accounts (i.e. the revenue budget) in 2011/12 are in respect of deprecation of assets, the actuarially-assessed charges for police and staff pensions which are earned in the year, an adjustment in respect of capital grants received from the Government and the balances on the collection fund accounts held by the billing authorities.

The table below contains a subjective analysis of the income and expenditure incurred by the 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.

The subjective analysis shows net contributions to reserves of £7.4m. This is before adding the general underspend of £6.6m. The total net contributions to reserves of £14.0m is greater than the net increase in usable reserves of £12.8m shown in the Movement in Reserves Statement because the net increase in usable reserves is reduced by £1.2m which has been applied from the Capital (Revenue Contributions) Reserve to unusable reserves in order to meet the cost of capital expenditure.

Subjective Analysis Table

	Revenue Budget 2011/12 Objective Analysis			Income and Expenditure Account Analysis	
	Constabulary	Police Authority	Total	Reconciling items to the Financial Accounts	Total
	£000	£000	£000	£000	£000
Expenditure:					
Employees	269,692	0	269,692	46,116	315,808
Premises	9,837	0	9,837	999	10,836
Transport	4,858	0	4,858	8	4,866
Travel and subsistence	3,019	0	3,019	410	3,429
IT and communications	4,283	0	4,283	656	4,939
Supplies and services	29,886	0	29,886	1,155	31,041
National levies	1,057	0	1,057	(1,057)	0
Grants paid	1,146	0	1,146	(20)	1,126
Capital financing (net)	3,214	0	3,214	(3,214)	0
Police Authority	0	1,464	1,464	0	1,464
Depreciation, amortisation and impairment	0	0	0	12,974	12,974
Pensions interest cost and expected return on pensions assets	0	0	0	109,960	109,960
Interest payments	0	0	0	1,531	1,531
Precepts and levies	0	0	0	1,057	1,057
Gain or loss on disposal of fixed assets	0	0	0	(263)	(263)
Total expenditure	326,992	1,464	328,456	170,312	498,768
Income:					
Service income	(13,581)	(10)	(13,591)	(10,330)	(23,921)
Additional specific grants	(14,760)	0	(14,760)	(1,131)	(15,891)
Interest and investment income	0	0	0	(761)	(761)
Income and council tax	0	0	0	(101,644)	(101,644)
Government grants and contributions	0	0	0	(215,291)	(215,291)
Total income	(28,341)	(10)	(28,351)	(329,157)	(357,508)
	7,445	(60)	7,385	(7,385)	0
Contributions to/(from) reserves					
Net expenditure / (income)	306,096	1,394	307,490	(166,230)	141,260

Capital Expenditure

Capital expenditure is incurred on 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 £8.323m for 2011/12 in February 2011. This was revised to £20.956m during the course of the year to include commitments carried forward and slippage from 2010/11, some of the initial costs of the Estate Development Programme and the first part of the replacement of the Marine Unit fleet.

Total spend against the plan was £5.368m due in the main to a delay in incurring significant costs against the Estate Development Programme (£10.922m underspend carried forward to 2012/13) and an underspend of £2.3m on the vehicle replacement programme. The actual expenditure was funded mainly from general government grants and an additional capital grant from the Home Office for the replacement of the marine vessels.

As a consequence of the slippage on expenditure and the application of grant, capital receipts and revenue contributions to fund the actual expenditure, there was a reduction in the underlying need to borrow to support the capital expenditure of £1.683m as a result of the charge to the revenue budget in respect of the statutory requirement for a minimum revenue provision (MRP) for the repayment of the principal on debt incurred.

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

2010/11 £m		2011/12 £m
	Expenditure:	
16.8	Land & Buildings	1.6
2.1	Vehicles (Including Boats) and Plant	2.2
2.8	IT & Operational Equipment	1.6
21.7	**Total**	**5.4**
	Funded by:	
(3.6)	Government Grant	(3.0)
(1.2)	Capital Receipts	(1.2)
(3.5)	Revenue Contributions	(1.2)
(13.4)	Borrowing (incl. Internal)	0.0
(21.7)	**Total**	**(5.4)**

Future Prospects

Financial

Hampshire Police Authority approved a net revenue budget for 2012/13 of £305.612m, which represented a decrease in net budget compared to 2011/12 of £8.484m. In response to the Government's expectations and financial incentives, the Police Authority agreed to freeze the council tax precept for a second year allowing the council tax rate for band D to remain at £146.25. By freezing the council tax precept the Police Authority received a one-off specific grant allocation from the Government of £3.043m, equivalent to 3% of council tax precept.

In December 2010 the Coalition Government announced, under the Comprehensive Spending Review, that total funding to the police will reduce by 20 per cent in real terms over the four year period 2011/12 to 2014/15. For Hampshire Police Authority this will mean a further reduction of 6.7% for 2012/13. The specific grants we receive from the Government for Neighbourhood Policing and Counter Terrorism mean that the reduction in total Government funding will be 6.3%. This has resulted in a reduction of £14m; however inflation and other budget pressures mean that £19.925m of savings will need to be found to balance the budget. The Force Change Programme aims to save at least £55m from base budgets for the spending review period 2011/15. At present it has identified total savings of £48m for the Comprehensive Spending Review period.

The Medium Term Financial Strategy reported to the Police Authority in June that there have been strong indications from Government that the next Comprehensive Spending Review period from 2015/16 onwards could be just as tough as the last, particularly the first two years of the four year settlement. The economy is currently experiencing a "double dip" recession and growth rates are lower than forecast which concurs with the Government's message regarding a need for further reductions going forward. A reduction in Government department spending of 2.8% is also anticipated between 2014/15 and 2016/17. A 2.8% reduction in general grant would represent a further £6m reduction in funding. The funding gap would also widen after 2014/15 due to the ending of some mitigating factors such as the 2 year freeze on increments, inflation cap on pay and the end of the £2.5m grant for freezing council tax in 2011/12.

Operational

From April 2012 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 together 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.

Police and Crime Commissioner

Under the Police Reform and Social Responsibility Act 2011 the Government will be replacing police authorities with directly elected police and crime commissioners (PCCs) from November 2012. A Police and Crime Panel will also be created under the Act which will hold the PCC to account.

The core functions of the PCC for Hampshire and the Isle of Wight will be to secure the maintenance of the police force for the area, and secure that the police force is efficient and effective. Other key functions will include

- Holding the Chief Constable to account
- Appointment / suspension / removal of the Chief Constable
- Setting the priorities for the Force and producing the Police and Crime Plan
- Attending the Police and Crime and Panel
- Setting of the annual budget and Council Tax precept
- Direct engagement with the public

- Publishing an annual report stating how priorities and targets have been met, and other information as specified by the Secretary of State to enable greater public awareness of police and crime performance in the area
- Collaborating for an efficient and effective Criminal Justice System for Hampshire and the Isle of Wight with partners such as the Youth Offending Team, Crown Prosecution Service and Prison Service etc

Although the PCC is ultimately accountable to the electorate via the ballot box, there will be a Police and Crime Panel (PCP) responsible for scrutinising and supporting the work of the PCC. The Panel, however, can not hold Hampshire Constabulary to account.

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

The PCP will have powers and responsibilities including:

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

The first election for a Police and Crime Commissioner for Hampshire will take place on Thursday 15 November 2012. The elected PCC will then take office on 22 November. The PCC for each force area will be elected for a term of three and a half years.

The Police Authority is committed to leaving a lasting and positive legacy on which the elected Police and Crime Commissioner can build. Implicit within this is that we will handover the delivery of policing services as a going concern. The Authority has continued to be prudent in its financial planning, careful budgeting, and building reserves to cover a variety of areas, including the transformation of policing in line with the demands placed on it by the Comprehensive Spending Review.

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 Chair of the Governance Committee's Statement

I certify that the Statement of Accounts for 2011/12 was considered and approved by the Hampshire Police Authority's Governance Committee on 21 September 2012.

Signed: *Judy Venables*

Date: *26th September 2012*

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 2012 and its income and expenditure for the year then ended.

Signed: *Carolyn Williamson*

Date: *26th September 2012*

Opinion on the Authority and Pension Fund accounting statements

I have audited the financial statements and the police pension fund financial statements of Hampshire Police Authority for the year ended 31 March 2012 under the Audit Commission Act 1998. The financial 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 financial statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

This report is made solely to the members of Hampshire Police Authority in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 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 Statement of Accounts, which includes the financial statements and the police pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board’s Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the financial statements sufficient to give reasonable assurance that the financial statements are free from material misstatement, whether caused by fraud or error. This includes an assessment of: whether the accounting policies are appropriate to the Authority and Pension Fund’s circumstances and have been consistently applied and adequately disclosed; the reasonableness of significant accounting estimates made by the Treasurer; and the overall presentation of the financial statements. In addition, I read all the financial and non-financial information in the explanatory foreword to identify material inconsistencies with the audited financial statements. If I become aware of any apparent material misstatements or inconsistencies I consider the implications for my report.

Opinion on financial statements

In my opinion the financial statements:

- give a true and fair view of the financial position of Hampshire Police Authority as at 31 March 2012 and of its expenditure and income 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 2012 and the amount and disposition of the fund’s assets

and liabilities as at 31 March 2012, other than liabilities to pay pensions and other benefits after the end of the scheme year; and

- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

Opinion on other matters

In my opinion, the information given in the explanatory foreword for the financial year for which the financial statements are prepared is consistent with the financial statements.

Matters on which I report by exception

I report to you if:

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

I have nothing to report in these respects

Other matters on which I am required to conclude

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. I am also required by the Audit Commission's Code of Audit Practice to report any matters that prevent me being satisfied that the audited body has put in place such arrangements.

I have undertaken my audit in accordance with the Code of Audit Practice and, having regard to the guidance issued by the Audit Commission in October 2011, I have considered the results of the following:

- my review of the annual governance statement;
- the work of other relevant regulatory bodies or inspectorates, to the extent the results of the work have an impact on my responsibilities [include if relevant]; and
- my locally determined risk-based work on [insert description as appropriate].

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

Delay in certification of completion of the audit

I cannot formally conclude the audit and issue an audit certificate until I have completed the work necessary to issue my assurance statement in respect of the authority's Whole of Government Accounts consolidation pack. I am satisfied that this work does not have a material effect on the financial statements or on my value for money conclusion.

[*Signature*]

Kate Handy,

District Auditor
Audit Commission

Collins House
Bishopstoke Road
Eastleigh
Hampshire
SO50 6AD

27 September 2012

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
- public money is used economically, efficiently and effectively
- public money is safeguarded and properly accounted for
- it continuously improves its own efficiency and effectiveness
- it has proper arrangements for the governance of its affairs
- it can complete the functions it is responsible for
- internal controls are maintained through the year
- arrangements are in place for the management of risk

1.2 Across Hampshire and the Isle of Wight during 2011/12:

- crime fell for the 5th consecutive year with 4,135 fewer crimes than in 2010/11
- the solved crime rate (detections and community resolutions) improved from 28% to 31%
- the Authority continued to be in the top quartile for Value For Money

1.3 The Authority has approved and adopted a Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework: *Delivering Good Governance in Local Government*. A copy is on its website at www.hampshirepoliceauthority.org or can be obtained from Hampshire Police Authority, Westgate Chambers, Staple Gardens, Winchester SO23 8AW.

1.4 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 public. 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 2012 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 objectives take into account objectives set nationally by the Home Office and inform objectives set locally at Constabulary and Local Policing Area/Department level. The achievement of Authority objectives is monitored through the relevant Authority committees. The achievement of Constabulary objectives is monitored by the Chief Officers Group, Senior Leaders Group, the relevant Constabulary Boards and Committees. Police Authority Members also act as Link Members for a particular policy portfolio as designated by the Authority at their Annual meeting in June. They act as the Authority's "champion" for that area as well as supporting effective performance monitoring and scrutiny, ensuring issues of concern are reported to the relevant Committee Chair. In addition Members steer Hampshire Constabulary through their various project boards such as the Force Change Board, Estates Development Programme Board and the Hampshire and Thames Valley Policing Collaboration Governance Board.

3.2 The Authority has various plans and policies in place including the annual Business Plan for the Authority which supports the Authority's three year Strategic Plan. The Strategic Plan sets out the Authority's strategic priorities and the annual Business Plan sets out actions to be taken to progress those priorities in the forthcoming year. All actions have a lead stakeholder and progress is monitored by the relevant committee, as shown in the Business Plan. In addition there are formal terms of reference agreed annually for each committee, codes of conduct, Financial Regulations and Standing Orders to enhance the control framework. Members, Police Authority staff, police officers and police staff are issued with a code of conduct on induction. These define the expected standards of behaviour. Any potential issues identified whereby standards drop below the expected level are dealt with by the Standards Committee for Members, by their employer Hampshire County Council for Police Authority staff or by Professional Standards Department for police officers and police staff. Financial Regulations and Contract Standing Orders are agreed by the Finance Committee. These will be reviewed as part of the arrangements for the incoming Police and Crime Commissioner. The scheme of delegation is updated by the Authority's office each time a delegated authority is agreed.

3.3 The Constabulary has detailed policies and procedures which are the responsibility of the Force Policies and Procedures Manager. There is a standard format for all Constabulary policies and procedures and all are published on the Constabulary intranet. Each individual policy and procedure has a delegated owner who must state how they are to be monitored and reviewed to ensure that they remain up to date, They are also responsible for consulting with stakeholders where appropriate. There is currently a review to reduce the number of policies and procedures in order to reduce bureaucracy.

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, Corporate Finance Compliance Unit, 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. The Standards Committee reviewed and approved the Raising Concerns at Work policy at their meeting on 30 March 2012. A confidential reporting (whistleblowing) facility is available for employees and the public. The investigation of complaints from the public is managed by Professional Standards Department except for complaints about chief officers which are dealt with by the Authority and complaints about Members which are managed by the Standards Committee.

3.5 The Authority and Constabulary have established Strategic Risk Registers through which the management of identified significant risks is monitored. 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. The Authority and Constabulary have each arranged Risk Management workshops which were attended by employees and, in the case of the Police Authority, by various key Members. Whilst operational risk management is both dynamic and established, it is acknowledged that further work is required to improve organisational (i.e. business) risk management such as testing of business continuity plans and risk management training to embed risk management still further within the organisation. A review of services undertaken as part of the Authority's response to the budget reductions notified over the next four years, led to the creation of a Management of Risk unit. This unit has brought together for the first time the functions of risk management, insurance and health and safety under the guidance of a new Strategic Risk Manager. 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.

3.6 The Police Authority's Strategic Risk Register has been in place since February 2010 when it was developed in line with best practice guidance. The Strategic Risk Register is presented quarterly to the Governance Committee in order for it to be reviewed and overseen. It is then presented bi-annually to Committees for active consideration of whether the risks associated with the Committee's portfolio are still relevant, appropriately scored and up to date with regard to the current mitigating actions and log of activity. It is also presented annually to the full Authority in February detailing the activity in the last 12 months. Risk owners are sent a risk scoring sheet before the quarterly Governance meetings in order to re-score their risk(s) and the reasoning behind their re-score. New risks are identified by Members of the Authority, Chief Executive, Authority Officers or report writers as part of day to day business. The risk is then presented for approval at the next meeting of the Governance Committee.

3.7 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 Police Authority Chief Executive, Treasurer and Chair of Governance Committee have quarterly informal Audit Liaison Meetings with Internal Audit from Hampshire County Council to enhance the management and targeting of this function. The Governance Committee reviews the Strategic Risk 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.

3.8 The Police Authority Treasurer has overall responsibility for the administration of the 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. In January 2012 Members of the Authority attended a Treasury Management workshop which provided appropriate training on their roles and responsibilities in regards to approving the Treasury Management Strategy as part of the budget setting process. The Director of Finance and Resources is responsible to the Chief Constable for financial activities undertaken within the Constabulary. The Constabulary's Senior Leaders Group also receives monthly financial management reports for information, comment and action.

3.9 All Members of the Authority and staff of the Authority and Constabulary have Professional Development Reviews (PDRs) to identify individual training needs. In addition, group training events are arranged as required. In 2011/12, training events were arranged for Members and senior officers on PDRs, Police Reform & Social Responsibility Act, Risk Management, Treasury Management and Death in Custody.

3.10 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 Constabulary performance in the context of the annual Policing Plan. Financial monitoring, medium-term financial planning and monitoring of reserves are 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.

3.11 The Authority has a Policy and Engagement Manager and the Constabulary has a Communications Department who co-ordinate clear channels of communication with all sections of the community. Contact is made at all levels and through a range of formats such as attendance at meetings, publications, surveys, social media and websites.

3.12 The Authority uses 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 (2010)* 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. All references to good governance are applied equally to partnership arrangements.

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 Governance Committee, Chief Executive, Treasurer and senior managers within the Constabulary who have responsibility for the development and maintenance of the governance environment. The reviews are also informed by comments made by the external auditors in the Annual Audit Letter and other review agencies and inspectorates and other reports.

4.2 In addition to reviewing progress against 2010/11's areas of concern and the opinions and findings of internal and external audit, the Constabulary 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 and the Annual Governance Statement produced is reviewed by the Chair of Governance Committee, Chief Executive, Treasurer and chief officers within the Constabulary.

4.3 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. Further information has been provided to Members in 2011/12 in a variety of ways including confidential briefing, informal briefing and through 'link member' arrangements whereby an appointed Member takes a more detailed interest in a particular issue. The Authority has taken an active role in providing scrutiny of the Force Change Programme. 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.

4.4 In response to CIPFA's *Statement of the Role of the Chief Financial Officer in Local Government*, the application note produced has been incorporated into the self-assessment matrix. This identifies how compliance can be demonstrated to the core activities and behaviours that CIPFA states belong to the role of the Chief Financial Officer (CFO). 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 and Constabulary Finance and Resources Board. The review of effectiveness undertaken identified via internal audit one concern of note regarding the provision of police office pension scheme administration. The remedial action has resulted in the ending of the contract with the previous supplier and further detailed audit testing which has identified errors in pensions and lump sums paid. Each of these cases is being rectified. The overall impact is not material or significant.

5 ACTIVITY OVERVIEW 2011/12

Change Programme including Collaboration

5.1 The Comprehensive Spending Review in the Autumn of 2010 was a landmark event in the Police Authority's history in that it introduced a series of budget reductions over the medium-term which would put significant pressure on the Authority's ability to deliver its services. The Authority had to some extent anticipated the potential for budget reductions and already had plans in place.

5.2 A Force Change Programme commenced in November 2010 and all services were subjected to a comprehensive review within the Chief Constable's overall objective of the Constabulary becoming a top quartile performer whilst being in the lowest quartile for spending when compared to other constabularies in all key areas of service delivery. The work is overseen by the Force Change Board which is chaired by the Deputy Chief Constable and includes two members of the Police Authority: the Chair of the Authority and a member of the Finance Committee. The proposals within the Change Programme were communicated to staff and the public following the Chief Constable's Senior Leaders' Conference on 29 March 2011. The changes are explained below.

5.3 The implementation of this Programme has taken place throughout 2011 and 2012 with the majority of reviews being complete by 31st March 2012. The major changes are as follows:

Local Policing and Crime Investigation

- Six territorial Operational Command Units have been replaced by three policing Areas – Northern, Eastern and Western – containing 11 Districts.

- District and Area CID teams have been created with standard role profiles and a clear performance and accountability structure.

Public Interface
- The Force Control Room has been rearranged to reflect the 3 Areas and creation of Joint Operations Unit, including the creation of a new Community Focus Desk and a review of grade 3 scheduling.
- The Constabulary undertook widespread public consultation as part of a review of the front office service provision. Front office services are now provided from 16 sites across Hampshire and the Isle of Wight. A much improved website will be developed in 2012/13 to give greater access via the internet. The website will contain far greater information on crime and performance as well as allowing crime to be reported on-line. Greater use will be made of social media such as Facebook and Twitter to provide information and offer interaction. As a result of these changes the Constabulary will achieve savings in the region of £1.7 million per year.

Serious Crime Directorate
- The Serious and Organised Crime Unit and Major Crime Department have amalgamated to form the Hampshire Major Investigation Team (HMIT). The creation of this new unit is the most efficient and cost effective model for Hampshire Constabulary to investigate crime proportionate to the level of seriousness and risk.
- A new Scientific Services structure was implemented which includes collaboration on forensics as part of the South East Regional Collaboration Programme and joint working with Hampshire County Council through a shared laboratory facility.
- New centrally managed, locally resourced structures have also been implemented in Public Protection and Crime Standards. The review of Special Branch remains ongoing pending the completion of the London Olympics.

Management of Risk
- A new unit has been created comprising the Professional Standards Department (PSD), Force Solicitor's Department, Health and Safety, Risk Management and Insurance, under a new Strategic Risk Manager post.
- Within these departments structural changes have been made to improve efficiency whilst maintaining the same level of service. In future the departments will be geographically co-located in order to help fulfil this aim.

Tasking and Co-ordination
- Performance and Consultation staff have been centralised into one team, with greater emphasis on staff accessing performance information through improved technology.
- A centrally-managed, locally delivered model was approved and implemented for a number of departments including Research and Analysis, Crime Prevention, Intelligence and Event Planning.

Custody and Criminal Justice
- A review of these functions has led to the centralisation of Custody and the creation of a new centralised Summary Justice department.
- Further review work is ongoing regarding improvements to processes and IT for example electronic case files and an internal booking system.

Corporate Support

- A Shared Services Centre has been created for Finance, Business and Facilities which incorporates a self-service capability to improve efficiency and manage demand.
- Phase two of the HR modernisation programme - centralisation by function - has been implemented; the third and final phase will see the HR Service Centre form part of the new Shared Service Centre.

Collaboration

- The Authority has continued to expand opportunities for collaboration and joint working. The ICT department is now a joint department with Thames Valley Police and the Head of Department has direct responsibility for the provision of ICT services to both constabularies. This joint collaboration is based on a Section 23 agreement signed by both constabularies and authorities. A joint Collaboration Oversight Board provides strategic oversight and an approval process for Governance arrangements for all bilateral collaboration activities, including ICT. Membership of this Board includes Chief Officers from both constabularies and authorities and Police Authority members from both authorities.
- Hampshire Police Authority has also entered into a Section 23 agreement with Thames Valley Police Authority in order to create a Joint Operations Unit (JOU). Strategic operations, including Gold Support, Force Policies and Procedures, emergency planning and planning for strategic events is now done in collaboration between the two constabularies across departmental and geographical boundaries. Within the JOU specialist units are also being collaborated. The first unit to be moved across to the new JOU structure was the Roads Policing Units (RPU) from both constabularies in January 2012 and Dog Support Unit from March 2012. The Firearms and Armed Response Units (ARV) are scheduled to become part of the JOU in the 2012/13 financial year. Some non-collaborated units in both constabularies will fall within the JOU command structure and therefore be treated as part of the JOU for everything except budgetary and deployment purposes (this includes the Force Support Unit in Hampshire and Mounted Branch in Thames Valley).
- The Hampshire Air Support Unit was disbanded in 2010 due the creation of a South East Air Support Unit with two helicopters. It therefore does not form part of the current JOU.
- Collaboration is taking place with other constabularies on forensics and with Hampshire County Council on a joint laboratory facility, as mentioned within the Serious Crime Directorate section above.
- The Authority has been exploring opportunities for collaboration with partners and since January 2011 Hampshire Constabulary, Hampshire Fire and Rescue Service and Hampshire County Council have been working together to identify support services that could potentially be delivered in partnership. In September 2011 the three governing bodies endorsed a Statement of Commitment and a Case for Change to further explore opportunities for joint working, through developing an integrated strategic business case. At the end of October 2011 workshops were held to brief service leads from each organisation and to start exploring the 12 key support service that have been identified for joint working opportunities. A Programme Delivery Board, led by Hampshire County Council's Director of Corporate Resources, meets every two weeks to plan and co-ordinate the Joint Working in Hampshire project. Regular project updates are being issued to staff in

the three organisations and informal engagement has started with those staff in one of the five support areas being considered as an integrated strategic case (procurement, ICT, Finance and payroll, HR and Occupational health and wellbeing). Another seven areas are being considered as individual “blueprints” to explore how the three organisations can develop improved joint or shared working arrangements which add value. These areas are transport and fleet management; estates; facilities management; training, learning and development; media and corporate communications; research and analysis and legal services.

Financial Strategy

5.6 The Constabulary has achieved a significant underspend in the 2011/12 financial year. This is due to the Force Change Programme identifying efficiencies but also due to ongoing good practice, for example the continued implementation of a robust Medium Term Financial Strategy and Zero-based budgeting approach to review the way departments operate and contribute to the overall service within a strict budget. The Medium Term Financial Strategy is regularly updated to ensure that the Change Programme is working towards achieving the savings necessary.

5.7 The financial position has allowed the creation of a Transformation Reserve to help fund further developments within the Force Change Programme, including the Estates Development Programme (EDP). As at March 2012, the Finance Committee had agreed to contribute a total of £27m to the Transformation Reserve to pay for the costs of change. This includes allocation for redundancies (£7m), protected pay (£3m), new technology (£4m), project costs (£2m), the Change Team (£1m) and the EDP itself (£10m).

5.8 As part of the EDP, the Authority will sell some buildings in order to modernise the estate. However, the Constabulary will not be leaving communities and the sale won’t happen overnight. No police station will relocate until an alternative base for the local Safer Neighbourhood Team within the community has been found. The Constabulary is exploring opportunities to move to locations that are accessible to the public – such as council offices or local supermarkets. Just like now, police officers and PCSOs will walk their beats and police their communities, and will be available for discussions and advice during beat surgeries and community meetings. Improvements to accessibility are also being made through the internet and the expanded use of mobile technology.

5.9 The Constabulary has also been able to make capital investment, most notably the agreement to purchase new vessels for the marine unit assisted by national funding, which will avoid additional costs in future financial years. The project team delivering the new vessels includes a Link Member of the Authority. Formal approval for spending has been received from the Finance Committee and updates reported. Additional meetings and discussions have been held with the Chair of the Authority and Chair of Finance Committee between meetings to ensure that they have been kept informed and involved with progress.

5.10 In 2012/13 council tax will remain frozen as it was for 2011/12. Hampshire Police Authority has the 4th lowest Band D council tax precept rate of the 31 shire police authorities and remains in the lowest quartile of cost for constabularies in England and Wales as measured by HMIC. The Change Programme will aim to ensure that performance is in the highest quartile, while keeping cost in the lowest quartile. Accordingly, all changes proposed must help the Constabulary to achieve higher performance, with less total resources available.

Performance

5.11 In 2011/12 there were 129,327 fewer offences, a drop of 3%, compared with the previous year. A total of 31% of crimes were solved, compared to 28% in 2010/11. Operation Nemesis, the crackdown on burglaries, contributed to a 4 per cent drop in the number of house burglaries. The Constabulary re-launched the campaign in October after seeing an increase in burglaries. Between October and March the number of burglaries came down by 253 incidents compared with the previous six months and more suspects were caught. Crime has dropped every year since 2006/07 when it was at 179,914 offences.

- Robberies, vehicle crime and all burglaries are down 1,793 offences to 15,643 (of which house burglaries are down 206 offences to 4,995)
- Violence against the person is down 1,491 offences to 30,498
- Overall solved crime rates are up from 28 to 31 per cent
- Robbery, vehicle crime and burglaries solved rates are up from 14 to 16 per cent (of which house burglary solved crime rates are up from 17 to 21 per cent)
- Violence against the person solved crime rates are up from 42 to 45 per cent

5.12 In 2011 the Police Authority's performance team, working in partnership with ACC Crime and Criminal Justice, created a new scrutiny framework that enabled the Police Authority to undertake a more quantitative and qualitative scrutiny of the work of Serious Crime Directorate. The framework also enabled an in depth opportunity to scrutinise the qualitative performance, there by enabling a 360 degree review of performance of the entire Serious Crime Directorate. The scrutiny was performed by reviewing performance data and case reviews within that particular area of business as well as talking to both police officers and police staff working in that area. In 2011/12 scrutiny was undertaken for the Specialist Investigations Department, the Serious Organised Crime Unit and Special Branch within the Serious Crime Directorate and reported back to the Performance Committee of the Police Authority. Additional scrutiny work using the same model was also carried out on Rural Policing and fed back to the Community Engagement Committee.

5.13 In August 2011, a national response was required by the Prime Minister and Home Secretary as a result of public order incidents in London which had the potential to influence further disorder nationally. Hampshire Constabulary provided direct assistance to the Metropolitan Police Service (MPS) to assist with public order in London. In addition, the Constabulary provided a significant local response to prevent any associated public order issues in Hampshire and the Isle of Wight. Hampshire Constabulary successfully reclaimed the full cost of £0.7m from the MPS for deployments in London. In addition, the full cost of £0.6m for providing the local response was reimbursed by special grant from the Home Office in 2011/12. The local response was successful in preventing any associated public order incidents in Hampshire and the Isle of Wight. The operations demonstrated the Constabulary's ability to make available significant resources for effective policing both at a national and local level. Good financial management has resulted in the operations having no negative impact on the Authority's financial position.

5.14 In March 2012, the Finance Committee agreed to allocate £2.5m to a new Performance Reserve. The use of the Performance Reserve is directly controlled by the Chief Constable. Due to the sensitive nature of the operation Members of the Police Authority received confidential briefings. The operation is envisaged to last for 2 to 3 years and will have a positive impact on serious crime to ensure that Hampshire and the Isle of Wight remain a safe place to live, work and visit.

Winsor Review of Police Pay and Conditions

5.15 Parts one and two of the Winsor Review were published in 2011/12. Terms and conditions of officers and staff have been reviewed. Part one recommendations relating to police officers have been agreed and the Home Secretary issued determinations at the end of March 2012 to allow those recommendations to be implemented from April 2012. Part one recommendations relating to police staff and all part two recommendations are not yet agreed. Therefore, these recommendations will have an impact upon the budget and pay and conditions of officers and staff from April 2012 onwards, but they have not had an impact within 2011/12.

Police Reform and Social Responsibility Act 2011

5.16 The Police and Crime Commissioner (PCC) will not take up the post until November 2012 but during 2011/12 the Authority and Constabulary have begun to make preparations for the change. The Authority has formed a PCC Transition Workstream which is overseen by the Governance Transitional Board (GTB), chaired by the Chair of the Governance Committee. A high level plan has been produced and workstream leads have been called to account for the plans and progress by the GTB. This process also provides a forum for sharing updates received by Members, officers of the Authority, police officers and police staff as there are different working groups nationally working on particular issues pertinent to each workstream.

Environment

5.17 The Constabulary has initiated collaborative work in the energy and environment areas, for example working with the Environment Agency to identify sites that are high risk and would be most impacted by pollution or flooding incidents. We have also undertaken collaborative work with local authorities to develop a Climate Change Risk Assessment which will be fully embedded in 2012/13. The Constabulary has also continued to make progress towards energy savings targets, for example the installation of new and more efficient heating systems (including solar thermal hot water systems at specific locations) as part of the Energy and Water Conservation programme. Achievements in this area have been promoted through targeted awareness training to key roles, including facilities team and Roads Policing Unit HazMat officers, and a continuation of the Wave Goodbye to Waste internal communications campaign.

Audit and Inspection

5.18 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 HM Inspector’s initial response was that there were clear processes in place to restructure and to modernise the organisation in order to produce savings. The HMIC also commented that a long term view has been taken and that while the anticipated savings plan is ambitious, this does provide a secure financial position and should enable a smooth transition to a Police and Crime Commissioner when required.

5.19 In phase two of this inspection, HMIC moved from an assessment of the Constabulary's and Authority's preparedness to meet the financial challenge to a review of progress made in delivering against plans and an assessment of the impact on the frontline and service delivery. As part of the second round of this inspection, HMIC conducted a Support and Challenge meeting with the Chief Constable and Chair of the Police Authority in December 2011. As a result of these meetings a number of constabularies have been identified as posing a higher risk and are subject to more detailed inspections or intense monitoring of their plans. Hampshire is not among those constabularies and HMIC has indicated its confidence in our current plans and delivery.

5.20 The HMIC undertook a review of police crime and incident reports in January 2012. The review indicated high standards when recording crimes and incidents in a consistent and accurate manner to correctly reflect the sequence of events as described by victims. Commitment at a senior level to secure the quality of incident and crime data is strong. In relation to securing data of good quality, there are adequate plans, policies and strategies in place. Staff responsibilities and skills are well-established to help secure incident and crime data quality, included within the Force Enquiry Centre and Force Control Room. There are basic audit and quality assurance processes in use to identify issues and take action.

5.21 Additionally the Constabulary was part of some national inspections and audit initiatives during 2012. HMIC conducted the thematic Police Integrity Review – "*Without Fear or Favour*". HM Inspector did not find any evidence to support any contention of endemic corruption in police service relationships, either with the media or more generally, with the majority of police officers and staff striving to act with integrity. A further assessment will be conducted in October 2012 to inform the incoming Police and Crime Commissioner.

5.22 The National Audit Office investigated the Home Office and National Policing Improvement Agency investment in Mobile Technology in Policing under section 6 of the National Audit Act 1983 for presentation to the House of Commons in January 2012. This report showed Hampshire as having a low percentage of police and police community support officers to devices but a high level of functionality. This reflects the targeted roll out of these devices through the Mobile Information Project. Further opportunities to widen the scope of this project are being progressed, including electronic witness statements and a digital suspect interview recording processing as part of the creation of digital case files for Criminal Justice.

5.23 HMIC has introduced a new Crime and Policing Comparator which enables the public to explore raw data relating to all 43 police constabularies across England and Wales for the past three years. This is an online tool which can be accessed via the HMIC website at http://www.hmic.gov.uk/. The HMIC has intended that Crime and Policing Comparator would replace the VFM profiles, but following strong feedback from ACPO representatives for the profiles to be retained for the professional (rather than the public) audience, they are continuing with their production. The profiles will continue to be set within the local context and will aim to identify questions rather than make judgements.

5.24 With reference to the work of the Audit Commission and the assurances they provide to the Authority, the outcome of the audit of the 2010/11 Statement of Accounts was an unqualified audit opinion and a positive value for money conclusion. The Annual Audit Letter stated that the Authority has "an ambitious savings plan" and that "current performance suggests this is deliverable". The Audit Commission also concluded that "the Constabulary and Authority understand the financial challenge, have considered options which protect the front-line, and are managing the impact on delivery".

5.25 The 2010/11 accounts were the first set of accounts produced in accordance with International Financial Reporting Standards. This required significant amounts of new work to be understood and undertaken as well as the restatement of the previous year's accounts. The Annual Audit Letter noted some errors but "none had an impact on the bottom line". The Constabulary has re-organised its Finance staff in 2011/12 and the new approach will increase the amount of resource available at the peak time to assist with the production of the accounts. A detailed resource plan has been produced and reviewed by the Chair of Governance Committee, Chief Executive and Treasurer. Progress against the plan is monitored. All staff involved have received internal training as well as a presentation from the Audit Commission.

5.26 The Audit Commission has set out a plan for the work that will be undertaken in order to issue its opinion on value for money and the 2011/12 Statement of Accounts. The Audit Commission will identify any risk of material misstatement (whether because of fraud or error) in the financial statements 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.

5.27 In addition, the Audit Commission noted that it would look at specific risks relating to:

- pensions payable due to concerns with an outsourced pensions administrator
- the valuation of Alpha Park
- the quality of the accounts and working papers
- new requirements regarding heritage assets

5.28 The Annual Audit Letter, in December 2011, considered the challenging medium term financial prospects in the wake of the economic downturn and budget reductions. The particular issues identified were;

- financial resilience and the delivery of the Force Change Programme
- joint arrangements and collaboration
- preparation for Police and Crime Commissioners (PCCs)

The 2011/12 value for money conclusion will take account of how the Authority and the Constabulary are responding to these challenges.

5.29 The plan has been agreed by the Governance Committee in March 2012. Conclusions drawn from the audit of the accounts and review of value for money will be reported in the Annual Governance Report in September.

5.30 The outcomes of internal audits during the course of the year are reported to the Governance Committee. The outcomes are summarised in the Annual Internal Audit Opinion. The reports have helpfully identified some opportunities to improve the control framework. However, there have been no significant concerns with the control framework or governance arrangements. Whilst internal audit opinion cannot be definitive, it is nevertheless a valid and reliable indicator of the health of the organisation.

5.31 One outcome identified by an internal audit was that the minutes from Police Authority meetings did not always evidence in the body of the discussion how Members arrived at the resolutions recorded in the minutes. Management action has been taken to amend the working practices of the Authority to ensure that the minutes of discussions will be succinct and relevant and that the recommendation will be recorded accurately. Committee Clerks have been encouraged to seek clarification from the Chair / Vice-Chair of the Committee when it was not clear regarding the debate and subsequent recommendation.

5.32 Under the Accounts and Audit (England) Regulations 2011, Hampshire Police Authority is required, at least once a year, to conduct a review of the effectiveness of its system of internal audit. It concluded that the Strategic Audit Plan 2011-14 demonstrates how the internal audit service seeks to add value to Hampshire Police Authority and Hampshire Constabulary to assist in achieving objectives. The Governance Committee approved the review conducted in assessing the effectiveness of internal audit – and the action plan generated - in December 2011.

5.33 A “Red Book” self-assessment review undertaken in 2010/11 raised issues relating to the arrangements for counter fraud and anti-corruption. In response to these issues it was agreed in 2011/12 to have separate counter fraud and anti-corruption policies for the Authority and Constabulary. The Chief Executive leads on counter fraud and anti-corruption for the Authority and the Deputy Chief Constable leads for the Constabulary. The Constabulary has a detailed policy in place, however, following a risk assessment and detailed discussions a considered judgement was made that it was not necessary to devise an internal anti-fraud and corruption policy for the Police Authority for the relatively few remaining months of the Authority’s existence. Professional Standards Department will lead on the umbrella strategy within the Constabulary but Corporate Finance will maintain an involvement in countering financial fraud and corruption, including maintaining the links with the Treasurer and ensuring that the strategy meets the provisions of the CIPFA Red Book.

5.34 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.

6 SIGNIFICANT GOVERNANCE ISSUES

6.1 The Annual Governance Statement for 2010/11 again 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. Strategic risk management is now fully embedded and monitored by the Constabulary risk management co-ordinator, with all major risks being successfully mitigated. Regular reports to the Police Authority ensure both the visibility of the risks and mitigating actions to the Governance Committee and that there is synergy with the Authority's own Strategic Risk Register. A Constabulary Business Continuity Response Team is in place and recently exercised. Business Continuity is strong when a reactive approach is required (for example with the recent fuel dispute), however further work continues to be done to further raise the profile of business continuity planning to ensure full compliance with legislation and best practice.

6.2 There are no significant governance issues identified in 2011/12. Although the errors identified regarding police officer pension calculations were of concern they are not sufficiently material to represent a significant governance issue.

6.3 There was one occasion in 2011/12 where a decision by the Police Appeals Tribunal was challenged by the Chief Constable through judicial review. Action will take place to tighten the governance approach to ensure that an appropriate mediation process is followed prior to seeking any other redress regarding decisions of the Police & Crime Commissioner (PCC) in future. Budget delegated to the Constabulary will not be permitted to fund the challenge of decisions reached by the PCC, without first exhausting the approved mediation process.

7. CONCLUSIONS

7.1 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 closely monitored to ensure that they do not continue to be significant risks in the future, particularly as the Constabulary undergoes a significant period of change, and the Police Authority is replaced by a Police and Crime Commissioner in November 2012, it is concluded that the existing arrangements for governance are fit for purpose.

Signed by:

Adrian Collett	*Andy Marsh* *(Deputy Chief Constable of behalf of the Chief Constable)*
Chair of Hampshire Police Authority	Chief Constable of Hampshire Constabulary
Jennifer Douglas-Todd	
Chief Executive of Hampshire Police Authority	

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

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. 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. This is different from the statutory amounts required to be charged to the General Fund Balance for council tax (precept) setting. The Net Increase/Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Authority.

Movement in Reserves Statement

	Note	General Fund Balance	Earmarked General Fund Reserves	Capital Receipts Reserve	Capital (Revenue Contributions) Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves	Note
								34		
		£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	
Balance at 1 April 2010		**15,871**	**5,463**	**0**	**1,886**	**0**	**23,220**	**(2,120,178)**	**(2,096,958)**	
Movements during 2010/11										
Surplus or (deficit) on the provision of services		155,187	0	0	0	0	155,187	0	155,187	
Other Comprehensive Income and (Expenditure)		0	0	0	0	0	0	71,749	71,749	
Total Comprehensive Income and Expenditure		155,187	0	0	0	0	155,187	71,749	226,936	
Adjustments between accounting basis & funding basis under regulations		(139,892)	0	0	(1,264)	0	(141,156)	141,156	0	15
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		(1,689)	1,689	0	0	0	0	0	0	16
Increase/Decrease in 2010/11		**13,606**	**1,689**	**0**	**(1,264)**	**0**	**14,031**	**212,905**	**226,936**	
Balance at 31 March 2011		**29,477**	**7,152**	**0**	**622**	**0**	**37,251**	**(1,907,273)**	**(1,870,022)**	
Movements during 2011/12										
Surplus or (deficit) on the provision of services		(141,260)	0	0	0	0	(141,260)	0	(141,260)	
Other comprehensive income and (expenditure)		0	0	0	0	0	0	(181,787)	(181,787)	
Total Comprehensive Income and Expenditure		(141,260)	0	0	0	0	(141,260)	(181,787)	(323,047)	
Adjustments between accounting basis & funding basis under regulations		152,581	0	0	1,509	0	154,090	(154,090)	0	15
Net (increase)/decrease before transfers to earmarked reserves		11,321	0	0	1,509	0	12,830	(335,877)	(323,047)	
Transfers to/from earmarked reserves		(28,792)	28,792	0	0	0	0	0	0	16
Increase/Decrease in Year		**(17,471)**	**28,792**	**0**	**1,509**	**0**	**12,830**	**(335,877)**	**(323,047)**	
Balance at 31 March 2012		**12,006**	**35,944**	**0**	**2,131**	**0**	**50,081**	**(2,243,150)**	**(2,193,069)**	

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.

2010/11 Restated				2011/12			Note
Gross Expenditure	**Gross Income**	**Net Expenditure**		**Gross Expenditure**	**Gross Income**	**Net Expenditure**	
£'000	**£'000**	**£'000**		**£'000**	**£'000**	**£'000**	
172,474	(25,785)	146,689	Local policing	148,395	(15,426)	132,969	
31,948	(783)	31,165	Dealing with the public	30,172	(599)	29,573	
31,557	(870)	30,687	Criminal justice arrangements	28,094	(612)	27,482	
20,443	(3,414)	17,029	Roads policing	18,167	(3,086)	15,081	
22,515	(736)	21,779	Specialist operations	19,876	(568)	19,308	
18,743	(414)	18,329	Intelligence	18,765	(305)	18,460	
29,407	(939)	28,468	Investigation	58,794	(1,519)	57,275	
19,970	(441)	19,529	Investigative support	13,754	(212)	13,542	
17,051	(12,894)	4,157	National policing	19,806	(17,475)	2,331	
1,269	(32)	1,237	Corporate and democratic core	1,517	(10)	1,507	*9*
(266,520)	0	(266,520)	Non distributed costs	29,143	0	29,143	*8*
98,857	**(46,308)**	**52,549**	**Net Cost of Police Services**	**386,483**	**(39,812)**	**346,671**	
		1,100	Other operating (income) and expenditure			794	*18*
		111,114	Financing and investment income and expenditure			110,730	*19*
		0	(Surplus) / deficit of discontinued operations			0	
		(319,950)	Taxation and non specific grant income			(316,935)	*14*
		(155,187)	**(Surplus) / Deficit on Provision of Services**			**141,260**	
		(982)	(Surplus) / deficit on revaluation of Property, Plant and Equipment assets			(2,701)	*20*
		0	(Surplus) / deficit on revaluation of available for sale financial assets			0	
		(70,767)	Actuarial (gains) / losses on pension assets/liabilities			184,484	*8*
		0	Any other (gains) / losses			4	
		(71,749)	**Other Comprehensive Income and Expenditure**			**181,787**	
		(226,936)	**Total Comprehensive Income and Expenditure**			**323,047**	

The credit of £266.52m shown as non-distributed costs in 2010/11 represented 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 8 for further information and analysis by scheme.

Whilst expenditure has reduced overall in line with the reduction in central funding for the police service nationally, the expenditure upon local policing at the neighbourhood level was protected from cuts as the local policing model was introduced. However, the reduction in the Local Policing element of the gross expenditure on police services and the increase in the gross expenditure on Investigation – when compared to the 2010/11 financial year – are accounted for by a reclassification of that part of investigations which is carried out locally. This is now included with the cost of investigations carried out across the whole constabulary. This accounts for £23m of the total reduction of £24m in gross expenditure.

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, i.e. 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'.

31 March 2011		31 March 2012	*Note*
£'000		£'000	
166,684	Property, plant and equipment	160,942	*20*
0	Intangible assets	0	*20*
3,000	Long term investments	7,000	*27.1*
675	Long term debtors	685	*27.3*
170,359	**Long Term Assets**	**168,627**	
17,500	Short term investments	28,000	*27.1*
1,128	Assets held for sale	1,064	*22*
1,028	Inventories	883	*28*
18,197	Short term debtors	26,263	*29*
7,082	Cash and cash equivalents	14,867	*30*
44,935	**Current Assets**	**71,077**	
(193)	Short term borrowing	(1,449)	*31*
(1,058)	Grants received in advance - revenue	(482)	*31*
(26,853)	Short term creditors	(30,976)	*31*
(907)	Provisions	(551)	*32*
(29,011)	**Current Liabilities**	**(33,458)**	
(30,200)	Long term borrowing	(38,378)	*27.9*
(1,698)	Other long term liabilities	(1,487)	*27.9*
0	Grants received in advance - capital	(2,593)	
(2,024,407)	Liability related to pension schemes	(2,356,857)	*8*
(2,056,305)	**Long Term Liabilities**	**(2,399,315)**	
(1,870,022)	**Net Assets/(Liabilities)**	**(2,193,069)**	
37,251	Usable reserves	50,081	*MiRS*
(1,907,273)	Unusable reserves	(2,243,150)	*34*
(1,870,022)	**Total Reserves**	**(2,193,069)**	

Cash Flow Statement

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 generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Authority are funded by way of taxation and grant income or from the recipients 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 (i.e. borrowing) to the Authority.

2010/11 £'000		2011/12 £'000	Note
(155,187)	Net (surplus) or deficit on the provision of services	141,260	CIES
133,479	Adjustments to net surplus or deficit on the provision of services for non-cash movements	(159,732)	40.1
3,843	Adjustment for items included in the net surplus or deficit on the provision of services that are investing and financing activities	3,426	40.2
(17,865)	Net cash flows from Operating Activities	(15,046)	
34,910	Investing Activities	15,672	40.3
(8,755)	Financing Activities	(8,411)	40.4
8,290	Net (increase) or decrease in cash and cash equivalents	(7,785)	
15,372	Cash and cash equivalents at the beginning of the reporting period	7,082	
7,082	Cash and cash equivalents at the end of the reporting period	14,867	40.5

The CIPFA Local Authority Accounting Panel Bulletin 93, published in March 2012, provided guidance on the items which should be included in the lines which adjust the net surplus/deficit on the provision of services to arrive at the ‘Net cash flow from Operating Activities’. The 2010/11 comparators have been restated in line with this. The net cash flow is unchanged but the totals on the two adjusting lines are different from that reported in the 2010/11 Statement of Accounts.

1 - Statement of Accounting Policies and Estimation Techniques

1.1 General Principles

The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom (2011). This code is recognised by statute as representing proper accounting practices. Any significant non-compliance is explained in the following notes. The accounts have been compiled by applying the most appropriate policies and estimation techniques, taking into account the accounting concepts of qualitative characteristics of financial information (i.e. relevance, reliability, comparability and understandability), materiality and the pervasive accounting concepts (i.e. accruals, going concern and primacy of legislative requirements). All material income and expenditure including receipts, grants and employee costs have been accrued to the financial year to which they relate.

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

1.2 Accruals of Income and Expenditure

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

- Revenue from the sale of goods is recognised when the 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 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 instrument is the actual invoiced amount. No estimation techniques are used.

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

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error. Changes in accounting estimates are accounted for prospectively, 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.

1.4 Charges to Revenue for Non-Current Assets

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

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

The Authority is not required to raise the council tax precept 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 an amount calculated on a prudent basis determined by the Authority in accordance with statutory guidance. Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the General Fund Balance – the Minimum Revenue Provision (MRP), by way of an adjusting transaction with the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

1.5 Events After the Reporting Period

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

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

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

1.6 Financial Instruments

1.6.1 Financial Liabilities

Financial liabilities are recognised on the Balance Sheet when the 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 Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

1.6.2 Financial Assets

Financial assets are classified into two types:

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

1.6.3 Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the 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 small loans to officers to enable them to purchase property in the area 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 individuals, with the difference serving to increase the amortised cost of the loan in the Balance Sheet. Statutory provisions require that the impact of soft loans on the General Fund Balance is the interest receivable for the financial year – the reconciliation of amounts debited and credited to the Comprehensive Income and Expenditure Statement to the net gain required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement in Reserves Statement.

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

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

1.7 Service Expenditure Analysis

The Service Reporting Code of Practice 2011/12 (SeRCOP) specifies the headings to present the statutory income and expenditure accounts and defines those headings. The requirement for 2011/12 is to present the information in accordance with the Police Objective Analysis which analyses the gross expenditure and gross income under nine headings which represent the main activities of the police service.

1.8 Central Support

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

1.9 VAT

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

1.10 Precept Income

Precept income is included at the figure precepted on the collection funds of billing authorities in Hampshire and the Isle of Wight and is not subject to revision. 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 2011/12 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.

1.11 Specific Grants

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

1.12 Investments

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

1.13 Interest

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

1.14 Foreign Currency Translation

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

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

1.15 Debtors and Creditors

The accounts are maintained on an income and expenditure basis in accordance with the Code of Practice. That is, sums due to or from the 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.

1.16 Government Grants and Contributions

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as due to the 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 Adjustment Account. Amounts in the Capital Grants Unapplied reserve are transferred to the Capital Adjustment Account once they have been applied to fund capital expenditure.

1.17 Employee Benefits

Benefits Payable During Employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as salaries, paid annual leave and flexitime for current employees and are recognised as an expense for services in the year in which employees render service to the 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 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 employee’s employment before the normal retirement date or an employee’s decision to accept voluntary redundancy and are charged on an accruals basis to the relevant service line in the Comprehensive Income and Expenditure Statement when the Authority is demonstrably committed to the termination of the employment of an employee or group of employees or making an offer to encourage voluntary redundancy.

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

Post-employment benefits

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

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

Police Pension Scheme (for Police Officers only)

There are currently two police pension schemes in operation, known as the Police Pension Scheme (PPS) and the New Police Pension Scheme (NPPS) which offer different terms and benefits. Both are unfunded schemes. The 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 pension costs are met by a capital equivalent transfer from the Income and Expenditure Account to the Police Pension Fund Account when the officer retires.

Local Government Pension Scheme

Police staff are eligible to join the Local Government Pension Scheme administered by Hampshire County Council. This is a funded scheme. In 2011/12 the Authority paid an employer's contribution representing 13.1% of pensionable pay in addition to a 6% overall contribution based on the payroll costs at 31 March 2010. The contribution rate is determined by the Fund's actuary based on valuations every three years. The rate for 2012/13 will be on the same basis.

Additional contributions are payable to cover the cost of any early retirements except those due to ill-health. In addition the 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.

1.18 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.

1.19 Cash and Cash Equivalents

Under the IFRS Code, Cash and Cash Equivalents are to be disclosed on the face of the Balance Sheet. Cash comprises cash in hand and repayable on demand deposits. The latter typically consisting of cash held in deposit accounts but subject to repayment on demand, and cash held in deposit accounts but subject to instant access. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. The Code also stipulates that they are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. The 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.

1.20 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. In light of the relatively immaterial size of the turnover of this account (c £120,000) no separate disclosure is made of this account.

1.21 Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA *Service Reporting Code of Practice 2011/12* (SeRCOP). The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the 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 SeRCOP and accounted for as separate headings in the Comprehensive Income and Expenditure Statement, as part of Net Expenditure on Continuing Services.

1.22 Leases

1.22.1 Introduction

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

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

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

1.22.2 The 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 are added to the carrying amount of the asset. Premiums paid on entry into a lease are applied to writing down the lease liability. Contingent rents are charged as expenses in the periods in which they are incurred.

Lease payments are apportioned between:

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

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

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

Operating Leases

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

1.22.3 The 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.

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

Operating Leases

Where the 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.

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

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

1.23.1 Recognition

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

1.23.2 Measurement

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

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

1.23.3 Capital Receipts

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

1.23.4 Impairment

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

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

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

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

1.23.5 Componentisation

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

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

For the purposes of componentisation, the 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

1.23.6 Depreciation

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

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

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

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

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

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

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

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

1.23.7 Disposals and Non-current Assets Held for Sale

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

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

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

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

1.24 Minimum Revenue Provision for the repayment of debt

The Authority is required by law to make a 'minimum revenue provision' (MRP) for the repayment of debt. The regulations in place prior to 2007/08 required this MRP to be set at 4% of the 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 Comprehensive Income and Expenditure Account - on the basis of the previous regulations in respect of capital expenditure supported by Government grant. The MRP for all unsupported borrowing will be based on the asset life.

1.25 Heritage Assets

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

The Authority's policy will be to recognise heritage assets on the Balance Sheet where there is information available as to cost or the value of the assets and where this is material. For the purposes of recognising heritage assets this materiality threshold is set at £10,000. Where information on cost or value is not available, and the cost of obtaining the information outweighs the benefits to the users of the financial statements, assets are not recognised on the Balance Sheet. Disclosure of such assets may still be required in the notes to the core financial statements.

Where an asset is identified which meets the definition of being a heritage asset, the asset will be recognised and measured (including the treatment of revaluation gains and losses) in accordance with the Authority's accounting policies on property, plant and equipment wherever possible but taking advantage of some relaxations given by the Code in relation to the measurement of heritage assets as appropriate.

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

1.26 Inventories

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

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

1.27 Provisions, Contingent Liabilities and Contingent Assets

1.27.1 Provisions

Provisions are made where an event has taken place that gives the 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. They are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation, taking into account relevant risks and uncertainties.

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

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

1.27.2 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.

1.27.3 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.

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

1.28 Reserves

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

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

The IAS19 pension liability is a significant figure which represents the amount that the Authority would have to find if all officers and staff were able to claim their pension as at 31 March 2012. The figure is high for police officers as police pensions are unfunded.

The Capital Adjustment Account is a credit balance which reflects the net surplus of resources set aside to finance capital expenditure and the depreciation, impairment and write-off of the historical cost of fixed assets. The Revaluation Reserve records the accumulated gains on assets held by the 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.

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.

1.29 Treasury Management

Treasury management is an activity which is carried out by Hampshire County Council on the Authority's behalf. 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.

Whilst the intention is that the Authority's cash position is managed separately from that of the County Council, 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.

1.30 Fair Value

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

1.31 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.

1.32 Changes in Accounting Policies

Heritage Assets

The Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 introduced a change to the treatment in accounting for heritage assets held by the Authority. In the absence of an International Financial Reporting Standard (IFRS), the Authority has adopted FRS 30 Heritage Assets and IPSAS 31 Intangible Assets, both of which provide guidance on reporting requirements.

For 2011/12 the Authority is required to change its accounting policy for heritage assets and to measure them at valuation. Previously, heritage assets were either recognised as community assets (at cost) in the property, plant and equipment classification on the Balance Sheet or were not recognised in that accounting statement where it was not possible to obtain cost information on the assets.

The Authority's accounting policies for recognition and measurement of heritage assets are set out in the summary of accounting policies.

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

Amendments to IFRS 7 (Financial Instruments)

The adoption of amendments to IFRS 7 Financial Instruments: Disclosures (issued October) 2010 by the 2012/13 Accounting Code of Practice will result in a change in accounting policy that requires disclosure.

The amendments are intended to allow users of financial statements to improve their understanding of transfer transactions of financial assets, including the possible effects of any risks that may remain with the entity that transferred the assets. It also includes additional disclosure requirements where there is a disproportionate amount of transfer transactions around the end of the reporting period. The effective date of the standard was 1 July 2011 but the Authority is not required by the Code to implement this amended disclosure requirement until 1 April 2012.

Following a review of the Authority's financial assets and liabilities at 31 March 2012, it is considered unlikely that the IFRS 7 accounting standard will have a material impact on the financial statements.

3 – Prior Period Adjustments

Police Pension Top-Up grant

The Authority has identified that the accounting entries in respect of the treatment of Police Pensions Top-Up Grant require to be updated in order to comply fully with the Code of Practice. There is no effect on the total net expenditure in the Comprehensive Income and Expenditure Statement and no effect on Liability relating to Defined Benefit Pension Schemes or the Pensions Reserve in the Balance Sheet, so there is no requirement to restate the Balance Sheet. However, the update has meant that the service expenditure in the cost of services has been overstated by £19.893m and the Other Operating Income and Expenditure has been understated by the same figure.

In order to make this update to best practice the Authority has restated the prior year information for 2010/11. The following are the relevant extracted lines from the

Comprehensive Income and Expenditure Statement (CIES). The restated Comprehensive Income and Expenditure Statement for the prior period 2010/11 can be found on page 32 of these financial statements.

CIES 2010/11 - Restated	**2010/11 Original Net Expenditure £'000**	**2010/11 Restated Net Expenditure £'000**	**Amount of restatement Net Expenditure £'000**
Local policing	146,523	146,689	166
Dealing with the public	31,221	31,165	(56)
Criminal justice arrangements	30,722	30,687	(35)
Roads policing	17,060	17,029	(31)
Specialist operations	21,780	21,779	(1)
Intelligence	18,317	18,329	12
Investigation	28,461	28,468	7
Investigative support	19,573	19,529	(44)
National policing	4,175	4,157	(18)
Corporate and democratic core	1,237	1,238	1
Non distributed costs	(266,520)	(266,520)	0
Net Cost of Police Services	**52,549**	**52,549**	**0**
Other operating (income) and expenditure	(18,793)	1,100	19,893
Financing and investment income and expenditure	111,114	111,114	0
(Surplus) / deficit of discontinued operations	0	0	0
Taxation and non specific grant income	(319,950)	(319,950)	0
(Surplus) / Deficit on Provision of Services	**(175,080)**	**(155,187)**	**19,893**
(Surplus) / deficit on revaluation of Property, Plant and Equipment assets	(982)	(982)	0
(Surplus) / deficit on revaluation of available for sale financial assets	0	0	0
Actuarial (gains) / losses on pension assets/liabilities	(50,874)	(70,767)	(19,893)
Any other (gains) / losses	0		
Other Comprehensive Income and Expenditure	**(51,856)**	**(71,749)**	**19,893**
Total Comprehensive Income and Expenditure	**(226,936)**	**(226,936)**	0

The subjective analysis of the same information is similarly restated as follows:-

CIES Subjective analysis 2010/11 - Restated	2010/11 Original	2010/11 Restated	Amount of restatement
Gross Expenditure			
	£'000	£'000	£'000
Employees (including police pensions)	36,967	36,967	0
Premises	9,606	9,606	0
Transport	4,728	4,728	0
Travel and Subsistence	3,785	3,785	0
IT and Communications	13,665	13,665	0
Supplies and Services	17,962	17,962	0
Grants	1,493	1,493	0
Cost of servicing Police Authority	1,682	1,682	0
Depreciation and Impairment	8,969	8,969	0
Gross cost of services	**98,857**	**98,857**	**0**
Service Income			
Service Income	(23,313)	(23,313)	0
Additional Grants	(22,995)	(22,995)	0
Total Service Income	**(46,308)**	**(46,308)**	**0**
Net Cost of Services	**52,549**	**52,549**	**0**
Other operating income and expenditure	(18,793)	1,100	19,893
Financing and investment income and expenditure	111,114	111,114	0
Surplus or deficit of discontinued operations	0	0	0
Taxation and non specific grant income	(319,950)	(319,950)	0
(Surplus) or Deficit on Provision of Services	**(175,080)**	**(155,187)**	**19,893**

Changes to the management of functions within the Constabulary

During 2011/12 the Assistant Chief Constable in charge of the Operations and HR departments was seconded out of the Force. In terms of managing these departments, responsibility for the Operations department transferred to the Deputy Chief Constable and the Head of Human Resources was made a full member of the senior management team. The Amounts reported for Resource Making Decisions as note 7 reflect these changes and the comparators for 2010/11 have been restated accordingly. The impact of these changes is as below:-

	2010/11 Original Deputy Chief Constable £'000	2010/11 Restated Deputy Chief Constable £'000	Amount of restatement £'000	2010/11 Original Assistant Chief Constable: HR and Operations £'000	2010/11 Restated Head of Human Resources £'000	Amount of restatement £'000
Expenditure:						
Employees	13,669	37,519	23,850	35,298	11,448	(23,850)
Premises	184	285	101	321	219	(102)
Transport	21	731	710	795	85	(710)
Travel and Subsistence	305	621	316	715	399	(316)
IT and Communications	9,230	9,454	224	363	140	(223)
Supplies and Services	652	1,589	937	2,520	1,583	(937)
Members' Allowances	0	0	0	0	0	0
National Levies	0	0	0	0	0	0
Grants Paid	54	162	108	108	0	(108)
Capital Financing (net)	0	0	0	0	0	0
Police Authority	0	0	0	0	0	0
Total Expenditure	**24,115**	**50,361**	**26,246**	**40,120**	**13,874**	**(26,246)**
Income:						
Service Income	(1,896)	(4,543)	(2,647)	(3,129)	(482)	2,647
Additional Specific Grants	(528)	(746)	(218)	(218)	0	218
Total Income	**(2,424)**	**(5,289)**	**(2,865)**	**(3,347)**	**(482)**	**2,865**
Contributions to/(from) reserves	**(560)**	**(527)**	**33**	**(761)**	**(794)**	**(33)**
Net Expenditure	**21,131**	**44,545**	**23,414**	**36,012**	**12,598**	**(23,414)**

4 - 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. There remains a degree of uncertainty about longer term levels of funding beyond 2014/15.
- In the light of changes to the policing structure and the resource issues faced by the 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 and will enable the Authority to maintain high levels of service and performance in an era of reduced resources.

- Assets categorisation and leases have been determined using the definitions contained within the code. The Authority has a building leased for 999 years but this is included as a finance lease, based on the application of the Code. Alpha Park was purchased in July 2008 but remains as an asset under construction because it is not operational. There are no other finance leases or assets with complex accounting.
- The election of Police and Crime Commissioners (PCC) in 2012 will see the replacement of the Police Authority. Assets and liabilities will transfer to the PCC and these accounts are prepared on a going concern basis as the statutory arrangements are in place for a transition to the new corporate bodies for the functions of the PCC and the Chief Constable, which will ensure continuity of service.

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

The Statement of Accounts contains estimated figures that are based on assumptions made by the 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 2012 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	The effects of the net pensions liability of changes in individual assumptions can be measured. For instance,

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
	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 an independent actuary to ensure that the accounts contain realistic estimates of the overall impact of these pensions liabilities.	a 0.5% increase in the discount rate assumptions would result in a decrease in the Police Pension Schemes liabilities of £170.00m and a decrease in the Local Government Superannuation Scheme liabilities of £24.37m. However, the assumptions interact in complex ways. During 2011/12, the Authority's actuaries advised that the net pensions liability of the police pension schemes had increased by £73.83m as a result of estimated being corrected as a result of experience and increased by £123.13m attributable to updating of the assumptions. The Local Government Superannuation Scheme liabilities had increased by £12.87m attributable to updating of the assumptions and increased by £0.95m as a result of estimates being corrected as a result of experience.

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

CIES Subjective - restated for top-up grant re-presentation

Restated 2010/11 £'000	Gross Expenditure	2011/12 £'000	Notes
36,967	Employees (including police pensions)	315,808	
9,606	Premises	10,836	
4,728	Transport	4,866	
3,785	Travel and Subsistence	3,429	
13,665	IT and Communications	4,939	
17,962	Supplies and Services	31,041	
1,493	Grants	1,126	
1,682	Cost of servicing Police Authority	1,464	
8,969	Depreciation and Impairment	12,974	20
98,857	**Gross cost of services**	**386,483**	
	Service Income		
(23,313)	Service Income	(23,921)	
(22,995)	Additional Grants	(15,891)	14
(46,308)	**Total Service Income**	**(39,812)**	
52,549	**Net Cost of Services**	**346,671**	
1,100	Other operating income and expenditure	794	18
111,114	Financing and investment income and expenditure	110,730	19
0	Surplus or deficit of discontinued operations	0	
(319,950)	Taxation and non specific grant income	(316,935)	14
(155,187)	**(Surplus) or Deficit on Provision of Services**	**141,260**	
(982)	(Surplus) / deficit on revaluation of Property, Plant and Equipment assets	(2,701)	20
0	Surplus or deficit on revaluation of available for sale financial assets	0	
0	Any other (gains) / losses	4	
(70,767)	Actuarial (gains) / losses on pension assets/liabilities	184,484	8
(71,749)	**Other Comprehensive Income and Expenditure**	**181,787**	
(226,936)	**Total Comprehensive Income and Expenditure**	**323,047**	

7 - 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 2011/12 and for 2010/11 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 34). The second page reconciles the same to the Subjective analysis shown in note 6.

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 up to the time the audit of the accounts is finalised by the end of September, the figures reported in this note as being 'per the outturn report' may differ from those which went to the Finance Committee. As such, they represent the updated figures which would be reported at the time the audited accounts are approved.

2011/12	Chief Constable and Chief Officers Group £'000	Deputy Chief Constable £'000	Assistant Chief Constable: Crime and Criminal Justice £'000	Assistant Chief Constable: Territorial Operations £'000	Head of Human Resources £'000	Director of Finance and Resources £'000	General Items £'000	Police Authority £'000	Total £'000
Expenditure:									
Employees	391	33,574	44,727	169,664	13,035	3,952	4,350		**269,693**
Premises		602	397	3,802	39	4,997			**9,837**
Transport	5	1,187	331	1,426	90	1,819			**4,858**
Travel and Subsistence	12	771	848	1,110	193	85	1		**3,020**
IT and Communications	3	805	438	2,936	47	54			**4,283**
Supplies and Services	103	16,062	8,774	3,742	507	697			**29,885**
Members' Allowances									**0**
National Levies							1,057		**1,057**
Grants Paid		38	762	346					**1,146**
Capital Financing (net)							3,214		**3,214**
Police Authority								1,464	**1,464**
Total Expenditure	**514**	**53,039**	**56,277**	**183,026**	**13,911**	**11,604**	**8,622**	**1,464**	**328,457**
Income:									
Service Income		(7,095)	(3,071)	(1,438)	(218)	(926)	(833)	(10)	**(13,591)**
Additional Specific Grants		(319)	(3,714)	(106)		(10)	(10,610)		**(14,759)**
Total Income	**0**	**(7,414)**	**(6,785)**	**(1,544)**	**(218)**	**(936)**	**(11,443)**	**(10)**	**(28,350)**
Contributions to/(from) reserves		**(1,338)**	**180**	**116**	**(3,055)**	**(922)**	**12,463**	**(60)**	**7,384**
Net Expenditure	**514**	**44,287**	**49,672**	**181,598**	**10,638**	**9,746**	**9,642**	**1,394**	**307,491**

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

	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	269,693	8,093	38,023			**315,809**		**315,809**
Premises	9,837	999				**10,836**		**10,836**
Transport	4,858	8				**4,866**		**4,866**
Travel and Subsistence	3,020	409				**3,429**		**3,429**
IT and Communications	4,283	655				**4,938**		**4,938**
Supplies and Services	29,885	1,155		0		**31,040**		**31,040**
Members Allowances						**0**		**0**
National Levies	1,057			(1,057)		**0**		**0**
Grants Paid	1,146	16		(36)		**1,126**		**1,126**
Capital Financing (net)	3,214			(3,214)		**0**		**0**
Police Authority	1,464					**1,464**		**1,464**
Depreciation, amortisation and impairment			12,974			**12,974**		**12,974**
Pensions interest cost and expected return on pension assets						**0**	109,960	**109,960**
Interest Payments						**0**	1,531	**1,531**
Precepts & Levies						**0**	1,057	**1,057**
Gain or Loss on Disposal of Fixed Assets						**0**	(263)	**(263)**
Total Expenditure	**328,457**	**11,335**	**50,997**	**(4,307)**	**0**	**386,482**	**112,285**	**498,767**
Income:								
Service Income	(13,591)	(11,091)		761		**(23,921)**		**(23,921)**
Additional Specific Grants	(14,759)	(1,141)	10			**(15,890)**		**(15,890)**
Interest and investment income						**0**	(761)	**(761)**
Income from council tax						**0**	(101,644)	**(101,644)**
Government grants and contributions						**0**	(215,291)	**(215,291)**
Total Income	**(28,350)**	**(12,232)**	**10**	**761**	**0**	**(39,811)**	**(317,696)**	**(357,507)**
Contributions to/(from) reserves	**7,385**	**738**		**(8,123)**		**0**		**0**
Net Expenditure	**307,492**	**(159)**	**51,007**	**(11,669)**	**0**	**346,671**	**(205,411)**	**141,260**

Restated 2010/11	Chief Constable and Chief Officers Group £'000	Deputy Chief Constable £'000	Assistant Chief Constable: Crime and Criminal Justice £'000	Assistant Chief Constable: Territorial Operations £'000	Head of Human Resources £'000	Director of Finance and Resources £'000	General Items £'000	Police Authority £'000	Total £'000
Expenditure:									
Employees	394	37,519	40,126	184,007	11,448	5,332	1,632		**280,458**
Premises		285	452	2,751	219	4,840	(101)		**8,446**
Transport	3	731	308	1,326	85	2,199			**4,652**
Travel and Subsistence	12	621	933	1,344	399	99			**3,408**
IT and Communications	2	9,454	421	2,869	140	56			**12,942**
Supplies and Services	93	1,589	8,741	3,401	1,583	1,028	8		**16,443**
Members' Allowances									**0**
National Levies							897		**897**
Grants Paid		162	842	522					**1,526**
Capital Financing (net)							2,097		**2,097**
Police Authority								1,683	**1,683**
Total Expenditure	**504**	**50,361**	**51,823**	**196,220**	**13,874**	**13,554**	**4,533**	**1,683**	**332,552**
Income:									
Service Income	(1)	(4,543)	(2,736)	(2,669)	(482)	(954)	(273)	(32)	**(11,690)**
Additional Specific Grants		(746)	(3,652)	(1,507)	0		(17,369)		**(23,274)**
Total Income	**(1)**	**(5,289)**	**(6,388)**	**(4,176)**	**(482)**	**(954)**	**(17,642)**	**(32)**	**(34,964)**
Contributions to/(from) reserves	**0**	**(528)**	**(34)**	**(18)**	**(794)**	**(3)**	**(1,824)**	**(122)**	**(3,323)**
Net Expenditure	**503**	**44,544**	**45,401**	**192,026**	**12,598**	**12,597**	**(14,933)**	**1,529**	**294,265**

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	**(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**

Restated 2010/11	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	280,458	8,850	(252,341)			**36,967**		**36,967**
Premises	8,446	1,173		(13)		**9,606**		**9,606**
Transport	4,652	75		1		**4,728**		**4,728**
Travel and Subsistence	3,408	377				**3,785**		**3,785**
IT and Communications	12,942	723				**13,665**		**13,665**
Supplies and Services	16,443	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						**0**	110,110	**110,110**
return on pension assets								
Interest Payments						**0**	1,293	**1,293**
Precepts & Levies						**0**	897	**897**
Assets						**0**	203	**203**
Total Expenditure	**332,552**	**12,717**	**(243,372)**	**(3,040)**	**0**	**98,857**	**112,503**	**211,360**
Income:								
Service Income	(11,690)	(11,912)		289		**(23,312)**		**(23,312)**
Additional Specific Grants	(23,274)	(2,167)		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**	(219,062)	**(219,062)**
Total Income	**(34,964)**	**(14,079)**	**0**	**2,736**	**0**	**(46,307)**	**(320,239)**	**(366,546)**
Contributions to/(from) reserves	**(3,323)**	**1,360**	**0**	**1,963**	**0**	**0**	**0**	**0**
Net Expenditure	**294,265**	**(2)**	**(243,372)**	**1,659**	**0**	**52,550**	**(207,736)**	**(155,186)**

8 - IAS19 (Pensions Accounting) entries and disclosures

Participation in pensions schemes

As part of the terms and conditions of employment of its officers and other employees, the 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 amount receivable by the pensions fund for the year is less than amount paid out, 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.

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)	
	2010/11 £'000	2011/12 £'000	2010/11 £'000	2011/12 £'000	2010/11 £'000	2011/12 £'000
Comprehensive Income and Expenditure Statement						
Cost of Services						
Current service cost	41,550	39,890	5,650	5,230	10,200	8,440
Past service costs	(226,390)	28,290	(2,480)	0	(31,610)	830
Financing and Investment Income and Expenditure						
Interest costs	104,080	103,930	1,180	1,500	11,800	12,090
Expected return on assets	0	0	0	0	(9,550)	(10,130)
Total Charge to the Surplus or Deficit on the Provision of Services	**(80,760)**	**172,110**	**4,350**	**6,730**	**(19,160)**	**11,230**
Other post employment benefit charged to the Comprehensive Income and Expenditure Statement						
Actuarial (Gains)/Losses	(89,861)	150,259	4,118	17,585	17,030	17,170
Total post employment benefit charged to the Comprehensive Income and Expenditure Statement	**(170,621)**	**322,369**	**8,468**	**24,315**	**(2,130)**	**28,400**
Movement in Reserves Statement						
Reverse charge to Provision of Services	**80,760**	**(172,110)**	**(4,350)**	**(6,730)**	**19,160**	**(11,230)**
Actual Amount charged against the General Fund Balance for pensions						
Employer's contributions to the scheme	**27,400**	**28,159**	**4,332**	**4,605**	**12,964**	**12,000**
Benefits paid direct to beneficiaries	**0**	**0**	**0**	**0**	**0**	**0**
Charge on General Fund	**27,400**	**28,159**	**4,332**	**4,605**	**12,964**	**12,000**

	Injury Pensions (police officers)		All schemes - Summary	
	2010/11 £'000	2011/12 £'000	2010/11 £'000	2011/12 £'000
Comprehensive Income and Expenditure Statement				
Cost of Services				
Current service cost	1,530	1,340	58,930	**54,900**
Past service cost	(6,040)	0	(266,520)	**29,120**
Financing and Investment Income and Expenditure			0	**0**
Interest costs	2,600	2,570	119,660	**120,090**
Expected return on assets	0	0	(9,550)	**(10,130)**
Total Charge to the Surplus or Deficit on the Provision of Services	**(1,910)**	**3,910**	**(97,480)**	**193,980**
Other post employment benefit charged to the Comprehensive Income and Expenditure Statement				
Actuarial (Gains)/Losses	**(2,080)**	**(530)**	(70,793)	**184,484**
Total post employment benefit charged to the Comprehensive Income and Expenditure Statement	**(3,990)**	**3,380**	**(168,273)**	**378,464**
Movement in Reserves Statement				
Reverse charge to Provision of Services	**1,910**	**(3,910)**	**97,480**	**(193,980)**
Actual Amount charged against the General Fund Balance for pensions				
Employer's contributions payable to the scheme	**0**	**0**	**44,696**	**44,764**
Benefits paid direct to beneficiaries	**1,140**	**1,250**	**1,140**	**1,250**
Charge on General Fund	**1,140**	**1,250**	**45,836**	**46,014**

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to 31 March 2012 is a loss of £113.84m (£70.64m gain at 31 March 2011)

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 2012.

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

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

IAS19 Assets and Liabilities in relation to post-employment benefits

The total assets and liabilities for retirement benefits attributable to the 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	
	2010/11 £m	2011/12 £m	2010/11 £m	2011/12 £m	2010/11 £m	2011/12 £m
1 April	(2,072.35)	(1,874.33)	(19.51)	(23.64)	(234.35)	(220.74)
Current Service Cost	(41.55)	(39.89)	(5.65)	(5.23)	(10.20)	(8.44)
Interest Cost	(104.08)	(103.93)	(1.18)	(1.50)	(11.80)	(12.09)
Contributions by scheme participants	(12.12)	(11.78)	(1.69)	(1.79)	(4.17)	(3.71)
Actuarial gains/(losses)	63.42	(186.07)	2.43	(10.89)	3.35	(13.88)
Benefits Paid	65.96	75.75	(0.52)	(0.30)	4.82	6.42
Past service costs	226.39	(28.29)	2.48	0.00	31.61	(0.83)
31 March	(1,874.33)	(2,168.54)	(23.64)	(43.35)	(220.74)	(253.27)

	Injury Pensions (police officers)		Total	
	2010/11 £m	2011/12 £m	2010/11 £m	2011/12 £m
1 April	(51.72)	(46.59)	(2,377.93)	(2,165.30)
Current Service Cost	(1.53)	(1.34)	(58.93)	(54.90)
Interest Cost	(2.60)	(2.57)	(119.66)	(120.09)
Contributions by scheme participants	0.00	0.00	(17.98)	(17.28)
Actuarial gains/(losses)	2.08	0.53	71.28	(210.31)
Benefits Paid	1.14	1.25	71.40	83.12
Past service costs	6.04	0.00	266.52	(29.12)
31 March	(46.59)	(48.72)	(2,165.30)	(2,513.88)

Reconciliation of fair value of the scheme assets:

	Police Pension Scheme (PPS)		New Police Pension Scheme (NPPS)		Injury Pensions (police officers)	
	2010/11 £m	2011/12 £m	2010/11 £m	2011/12 £m	2010/11 £m	2011/12 £m
1 April	0.00	0.00	0.00	0.00	0.00	0.00
Expected rate of return	0.00	0.00	0.00	0.00	0.00	0.00
Actuarial gains/(losses)	26.44	35.81	(6.55)	(6.70)	0.00	0.00
Employer contributions	27.40	28.16	4.34	4.61	1.14	1.25
Contributions by scheme participants	12.12	11.78	1.69	1.79	0.00	0.00
Benefits Paid	(65.96)	(75.75)	0.52	0.30	(1.14)	(1.25)
31 March	0.00	0.00	0.00	0.00	0.00	0.00

	Local Govt Pension Scheme	
	2010/11 £m	2011/12 £m
1 April	139.47	140.99
Expected rate of return	9.55	10.13
Actuarial gains/(losses)	(20.38)	(3.29)
Employer contributions	13.04	12.00
Contributions by scheme participants	4.17	3.71
Benefits Paid	(4.86)	(6.42)
31 March	140.99	157.12

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets. The actual return on scheme assets in the year was a gain of £6.84m (2010/11 £10.94m loss).

Scheme history

	2007/08 (Restated) £m	2008/09 £m	2009/10 £m	2010/11 £m	2011/12 £m
Present value of liabilities:					
Local Government Pension Scheme	(142.64)	(170.91)	(234.39)	(220.74)	(253.27)
Police Pension Schemes	(1,625.96)	(1,584.03)	(2,091.86)	(1,897.97)	(2,211.89)
Police Injury Pensions	(20.44)	(47.96)	(51.72)	(46.59)	(48.72)
Fair value of assets in the LGPS	107.71	95.45	139.58	140.99	157.12
Surplus/(deficit) in the scheme					
Local Government Pension Scheme	(34.93)	(75.46)	(94.81)	(79.75)	(96.15)
Police Pension Schemes	(1,625.96)	(1,584.03)	(2,091.86)	(1,897.97)	(2,211.89)
Police Injury Pensions	(20.44)	(47.96)	(51.72)	(46.59)	(48.72)
Total	(1,681.33)	(1,707.45)	(2,238.39)	(2,024.31)	(2,356.76)

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.

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 discretionary benefits when the pensions are actually paid;
- finance is only required to be raised to cover police pensions when the pensions are actually paid. At present, 100% of the difference between what is paid out to retired members and the sum of contributions from current members and the 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 2013 is £11.52m. In addition, Strain on Fund Contributions may be required.

Total expected contributions for the Police Pension Schemes are £67.35m. This figure includes both the Authority's contribution and the Top-Up Grant from the Home Office. In addition, the Authority expects to pay £1.26m directly to beneficiaries of injury pensions.

Basis for estimating assets and liabilities

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

The 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 2012.

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**	
	2010/11	2011/12	2010/11	2011/12
Long-term expected rate of return on assets:				
Equity investments	8.4%	**8.1%**		
Property	7.9%	**7.6%**		
Government bonds	4.4%	**3.1%**		
Corporate bonds	5.1%	**3.7%**		
Cash	1.5%	**1.8%**		
Other	8.4%	**8.1%**		
Mortality assumptions:				
Longevity at 65 for current pensioners				
Men	23.8	**23.9**	22.2	**22.5**
Women	24.8	**24.9**	24.3	**24.9**
Longevity at 65 for future pensioners				
Men	25.6	**25.6**	24.6	**24.2**
Women	26.7	**26.8**	26.7	**26.8**
Financial Assumptions:				
Inflation - RPI	3.55%	**3.30%**	3.45%	**3.25%**
Inflation - CPI	2.65%	**2.30%**	2.55%	**2.25%**
Rate of general increase in salaries	5.05%	**4.80%**	4.95%	**4.75%**
Rate of increase to pensions in payment	2.65%	**2.30%**	2.55%	**2.25%**
Rate of increase to deferred pensions	2.65%	**2.30%**	2.55%	**2.25%**
Discount rate	5.4%	**4.8%**	5.5%	**4.7%**
Other Assumptions:				
Take-up of option to convert annual pension into retirement lump sum (90% of members convert this proportion of their pension)			25.0%	**25.0%**
Take-up of option to convert annual pension into retirement lump sum (100% of members convert this proportion of the maximum amount) - pre-01/04/10 service (LGPS only)	25.0%	**25.0%**	-	**-**
As above, post-01/04/10 service (LGPS only)	75.0%	**75.0%**	-	**-**

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

at 31 March 2011		at 31 March 2012
63.4%	Equities	55.1%
7.3%	Property	7.7%
23.3%	Government bonds	27.0%
1.7%	Corporate bonds	1.5%
4.3%	Cash	4.1%
0.0%	Other (e.g. Hedge funds, currency holdings etc.)	4.6%
100.0%	Total	100.0%

History of Experience Gains and Losses

The actuarial gains identified as movements in the Pensions Reserve in 2011/12 can be analysed into the following categories, measured as a percentage of assets or liabilities at 31 March 3012:

		2007/08 (Restated) %	2008/09 %	2009/10 %	2010/11 %	2011/12 %
Differences between the expected and actual return on assets	LGPS	-15.5	-32.1	19.7	-14.5	-2.1
	Unfunded	n/a	n/a	n/a	n/a	n/a
	PPS	n/a	n/a	n/a	n/a	n/a
	NPPS	n/a	n/a	n/a	n/a	n/a
	Injury	n/a	n/a	n/a	n/a	n/a
Experience gains and losses on liabilities	LGPS	2.4	-0.2	0.4	0.8	-0.4
	Unfunded	0.0	-2.1	4.1	-2.3	-6.3
	PPS	-0.3	4.0	1.2	0.3	-3.3
	NPPS	0.0	-15.3	0.0	0.0	-6.8
	Injury	-1.0	4.4	2.8	0.2	8.8

9 – 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.

The corporate and democratic core income and expenditure are shown separately on the face of the Comprehensive Income and Expenditure Statement in the analysis in the Net Cost of Police Services section.

10 – Members Allowances and Expenses

The Authority paid the following amounts to members of the Authority in 2011/12:

2010/11 £000		2011/12 £000
231	Basic Allowance	230
21	Special Responsibility Allowance	10
29	Expenses	28
281	**Total**	268

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

The UK Government exerts significant influence through legislation and grant funding. The value of grants received is shown in the Income and Expenditure Account and further details of specific additional grants received are given in note 14.

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 £32.761m to the Police Pension Fund as contributions in respect of existing officers and those retiring due to ill-health in the year (£31.732m in 2010/11). The Local Government Pension Scheme is administered by Hampshire County Council and the Authority made employer's contributions of £11.97m in 2011/12 (£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 2011/12 (nil in 2010/11).

12 – Officer and Staff Remuneration

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

	2010/11	2011/12
Remuneration Band	**Number of employees**	**Number of employees**
£50,000 - £54,999	163	157
£55,000 - £59,999	141	123
£60,000 - £64,999	67	71
£65,000 - £69,999	13	11
£70,000 - £74,999	11	3
£75,000 - £79,999	12	7
£80,000 - £84,999	12	9
£85,000 - £89,999	6	9
£90,000 - £94,999	7	6
£95,000 - £99,999	4	3
£100,000 - £104,999	2	1
£105,000 - £109,999	0	1
£110,000 - £114,999	2	0
£115,000 - £119,999	0	1
£120,000 - £124,999	1	1
£125,000 - £129,999	0	1
£130,000 - £134,999	0	0
£135,000 - £139,999	0	1
£140,000 - £144,999	0	0
£145,000 - £149,999	0	0
£150,000 - £154,999	0	0
£155,000 - £159,999	0	0
£160,000 - £164,999	0	1
£165,000 - £169,999	1	0
£170,000 - £174,999	0	0
Totals	**442**	**406**

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.

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 identified by name as well as post, regardless of his salary. However, the definition of senior employees for non-police officers is wider and covers those responsible for the strategic management of the organisation. Given the nature of the services provided by the 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 2011/12 and comparative information for 2010/11 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.

2011/12 Disclosure
Post holder information

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

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

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

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

Note 4: The 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.

2010/11 Comparators

Post holder information

	Salary, fees and allowances £	Bonuses £	Expenses Allowance £	Compensation for loss of employment £	Benefits in Kind £	Other payments (Police officers only) £	Total Remuneration excluding pensions contributions £	Employer's Pension contributions £	Total Remuneration including pensions contributions £	Note
Chief Constable - Mr Alex Marshall	166,131	-	-	-	1,312	-	167,443	12,132	**179,575**	
Deputy Chief Constable to 13 June 2010	26,298	-	-	-	-	-	26,298	6,089	**32,387**	1
Deputy Chief Constable from 13 September 2010	78,550	-	-	-	5,454	-	84,003	16,937	**100,940**	1
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**	
	790,617	**-**	**5,655**	**-**	**36,135**	**-**	**832,408**	**145,648**	**978,056**	**2**

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.

Exit Packages in Bands of £20,000

Exit Package cost band (including special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band		Total cost of exit packages in each band	
	2010/11 No.	2011/12 No.	2010/11 No.	2011/12 No.	2010/11 No.	2011/12 No.	2010/11 £'000	2011/12 £'000
£0 - £20,000	7	24	59	183	66	207	411	1,480
£20,001 - £40,000	0	2	0	6	0	8	0	129
£40,001 - £60,000	0	0	0	1	0	1	0	43
£60,001 - £80,000	0	0	0	0	0	0	0	0
£80,001 - £100,000	0	0	0	0	0	0	0	0
£100,001 - £150,000	0	0	0	0	0	0	0	0
Additional provision in the Comprehensive Income and Expenditure Statement	5	0	79	52	84	52	725	318
Reversal of previous year's provision (included in bandings in following year when payments due)	0	(5)	0	(79)	0	(84)	0	(725)
Totals	**12**	**21**	**138**	**163**	**150**	**184**	**1,136**	**1,245**

The total cost of £1.245m in the table above includes £0.033m for exit packages that have been agreed, accrued for and charged to the authority's Comprehensive Income and Expenditure Statement in the current year. In addition the authority's Comprehensive Income and Expenditure Statement includes a provision of £0.318m which has been agreed and is payable to 52 officers; these costs are not included in the bands and therefore an additional line has been added to reconcile to the total cost of termination benefits reported in the Comprehensive Income and Expenditure Statement. An additional line has also been added to ensure that provisions included in the prior year are not double-counted when payments are made in the following year.

In addition to the payments made to staff leaving the organisation, the Authority also made payments to the Local Government Superannuation Scheme which it bears as the employer for the early retirement of eligible staff that are made redundant. Charges to the Comprehensive Income and Expenditure Statement to cover the actual or expected payments due amounted to £0.860m in 2010/11 and £0.926m in 2011/12.

13 – Termination Benefits

The Authority terminated the contracts of a number of employees in 2011/12, incurring liabilities of £1.245m (£1.136m in 2010/11). See note 12 for the number of exit packages and total cost per band.

14 – Grant Income

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement in 2011/12:

2010/11 £'000		2011/12 £'000
	Credited to Taxation and Non-Specific Grant Income	
(100,888)	Council Tax Precept	(101,644)
(76,572)	Share of National Business Rates	(56,748)
(127,772)	Police Grant	(137,967)
(11,119)	Revenue Support Grant	(17,541)
(3,599)	Government Grant to Finance Capital Expenditure	(3,035)
(319,950)	**Total**	**(316,935)**

Credited to Services

2010/11 £'000		2011/12 £'000
(7,309)	Crime Fighting Fund	0
(165)	Chemical, Biological, Radiological and Nuclear (CBRN)	0
(7,611)	Neighbourhood Policing Fund/Community Support Officers	(7,609)
(3,532)	Dedicated Security Posts grant	(3,745)
0	Council tax Freeze grant	(2,520)
(976)	Basic Command Unit grant	0
(1,207)	ACPO Criminal Records Office	(888)
(354)	Automatic number plate recognition grant	(19)
(398)	Counter terrorism grant	(108)
(611)	National Lead Air Support	(226)
(183)	Local Criminal Justice Board	(64)
(2)	Local Public Services Agreement (LPSAS)	(14)
(190)	Tackling Knives Action Programme	0
(162)	Mobile Information Project	(177)
0	Special grant - Riots	(481)
(295)	Miscellaneous grants	(40)
(22,995)	**Totals:**	**(15,891)**

Note that the crime fighting fund and basic command unit grants became part of the police grant with effect from 2011/12.

15 – Adjustments between accounting basis and funding under regulations

This note details the adjustments that are made to the total comprehensive income and expenditure recognised by the 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.

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

2011/12

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

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

2010/11	Usable Reserves					
	General Fund Balance	Earmarked General Fund Reserves	Capital Receipts Reserve	Capital (Revenue Contributions) Reserve	Capital Grants Unapplied	Movement In Unusable Reserves
	£'000	£'000	£'000	£'000	£'000	£'000
Adjustments primarily involving the Capital Adjustment Account:						
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:						
Charges for depreciation and impairment of non-current assets	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

2010/11	Usable Reserves					
	General Fund Balance	Earmarked General Fund Reserves	Capital Receipts Reserve	Capital (Revenue Contributions) Reserve	Capital Grants Unapplied	Movement In Unusable Reserves
	£'000	£'000	£'000	£'000	£'000	£'000
Adjustments primarily involving the Capital Grants Unapplied Account:						
Capital grants and contributions unapplied credited to the Comprehensive Income and Expenditure Statement	0				0	
Application of grants to capital financing transferred to the Capital Adjustment Account					0	0
Adjustments primarily involving the Capital Receipt Reserve:						
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(1,249)		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

2010/11	General Fund Balance	Earmarked General Fund Reserves	Capital Receipts Reserve	Capital (Revenue Contributions) Reserve	Capital Grants Unapplied	Movement In Unusable Reserves
	Usable Reserves					
	£'000	£'000	£'000	£'000	£'000	£'000
Adjustments primarily involving the Financial Instruments Adjustment Account:						
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable in the year in accordance with statutory requirements	(34)					34
Adjustments primarily involving the Pensions Reserve:						
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure Statement	(97,480)					97,480
Employer's pensions contributions and direct payments to pensioners payable in the year	(45,836)					45,836
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	(139,892)	0	0	(1,264)	0	141,156

16 – Transfers to/from Earmarked Reserves

This note sets out the amounts set aside from the General Fund balance in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund Expenditure in 2011/12.

	Balance 31 March 2010 £'000	Transfers 2010/11 Out £'000	Transfers 2010/11 In £'000	Balance 31 March 2011 £'000	Transfers 2011/12 Out £'000	Transfers 2011/12 In £'000	Balance 31 March 2012 £'000
ACRO Surety	1,000	0	750	1,750	0	0	1,750
Carry Forward Reserve	3,658	(4,408)	4,945	4,195	(3,795)	4,631	5,031
Equipment Reserve	0	0	0	0	0	1,000	1,000
Insurance Reserve	394	0	0	394	0	500	894
Netley Business Plan	25	0	48	73	0	25	98
Performance Reserve	0	0	0	0	0	2,500	2,500
Revenue Grants Unapplied	0	0	354	354	(354)	644	644
Spend to Save Reserve	386	0	0	386	0	0	386
Transformation Reserve	0	0	0	0	(3,375)	27,016	23,641
Total	5,463	(4,408)	6,097	7,152	(7,524)	36,316	35,944

Earmarked reserves are held for the following purposes:

- The ACRO surety is a sum held to meet any liabilities in the event that the ACRO service is ceased or transferred out of the Authority's stewardship;
- Budget carry forwards represent surpluses generated from devolved budgets or from the ACPO Criminal Records Office (ACRO);
- The Equipment reserve acts as a sinking fund to pay for the regular replacement of essential equipment such as body armour and Chemical Biological, Radiological and Nuclear (CBRN) kit. The intention is to provide a facility for contributions to be made, ideally on an annual basis, to smooth out the cost of large scale replacements
- The Insurance Reserve is held to meet the costs of any unforeseen increases in settlements made during the year;
- The Netley Business Plan holds the accumulated surpluses of the net trading activity of the use of the Netley site for functions such as weddings. The surplus is held for subsequent reinvestment in the site;
- The Performance Reserve is held with the purpose of boosting performance at a time when forces nationally have to contend with budget reductions, whilst directly meeting the priorities of the Authority and Force;
- The Revenue Grants Unapplied reserve holds grants for which there are no outstanding conditions but where the expenditure has not been incurred at the year end;

- The Spend to Save reserve is held to pump prime initiatives that need initial investment to generate future efficiencies, which may accrue a number of years after the initial investment. When savings are generated these are used to replenish the reserve;
- The Transformation reserve is held to meet the necessary costs of changing structures and processes in the force to ensure that performance is maintained in an environment of reduced and reducing budgets.

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

2010/11 £'000		2011/12 £'000
1,886	**Balance at start of year**	**622**
2,539	Contributions received in year	2,681
(3,496)	Contributions applied to finance capital expenditure	(1,172)
(307)	Contributions returned to revenue	0
622	**Balance at end of year**	**2,131**

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

18 – Other operating income/expenditure

Restated 2010/11 £'000		2011/12 £'000
897	Levies to National Police Services	1,057
(19,893)	Home Office Police Pension Fund Top-up Grant	(29,116)
19,893	Transfer of Home Office Grant to the Police Pension Fund	29,116
203	(Gains)/losses on the disposal of non-current assets	(263)
1,100		794

Changes in the accounting for the top-up grant receivable from the Home Office to meet the costs of police pensions means that the 2010/11 comparator information has been restated. See Note 3 for further information.

19 – Financing and investment income and expenditure

2010/11 £'000		2011/12 £'000
1,293	Interest payable and similar charges	1,531
110,110	Pensions interest cost and expected return on pension assets	109,960
(289)	Interest receivable and similar income	(761)
111,114		110,730

20 – Property, Plant and Equipment (PP&E) movements

Property, Plant and Equipment Movement on balances

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

Movement on balances 2011/12

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

Movement on balances 2010/11

	Land and Buildings £'000	Vehicles and Plant £'000	Furniture and Equipment £'000	Assets under construction £'000	Surplus Assets £'000	Total Property, Plant and Equipment £'000
Cost or valuation						
At 31 March 2010	**145,333**	**16,492**	**8,687**	**32,664**	**461**	**203,637**
Adjustment to opening balance	(28,603)	0	0	0	0	(28,603)
Revised value as at 31 March 2010	**116,730**	**16,492**	**8,687**	**32,664**	**461**	**175,034**
Additions in year	627	2,108	2,873	16,149	0	21,757
Revaluation increases/(decreases) recognised in the Revaluation Reserve	982	0	0	0	0	982
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(1,462)	0	0	0	0	(1,462)
Derecognition - Disposals	(1,080)	(1,371)	0	0	0	(2,451)
Derecognition - Other	(431)	0	0	0	0	(431)
Assets reclassified (to)/from held for sale	(380)	(2,079)	0	0	0	(2,459)
Other movements in cost or valuation	36,450	0	0	(37,518)	1,068	0
At 31 March 2011	**151,436**	**15,150**	**11,560**	**11,295**	**1,529**	**190,970**
Accumulated depreciation and Impairment						
At 31 March 2010	**(34,172)**	**(7,027)**	**(6,946)**	**0**	**(5)**	**(48,150)**
Adjustment to opening balance	28,603	0	0	0	0	28,603
Revised value as at 31 March 2010	**(5,569)**	**(7,027)**	**(6,946)**	**0**	**(5)**	**(19,547)**
Depreciation Charge	(2,472)	(2,681)	(947)	0	(5)	(6,105)
Depreciation and impairment written out on revaluation	(501)	0	0	0	0	(501)
Impairment (losses)/ reversals recognised in the Revaluation Reserve	0	0	0	0	0	0
Impairment (losses)/ reversals recognised in the Surplus/Deficit on the Provision of Services	0	0	0	0	0	0
Derecognition - Disposals	98	913	0	0	0	1,011
Derecognition - Other	(15)	0	0	0	0	(15)
Assets reclassified (to)/from held for sale	15	856				871
Other movements in depreciation and impairment	102	0	0	0	(102)	0
At 31 March 2011	**(8,342)**	**(7,939)**	**(7,893)**	**0**	**(112)**	**(24,286)**
Net Book Value						
At 31 March 2011	**143,094**	**7,211**	**3,667**	**11,295**	**1,417**	**166,684**
At 31 March 2010	**111,161**	**9,465**	**1,741**	**32,664**	**456**	**155,487**

Note that the opening balance on the land and buildings cost or valuation information and the opening balance on the accumulated depreciation and impairment on the same assets have been adjusted to account for an overstatement of both figures at 31 March 2010. The net book value shown on the Balance Sheet and in the disclosures for 2009/10 was not affected by this overstatement – as both elements are taken together to give a net value - and consequently no adjustments are required for the prior periods.

Impairment Review

There is a requirement under the Code each year to review fixed assets for evidence of impairment, which may be occasioned by a permanent consumption of economic benefits - e.g. as a result of a fire - or by a general reduction in prices or value. No impairment of property, plant and equipment assets was considered to have been incurred at the end of 2011/12.

Capital commitments

As at 31 March 2012 the Authority had committed capital expenditure of £3.23m, mainly to the Estates Development Programme (£1.58m), other land and buildings - including a retention payment on the Southampton police station scheme which was completed at the end of 2010/11 - (£0.89m) and the vehicle and marine fleet replacement programmes (£0.68m).

Intangible assets

Prior to the introduction of IFRS, intangible assets were shown in the same disclosure as what are now property, plant and equipment assets. These are now shown separately below:-

Movement on Balances

	Intangible assets £'000
Cost or valuation at 31 March 2010	**20**
Additions in year	0
Other changes in year	0
At 31 March 2011	**20**
Additions in year	0
Other changes in year	0
At 31 March 2012	**20**
Accumulated depreciation and Impairment at 31 March 2010	**(20)**
Depreciation Charge	0
Other movements in depreciation and impairment	0
At 31 March 2011	**(20)**
Depreciation Charge	0
Other movements in depreciation and impairment	0
At 31 March 2012	**(20)**
Net Book Value	
At 31 March 2012	**0**
At 31 March 2011	**0**
At 31 March 2010	**0**

21 – Valuation Information

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

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

	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
At historical cost	107	6,490	4,068	12,198	0	22,863
At fair value in:						0
2007/08	279	0	0	0	0	279
2008/09	0	0	0	0	0	0
2009/10	3,873	0	0	0	809	4,682
2010/11	34,107	0	0	0	0	34,107
2011/12	98,666	0	0	0	347	99,013
Total	137,032	6,490	4,068	12,198	1,156	160,944

Measurement Bases

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

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

22 – Assets held for sale

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

	Current		Non-Current	
	2010/11 £'000	**2011/12 £'000**	**2010/11 £'000**	**2011/12 £'000**
Balance outstanding at start of year	**0**	**1,128**	**0**	**0**
Assets newly classified as held for sale:				
* Property, Plant and Equipment	1,133	296	0	0
* Intangible Assets	0		0	0
* Other assets/liabilities in disposal groups	0		0	0
Revaluation gains/(losses)	(5)		0	0
Impairment losses	0		0	0
Assets declassified as held for sale:	0		0	0
* Property, Plant and Equipment	0		0	0
* Intangible Assets	0		0	0
* Other assets/liabilities in disposal groups	0		0	0
Assets sold	0	(360)	0	0
Transfers from non-current to current	0		0	0
Balance outstanding at year-end	**1,128**	**1,064**	**0**	**0**

The Authority holds two assets which meet the tests of being held for sale as at the Balance Sheet date:-

- The aircraft became held for sale during 2010/11 and a broker was appointed to facilitate the sale of the aircraft at the optimum price.
- Whilst there is interest from prospective purchasers, no sale had been completed as at 31 March 2012. Whilst this asset was considered for a reclassification - in line with the Accounting Code of Practice - it is anticipated that the aircraft will be sold in 2012/13. Consequently, the aircraft remains classified as held for sale;
- A disposal of one of the Authority's former dwellings was in progress at the Balance Sheet date, with the sale being completed in April 2012.

23 – Capital financing requirement

2010/11 £'000	Capital financing and expenditure	2011/12 £'000
35,022	*Opening Capital Financing Requirement*	47,591
	Capital investment	
5,608	Operational assets	4,465
16,149	Non-operational assets	903
	Sources of finance	
(1,249)	Capital receipts	(1,161)
(3,598)	Government grants and contributions	(3,024)
(41)	Other grants and contributions	(12)
(3,496)	Use of reserves (RCCO)	(1,171)
(804)	Sums from revenue (MRP)	(1,683)
47,591	*Closing Capital Financing Requirement*	**45,908**
	Explanation of movements in year	
1,703	Increase in underlying need to borrow (supported)	0
10,866	Increase/(Decrease) in underlying need to borrow (unsupported)	(1,683)
12,569	*Increase/(decrease) in Capital Financing*	**(1,683)**

£5.37m of capital expenditure was on fixed assets as shown above. The expenditure on non-operational assets in 2010/11 related to the marine fleet replacement and the initial costs of the approved Estates Development Programme. 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 2011/12 was £10m (£10m in 2010/11).

24 – Leases

24.1 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 2011 £'000		31 March 2012 £'000
3,199	Other Land and Buildings	3,338
0	Vehicles, Plant, Furniture and Equipment	0
3,199	**Total**	3,338

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 2011 £'000		31 March 2012 £'000
144	Not later than one year	47
1,786	Later than one year and not later than five years	2,531
1,458	Later than five years	0
3,388	**Total**	2,578

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 2011 £'000		31 March 2012 £'000
1,376	Minimum lease payments	1,296
0	Contingent rents	0
(32)	Less: Sub-lease payments receivable	(9)
1,344	**Total**	1,287

One building was sub-let to a third party during the year and the sub-lease income receivable in respect of this is included above. This sub-letting agreement has now ceased.

24.2 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 £43,000. 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.

25 – Heritage Assets

In accordance with FRS 30 and IPSAS 31, the Authority has reviewed the extent to which it holds assets which are maintained principally for their contribution to knowledge and culture.

The Authority does not hold any significant assets which have a current valuation or original cost (where either are known or can be reliably estimated) in excess of the de minimis threshold for reporting purposes of £10,000.

The Authority does hold one vehicle with some historical or cultural value. The vehicle is a Ford Ecostar which was produced in the 1990's as part of Ford's electric car project and was trialled in Hampshire. The force purchased the vehicle for £100 at the end of the project and uses this for exhibitions and loans. Whilst of some local historical significance and likely to have a value in excess of the purchase price, there is no evidence of sales of such vehicles on which to assess a current valuation. The fact that the electric technology was put into a standard Ford Escort van suggests that any worth is not likely to be significant in the vehicle itself, rather the technology it was using.

26 – Insurance Provisions

The Police Authority does not have an insurance provision but does hold a reserve of £894,000 (£394,000 at 31 March 2011). The Authority self insures lower amounts but externally insures against larger risks such as loss/damage to assets and other potential liabilities. After a year when the budget was insufficient to cover the expenditure, the Authority approved an additional transfer of £500,000 to the reserve during the year to meet the costs of unexpected increases in settlements in future years.

27 – Financial Instruments

27.1 Introduction

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

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

In accordance with these standards, financial assets and financial liabilities should be measured initially at fair value less transaction costs. Fair value is the amount for which an asset could be exchanged or a liability settled. The best evidence for fair value on initial recognition is the transaction price. The financial assets of the 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 (i.e. borrowings) or financial liabilities carried at contract amount. Current operational creditors are valued at contract amount given their short-term nature.

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

	Long - term		Current	
	31 March 2012 £'000	31 March 2011 £'000	31 March 2012 £'000	31 March 2011 £'000
Investments				
Loans and receivables	7,000	3,000	28,000	17,500
Financial assets carried at fair value through profit and loss	0	0	0	0
Total investments	**7,000**	**3,000**	**28,000**	**17,500**
Debtors				
Loans and receivables	685	675	14,904	9,684
Financial assets carried at contract amounts				
Total Debtors	**685**	**675**	**14,904**	**9,684**
Borrowings				
Financial liabilities at amortised cost	38,378	30,200	1,215	0
Financial liabilities carried at fair value through profit and loss	0	0	0	0
Total borrowings	**38,378**	**30,200**	**1,215**	**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	14,586	10,968
Total creditors	**0**	**0**	**14,586**	**10,968**

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

27.2 Income, Expense, Gains and Losses

	2010/11			2011/12		
	Financial Liabilities measured at amortised cost £'000	Financial Assets: Loans and receivables £'000	Total £'000	Financial Liabilities measured at amortised cost £'000	Financial Assets: Loans and receivables £'000	Total £'000
Interest expense	1,293	0	**1,293**	1,531	0	**1,531**
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	**1,293**	**0**	**1,293**	**1,531**	**0**	**1,531**
Interest income	0	289	**289**	0	761	**761**
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**	**289**	**289**	**0**	**761**	**761**
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	**(1,293)**	**289**	**(1,004)**	**(1,531)**	**761**	**(770)**

27.3 Fair values of Assets and Liabilities

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

- estimated ranges of interest rates at 31 March 2012 of 1.68% to 4.35% 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 2011 Carrying amount £'000	31 March 2011 Fair value £'000		31 March 2012 Carrying amount £'000	31 March 2012 Fair value £'000
41,168	41,957	Financial liabilities	54,179	60,720
0	0	Long-term creditors	0	0

31 March 2011 Carrying amount £'000	31 March 2011 Fair value £'000		31 March 2012 Carrying amount £'000	31 March 2012 Fair value £'000
30,184	30,184	Loans and receivables	49,904	49,949
675	675	Long-term debtors	685	685

Liabilities

The fair values of the liabilities are calculated in the context of interest rates applicable for similar liabilities at the balance sheet date. As at the balance sheet date of 31 March 2012 and the previous year end, the fair value of the liabilities are higher than the carrying amount of the liabilities on these dates because the 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.

Assets

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

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

Car loans are relatively short-term advances to staff and total approximately £24,900 at 31 March 2012 (£11,000 at 31 March 2011). 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 2012 the outstanding sum was £0.74m. Loans totalling £40,000 were repaid during the financial year. In accordance with the Code these loans have been written-down to their fair value which reflects the interest foregone by making interest free loans. This interest foregone forms a charge on the income and expenditure account on initial recognition (i.e. the year the advance is made) although there is an accounting adjustment to mitigate any potential impact upon the general fund balance. 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 (£0.66m at 31 March 2011). The Financial Instruments Adjustment Account is the balance sheet account which records these adjustments to the value of the soft loans.

27.4 Trade Receivables (Debtors)

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

31 March 2011 £'000		31 March 2012 £'000
9,684	Receivable financial instruments	14,904

27.5 Loans and receivables – long-term

In accordance with the Annual Investment Strategy, £7m of surplus cash was invested in a total of four loans at the balance sheet date, with various dates of maturity between 05.07.13 and 07.02.14, all with UK local authority as counterparties. With interest rates being fixed at rates which are close to the discount rate and these investments being repaid at various points during this period, the fair value of these investments is £7.045m. This difference is not significant and the investments are held at carrying value as a proxy for fair value at the Balance Sheet date.

27.6 Trade Payables (Creditors)

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

31 March 2011 £'000		31 March 2012 £'000
10,968	Trade Payables (Creditors)	14,586

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

The Authority's borrowing strategy for 2011/12 was set in February 2011. The strategy for borrowing changed from one which was focussed on new capital financing for the capital programme and the replacement of maturing loans to one where the intention was to take a more proactive approach to managing the portfolio of existing borrowing. This approach would look for opportunities which might arise in an environment of changing interest rates to refinance some borrowing to offer improved revenue costs of capital financing. Notwithstanding this, with high levels of internal balances, it was recognised that the gap between debt costs and investment interest was still acute, and that internal financing might be the most cost effective means of financing capital expenditure.

In the light of the high level of balances and the need to take advantage of historically low borrowing opportunities the Authority borrowed £10m at a weighted average rate of 2.42%, albeit at terms of less than 10 year and on an equal instalments of principal basis (i.e. as opposed to the maturity basis of the remainder of the portfolio).

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

Analysis of loans by maturity	Average interest rate (Current)	Outstanding loans 31 March 2011 £'000	Outstanding loans 31 March 2012 £'000
Less than 5 years	2.84%	500	6,571
Between 5 and 10 years	2.50%	0	3,321
Between 10 and 15 years	5.44%	700	700
Between 15 and 20 years	4.12%	0	4,000
Between 20 and 25 years	4.30%	21,000	21,000
More than 25 years	4.24%	8,000	4,000
		30,200	**39,592**

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 3 1/2 year loan at 31 March 2012 (being the remaining life to maturity) was 1.70%, 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.

Much of the Authority's loan portfolio of £39.6m was taken out in 2008/09 (i.e. £14m), 2010/11 (£10m) and 2011/12 (£10m). As a result, the difference between the rates at which loans were taken out and the rates in existence at 31 March 2012 is relatively low, 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 £46.1m at 31 March 2012 (£30.989m at 31 March 2011).

27.8 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 and by being the employer of all of the staff, the Authority has effectively guaranteed the leasing payments for premises occupied by the ACPO Criminal Records Office (ACRO). However, in respect of the ACRO premises and any prospective redundancy costs, a surety has been received and is held as a deposit in the event that the service is discontinued. The sum held represents the maximum liability to pay outstanding leasing payments under the lease and any redundancy costs which may arise. As such, this sum is not a premium paid to the 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.

27.9 Risks

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

- Credit risk – the possibility that other parties might fail to pay amounts due to the Authority;
- Liquidity risk – the possibility that the Authority might not have funds available to meet its commitments to make payments;
- Market risk – the possibility that financial loss might arise for the Authority as a result of changes in such measures as interest rates or stock market movements.

Credit Risk

Credit risk is the possibility that banks and financial institutions will fail to meet their contractual obligations, causing a loss to the 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 £15 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 2011/12, approved by the Authority on 15 February 2011.

Until February 2012, the minimum criterion for new investments was a long term rating of A+. Following downgrades to a number of systemically important financial institutions in Autumn 2011, a lower minimum credit rating of A- was adopted by the Authority once the revised Treasury Strategy was approved by the Authority.

The table below summarises the nominal value of the Authority's investment portfolio at 31 March 2012, and confirms that all investments were made in line with the Authority's approved credit rating criteria:

Counterparty	Credit Rating Criteria Met When Investment Placed?	Credit Rating Criteria Met on 31 March 2012?	Balance Invested as at 31 March 2012 £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	3,000	11,000	5,000		19,000
Building Societies - UK	Yes	Yes		8,000			8,000
Local Authorities	Yes	Yes			1,000	7,000	8,000
Call Accounts	Yes	Yes	16,290				16,290
Total			**19,290**	**19,000**	**6,000**	**7,000**	**51,290**

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

Liquidity Risk

Liquidity risk is the possibility that the 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.

The maturity analysis of the nominal value of the Authority's debt at 31 March 2012 was as follows:

Oustanding debt - maturity periods	31 March 2012	% of total debt portfolio
	£'000	%
Less than 5 years	6,806	17
Between 5 and 10 years	3,321	8
Between 10 and 15 years	700	2
Between 15 and 20 years	4,000	10
Between 20 and 25 years	21,000	53
More than 25 years	4,000	10
Total	**39,827**	**100**

31 March 2011 £'000	Loans and other long term liabilities outstanding (nominal value):	31 March 2012 £'000
30,200	Public Works Loan Board	39,593
193	Temporary borrowing	234
0	Finance leases	0
0	Other	0
30,393	**Total**	39,827

Note that the loans and other long-term liabilities include accrued interest of £0.234m and that part of the long-term borrowing which is due to be repaid in the 12 months after the Balance Sheet date (£1.215m); both of these elements are classified as short-term liabilities on the Balance Sheet.

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 £50.0m on external debt that can be subject to variable interest rates. At 31 March 2012, £39.6m 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.

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

	£'000
Increase in interest payable on variable rate borrowing	0
Increase in interest receivable on variable rate investments	(539)
Net cost / (saving)	(539)

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

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 one financial asset denominated in a foreign currency (i.e. Euro), which it holds in a designated Euro currency bank account. Whilst the account balance is included in the Balance Sheet under cash and cash equivalents at the spot exchange rate pertaining on 31 March 2012, this is for accounting and reporting purposes only. The Euro account is held so that the Authority can account for the use of the EU grant it relates to and the donor bears the risk of any losses or benefits from any gains arising from movements in exchange rates. The Authority therefore has no exposure to loss arising as a result of adverse movements in exchange rates.

28 – Inventories

2010/11 £'000	Consumable Stores	2011/12 £'000
892	**Balance outstanding at start of year**	**1,028**
4,548	Purchases	3,771
(4,407)	Recognised as an expense in the year	(3,916)
(5)	Written off balances	0
0	Reversal of write-offs in previous years	0
1,028	**Balance outstanding at year-end**	**883**

29 – Short-term debtors

31 March 2011 £'000		31 March 2012 £'000
7,965	Central government bodies	18,288
7,340	Other local authorities	5,383
1	NHS Bodies	0
3	Public corporations and trading funds	0
2,888	Other entities and individuals	2,592
18,197	**Total**	**26,263**

30 – Cash and cash equivalents

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

31 March 2011 £'000		31 March 2012 £'000
79	Cash held by the Authority	50
314	Bank current accounts	1,407
(3,231)	Bank overdrawn	(2,880)
9,920	Call accounts (same day access funds)	16,290
7,082	**Total Cash and Cash Equivalents**	**14,867**

31 – Short-term creditors

31 March 2011 £'000		31 March 2012 £'000
6,699	Central government bodies	6,286
8,756	Other local authorities	12,253
4	NHS Bodies	65
27	Public corporations and trading funds	23
12,617	Other entities and individuals	14,280
28,103	**Total**	**32,907**

Note that short-term creditors include revenue grants received in advance (£0.482m) and the principal on long-term borrowing which is due to be repaid in the 12 months after the Balance Sheet date (£1.215m) and accrued interest (0.234m). These are shown separately (with interest and principal combined) on the Balance Sheet. See also note 27.9.

32 – Provisions – Current Liabilities

	Redundancy and pension strain £'000	Other Provisions £'000	Total £'000
Balance at 31 March 2011	**(907)**	**0**	**(907)**
Additional provisions made in 2011/12	(551)	0	(551)
Amounts used in 2011/12	907	0	907
Unused amounts reversed in 2011/12	0	0	0
Unwinding of discounting in 2011/12	0	0	0
Balance at 31 March 2012	**(551)**	**0**	**(551)**

A provision has been made in the accounts in respect of the costs of redundancies and the additional charges to the employer from the pension fund for those who are eligible to retire early at the point at which they are made redundant. No extra entitlement, such as added years, are offered by the Authority but pensions can be taken early without a penalty. As a result of the change programme, the force has made a number of members of police staff redundant in 2010/11 and 2011/12, largely through the employees' application to take voluntary redundancy, which is enabling the force to meet budget reductions targets. Where staff left at the 31st March, the redundancy payments were not due until after they had left the organisation and charges from the pension fund were also not due until the new financial year. As neither of these amounts can be accrued but there is certainty over both the timing and the amounts due, a provision has been made. In 2011/12, a provision of £551,000 has been made (£907,000 in 2010/11).

The Authority did not qualify for the first phase of the Carbon Reduction Commitment (CRC) Energy Efficiency Scheme. Consequently no provision is made in respect of this.

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 2011). Bad debts totalling £9,719 were written off during the year.

33 – Usable Reserves

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

Usable reserves include earmarked balances which are held for a number of specific purposes. Notes 16 and 17 provide details of the balances and the purposes of each reserve.

34 – Unusable Reserves

34.1 Unusable Reserves – Summary

31 March 2011 £'000		31 March 2012 £'000
118,339	Capital Adjustment Account	111,694
2,764	Revaluation Reserve	5,286
(116)	Financial Instruments Adjustment Account	(80)
1,426	Collection Fund Adjustment Account	1,230
0	Available for Sale Financial Instruments Reserve	0
(5,279)	Accumulated Absences Account	(4,423)
(2,024,407)	Pensions Reserve	(2,356,857)
(1,907,273)		**(2,243,150)**

34.2 Reserves – Capital Adjustment Account

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

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

Note 15 provides details of the source of all the transactions posted to the account, apart from those involving the Revaluation Reserve.

2010/11 £'000		2011/12 £'000	2011/12 £'000
119,417	**Balance at 1 April**		**118,338**
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
(8,969)	• Charges for depreciation and impairment of non-current assets	(12,974)	
0	• Revaluation losses on Property, Plant and Equipment	0	
0	• Amortisation of intangible assets	0	
0	• Revenue expenditure funded from capital under statute	0	
(1,335)	• 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	(901)	
(10,304)			**(13,875)**
35	Adjusting amounts written out of the Revaluation Reserve		180
(10,269)	Net written out amount of the cost of non-current assets consumed in the year		**(13,695)**
	Capital financing applied in the year:		
1,249	• Use of the Capital Receipts Reserve to finance new capital expenditure	1,161	
3,497	• Use of the Capital (Revenue Contributions) Reserve to finance new capital expenditure	1,172	
3,640	• Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	3,035	
0	• Application of grants to capital financing from the Capital Grants Unapplied Account	0	
804	• Statutory provision for the financing of capital investment charged against the General Fund balance	1,218	
0	• Voluntary provision for the financing of capital investment charged against the General Fund balance	465	
0	• Capital expenditure charged against the General Fund	0	
9,190			**7,051**
118,338	**Balance at 31 March**		**111,694**

34.3 Reserves – Revaluation

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

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

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

2010/11 £'000		2011/12 £'000
1,928	**Balance at start of year**	**2,765**
985	Revaluations during year	2,894
(3)	Impairments of previously revalued assets	(193)
(110)	Disposal of revalued assets	(86)
(35)	Depreciation of revaluations	(94)
2,765	**Balance at end of year**	**5,286**

34.4 Reserves – Financial Instruments Adjustment Account

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

2010/11 £'000		2011/12 £'000
(150)	**Balance at start of year**	**(116)**
34	Effective interest credited to Comprehensive Income and Expenditure Statement	36
(116)	**Balance at end of year**	**(80)**

34.5 Reserves – Collection Fund Adjustment Account

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

2010/11 £'000		2011/12 £'000
1,272	**Balance at start of year**	**1,425**
153	Collection Fund net debtor/(creditor) at 31 March - monies owed by/(to) billing authorities	(195)
1,425	**Balance at end of year**	**1,230**

34.6 Reserves – Accumulated Absences Account

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

2010/11 £'000		2011/12 £'000	2011/12 £'000
(4,157)	**Balance at start of year**		**(5,279)**
4,157	Settlement or cancellation of accrual made at the end of the preceding year	5,279	
(5,279)	Amounts accrued at the end of the current year	(4,423)	
(1,122)	Amount by which amounts charged to the Comprehensive Income and Expenditure Statement are different from the cost of settlements chargeable in the year in accordance with statutory requirements		856
(5,279)	**Balance at end of year**		**(4,423)**

Note that the amount by which employee remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements is the movement in the year. In 2011/12 this was a reduction of £0.856m (An increase of £1.222m in 2010/11).

34.7 Reserves – Pensions Reserve

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

2010/11 £'000		2011/12 £'000
(2,238,487)	**Balance at start of year**	**(2,024,407)**
70,793	Actuarial gains/(losses) on pensions assets and liabilities	(184,484)
97,451	Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement	(193,980)
45,836	Employer's pension contributions and direct payments to pensioners payable in the year	46,014
(2,024,407)	**Balance at end of year**	**(2,356,857)**

35 – 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:-

2010/11 £000		2011/12 £000
104.5	Fees payable to the Audit Commission with regard to external audit services carried out by the appointed auditor for the year	91.9
25.0	Fees payable to the Audit Commission with regard to the review of the decision to buy Alpha Park	0.0
0.0	Additional fees payable to the Audit Commission with regard to external audit services carried out by the appointed auditor for the previous year	5.9
0.5	Fees payable to the Audit Commission in respect of the National Fraud Initiative	0.5
130.0		**98.3**

36 – Contingent liabilities

Changes to tax legislation which came into effect in 2011/12 meant that under certain circumstances, officers who retired and took their commuted lump sums and pensions and who then were re-employed by the Force within a six months of departure were consequently in receipt of unauthorised pension payments on which tax was due. The Authority has taken advice on this matter and has considered the issues and has made a payment on account to meet the tax liability through a settlement arrangement with the HMRC which external advisors had agreed with the HMRC. The HMRC stance is less decisive and it is currently reviewing its advice. In the light of this, the matter is not resolved and outstanding payments to a third party for tax advice are reliant on a successful outcome of the settlement issue. If the matter is not concluded in favour of a settlement this may mean that the Authority is liable to undisclosed additional tax payments. As the outcome cannot be predicted, neither of these payments is certain and the amounts are not precise, a contingent liability is recorded in these accounts.

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

At the balance sheet date there were a number of other potential liabilities in respect of events which are alleged to have happened in the past and where claims have been received from various third parties for damages and costs. Some of these relate to operational matters where liability has been alleged to have occurred in the past. These claims take some time to be settled but if there were to be settled all in the same year, insurance cover is in place to meet the costs of aggregate claims over a certain level; below this level (which is a combined £1.35m across the major categories of insurance) existing budgets or, exceptionally, the insurance reserve will cover the shortfall. However, it is considered unlikely that all outstanding claims will be found against the Authority and would be settled in the same year.

There are some claims which have been received for which the Authority is not insured and, again, the reserve or existing budgets would cover any awards of costs and damages. It is not certain that these or related events which might arise in the future would lead to rulings against the Authority or will lead to claims which are substantial. The insurance reserve was increased by £500,000 in 2011/12 to cover such uninsured losses.

37 – Contingent assets

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

Further to a court case which was settled against the 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.

38 – Events after the balance sheet date

This Statement of Accounts was authorised for issue by the Treasurer, as the Chief Financial Officer, on 13 September 2012, being the date on which papers were submitted to the Governance Committee for approval at their meeting on 21 September further to the completion of the audit. Events taking place after 13 September 2012 are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31 March 2012, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

39 – 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 of the following:-
    - Investment properties
    - Material construction contracts
    - Operating activities
    - Material trading operations
    - Trust funds

- The Authority has not capitalised any borrowing costs

40 – Notes to the cash flow statement 2011/12

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

2010/11 £'000		2011/12 £'000
133,479	Adjustments to net surplus or deficit on the provision of services for non-cash movements	(159,732)
	Analysis:-	
143,316	Pensions	(147,966)
(8,969)	Depreciation and impairment	(12,974)
0	Revaluation	(2,701)
0	Increase/Decrease in impairment for bad debts	0
890	Increase/Decrease in Debtors	8,066
457	Increase/Decrease in Creditors	(4,803)
136	Increase/Decrease in Inventories	(145)
(882)	Increase/Decrease in Provisions	356
(1,452)	Carrying amount of non-current asset and non-current assets held for sale, sold or de-recognised	(898)
(17)	Other non-cash items charged to the net surplus or deficit on the provision of services	1,333
133,479		(159,732)

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

£'000		£'000
3,843	Adjustment for items included in the net surplus or deficit on the provision of services that are investing and financing activities	3,426
	Analysis:-	
1,249	Proceeds from the sale of PP&E, investment property and intangible assets	1,161
3,598	Capital grant (included within investing activities)	3,035
(1,004)	Any other items for which the cash effects are investing or financing cash flows	(770)
3,843		3,426

40.3 Investing activities

2010/11 £'000		2011/12 £'000
21,757	Purchase of property, plant and equipment, investment property and intangible assets	5,368
20,500	Purchase of short-term and long-term investments	14,500
0	Other payments for investing activities	0
(1,249)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(1,161)
(2,500)	Proceeds from short-term and long-term investments	0
(3,598)	Other receipts from investing activities	(3,035)
34,910	**Net cash outflow/(inflow) from investing**	**15,672**

40.4 Financing activities

2010/11 £'000		2011/12 £'000
(10,000)	Cash receipts of short- and long-term borrowing	(10,000)
(260)	Other receipts from financing activities - interest received	(761)
0	Cash payments for the reduction of the outstanding liabilities relating to finance leases	0
212	Repayment of short- and long-term borrowing	819
1,293	Other payments for financing activities - interest paid	1,531
(8,755)	**Net cash outflow/(inflow) from financing**	**(8,411)**

40.5 Cash and cash equivalents

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

2010/11 £'000		2011/12 £'000
79	Cash held by the Authority	50
314	Bank current accounts	1,407
(3,231)	Bank overdraft	(2,880)
9,920	Surplus cash deposited with approved counterparties (on immediate call)	16,290
7,082	**Total Cash and Cash Equivalents**	**14,867**

2010/11 £'000	Fund Account	2011/12 £'000
	Contributions receivable	
	- from employer	
(31,413)	- normal	(30,775)
0	- early retirements	0
(319)	- ill-health capital equivalent charges	(1,986)
(13,840)	- from members	(13,654)
	Transfers in	
(566)	- individual transfers in from other schemes	(298)
	Benefits payable	
53,065	- pensions	56,303
10,518	- commutations and lump sum retirement benefits	19,336
306	- lump sum death benefits	75
	Payments to and on account of leavers	
24	- refunds of contributions	82
2,118	- individual transfers out to other schemes	33
19,893	**Net amount payable for the year**	**29,116**
(19,893)	**Additional contribution from the Police Authority**	(29,116)
0		0

2010/11 £'000	Net Assets Statement	2011/12 £'000
	Current Assets	
0	- contributions due from employer	0
0	- other current assets	0
	Current Liabilities	
9	- unpaid pension benefits	0
0	- amount due to sponsoring department	0
0	- other current liabilities	0
9		0

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

Most payments and employer contributions in respect of the police pension schemes are reported in the Police Pension Fund Account. Other pension costs are charged to the Comprehensive Income and Expenditure Account. This includes the ongoing costs and commuted lump sums in respect of officers who are awarded injury pensions, which totalled £1.25m in 2011/12. For officers who retire on the grounds of ill-health, the employer makes a contribution from the Comprehensive Income and Expenditure Account to the Police Pension Fund Account. This charge is the equivalent to two years' pensionable pay and is a one off credit to the account. All ongoing payments are met by the Police Pension Fund.

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

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 2011/12. The employee's contribution is set nationally by the Home Office and is subject to a triennial revaluation by the Government Actuary's Department (GAD).

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

Note 8 provides further details of the IAS19 entries and the pension schemes.

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.

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. Previous to March 2012 there were six OCUs which provided geographically based policing focused on the community they serve. From April 2012 the six OCUs will be replaced by three policing areas, Northern, Eastern and Western, which will contain 11 districts.

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.

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).