

**Report of the Treasurer to the Chair and Members
of Audit and Internal Control Panel
14th June 2011**

**Executive and Presenting Officer: Mr M Porter, Treasurer
Status: For Decision**

Title: Statement of Accounts 2010/11 (Subject to Audit)

1 Purpose

- 1.1 Under the Account and Audit Regulations 2003, local authorities, including police authorities, are required to receive and approve the Statement of Accounts for 2010/11 before the end of June 2011.
- 1.2 The role of the Audit and Internal Control Panel in this process is set out in Appendix D of the Code of Corporate Governance and includes:
 - To review the Annual Statement of Accounts. Specifically to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the Authority.

2 Recommendations

Members are asked to:

- 2.1 To review the accounting policies as set out in the Statement of Accounts on pages 20 to 27 inclusive, which the Authority has followed in producing these accounts.
- 2.2 To consider the analytical review of the accounts contained within the body of this report and specifically within paragraphs 3.10 to 3.14 below, to provide Members with confidence in the financial statements.

- 2.3 Approve the establishment of earmarked reserves totalling £5,953k. (3.15 refers)
- 2.4 Subject to the foregoing, to recommend acceptance of the Statement of Accounts (Appended to this report) to the Police Authority Executive on the 23rd June 2011, together with any matters that you wish to be brought to the attention of the Authority.

3 Reasons

- 3.1 The Statement of Accounts are a valuable source of information for a range of Stakeholders including, but not limited to:
- Public – Accountability
 - Lenders – Security of Investments
 - Partners – spending
 - Government – spending levels and financial position
- 3.2 Preparation and publication is governed by legislation, regulations and Codes of Practice. (Over recent years there has been a concerted effort to bring UK public sector accounting in line with International Financial Reporting Standards (IFRS))
- Primary Legislation – eg. Local Government Finance Act 1982
 - Statutory Regulations – eg. Account and Audit Regulations 2003
 - Code of Practice – eg. International Financial Reporting Standards Code
- 3.3 The role of the Audit and Internal Control Panel in reviewing the statement of accounts is essentially to provide assurance to the Police Authority Executive and to the wider stakeholder base that they conform to proper practices.
- 3.4 Under the Account and Audit Regulations 2003, local authorities, including police authorities, are required to receive and approve the Statement of Accounts for 2010/11 before the end of June 2011.
- 3.5 The accounts are prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom: Statement of Recommended Practice (SORP) 2010 and the International Financial Reporting Standards Code. This specifies the principles and practices of accounting required to prepare a Statement of Accounts which gives a true and fair presentation of the financial position of the Authority.
- 3.6 Appendix A provides members with a brief explanation of the format and purpose of the accounts.
- 3.7 As the audit of the accounts by the Audit Commission is not scheduled to begin until the 8th June, the Statement of Accounts is presented

subject to audit. The audited accounts and any amendments resulting from the audit will be presented to a future Authority meeting.

3.8 The public will be able to inspect the accounts from 18th July to 5th August. Formal notice has been given in the press.

3.9 The statement of accounts appended to this paper detail, on pages 20 to 27 inclusive, the Accounting Policies that the Authority has approved for use during 2010-11 and which underpin these accounts. Changes to accounting policies are disclosed on page 5 of the Statement of Accounts.

3.10 Implementation of the IFRS Code (based on International Financial Reporting Standards (IFRS))

Members will observe that the ongoing implementation of IFRS has required the restatement of prior years' data. This, in conjunction with the significant impact of the results of the triennial review of the liabilities of the pension funds has the potential for providing a misleading position for stakeholders. The review of the Statement of Accounts has been undertaken with appropriate references to the impact of these effects for Members information

3.11 Comprehensive Income and Expenditure Statement (Page 16)

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 precept. Authorities raise precept to cover expenditure in accordance with regulations; this may be different from the accounting cost. The amount chargeable to precept is shown in the Movement in Reserves Statement.

This statement is impacted to a greater extent than others from the accounting entries required in relation to Pensions and also as a result of the technical accounting entries required to meet the statutory guidelines that differ significantly from the way that precept is raised and the budgets are managed and reported to Members.

Appendix B strips out the impact of the Pension entries required under International Accounting Standard 19 and also reconciles this to the Outturn that is shown within the Treasurers Introduction on page 3. This is arguably a more meaningful analysis for Members to consider.

3.12 Movement on Reserves Statement (Page 17)

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 precept) and unusable reserves.

Usable reserves have reduced by £1,687k primarily as a result of the use of reserves to finance capital expenditure, £1,154k, but also through the use of reserves to fund the in year revenue expenditure, £533k.

The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for council tax setting purposes.

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.

3.13 Balance Sheet (Page 18)

The Balance Sheet shows the value as at 31st March 2011 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

Long Term Assets have increased by £3.3m as a result of the following:

Movement on Long Term Assets	£m
Additions	8.2
Revaluations	0.2
Depreciation/Amortisation	(3.9)
Disposals	(1.1)
Total Movement	3.3

The level of both cash and investments has fallen by a combined £5.3m primarily due to capital expenditure being funded from cash balances as opposed to taking out further borrowing during the year.

Short term Debtors balances have fallen by £1.4m primarily due to the amount owed to the Authority, from the Home Office, in relation to the Police Officer Pension Top-Up Grant being £2.8m lower at the 31st March 2011 than it was last year. This is partially offset by a higher level of prepayments, £1.2m, primarily as a result of the Steria contract being paid monthly in advance.

Creditor balances have reduced by £1.6m, this is in part due to a lower amount due to HMRC as at the 31st March 2011 in comparison to 31st

March 2011 which is a product of employing less staff since the outsourcing. In addition to this the timing of the final payment run of 2010/11 coincided with the year end. We therefore paid these suppliers on the 31st March 2011 whereas in 2010 the payment run took place on the 1st April. This is also one of the reasons our cash balances are lower in 2011 than in 2010.

The Pensions Liability has reduced by £191m primarily as a result of the change from linking future increases in Pension payments, and therefore the calculation of the Authority's future pension liability based on the level of service employees have attained so far, from the Retail Price Index (RPI) to Consumer Price Index (CPI). The assumption is that RPI is, on average over the longer term, high than CPI. This has also resulted in a £98m credit to the Net Cost of Services for prior year costs of service which needed to be adjusted.

The above is offset by the reduction in Unusable Reserves by £192m.

Whilst the 'Net Assets' of the Authority is showing an overall negative balance of £729,941k this is as a result of the large liability showing on the Pension Fund of £751,030k. Once this liability is removed, and it is not unreasonable to do this given that this liability is effectively under written by the Government, then the Net Assets would show as £21,089k in comparison to £21,989k in 2009/10 (restated).

3.14 Cash Flow Statement (Page 19)

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 Cash Outflows for 2010/11 were £146.4m which is an increase of £0.4m on the restated 2009/10 figure.

The investments of the Authority have decreased by £3.5m during the year from £5.5m in 2009/10 to £2.0m in 2010/11. This is noticeable both on the Balance Sheet and within the Cash Flow Statement. The reason for this reduction, along with the overall Decrease in Cash for the year of £1,849k is that the planned borrowing to fund the Capital expenditure during 2010/11 was not taken out during 2010/11. This borrowing will be taken out in future years as needed.

3.15 Earmarked Reserves

Members are also asked to approve the establishment of Earmarked Reserves totalling £5,953k as shown in the table below:

Earmarked Reserves	
	£000s
	Mar-11
Insurance Fund	(1,560)
Injury Pension Reserve	(916)
Airwaves Project	(473)
Urlay Nook Sinking Fund	(684)
PFI Sinking Fund	(273)
Incentivisation Grant	(291)
Neighbourhood Policing	(16)
Specials	(30)
Air Support	(349)
Urlay Nook TTC	(64)
Development Fund	(12)
Invest to Save	(89)
Devolved Budget Carry Forwards	(291)
Accommodation Costs	(177)
Police Authority	(96)
Police Property Act Fund	(25)
Revenue Grants Unapplied	(608)
Total	(5,953)

4 Implications

4.1 Finance

There are no financial implications other than those mentioned above.

4.2 Diversity & Equal Opportunities

There are no issues arising from this report to bring to Members attention.

4.3 Human Rights Act

There are no Human Rights Act Implications from this report.

4.4 Sustainability

The report is part of a series aimed at setting and monitoring a sustainable financial position for the Authority.

4.5 Risk

Incorrectly prepared Statement of Accounts may materially misrepresent the financial position of the Authority, giving rise to risks to reputation, service and financial planning processes, as well as exposure to additional costs. Adherence to proper practices, the closure processes undertaken within the Force, combined with reviews by the ACO(F&C) and Treasurer are designed to mitigate such risks.

5 Conclusion

The role of the Audit and Internal Control Panel in reviewing the statement of accounts is set out in Appendix D of the Code of Corporate Governance. This report is to provide Members of the Panel with the required information for them to discharge this role.

The Statement of Accounts has been prepared in accordance with the 2010 International Financial Reporting Code and the Police Pension Fund Regulations 2007 (SI 1932/2007) and give a true and fair presentation of the financial position of the Authority and the Police Pension Fund for the year ended 31st March 2011.

Michael Porter
Treasurer

APPENDIX A

Introductory Foreword

Sets out the outturn position in summary and is in a format consistent with the monitoring reports received by Members throughout 2010/11.

Statement of Responsibilities

Sets out the responsibilities of the Police Authority; the Treasurer in his role of Section 151 Officer and those of the Chair of the Police Authority.

Auditors Report

The Audit Commission audits the financial statements and the police pension fund accounting statements under the Audit Commission Act 1998 and give an opinion on whether the financial statements present fairly the financial position of the Authority.

Accounting Policies

Accounting policies are the principles, bases, conventions, rules and practices that specify how the effects of transactions and other events are to be reflected in the financial statements.

Comprehensive Income & 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 precept. Authorities raise precept to cover expenditure in accordance with regulations; this may be different from the accounting cost. The amount chargeable to precept is shown in the Movement in Reserves Statement.

Movement in Reserves Statement

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 precept) and unusable reserves.

The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for council tax setting purposes.

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.

The Balance Sheet

The Balance Sheet shows the value as at 31st March 2011 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 is 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 unusable reserves and refers to 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 which are shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

The 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.

Police Pensions Fund Account

The funding arrangements for the Police Pension scheme in England and Wales changed on 1 April 2006. Each Police Authority is required by legislation to operate a Police Pension Fund and the amounts that must be paid into and out of the Pension Fund are specified by regulation. A top-up grant is receivable, to the Authority, from the Secretary of State equal to the amount by which the amount payable from the Pension Fund for the year exceeds the amount receivable. The grant received is then transferred to the Pension Fund from the Authority.

Annual Governance Statement

The Authority is responsible for putting in place proper arrangements for the governance of its affairs and facilitating the exercise of its functions, which includes ensuring a sound system of internal control is maintained throughout the year and that arrangements are in place for the management of risk.

This statement explains how the Authority has complied with its Code of Corporate Governance and also meets the requirements the Accounts & Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) regulations 2006 in relation to the publication of a statement on internal control.

GLOSSARY OF TERMS

This Glossary of Terms is designed to aid interpretation of the Authority's Statement of Accounts.

Accounting Policies

These specify how transactions and other events should be reflected in financial statements.

Accruals

A sum included in the accounts to cover income or expenditure attributable to the accounting period covered by the accounts but for which payment had not been received/made at the date of the balance sheet.

Audit Commission

An independent body established under the Local Government Finance Act 1982, which has a duty to ensure that local authorities secure economy, efficiency and effectiveness in their use of resources.

Balances and Reserves

These represent the accumulated "free" monies of the authority. General Fund Balances may be utilised to reduce the Council Tax. Reserves are often earmarked for specific purposes, including the financing of future capital expenditure, replacement or renewals and the funding of future defined initiatives.

Best Value Accounting Code of Practice (BVACOP)

A code of practice prepared to provide accounting guidance on financial reporting to stakeholders which is designed to enhance the comparability of local authority financial information. The code represents proper accounting practice for the purpose of best value reporting.

Budget

A statement of the Authority's spending plans for revenue and capital expenditure over a specified period of time.

Capital Expenditure

Expenditure on the acquisition, creation or enhancement of a fixed asset, e.g. land, buildings or equipment.

Capital Receipts

Proceeds from the sale of capital assets which can only be used to repay the original loan or to finance new capital expenditure. Any receipts which have not yet been utilized as described are referred to as 'capital receipts unapplied'.

Cash and Cash Equivalents

All cash immediately accessible without penalty is classified as cash and cash equivalents.

Consistency

The principle that the accounting treatment of like items within an accounting period and from one period to the next is the same.

Contingency

A condition which exists at the balance sheet date, where the outcome will be confirmed only on the occurrence or non-occurrence of one or more uncertain future events.

Corporate and Democratic Core

The costs of operating the Police Authority.

Council Tax

A banded property tax which is levied on domestic properties throughout the country. The banding is based on estimated property values as at 1 April 1991. The level of tax is set annually by each local authority for the properties in its area.

Creditors

Amounts owed by the Authority for work done, services rendered or goods received for which payment has not been made by the balance sheet date.

Current Assets

Assets which will be consumed or cease to have value within the next accounting period e.g. stock and debtors.

Current Liabilities

Amounts which will become payable or could be called in within the next accounting period e.g. creditors and cash overdrawn.

Debtors

Amounts owed to the Authority for work carried out, services rendered or goods provided by the Authority or Force for which income has not been received by the balance sheet date.

Deferred Charges

This is expenditure which may properly be deferred, but which does not result in, or remain matched with, assets controlled by the authority. The cost is to be charged to revenue over an appropriate period.

Deferred Credits

These represent capital income to be received in the future, when disposals have taken place, and deferred payments have been agreed

Depreciation

This is the measure of the cost or revalued amount of the benefits of the fixed asset that have been consumed during the period.

Direct Revenue Financing

Resources provided from an authority's revenue budget to finance the cost of capital projects.

Discontinued Operations

Operations comprise services and divisions of service as defined in CIPFA's Standard Classification of Income and Expenditure. An operation should be classified as discontinued when the activities related to the operation have ceased permanently and the termination has a material effect on the nature and focus of the authority's operations and represents a material reduction in its provision of services.

Emoluments

All sums paid to or receivable by an employee and sums due by way of expenses allowances (as far as those sums are chargeable to UK income tax) and the money value of any other benefits received other than in cash. Pension contributions payable by either employer or employee are excluded.

Estimation Techniques

The methods adopted by an entity to arrive at estimated monetary amounts, corresponding to the measurement bases selected for assets, liabilities, gains, losses and changes to reserves.

Exceptional Items

Material items which derive from events or transactions that fall within the ordinary activities of the authority and which need to be disclosed separately by virtue of their size or incidence to give fair presentation of the accounts.

Fair Value

The fair value of an asset is the price at which it could be exchanged in an arm's length transaction, less, where applicable, any grants receivable towards the purchase or use of the asset.

Finance Lease

A lease that transfers substantially all of the risks and rewards of ownership of a fixed asset to the lessee. Such a transfer of risks and rewards may be presumed to occur if at the inception of the lease the present value of the minimum lease payments, including any initial payment, amounts to substantially all of the fair value of the leased asset.

Financial Year

The Authority's financial year runs from the 1st April to 31st March.

Fixed Asset Restatement Account

An account required following the introduction of the capital accounting regime from 1 April 1994, which represents principally the balance of the surpluses or deficits arising on the periodic revaluation of fixed assets.

Fixed Assets

Assets that yield benefits to the Authority and the services it provides for a period of more than one year.

General Fund

The main revenue account of the Authority covering day to day spending on services other than the provision of housing. Credited to the fund are charges made by the authority, specific Government and other grants.

Going Concern

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

Government Grants

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

Impairment

A reduction in the value of a fixed asset below its carrying amount on the balance sheet.

Intangible Assets

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

International Financial Reporting Standards (IFRSs)

IFRSs are statements which deal with accounting issues of fundamental importance and general application. They are applicable to all published accounts and compliance is mandatory. The IFRS Code applies IFRSs to Authorities accounts as appropriate.

Leasing

A method of utilizing assets where a rental charge is paid for a specified period of time, instead of outright purchase.

Liquid Resources

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

Long Term Contracts

A contract entered into for the design, manufacture or construction of a single substantial asset or the provision of a service (or a combination of assets or services which together constitute a single project), where the time taken substantially to complete the contract is such that the contract activity falls into different accounting periods. Some contracts with a shorter duration than one year should be accounted for as long-term contracts if they are sufficiently material to the activity of the period.

National Non Domestic Rates (NNDR)

A tax levied on business properties and sometimes known as Business Rates. This tax is set nationally by the Government. Sums based on rateable values are collected by billing authorities and paid into a national pool. The proceeds are then redistributed by central government as a grant to local authorities in proportion to adult population.

Net Book Value

The amount at which fixed assets are included in the balance sheet i.e. their historical cost or current value less the cumulative amount provided for depreciation.

Net Current Replacement Cost

The cost of replacing or recreating the particular asset in its existing condition and in its existing use, i.e. the cost of its replacement or of the nearest equivalent asset, adjusted to reflect the current condition of the existing asset.

Net Realisable Value

The open market value of the asset in its existing use (or open market value in the case of non-operational assets), less the expenses to be incurred in realising the asset.

Non Current Assets

An asset which is not easily convertible to cash or not expected to become cash within the next year. Examples include fixed assets, leasehold improvements, and intangible assets.

Non-Operational Assets

Fixed assets held by an authority but not directly occupied, used or consumed in the delivery of services. Examples of non-operational assets are investment properties and assets that are surplus to requirements, pending sale or redevelopment.

Operating Leases

A lease other than a finance lease. This is a method of financing assets which allows the Authority to use, but not own an asset. A third party purchases the asset on behalf of the Authority, who then pays the lessor an annual rental over the life of the asset. Expenditure financed by operating leasing does not count against capital allocations.

Operational Assets

Fixed assets held and occupied, used or consumed by the authority in the direct delivery of those services for which it has either a statutory or discretionary responsibility.

Post Balance Sheet Events

Those events, both favourable and unfavourable, which occur between the balance sheet date and the date on which the Statement of Accounts is signed by the responsible financial officer.

Precept

This is a charge levied by one Authority which is collected on its behalf by another by adding the precept to its own Council Tax and paying over the appropriate cash collected.

Prior Year Adjustments

Those material adjustments applicable to prior years, arising from changes in accounting policies or from the correction of fundamental errors. A fundamental error is one that is of such significance as to destroy the validity of the financial statements. They do not include normal recurring corrections or adjustments of accounting estimates made in prior years.

Provision

These are monies set aside for liabilities or losses which are likely or certain to be incurred but the exact amount and dates are not currently known.

Prudence

The concept that revenue is not anticipated but is recognised only when realised in the form of cash or of other assets the ultimate cash realisation of which can be assessed with reasonable certainty.

Prudential Code for Capital Finance

This Code introduced from 1st April 2004. The basic principle of the Code is that local authorities will be free to invest so long as their capital spending plans are affordable, prudent and sustainable. The Code sets out indicators that the authority must use and factors that they must take into account to demonstrate that they have fulfilled this objective.

Related Parties

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

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

Related Party Transactions

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

Revenue Expenditure

This is money spent on the day-to-day running costs of providing services. It is usually of a constantly recurring nature and produces no permanent asset.

Revenue Support Grant (RSG)

This is a Government grant in aid of local authority Services generally. It is based on the Government's assessment of how much an authority needs to spend in order to provide a standard level of service.

Stocks

The amount of unused or unconsumed stocks held in expectation of future use. When use will not arise until a later period, it is appropriate to carry forward the amount to be matched to the use or consumption when it arises.

Statement of Recommended Practice – (SORP)

This is the Code of Practice on Local Authority Accounting in the United Kingdom.

Total Cost

The total cost of a service or activity includes all costs which relate to the provision of the service (directly or bought in) or to the undertaking of the activity. Gross total cost includes employee costs, expenditure relating to premises and transport, supplies and services, third party payments, support services and capital charges. This includes an appropriate share of all support services and overheads which need to be apportioned.

Unapportioned Central Overheads

Overheads for which no user now benefits and that are not apportioned to services.

Unusable Reserves

Reserves that **cannot** be applied to fund expenditure or reduce local precept.

Usable Reserves

Reserves that **can** be applied to fund expenditure or reduce local precept.

Useful Life

The period over which the authority will derive benefits from the use of a fixed asset.