



**Devon and Cornwall
Police Authority**

Statement of Accounts

for the year ended

31 March 2012

Devon and Cornwall Police Authority

Statement of Accounts 2011-12 and Related Reports and Statements

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FOREWORD TO THE ACCOUNTS by DUNCAN WALTON, TREASURER

1 Introduction

1.1 The Statement of Accounts sets out the overall financial position of the Devon & Cornwall Police Authority for the year ending 31 March 2012. The accounts are prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom. This foreword provides a brief explanation and commentary on the financial performance of the Authority, highlights any significant features, examines the impact of current economic trends on future performance and outlines other significant matters facing the Authority in 2012-13 and beyond.

1.2 It is important to note that liabilities for officer and police staff pensions have a very significant impact on the Police Authority Accounts. The deficit on the Comprehensive Income and Expenditure Statement and the net liabilities on the Balance Sheet are both due to the presentation of pension liabilities. These liabilities are not included when calculating the council tax requirement as explained in paragraph 3.3 below.

2 The Accounting Statements

2.1 The Authority's accounts for the year include the following:

- Audit Opinion
- Statement of Responsibilities
- Annual Governance Statement and supporting Annual Assurance Statement
- Movement in Reserves, showing the changes in the authority's financial resources over the year
- Comprehensive Income and Expenditure Account – showing the gains and losses that contributed to the changes in resources
- Balance Sheet as at 31 March 2012, showing how the resources available to the authority are held in the form of assets and liabilities
- Cash Flow Statement, showing how the movement in resources has been reflected in cash flows

2.2 To assist the reader, the notes to the accounts include the authority's accounting policies and give further information on the entries within the main statements as well as supplementary information. This is further supplemented by a glossary of terms.

3 Presentation of Pension Information in the Police Authority Accounts

3.1 Accounting practice (IAS 19) requires the Police Authority to account for the full cost of future retirement benefits as they are earned by employees. The full cost of paying all future benefits to existing pensioners and current employees as of 31 March 2012 is shown on the Balance Sheet as a liability and the annual change in the level of this liability is reflected in the Comprehensive Income and Expenditure Statement. Specialist actuaries estimate the value of the liabilities for both the police officer and police staff schemes and to do this they use a number of assumptions (for example the level of future inflation) to estimate the future costs of paying the benefits.

3.2 Actuarial assumptions can change significantly from year to year and as a result the impact on the Comprehensive Income and Expenditure Account is volatile. The Comprehensive Income and Expenditure Statement on page 32 shows that once all changes in pension liabilities are taken into account the Police Authority recorded a loss of £360.422m in 2011-12. Further details with regard to accounting for pension costs are provided in paragraph 8.2 below and in note 35.

3.3 The Authority is, however, required by legislation to exclude changes in pension liabilities when accounting for its performance against council tax and the Movement in Reserves Statement on page 30 shows that there was no change in the General Fund Balance in 2011-12. This demonstrates that once the impact of year on year changes in actuarial assumptions and other accounting adjustments that should not be charged against local tax are excluded, the Authority met its budget target in 2011-12.

3.4 Although the Police Authority does not need to address the volatile year on year changes in the pension liabilities arising from changes in actuarial assumptions when considering its financial

performance it does need to be mindful of the overall trends in the cost of pensions. It is government policy to halt the recent rise in the cost of public sector pensions and to this end changes to the Police Officers Pension Scheme and the Local Government Pension Scheme have been proposed. The changes are currently being considered by the appropriate negotiating bodies, if they are fully implemented they will reduce both the annual cost of pensions and the long term liabilities. The impact on the Police Authority budget is not however clear at this stage.

4 Revenue Expenditure and Income

Budget Plans 2011-12

- 4.1 The public expenditure reductions announced in the Comprehensive Spending Review 2010, reduced the funding available to the Authority in 2011-12 compared with the previous year. After taking into account inflationary and other unavoidable increases it was necessary to reduce budgeted expenditure by £16.695m. Central government provided a special grant to allow local authorities to freeze their council tax at the same level as the previous year. The Police Authority accepted this grant and as a consequence council tax was frozen at £156.60 for a band D property, the lowest in the South West region and below the national average.

Actual Expenditure

- 4.2 Operational expenditure is £12.578m less than the budget plan.
- 4.3 The budget plan was based on a £4.395m draw-down on reserves to fund one off exit (redundancy and pension) costs. However the savings plan progressed more quickly than originally envisaged and spending in 2011-12 was lower than forecast. In addition the pension and redundancy costs were lower than predicted and it was possible to fund these costs from the additional in year savings.
- 4.4 Nearly £50m of savings are required over the four year period of the Medium Term Financial Strategy 2011-12 to 2014-15. To achieve these savings a substantial change programme was started in 2011-12 aimed at reducing costs whilst maintaining service delivery. The magnitude of the changes has made it difficult to hit budget targets precisely and the prudent approach to savings adopted in the budget plan has led to the year-end under-spending. After taking into account revenue budget carry-forwards and other approved contributions to reserves it has been possible to make a contribution of £5.126m to the Revenue Smoothing Fund. The total contribution to revenue reserves are £9.762m, details are provided in note 8. Given the financial challenges predicted for 2013-14 and beyond (outlined in paragraph 4.6 below), it is helpful that the under-spending can be used to increase revenue reserves.

Expenditure and Income can be summarised as follows:

Table 1

	2011-12 Budgeted Expenditure and Income	2011-12 Actual Expenditure and Income
	£'000	£'000
<u>Revenue Expenditure</u>		
Operational Expenditure	287,487	274,909
Exit Costs	4,945	2,867
Net contribution to/(from) Earmarked Reserves	(4,894)	9,762
Total Spending after contributions (to)/from Earmarked Reserves	287,538	287,538
<u>Revenue Funding</u>		
Government Grant	191,220	191,220
Council Tax *	96,318	96,318
Total Funding	287,538	287,538

*Council Tax represents the cash received for the year and excludes accrued income of £0.340m.

- 4.5 A significant portion of the budget savings comes from a reduction in staff numbers and the staff numbers at start and the end of the year are as follows:

	As at 1 April 2011	As at 31 March 2012
Police Officers	3,409	3,204
Police Staff	1,977	1,696
Police Community Support Officers	355	359

- 4.6 Transferring £5.126m to the Revenue Smoothing Fund will provide additional flexibility to manage the risks inherent in the Medium Term Financial Strategy, these include:
- the impact of the localisation of council tax benefits, which may reduce funding by over £1.0m, if billing authorities do not seek a cost neutral strategy;
 - further spending reductions over and above those already announced in the Comprehensive Spending Review 2010 as indicated in the Chancellors Budget 2012;
 - the risk that the substantial budget savings required over the period 2012-13 to 2015-16 cannot be delivered as planned;
 - the cost of the transition to the Police and Crime Commissioner (see paragraph 12.5 below).

It was also possible to increase a Police Authority Transition Fund from under-spending on the Police Authority budget to £0.183m as at 31 March 2012.

- 4.7 Table 1 above shows that after taking into account transfers from earmarked reserves, the net revenue spending matched the revenue funding; there was therefore no net movement on the general fund balance.

5 Movement in Reserves Statement

- 5.1 This statement shown on page 30 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 'unusable reserves'. The key figures are:
- Increase/Decrease in General Fund - No Change in 2011-12
 - Increase/Decrease in Earmarked Reserves – Increase of £9.762m
 - Increase/Decrease Capital Receipts and Capital Reserves Unapplied – Net increase of £0.449m
 - Increase/Decrease in Unusable Reserves - the decrease in unusable reserves of £370.633m is mainly due to an increase in pension liabilities as a result of change in actuarial assumptions, full details of the movement in unusable reserves are provided in note 21.

6 Comprehensive Income and Expenditure Statement

- 6.1 This statement (on page 32) shows the surplus or deficit for the year calculated in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. The surplus or deficit for the year that will impact on council tax setting is the movement in the general fund. As described in paragraph 4.7 there has been no movement in the general fund balance in 2011-12. Table 2 below reconciles the movement on the general fund to the surplus on the Comprehensive Income and Expenditure Statement.

Table 2

	2011-12 £000
Deficit On the General Fund	0
Pensions costs charged to surplus/deficit on the provision of services exceeds actual employer contributions	52,561
Other adjustments – mainly to account for capital investment as it is consumed	3,937
Sub total	56,498
Transfer to/from earmarked reserves	(9,762)
Deficit on the Provision of Services	46,736
Other Comprehensive Income and Expenditure	
Deficit on revaluation of non-current assets	105
Decrease in pensions liabilities due to actuarial losses	313,581
Total Deficit	360,173

The above reconciliation shows that the Deficit on the Provision of Service arises mainly because the actuarially assessed cost of funding the pensions earned by employees is more than the amount that the Police Authority is required to charge against taxation. The Other Comprehensive Income and Expenditure line of the statement records the increase in pension liabilities due to actuarial gains - these arise when the assumption used by the actuary vary in such a way as to increase the long term liabilities arising from the pension obligations.

7 Capital Expenditure and Financing

- 7.1 As well as day to day expenditure on running costs, Police Authority money is spent on assets such as buildings, vehicles, communications equipment and information technology. During 2011-12, capital spending was £8.946m. Table 3 shows how the money was spent and where it came from.

Table 3

	31 March 2012	
Capital Spending	<u>£'000</u>	%
Building Schemes	5,446	61
Equipment and ICT Hardware and Software	1,781	20
Vehicles	1,719	19
	<u>8,946</u>	<u>100</u>
Capital Financing	<u>£'000</u>	%
Home Office Capital Grant	3,500	39
Capital Receipts	354	4
Direct Revenue Funding	158	2
Minimum Revenue Provision	1,072	12
Borrowing	3,862	43
	<u>8,946</u>	<u>100</u>

8 The Balance Sheet

Usable Reserves

- 8.1 The Authority has total revenue balances and reserves of £38.278m. Within this total, Earmarked Reserves are £32.080m (see note 8 page 51) and General Balances are £6.198m. These reserves and balances provide the Authority with some flexibility to deal with budgetary and economic uncertainty. However, earmarked reserves are planned to decline by approximately £10m over the period April 2012 to March 2016 mainly to fund the Force transformation requirements.

Pensions Liabilities

- 8.2 There has been a £366.142m increase in pension liabilities in 2011-12. The main reason for this is a reduction in the discount rate used by the actuaries to discount future liabilities. Paragraphs 3.1 to 3.3 put the actuarially assessed pension liabilities into the context of the overall accounts and explain that the liabilities shown in the balance sheet should not impact upon the ability of the Police Authority to provide services in the short to medium-term. For police staff pensions, the value of the pension fund liabilities and assets is assessed triennially and the employer's contribution is increased in line with the actuary's recommendations. For the police officers pension fund, the employer's contribution rate is presently set at 24.2%. Under current legislation, any costs that exceed the employer's contribution are met by the Home Office via a special grant.

Borrowing

- 8.3 The Police Authority's total capital financing requirement as at 31 March 2012 was £39.381m. Of this £32.778m was met by external borrowing and lease finance and £6.603m by internal borrowing. Internal borrowing represents the Police Authority's use of its cash balances to temporarily fund capital expenditure. This use of internal balances is subject to careful monitoring and management to ensure adequate long term liquidity.

Acquisition and Disposals

- 8.4 The following major schemes were completed during the year:

- Teignmouth Patrol Base and Teignmouth and Dawlish Shop Fronts
- Ashburton Hub
- Tavistock Police Station
- Beacon Park Road Police Station
- East Cornwall Public Protection Unit
- South Devon Public Protection Unit

Sale of the non-operational helicopter was completed during the year. In addition, two police houses were sold leaving one house still to be sold which is being marketed at present. A number of properties have been approved for disposal and these have been classified as Held for Sale (see note 17).

Provisions and Contingencies

- 8.5 Provisions are set out in note 19 on page 62. They include:

- Provisions to meet future liabilities in terms of remuneration including redundancy costs, claims made by former employees and the cost of a pay increase for police staff earning less than £21,000 per annum which is still in negotiation, these total £1.111m
- A provision for uninsured claims against the authority of £1.126m
- A provision of £0.674m to meet other liabilities resulting from legal claims

9 Cash Flow

- 9.1 There was a £3.800m increase in cash and cash equivalents during the year this was matched by a £3.775m reduction in long and short term investments. This reflects the Authority's policy to hold a higher proportion of investments as overnight deposits to improve the security of investments. The remaining increase in cash and cash equivalents was due to movements in other balance sheet items.

10 Performance

- 10.1 Comprehensive information on performance against targets is provided in the Police Authority's Annual Report which is available on the Police Authority's website www.dcpa.police.uk.

11 Sustainability

- 11.1 As well as measuring its operational and financial performance, the Force monitors the social and environmental impact of its activities. The environmental footprint of the Force is set out within the Police Authority's Annual Report. A number of measures have been taken during the year to reduce energy consumption, implement green travel initiatives and reduce waste. In addition, local purchasing has been promoted to both support the local economy and further the green agenda.

12 Looking Ahead – The impact of the current climate on the authority and the services it provides

- 12.1 The Police Authority is facing a forecast cash reduction in central government funding of approximately 7.2% over the period 1 April 2012 to 31 March 2016. Funding for 2015-16 is particularly uncertain as it is beyond the period of the current Comprehensive Spending Review.
- 12.2 Based on current plans, there will be 700 fewer officers and 500 fewer police staff by 2016 than there were in 2010-11. A substantial portion of the reduction in numbers have already been made but further reductions will be required in the period 2012-13 to 2015-16.
- 12.3 The recommendations of Tom Winsor's first report on police remuneration and conditions of service were implemented by the Force on 1 April 2012 and are forecast to generate net budget savings which have been built into the Medium Term Financial Strategy. Careful monitoring will be required during the year to measure the actual impact. The second report was published in March 2012, extensive consultation and negotiation will be required before the recommendations can be implemented. The current timescale is for implementation to take place between April 2013 and March 2017. The analysis at a national level set out in Tom Winsor's report suggest that the overall impact will be cost neutral, and initial appraisal of the local impact shows that this should also be the case in Devon and Cornwall.
- 12.4 The government has announced a cap on the maximum employer contributions (as a percentage of salary costs) for both the police officer and police staff pension schemes. The implications of this cap on the cost of pensions for police officers and police staff is currently being negotiated by the relevant bodies. How this will affect the Police Authority budget is not yet clear.
- 12.5 The major risks for the 2012-13 financial year are:
- the savings plan as set out in the medium term financial strategy is not achieved;
 - the service re-design does not deliver the efficiency saving required and service provision is affected as a consequence.

During 2012-13 new arrangements will come into place to hold the police to account. On 15 November 2012, a Police and Crime Commissioner will be elected for Devon and Cornwall who will be accountable for how crime is tackled in the area. The Commissioner (who will replace the Police Authority) will be responsible for the Police and Crime Plan and the funding of that plan including the raising of the police element of the council tax from 1 April 2013 onwards. The Chief Finance Officer of the Police and Crime Commissioner will be responsible for ensuring the production of the Statement of Accounts for the Police and Crime Commissioner. The Police and Crime Commissioner will be elected on a mandate in relation to crime and policing. This may differ from the current service provision. The implications of this are dealt with in the paragraph on longer term risks below.

12.6 Over the longer term additional risks occur. The most important of these are:

- central government funding varies from the forecast contained within the Medium Term Financial Strategy
- the introduction of localisation of council tax benefits reduces the precept income available below the forecast contained within the Medium Term Financial Strategy
- the mandate of the elected Police and Crime Commissioner leads to a reduction in funding available
- the mandate of the elected Police and Crime Commissioner leads to changes in service provision which are difficult to manage within the resources available
- inflation exceeds the estimate built into the budget
- the cost of workforce modernisation including job evaluation exceeds the funds available in the budget and earmarked reserves

12.7 Actions have been initiated to limit the impact of these risks, these include:

- careful modelling of future funding based on information available
- detailed monitoring of the achievement of the ongoing savings plan
- contributing £5.126m to the Revenue Smoothing Fund from the 2011-12 budget to help manage any unforeseen changes in funding or expenditure, the balance on this fund as at 31 March 2012 is £9.120m or approximately 3% of the revenue budget.

13 Conclusion

13.1 The reductions in public expenditure imposed by the Comprehensive Spending Review 2010 resulted in a requirement for the Police Authority to reduce its budget by £16.7m in 2011-12. Further significant reductions will be required in the remaining period of the Comprehensive Spending Review 2010 (2012-13 to 2014-15) and funding is also forecast to decline in the period 2015-16 and 2016-17.

13.2 To achieve the savings required in 2011-12 and future years the Police Authority embarked on a major change programme. This included a phased reduction in police officer numbers over the period 2011-12 to 2014-15 and a reduction in police staff numbers that were front loaded in 2011-12. The first year of this programme has been successfully delivered in terms of cost reduction and in 2011-12 savings are considerably more than forecast. This is mainly due to police staff savings being achieved more quickly than expected, acceleration in the reduction of overheads and lower pension and redundancy costs than originally predicted. As a result it has been possible to increase the Revenue Smoothing Fund by £5.126m.

Duncan Walton, Treasurer
June 2012

Further Information

This publication provides a review of the financial performance of the Authority for 2011-12. It may be read in conjunction with the Police Authority's annual report and the annual policing plan that shows a wide range of measures of performance.

Further information on those publications or the Annual Statement of Accounts can be obtained from the Force website at <http://www.devon-cornwall.police.uk/v3/homepage/index.htm> and the Authority website at <http://www.dcpa.police.uk/home.htm>, or by writing to the Chief Executive or Treasurer at the Police Authority Offices, Woodwater Park, Pynes Hill, Exeter, Devon. EX2 5WH.

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF DEVON AND CORNWALL POLICE AUTHORITY

Opinion on the Authority and Pension Fund financial statements

I have audited the financial statements and the police pension fund financial statements of Devon and Cornwall 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 Devon and Cornwall 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 and the annual report 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 Devon and Cornwall 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 and the content of the Annual Report 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; and

- my locally determined risk-based work on the Authority's preparations for the transition to Police and Crime Commissioners.

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

Certificate

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

Alun Williams
District Auditor

Audit Commission
3-4 Blenheim Court
Lustleigh Close
Matford Business Park
Exeter
EX2 8PW

September 2012

STATEMENT OF RESPONSIBILITIES FOR THE FINANCIAL ACCOUNTS

The Police Authority Responsibilities

The 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.

The Treasurer's Responsibilities

The Treasurer is responsible for the preparation of the Authority's Annual 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 2011-12" (the Code of Practice)

In preparing this Statement of Accounts, the Treasurer has:

- selected suitable accounting policies and applied them consistently
- made judgements and estimates that were reasonable and prudent
- complied with the Code of Practice

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.

Treasurer's Certificate

I hereby certify that this Statement of Accounts for the year ended 31 March 2012 has been prepared in accordance with the Accounts and Audit Regulations 2003 and subsequent amendment regulations. I further certify that, to the best of my knowledge, the Statement of Accounts present a true and fair view of the financial position of the Devon & Cornwall Police Authority as at 31 March 2012 and its income and expenditure for the year ended 31 March 2012.

Signed..... Dated 19 September 2012.
Treasurer to the Authority

Approval of the Accounts

I confirm that these accounts were approved and authorised for issue by the Corporate Governance Committee as minute reference 117 dated 19 September 2012.

Signed..... Dated 19 September 2012.
Chair of the Police Authority Corporate Governance Committee

Annual Governance Statement 2011-2012

Position as at 31 March 2012 including plans to November 2012

1. Scope of Responsibilities

The Devon and Cornwall Police Authority ('the Authority') is responsible for ensuring its business is conducted in accordance with the law and proper standards, that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Authority also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

In discharging this overall responsibility, the Authority is also responsible for putting in place proper arrangements for the governance of its affairs and facilitating the exercise of its functions, which includes ensuring a sound system of internal control is maintained through the year and that arrangements are in place for the management of risk. In exercising this responsibility the Authority places reliance on the Chief Constable of the Devon and Cornwall Constabulary to support the governance and risk management processes.

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*. The Code of Corporate Governance is included within the Authority's constitution and is available on the Authority's website at <http://www.dcpa.police.uk/PDFstore/constitution/AppendixC.pdf> or can be obtained by contacting the Police Authority office. This Annual Governance statement explains how the Authority has complied with the Code of Corporate Governance and also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of a statement on internal control.

The Authority's financial management arrangements conform with the governance requirements of the *CIPFA Statement on the role of the Chief Financial Officer in Local Government* (2010) as set out in the Application Note to *Delivering Good Governance in Local Government: Framework*.

A more detailed Statement of Assurance for the Force signed by the Chief Constable supports this overarching Governance Statement.

2. The Purpose of the Governance Framework

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

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 risks 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, to manage them effectively, efficiently and economically.

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

This section describes the key elements of the systems and processes that comprise the governance arrangements that have been put in place.

- The Police Authority's vision is to "To be recognised, locally and nationally, as a top performing Police Authority." The Authority's mission is "to ensure the residents of and visitors to Devon, Cornwall and the Isles of Scilly recognise that they are receiving an excellent service from the Police that is affordable, effective and fair." The vision and mission are delivered through focusing on four priorities set out in the Authority's Strategic Plan and supported by a delivery plan which is reflected in committee workplans which is all underpinned by an effective Authority structure and working arrangements. This is embedded in the joint Police Authority/Constabulary Policing Plan which has at its heart the aim for the Constabulary to be a top performing Force by 2012. The Authority's vision and objectives have been communicated to the public in a number of ways including the council tax leaflet, the Authority's website, panel meetings, and promotional events/ literature. The Authority's website, facebook pages (approx 550 friends) and electronic stakeholder newsletter (approx 670 external contacts) are also used to provide information.
- The Corporate Governance Committee has the purpose / scope "To ensure that the Authority operates in an effective, efficient and ethical manner whilst complying with legal requirements and its Constitution, taking into account recommendations from audits and inspections"
- The Corporate Governance Committee continuously reviews and challenges the governance arrangements of the Authority through:
 - consideration of the Authority's Risk Register;
 - monitoring the effectiveness of existing governance controls;
 - targeted risk-based audit activity;
 - reports from Committee Chairs
 - consideration of external audit reports; reports on the effectiveness of the Constabulary provided by Her Majesty's Inspector of Constabulary;
 - professional opinions and assurance from the Authority's management.
- The Authority aims to promote service quality by ensuring delivery in accordance with the Authority's objectives and best use of resources. This is done by various means including the public survey (questionnaires), victim satisfaction surveys (undertaken by the Force), Authority Panels, providing speakers from the Authority at community group events attending the Strategic Independent Advisory Group and individual Independent Advisory Groups as well as attendance at various public events throughout Devon and Cornwall e.g. Respect Festivals, Pride Events and agricultural shows.
- The roles and responsibilities of the Authority and Force, and for the senior officers within each and for the Members of the Authority, are set out in clear delegation arrangements contained within the Police Authority's Constitution. The Scheme of Delegations was updated and approved by the Authority in September 2011. The Constitution includes the Committees' terms of reference, procedure rules, financial regulations together with various protocols and the Code of Corporate Governance.
- The arrangements for challenging and scrutinising Force activity is inherent in the work of the full Police Authority and its committees, working groups and task and finish groups. Members are free to challenge service delivery by asking questions of a senior representative of the Chief Constable at committees and the Chief Constable can be questioned by Members at Police Authority meetings or at one to one meetings.
- Codes of Conduct have been adopted defining the standards of behaviour for Members and Officers. The Members' Code of Conduct (incorporated into the Police Authority's Constitution) was adopted by the Police Authority on 27 June 2008. The Officers' Code of Conduct was approved by the Chairs' Committee on 3 July 2008. The Localism Act 2011 requires changes to the ethical standards regime which will potentially be effective from 1 April 2012. The Association of Police Authority Chief Executives (APACE) has written to the Department for Communities and Local Government (January 2012) asking if Police Authorities could continue with existing arrangements and be exempted from the new legislation due to the disproportionate work that would be required to implement the new requirements for the limited remaining lifespan of police authorities.
- Procedure Rules, Financial Standing Orders, the scheme of delegation, contract/procurement regulations, and supporting procedure notes/manuals, are reviewed and updated as required. In December 2010 a revised Constitution (articles) and committee terms of reference were implemented (following Authority approval in September 2010; this was further refined in September 2011. Reports recommending changes

are available and all decisions taken are minuted. Agendas, reports and minutes of the Authority and Committee meetings are available on the Authority's website at <http://www.dcpa.police.uk/how/index.htm>.

- Full Authority meetings and most of the formal committee meetings which are held in open session are webcast live.
- In June 2011 the Authority approved and implemented a protocol enabling members of the public to ask questions at full meetings of the Authority.
- The work to develop and improve the Authority's risk management arrangements was ongoing in 2011-12 following approval of a new strategy approved by the Corporate Governance Committee in March 2011. Each Committee developed its own risk register and associated workplan and this was complemented by the work of the Risk Network and the Risk Register Review Group.
- The Corporate Governance Committee as part of its responsibilities undertakes the core functions of an audit committee, as identified in CIPFA's Audit Committee – Practical Guidance for Local Authorities checklist. These responsibilities are built into the Committee's terms of reference and Authority's Code of Corporate Governance.
- The Corporate Governance Committee has been briefed on the new International Financial Reporting Standards that became the requirement for public sector organisations reporting in 2010-11
- The Police Authority has in place a Monitoring Officer (role encompassed within the Chief Executive's portfolio) and a Section 151 Officer (role encompassed within the Treasurer's portfolio) who ensure compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful.
- A joint Constabulary and Authority anti-fraud and anti-corruption strategy is in place and has been supported by fraud risk training, provided to members of the Corporate Governance Committee. A memorandum of understanding between the Head of Internal Audit and the Head of Professional Standards has been in place since September 2007.
- There are procedures for receiving and investigating complaints from the public against senior Constabulary officers and staff, and Members or officers of the Police Authority. The Professional Standards and Complaints Monitoring Committee have responsibility for the scrutiny of complaints handling. During 2011 the Authority compiled and introduced a new complaints factsheet and complaints form.
- All Police Authority and most Committee meetings are WebCast. Committee agendas, reports and minutes are available on the Police Authority's website (www.dcpa.police.uk),
- During 2012 an electronic stakeholder newsletter was developed and it is now sent out every 8-10 weeks to over 600 external email addresses (as at January 2012).

4. Review Of Effectiveness

The Authority has responsibility for conducting, at least annually, a review of the effectiveness of the governance framework, including:

- the system of internal audit
- the system of internal control.

These reviews have been informed by the work of internal audit, the Audit Commission and also officers within the Authority who have the responsibility for the development and maintenance of the governance environment. In addition comments made by the external auditors and other review agencies and inspectorates have informed this review. Much of the review work is ongoing throughout the year and is incorporated into the work of committees and Police Authority staff.

The reviews include

- the assessment of evidence and the compilation of the Force Annual Assurance Statement signed by the Chief Constable
- the Authority's Committees reviewing and challenging Force performance. Committee agendas, reports and minutes are available on the Police Authority's website www.dcpa.police.uk . At each full Police Authority meeting the Deputy Chief Constable presents a report on force performance.
- as part of the Committee structure review (implemented in December 2010) performance was identified as one of the Authority's cross-cutting themes, each committee has a lead person for the performance theme and they come together as a network to support each other, identify good practice and help each Committee identify any performance related issues

- the Corporate Governance Committee receiving reports from internal audit, the Audit Commission and having a co-ordinating role for the reports and actions emanating from other inspection bodies
- the Corporate Governance Committee having oversight of the Authority's Risk Register and risks being identified or allocated to specific committees for them to monitor and scrutinise
- the Corporate Governance Committee inviting Committee Chairs to attend corporate governance and report upon the work of their committee including their priorities, risk register management and assurance gathering activities
- the Standards Committee reviewing, at each meeting, the best practice toolkit to ensure compliance and a pro-active approach to ethical standards issues
- workplans from previous Annual Governance Statements
- an annual review of the effectiveness of internal audit is undertaken
- regular meetings are held between Members and geographical Chief Superintendents and are held in line with the protocol agreed with the Chief Constable.
- The Corporate Governance Committee has an oversight and co-ordinating role regarding the Authority's Risk Register(s).

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Corporate Governance Committee and a plan to address weaknesses and ensure continuous improvement of the systems in place (see 5 below).

5. Significant Governance Issues

A) General

The content of the Police Reform and Social Responsibility Act (PRSRA) provides for the demise of Police Authorities and the advent of Police and Crime Commissioners in November 2012; it is incumbent upon police authorities to make appropriate provision for a smooth and effective transition to the new model. This means that during 2012 Police Authorities will have 2 distinct responsibilities a) to maintain their existing statutory role of ensuring that the police force is effective and efficient and b) to prepare the way for a new governance model.

The Authority has set up a Transition Project Board which reports to the Full Authority on the progress made in delivering the Project Plan and the Corporate Governance Committee has regular reports from the Project Manager. In order to provide assurance to this board the project will be subject to a series of gateway reviews by an external assessor.

A PCC Transition Advisory and Consultative Group has been set up working with key partners to create strategic links and act as a catalyst for practical activity at a local level.

In addition to the changes required by the PRSRA the Authority and the Force are operating in a period of unprecedented change which impacts upon target setting, fiscal management and service delivery.

Set against this background of enormous change the items below are of particular importance with regard to the governance framework:

- The Comprehensive Spending Review (CSR), announced in October 2010, made in-year reductions of the policing grant and scheduled reductions for subsequent years which means the need to find savings of approximately £50m over four years - the cuts are front ended meaning approximately £17m of the savings must be made in year one (2011-12).
- In October 2011 the Government announced a council tax freeze grant for 2011-12 and in November 2011 the Chancellor delivered the Autumn Statement proposing further cuts to public expenditure in 2015-16 and 2016-17.
- Devon and Cornwall Constabulary had been undertaking a major review of its structures and functions known as the "Blueprint Project" before the spending cuts were announced. This fundamental review was about how an effective policing service could best be provided in an efficient manner whilst meeting community needs. The timing and outcomes of this project have taken on even greater significance as a result of the CSR with the Force being required to reduce the number of Police Officers by 590 and the number of Police Staff by 500 over the 4 years starting 2011-12 in order to achieve the savings required

- A Strategic Plan and a supporting Delivery Plan for the Authority was approved by the full Authority on 25 June 2010. These included a new vision and mission for the Authority (see 3 above) and set out four priorities - raising public confidence, improving police performance, achieving value for money and listening and responding to communities. In 2011-12 work has continued to implement the delivery plan and a final report is scheduled to be presented to the Corporate Governance Committee in April 2012.
- The Committee's main constitution document containing the Constitution "articles" was revised and approved by the full Authority in September 2010. A revised Scheme of Delegations and further refinements to the Constitution were approved in September 2011.
- As part of the Constitution review, a new committee structure was approved by the Authority in September 2010 and implemented in December 2010. The Committee Terms of Reference were re-written to complement the authority's strategic plan and priorities.
- When the review of the committee structure was undertaken, cross-cutting themes were identified which should be taken into account in all the Authority's decision making processes - performance, risk management, sustainability and environmental impact, diversity equality and human rights and value for money. To help embed the themes into the Authority's work, each committee has a lead person for each theme and they come together as a network to support each other, identify good practice and any relevant areas of work for the Authority.
- Devon and Cornwall Police Authority has played a leading role in the South West Police Authorities Joint Committee (SWPAJC). This committee provides the governance and scrutiny functions of the Regional Collaboration Programme. The SWPAJC is responsible for setting strategic direction and leadership for collaboration in the south west (Avon and Somerset, Devon & Cornwall, Gloucestershire, Dorset and Wiltshire). It also authorises the Programme Mandate (through the annual Regional Collaboration Plan), monitoring progress of the Programme, and approving funding. The SWPAJC comprises two members from each of the five police authorities in the south west. This Authority is represented by its Chairman and Vice Chairman. Devon and Cornwall currently chairs the SWPAJC and provides Committee support.

During 2011, the SWPAJC has gone to considerable lengths to develop a Ten Year Strategy to better steer the collaborative work of the south west police forces in the medium to long term. This complements the Annual Plan developed each year but is also in response to the substantial financial cuts all Forces are needing to make as a result of national grant reductions. It also re-prioritises work in-line with greatly reduced workforce reductions as a result of the aforementioned cuts. The Strategy was developed following meetings with all Chief Constables and Police Authorities in the Region. All were asked, individually and collectively, to set out their ambitions for collaboration going forward plus the amount of resource and commitment they were willing to provide. This helped develop the Strategy into one that could be supported by all parties. The Strategy received endorsement from all Police Authorities in the Region during December 2011. Chief Constables are now expected to refine the Region's collaboration plans to ensure they fit the new strategy.

During 2011, HMIC has taken considerable interest in the south west's collaboration plans. In line with all other police authorities, HMIC has conducted several 'Support & Challenge' meetings with Devon and Cornwall Police Authority. In the interests of openness, HMIC were invited to attend the July 2011 meeting of SWPAJC.

The work of the regional programme is prioritised into Tiers. Tier One contains those areas of business that are assessed as having the greatest collaborative benefit. Each Tier is led by a chief constable (or nominated deputy) and has a Project Board at Force level which includes a Member in an observational capacity.

Collaborative work is co-ordinated and directed by the Regional Programme Board, chaired at chief constable level. The Programme Board chair reports regularly on progress to the SWPAJC. All chief constables attend the SWPAJC to be held to account and report on progress of their Tier One project.

Members of Devon and Cornwall Police Authority have been provided with regular updates on the work of the Joint Committee. The terms of reference for Devon & Cornwall Police Authority's Strategic Planning and Co-ordination Committee allow for consideration and discussion of new suggestions and projects from

the joint committee which is complemented by the terms of reference for the Resources Committee which allow for consideration and discussion of existing topics and projects.

- The Government has announced its intention to abolish the Audit Commission which is the organisation currently responsible for providing the Authority's external audit function. The Police Authority has been allocated a new external auditor from those who have been appointed nationally.

B) *Update from the Annual Governance Statement workplan for 2011-2012 and beyond*

An update on the work undertaken regarding the 2011-12 Annual Governance Statement workplan is given below. A Members Briefing Sheet (no 12/2011) was issued in October 2011 to provide an interim update.

- *Transition – The Change from Police Authority to Police and Crime Commissioner*
The Authority is preparing for the change from the police authority structure and responsibilities to one which can effectively support a Police and Crime Commissioner, information about this is set out fully in section 5A above as a significant governance issue
- *Risk Management*
Work to implement the risk management strategy and develop risk management processes, using the Covalent software, continued during 2011-12. The risk cross-cutting theme and thus the Risk Member Network assisted Committees to embed risk management in their work planning and decision making with committees developing their own risk registers. The risk maturity survey was repeated in December 2012 to help assess the progress of implementing the new risk management strategy and the results will be presented to the Corporate Governance committee in April 2012. Closer working with the Constabulary has led to sharing information on risk registers, reciprocal attendance at risk register review meetings and the Constabulary deciding to use the same computer based management tools as the Authority
- *Assurance Mapping*
Work is underway to develop a mechanism by which all sources of assurance are identified for any significant risk or activity and an overall assurance assessment arrived at. The aim of this mechanism will be to identify areas of concern to the Authority where there is insufficient assurance, adequate assurance or potentially over-assurance that controls designed to mitigate key risks are effective, efficient and economical. It is expected that assurance mapping can be accommodated within Covalent.
- *Committee Structure / Constitution Review*
A review of the new Constitution and committee structure (including the committee Terms of Reference) took place in the summer of 2011 to ensure the new decision making structure was working and as a result some refinements to the Constitution were approved by the Authority in September 2011.
- *DCPA Guide to Being A Member and the Decision Making Structure*
The guide, which is intended as a tool to help Members understand their various roles was issued in July 2011.
- *Statutory Duties*
In March 2011 the Corporate Governance Committee considered a report on how the Authority was meeting its statutory duties. Each committee has listed the statutory duties relevant to its remit on its committee workplan. The Corporate Governance Committee continues to monitor the Authority's compliance as part of each Committee Chair's report to the Corporate Governance Committee.
- *Business Continuity*
Severe Weather Guidance has been compiled with a "duty" rota and cascade system implemented, an Authority business continuity plan (as at May 2012) has been drafted.
- *Complaints*
In July 2011 the Professional Standards and Complaints Monitoring Committee (PSCMC) agreed a new framework for how the Authority deals with complaints. A new reporting regime has been implemented whereby the PSCMC receives a report twice a year about the complaints received by the Authority and how they have been dealt with.
- *Partnership Working*
The Authority's partnership strategy has been agreed and implemented. Members attending a partnership meeting complete a feedback form identifying key issues from the meeting and actions for the Authority/ Member to undertake. The Local Policing and Confidence Committee (LPCC) reviewed this area of engagement at their September 2011 meeting and were satisfied that value was being added to the Authority's and partner agencies business by attending meetings. Where this was not the case, with

Childrens' Trust Boards, LPCC referred the issue to the Protective Services Committee for decision; as a result Members no longer attend Board meetings but engage directly with the Force representatives.

- *Public Questions at the Full Authority Meeting*
At its meeting on 24 June 2011 the Authority approved an amendment to the Constitution and a protocol for the public asking questions at full meetings of the Authority. This was following a recommendation from the Corporate Governance Committee meeting held on 5 May 2011.
- *Strategic Review*
The recommendations arising from the strategic review were developed into an action plan and presented to the Corporate Governance Committee in May 2011. An update report indicating the actions are substantially complete was presented to the committee and agreed at the November 2011 meeting.
- *Co-ordination and Monitoring of Inspection Report Recommendations*
When reports are received from HMIC the Chair of the Corporate Governance Committee is consulted about which Committee the report should be referred to.
- *Community Engagement*
During 2011 the Police Authority has undertaken a face to face consultation exercise in the form of a survey. This consisted of an A5 side of questions with diversity profiling on the reverse. The question asked the community member to:
Rank your top three areas for spending by the police (1= most important) with the choice of topics being:
 - Neighbourhood policing
 - Control Centre and Call Management
 - Criminal Justice
 - Roads Policing
 - Specialist operations
 - Serious crime
 - Forensic support
 - Central overheads
 - Support functions (including HR, IT, communications, legal services)

In 2011 a total of 1567 surveys were completed over seven events (average 187.5 people per event). Whilst the Authority attended less events in 2011 than in 2010 (7 events in 2011 compared to 12 events in 2010) there was an increase of 87 in the total number of respondents.

The 2011 consultation was statistically significant with a 99% confidence level to a 2% confidence interval. This means where our sample recorded 70% of people felt Serious Crime was one of the top three priorities for spend, we can be 99% sure 67-73% of the whole population of Devon and Cornwall would feel that.

The total respondents were of an even spread of age and 62% were female. 16% identified as lesbian, gay, or bisexual (in comparison to a 5-7% national proportion) and 11 respondents (1%) identified as transgender. 93% were white (including white British, white Irish and white other), compared to 99% proportion in Devon & Cornwall, and 10% identified themselves as having a disability (compared to an 18.2% national proportion). In addition 14% (225) were non-domestic ratepayers. The geographical split of people completing the survey was 52% from Devon (inc Torbay), 30% from Cornwall (and IOS), 11% Plymouth and 7% outside the area.

C) April – November 2012 Workplan

As a result of the reviews undertaken and work started during 2011-12 the following areas have been identified as requiring attention:

- *Maintaining the Authority's Scrutiny over Force Activities (Business as Usual)*
Whilst preparing for transition to the Office of the Police and Crime Commissioner, the Authority needs to continue with effective scrutiny of Force activity. The Authority has agreed to reduce the number of committee meetings in 2012 in order to release resource for transition work and this will mean ensuring that different methods of assurance gathering and dissemination of information are used in place of the traditional report to committee.
- *Transition*
The preparations for becoming an Office of the Police and Crime Commissioner are being managed as a project with a designated Senior Responsible Officer – The Chief Executive and a Project Manager – The Treasurer. The transition project has its own governance framework.

We propose over the remaining life of the Police Authority to take steps to address the above matters to further enhance our governance arrangements and will ensure that relevant and appropriate information is available to the incoming Police and Crime Commissioner

Signed

Chair of Devon and Cornwall Police Authority

Chair of The Corporate Governance Committee

Susan Howl, Chief Executive of Devon and Cornwall Police Authority

on behalf of the members and senior officers of the Devon and Cornwall Police Authority and Devon and Cornwall Constabulary

19 September 2012

ANNUAL ASSURANCE STATEMENT 2011-12

This statement sets out the position as at 31 March 2012, including improvement plans for the financial year 2012-13:

1 Background

- 1.1 The Chief Constable of Devon and Cornwall Police is responsible for the direction and control of the force in accordance with the Devon & Cornwall Police Authority's Local Policing Plan. This requires him to deliver an efficient and effective police force, which conducts its business in accordance with the law and proper standards, ensuring that public money is safeguarded, properly accounted for, and used economically, efficiently and effectively. The Chief Constable also has a responsibility to ensure that there are proper arrangements for the governance of the force and appropriate arrangements are in place for the management of risk.
- 1.2 The governance framework comprises the systems and processes and values through which the force manages its activities. The framework enables the Chief Constable to monitor the activity of the force and to determine whether its objectives have been met, including achieving value for money. A system of internal control is a key part of the framework and is designed to manage risks appropriately. It is an ongoing process to identify and prioritise risks to the achievement of the force's policies, aims and objectives. During 2010 the force, in conjunction with the Police Authority, reviewed the way it seeks assurance within the Governance framework with a view to ensuring all relevant areas of internal control are properly addressed and able to support the Annual Accounts process and, where applicable fed into the Internal Audit process.

2 The Governance Framework

- 2.1 The key elements of the force's governance processes are described below.

(a) The process for setting objectives and targets

The force develops its objectives and targets in conjunction with the Police Authority. They are agreed with the Police Authority in order to reflect the priorities identified through the force's Strategic Assessment and public consultation processes.

The force also works with a range of partner organisations. It endeavours to ensure that its objectives and targets do not conflict with its partners' and wherever possible are complementary. To this end, agreed priorities are set through the Peninsula Strategic Assessment process. Partnership activity is overseen by the nine Community Safety Partnerships across the force area. Regional collaboration/partnership work is overseen by the South West Police Authorities Joint Committee.

(b) Decision-making structures for establishing priorities and considering strategic issues facing the force

The Chief Officer Group is the ultimate decision making body. Responsibility for decision making is taken at the appropriate level in the force, including Risk Management, Planning and Performance. A "Change Programme Board" oversees all transformational activity within the force. Individual projects and work streams within this structure have their own governance structures in line with industry guidelines for major change programmes. The structures consider the risks of these activities, which are linked to the Corporate Risk Management Process. Chief Officers manage portfolio business via subject specific business meetings.

All strategic groups have clear terms of reference, administered separately, and clear reporting lines. Strategic meeting protocols set out executive decision making authority.

(c) The monitoring processes by which performance against operational, financial and other strategic plans are considered and key issues identified and tasked

The Chief Officer Group receives a quarterly Strategic Report covering; Operational performance; Environmental scanning; Risk management; Audits and inspections and

Organisational Learning. It also receives separate quarterly reports for Health & Safety and Diversity. Financial performance is reported monthly.

Progress and performance on all of these areas are considered in depth and supporting performance data is provided. Opportunities to develop good practice are considered and additional work is commissioned where necessary.

Direct responsibility for the Force's performance is delegated to the Force Performance Group. Under the chair of the Deputy Chief Constable this Group holds relevant Chief Officers and Directors to account for performance. It makes informed resource allocation decisions balanced against the priorities of the Force and the risks it faces.

The Force also has a Force Operational Tasking Group (FOTG) process that tasks operational resources in line with force strategic priorities, this process is replicated at Local Policing Area (LPA) and Sector levels.

(d) The risk management process by which the Force identifies and seeks to mitigate key risks

A Risk Management Strategy and Policy are reviewed and updated annually. Risk Registers are maintained at portfolio level. Functional risk registers are maintained for Health & Safety, Information Assurance and Business Change. Appropriate registers exist for all projects and programmes of work. The force corporate risk register is updated quarterly.

The Local Resilience Forum Community Risk Register represents significant risks to the community which can be mitigated by Business Continuity. Where necessary, these risks are reflected within the corporate risk register.

A force Strategic Assessment of operational threats and risks is generated annually and is linked to business processes. The force also contributes to the partnership Peninsula Strategic Assessment.

(e) Developing, communicating and embedding codes of conduct and defining the standards of behaviour for officers and staff

The force's Professional Standards Department includes the force Vetting Unit. Clearly defined "Standards of Professional Behaviour" exist for both Police Officers and Police Staff, supported by the 2008 Police Discipline Regulations and appropriate HR legislation. Access to these standards is via the force intranet and subject experts located within the HR and Professional Standards Departments. A memorandum of understanding exists between the Professional Standards Department and the Police Authority regarding internal fraud investigations. Fraud and anti corruption policies exist.

(f) Reviewing and updating Standing Orders, Financial Regulations, the scheme of delegation and supporting procedure notes/manuals, which clearly define how decisions are taken and the processes and controls required to manage risks

Financial Regulations and a comprehensive set of force policies relating to internal control are in place. This includes Standing Orders for Tenders and Contracts and a Scheme of Delegation.

(g) Ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful

Heads of Departments, as part of the assurance process, reassure themselves, on behalf of the organisation, that key controls are in place to ensure compliance with relevant laws and regulations, internal policies and procedures and that expenditure is lawful. They sign the statement of acknowledgement accordingly. This process continuously assesses the need to include new areas for assurance. There is an aspiration to move away from an annual exercise to a continuous risk based approach in the future. The process has been developed so that it can act as a management 'check list' of relevant controls.

The process was undertaken at portfolio level in 2011-12, apart from Finance & Resources, HR and Legal & Information Management, where separate assessments were undertaken due to

their differing responsibilities and management structures. Analysis of the returns for individual control areas identified the following areas of concern, where amber is indicated by three or more out of seven returns showing as "More work required", and red indicated by four or more out of seven returns.

Assessment	Control Area	Comment
Red	Are there controls to ensure that all of the business system data and performance data is fit for purpose i.e. accurate, complete and authorised?	Generally this is an area for development for those business areas whose performance management processes are less well developed, or whose performance is inherently more difficult to measure. Lack of accurate "people data" is also a serious issue in this area. Lastly, the force's NCRS and NSIR performance has been subject to scrutiny by HMIC.
Red	Are business continuity plans regularly updated and readily accessible / well communicated?	The main area of concern for back office functions is that plans need updating to reflect recent organisational change. Operationally, there is a concern that there is some lack of awareness of staff in respect of business continuity, and processes and requirements have not been formally revisited since the structural changes of Blueprint. This is an area that is currently under review by the force.
Red	Do they ensure that critical services can be resumed in case of emergency?	The main area of concern for back office functions is that plans need updating to reflect recent organisational change and IT resilience. This is an area that is currently under review by the force.
Amber	Are there adequate controls in place to ensure the delivery of identified business benefits within the business area from Continuous Improvement / Organisational Learning / Programme Delivery activity?	Organisational learning is currently managed using MS Office applications, which is not ideal. The planned implementation of Covalent should allow such activities to be managed more effectively and linked to force objectives (from April 2012). The handover of business benefits realisation from the change programme to business as usual is sometimes disjointed and would benefit from better links.
Amber	Are performance trends established and reported upon over the medium term and fed into the planning process?	Performance monitoring and management has concentrated mainly on snapshots or recent trends rather than long term trends or predicting ahead. This has been acknowledged and training/systems are planned to develop this and link more closely to planning.

(h) Ensuring the security of the Force Assets and Information

Stewardship of assets is covered in Financial Regulations and force policies. Asset registers are maintained for all major material assets and are being developed for information assets. Information security and data protection policies are in place to support continuous accreditation to relevant standards; i.e. International Information Security Management Standard BS/ISO 27001 and the Cabinet Office's Information Assurance Maturity Model. This ensures that security measures are in place to protect subject and sensitive internal information.

(i) Processes for receiving and investigating complaints from the public, and citizen and other redress and providing reports to the Authority

The Professional Standards Department record and monitor all complaints to ensure investigations are proportionate and to the expected standard. Monthly monitoring and reporting of complaints takes place. Where necessary, investigations may be referred to the Independent Police Complaints Commission (IPCC). They may, in turn, choose to conduct their own investigation, or supervise the force's investigation.

(j) Determining the conditions of employment and remuneration of officers and staff, within appropriate national frameworks

HR policies underpin existing HR legislation and other appropriate national frameworks that govern the conditions of employment and remuneration of both Police Officers and Police Staff. The force has adopted the national Police Staff Handbook. Police Staff remuneration, commensurate with Roles & Responsibilities, will be within the remit of the Job Evaluation Project, due to complete in 2014.

(k) Identifying the development needs of officers and staff in relation to their roles, supported by appropriate training

The skill requirements of roles are defined within role profiles. Development needs of individuals are identified through the PDR process. Specific training is considered by the Corporate Learning Management Group after undergoing a training commissioning process. The delivery of training is overseen by the force's HR Directorate, specifically Learning & Development. Activity is co-ordinated by the People Services Centre who are, in conjunction with individuals, responsible for keeping training records and skills profiles up to date.

(l) Establishing clear channels of communication with all sections of the community and other stakeholders on priorities and plans

The force has well developed channels for both internal and external consultation and engagement including:

Consultation with the public and external stakeholders:

- Quality of service review victim surveys and the antisocial behaviour survey;
- Telephone surveying to measure public confidence;
- "Have Your Say" local initiatives, where local Police Officers engage with local people and partners to identify and solve local problems;
- A Strategic Independent Advisory Group (IAG) – with the ability to represent all areas of diversity works across the force to facilitate interaction with minority groups and to scrutinise equality and diversity.

Consultation with partners:

- Community Safety Partnerships (CSPs) work to address community concerns identified through wide consultation;
- The force engages with other local partnerships (i.e. Plymouth 2020, Cornwall County Strategic Partnership, the Working Together Board) to agree wider ranging improvement targets and priorities.

Consultation within the force:

- Outputs from staff surveys and cultural audits;
- Use of action learning sets to gather information and learning from staff;
- Force cascade briefing and feedback;
- COG on the Road Programme; a quarterly exercise of Chief Officers meeting staff and attending Focus Groups and staff meetings at Headquarters and across the force area.

(m) Ensuring that we meet all equalities and diversity legislation and best practice

The force assesses itself against the Equality Standard for the Police Service. Policies and practices together with Equality Impact Assessment processes have been brought into line with the Equality Act 2010. The force is committed to meeting its Equality Duty and aspires to achieve

a balanced workforce in line with the population of the area it polices, despite limitations in terms of recruitment.

(n) Measuring our impact on the environment and ensuring our policies are sustainable

The force has a Carbon Management Plan in place. It is committed to reducing its carbon footprint and considering the full environmental impact of all of its activities, including those of its suppliers. A Sustainability Group has been established to oversee all elements of sustainability including the Sustainability Strategy, the force's progress in achieving the appropriate levels of environmental management and carbon reduction. A Sustainability Sub-group has also been established to implement the Sustainability Plan.

(o) Incorporating good governance arrangements in respect of partnerships and other group working

The force is reviewing the governance arrangements and structures of all of the partnerships in which it is involved to ensure effectiveness and value for money. This is in line with the Authority's review of its own partnership strategy and cognisant of the financial parameters imposed as part of the Comprehensive Spending Review.

3 The Annual Review of Effectiveness

3.1 The Chief Constable has a responsibility to conduct, at least annually, a review of the effectiveness of the force's governance framework and system of internal control. The review is informed by the work of:

- Director of Finance and Resources;
- Chief Officers, Department Heads and Commanders;
- Managers within the force who have responsibility for the development and maintenance of the governance environment;
- The Police Authority Head of Internal Audit;
- External Auditors

3.2 The governance framework is continuously reviewed throughout the year as follows:

- The Chief Officer Group considers a number of the key governance processes quarterly and recommends areas for improvement;
- A Corporate Risk Register is compiled and reviewed by Chief Officers quarterly;
- The Force Performance Group continuously reviews the force's performance and its ability to respond to current and emerging issues;
- The Professional Standards Department continuously reviews complaints and matters arising from confidential reporting and produces monthly reports;
- The Police Authority Treasurer establishes a risk based internal audit plan;
- Police Authority Committees scrutinise performance in their respective areas;
- The Police Authority Corporate Governance Committee scrutinises the governance framework and individual governance issues as it sees fit.

3.3 The force is subject to a number of external audits and inspections during the year:

- The Audit Commission's Annual Audit letter is considered by the Chief Officer Group
- HMIC reports are considered by individual Chief Officers based on the subject area.

3.4 The annual review of governance arrangements is undertaken by senior officers of the force. For 2011-12, the main components of this review included:

- Completion of an Assurance Statement by Chief Officers, Department Heads and Commanders and indicating the effectiveness of key controls during 2011-12.
- Completion of a governance checklist to determine the adequacy of governance arrangements in place in the force, drawing on the core principles of the CIPFA/SOLACE guidance "Delivering Good Governance in Local Government".

- Completion of a key controls checklist that draws on CIPFA guidance on internal control statements.
- Completion of the Annual Assurance Statement.

4 Outcome of the Review of Effectiveness

- 4.1 The Annual Governance report (dated September 2011) contained the Auditors unqualified audit opinion for the year 2010-11. It stated that:

“I have not identified any significant weaknesses in internal controls which I need to bring to your attention”. Furthermore in assessing the ability of the force & the Authority to deliver Value for Money, the auditor was able to issue “an unqualified conclusion stating that the Authority had proper arrangements to secure economy, efficiency and effectiveness in your use of resources.”

- 4.2 Force performance shows that overall crime in Devon & Cornwall increased by 6.1% during 2011-12 to 91,571 recorded offences. For the twelve months to December 2011, 68.7% of respondents to the British Crime survey answered excellent or good when asked 'In general, how good a job do you think that the police in your local area are doing?' The force is placed 3rd nationally for this confidence measure, with performance continuing to improve overall.
- 4.3 The Information Management Strategic Group provides the force with a solid platform to accredit its information management practices both to the International Information Security Management Standard BS ISO 27001 and the Cabinet Office's Information Assurance Maturity Model.
- 4.4 The force has progressed the recommendations from the 2007-08 Health & Safety Inspection. It is now assessing the success of the outstanding actions in as much as the e-learning package has been delivered as has the Stress Audit. The Wellness program is being reinvigorated. Health & Safety continues to be actively managed by the Health & Safety Committee and reported to Chief Officers accordingly. Internal auditing has also taken place and identified areas for improvement captured in the Health & Safety plan.
- 4.5 The force Review and Inspections Team has carried out a number of reviews during 2011-12, related to the force Development Programme and also individual thematic reviews and training evaluation.

Force Development Programme

- A gap analysis review of the force Blueprint implementation against the original design.
- A 6 week Post Implementation Review with recommendations of the force Blueprint.
- A developmental project on recommendations four and five which resulted from the Blueprint Post Implementation Review.
- A review with recommendations of the structure and ownership of forcewide training.
- A review with recommendations of forcewide standards of crime investigation.
- An interim review with quick win resolutions of initial crime and incident processes.

Thematic Reviews and Training Evaluation

- A scoping review with options for progression for development of firearms licensing across the force.
 - A scoping review with areas for consideration for development of the force Special Constabulary.
 - A performance and staff survey review with recommendations of Teignbridge and South Hams LPA.
 - A performance and staff survey review with recommendations of East and Mid Devon LPA.
 - Police Enquiry Officer training evaluation.
 - National Decision Making model training evaluation.
- 4.6 During 2011-12 HMIC conducted the following reviews:
- Review of Police Crime and Incident Data (June 2011) published at <http://www.hmic.gov.uk/publication/review-police-crime-incident-reports-20120125/>

- Valuing the Police/Preparedness (July 2011) published at <http://www.hmic.gov.uk/publication/adapting-austerity-review-police/>
- Integrity Review (Sept 2011) published at <http://www.hmic.gov.uk/publication/review-police-relationships/>
- Value for Money/Collaboration (Oct 2011) published at <http://www.hmic.gov.uk/publication/adapting-austerity-review-police/>
- Police Crime and Incident Data Re-assessment (November 2011) published at <http://www.hmic.gov.uk/publication/review-police-crime-incident-reports-20120125/>
- Olympics Assessment (November 2011), awaiting publication.
- Antisocial Behaviour (January 2012), awaiting publication.
- Valuing the Police (January 2012), awaiting publication.
- Availability Survey (February 2012), awaiting publication.

4.7 The Police Authority's Head of Internal Audit has, in addition to his routine audit work conducted, or overseen reviews, into the following force activities during 2011-12:

- Payroll (Continuous Assurance) (Final)
- File & Property Tracking System (Final)
- Contracts & Procurement (Draft)
- Investment Management System (Final)
- Investment Management – Spreadsheet Integrity Review (Final)
- Myself Overtime Claim System (Final)
- Information Assurance - IAMM (Work in progress)
- Redundancy Controls (Work in progress)

4.8 The outcomes from these reviews are contained on the force's Organisational Learning Database, which tracks the progress of the action plans through to closure.

4.9 The annual review of governance arrangements undertaken by senior officers indicated that there are no fundamental weaknesses in the governance framework or the system of internal control however areas have been identified for further review activity.

5. Future Areas for Consideration and Review

5.1 The Force Vision and Change Programme

The strategic aim of the force is to be a top performing force. The force Development Programme continues to be a high risk activity, especially in light of the current extremely challenging financial environment. The governance arrangements around the Change Programme Board continue to be monitored for adequacy of control. However, the size and scope of the programme still require meticulous project management skills and governance in order to provide the force with the long term benefits envisaged. The work being done as part of the Blueprint continues to inform and direct force activity for the future and it will be necessary to ensure that improvement work is integrated seamlessly with normal activity to ensure that policing services continue to maintain the current high levels of performance.

As part of this work the force has moved to a functional model with three operational portfolios (Operational Response, Crime & Justice and Local Policing & Partnerships) in May 2011, and is in the process of reviewing all areas of business for efficiency and effectiveness. The force has also adopted the ACPO National Decision Model which encourages individuals to take operational decisions based on organisational values and professional judgement. This discourages a risk adverse approach to policy. The force is currently engaged in a significant programme of change to its core IT systems which will see its command & control, crime and intelligence systems changed in the next twelve months.

5.2 Human Resources Issues

The force is managing the need to reduce the number of people it employs through various reviews, examining every role and function that the force delivers and how it delivers it in a transparent process. However, it appreciates that this work must be done with respect and sensitivity. Emphasis has been towards the prioritisation of available resources and skills, how

they are deployed, and level of availability. Nonetheless the force aspires to achieve a workforce that reflects the diverse population of the area it serves.

The force has set up a small implementation group which is working to ensure a co-ordinated implementation of the recommendations of the Winsor review into police officer and police staff remuneration and conditions. The group, within the context of the national police CIPD forum, is currently seeking to inform potential changes to the draft statutory instrument and to ensure maximum clarity of any Home Office guidance to enable consistent interpretation across all forces. Changes resulting from the Hutton review are also being implemented as necessary, for example increasing officer pension contributions from April 2012. The Hutton review proposals are closely monitored for when they become embodied in pension schemes to police staff and officers.

A preferred bidder has now been identified to thoroughly and fairly assess all staff job roles in the organisation, which should be completed by late 2013 or early 2014.

Lastly, the force is in the process of improving the integrity and accuracy of its people data through data cleansing and other initiatives.

5.3 Business Continuity

Business Continuity work continues in respect of ICT service continuity and backup plans for recovery and restoration of service. Business continuity plans are in place and will be updated to reflect recent changes to the force structure, which includes changes to the Contingency Planning Unit itself.

5.4 Partnerships

Partnership work is being closely scrutinised to ensure it supports the force's Operational priorities. Although certain partnership activity is mandated there is a need to ensure that it delivers value for the organisation and is conducted efficiently and effectively. All partnership activity is being reviewed accordingly. The work conducted with the Plymouth Strategic Partnership on integrated planning, budget setting and local priorities has indicated the value of a co-ordinated joint approach to partnership planning and activity. For Plymouth, the Chief Constable and other police senior leaders have been involved in cross-agency budget scrutiny to identify and address areas of risk especially when budgets and resources are reducing. ACC Local Policing & Partnerships also sits on the Peninsular Working Together Board which is joining up all councils and other agencies to look at possible savings, addressing of joint risks and partnership working.

5.5 Regional Collaboration

The force continues to work in collaboration with its regional neighbours. The work is overseen by The South West Police Authorities Joint Committee. A regional procurement unit has been established, and the region acts as national lead for the e-Commerce project. Both these projects will deliver reduced cost and improved processes.

5.6 Environmental management

A great deal has been achieved, with the demands of the environmental agenda being better understood throughout the organisation. The foundations/processes are in place but further work is required to fully embed the culture across the force and celebrate the successes.

5.7 Police and Crime Commissioners

On 15 November 2012, the public will elect a Police and Crime Commissioner (PCC), who will be accountable for how crime is tackled in Devon, Cornwall and the Isles of Scilly. The duty of the PCC will be to ensure that the Force is providing an efficient and effective service on behalf of the public.

The PCC will be responsible for setting the strategic priorities, working with partners to prevent and tackle crime, ensuring that public priorities are acted upon, and ensuring value for money.

Undoubtedly, the arrival of the PCC will impact on arrangements for assurance, not least because it will mark the end of the Police Authority which will cease to exist from 22 November 2012.

The force is working closely with the Authority for a smooth transition to the new arrangements, ensuring that assurance, governance and control remain effective.

Over the coming year, the force will continue to monitor the areas outlined above to further enhance governance arrangements. The force will work in partnership with the Police Authority to deliver these arrangements and I am satisfied that these steps will address the improvements that were identified in the review of effectiveness. I will monitor their implementation and operation as part of our next annual review.

Signed:
Shaun Sawyer
Chief Constable of Devon and Cornwall Police

MOVEMENT IN RESERVES STATEMENT FOR THE YEAR ENDED 31 MARCH 2012

This Statement shows the movement in the year on the different reserves held by the authority, analysed into 'usable reserves' (ie those that can be applied to fund expenditure or reduce taxation) and other reserves. The 'Surplus or Deficit' on the provision of services' line shows the true economic cost of providing the authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the amounts required to be charged to the general Fund Balance for Council Tax 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.

	General Fund Balance £'000	Earmarked General Reserves £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Total Usable Reserves £'000	Unusable Reserves £'000	Total Authority Reserves £'000
As at 31 March 2011	6,198	22,318	1,399	4,790	34,705	(1,586,508)	(1,551,803)
Movement in reserves during 2011-12							
Surplus or (deficit) on provision of services (page 32)	(46,736)	0	0	0	(46,736)	0	(46,736)
Other Expenditure and Income (page 32)	0	0	0	0	0	(313,686)	(313,686)
Total Comprehensive Expenditure and Income	(46,736)	0	0	0	(46,736)	(313,686)	(360,422)
Adjustments between accounting basis & funding basis under regulations (note 7)	56,498	0	1,296	(847)	56,947	(56,947)	0
Net Increase/(Decrease) before Transfers to Earmarked Reserves	9,762	0	1,296	(847)	10,211	(370,633)	(360,422)
Transfers (to)/from Earmarked Reserves (note 8)	(9,762)	9,762	0	0	0	0	0
Increase/(Decrease) In Year	0	9,762	1,296	(847)	10,211	(370,633)	(360,422)
As at 31 March 2012 carried forward	6,198	32,080	2,695	3,943	44,916	(1,957,141)	(1,912,225)

MOVEMENT IN RESERVES STATEMENT FOR THE YEAR ENDING 31 MARCH 2011

Provided for comparative purposes

This Statement shows the movement in the year on the different reserves held by the authority, analysed into 'usable reserves' (ie those that can be applied to fund expenditure or reduce taxation) and other reserves. The 'Surplus or Deficit' on the provision of services' line shows the true economic cost of providing the authority's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the amounts required to be charged to the general Fund Balance for Council Tax 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.

	General Fund Balance £'000	Earmarked General Fund Reserves £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	Total Usable Reserves £'000	Unusable Reserves £'000	Total Authority Reserves £'000
As at 31 March 2010	6,198	18,577	1,013	4,822	30,610	(2,315,321)	(2,284,711)
Movement in reserves during 2010-11							
Surplus or (deficit) on provision of services	51,637	0	0	0	51,637	0	51,637
Other Comprehensive Expenditure and Income	0	0	0	0	0	681,271	681,271
Total Comprehensive Expenditure and Income	51,637	0	0	0	51,637	681,271	732,908
Adjustments between accounting basis & funding basis under regulations (note 7)	(47,896)	0	386	(32)	(47,542)	47,542	0
Increase/(Decrease) before Transfers to Earmarked Reserves	3,741	0	386	(32)	4,095	728,813	732,908
Transfers (to)/from Earmarked Reserves (note 8)	(3,741)	3,741	0	0	0	0	0
Increase/(Decrease) In Year	0	3,741	386	(32)	4,095	728,813	732,908
As at 31 March 2011 carried forward	6,198	22,318	1,399	4,790	34,705	(1,586,508)	(1,551,803)

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.

For Year Ended 31 March 2011

For Year Ended 31 March 2012

Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000		Gross Expenditure £'000	Gross Income £'000	Net Expenditure £'000	Notes
Continuing operations							
195,191	(17,663)	177,528	Local Policing	159,038	(14,051)	144,987	
25,243	(912)	24,331	Dealing with the Public	23,224	(399)	22,825	
31,364	(2,037)	29,327	Criminal Justice Arrangements	26,532	(1,579)	24,953	
13,977	(1,608)	12,369	Road Policing	10,581	(1,195)	9,386	
21,709	(1,222)	20,487	Specialist Operations	17,725	(688)	17,037	
13,045	(636)	12,409	Intelligence	11,915	(230)	11,685	
32,632	(1,643)	30,989	Specialist Investigation	29,799	(553)	29,246	
8,308	(725)	7,583	Investigative Support	8,899	(149)	8,750	
5,930	(3,794)	2,136	National Policing	3,448	(2,535)	913	
Non Distributed Costs							
(198,032)	0	(198,032)	Pensions Past Service Gain	0	0	0	35
0	0	0	Loss on curtailment/settlement	35	0	35	35
4,755	0	4,755	Other Non Distributed Costs	5,040	0	5,040	
1,564	(12)	1,552	Corporate and Democratic Core	1,525	(6)	1,519	
155,686	(30,252)	125,434	Net Cost of Police Services	297,761	(21,385)	276,376	25
0	(18,758)	(18,758)	Other Operating Income and Expenditure	1,705	(32,344)	(30,639)	9
132,851	(464)	132,387	Financing and Investment Income and Expenditure	92,101	(570)	91,531	10
0	(290,700)	(290,700)	Taxation and Non-Specific Grant Income	0	(290,532)	(290,532)	11
288,537	(340,174)	(51,637)	(Surplus)/Deficit on Provision of Services	391,567	(344,831)	46,736	
(Surplus)/Deficit on revaluation of non current assets							
		0				105	12
		(681,271)	Actuarial (gains) or losses on pension assets and liabilities			313,581	35
		(681,271)	Other Comprehensive Income and Expenditure			313,686	
		(732,908)	Total Comprehensive Income and Expenditure			360,422	

BALANCE SHEET

The Balance Sheet shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Authority. The net assets of the Authority (assets less liabilities) are matched by the reserves held by the authority. Reserves are reported in two categories. The first category of reserves are usable reserves, 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 are those that the authority is not able to use to provide services. This category of reserves include 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".

As at 31 March 2011 £'000		As at 31 March 2012 £'000	Notes
	Long Term Assets		
152,394	Property, Plant & Equipment	148,823	12
144	Intangible Assets	715	13
0	Long Term Investments	692	14
<u>152,538</u>	Total Long Term Assets	<u>150,230</u>	
	Current Assets		
34,957	Short Term Investments	30,490	14
1,500	Assets Held for Sale	4,282	17
871	Inventories	926	
13,446	Short Term Debtors	18,880	15
<u>5,974</u>	Cash and Cash Equivalents	<u>9,774</u>	16
56,748	Total Current Assets	64,352	
	Current Liabilities		
(528)	Short Term Borrowing	(528)	14
(26,974)	Short Term Creditors	(26,305)	18
<u>(2,121)</u>	Provisions	<u>(2,411)</u>	19
(29,623)	Total Current Liabilities	(29,244)	
	Long Term Liabilities		
(545)	Provisions	(500)	19
(32,778)	Long Term Borrowing	(32,778)	14
(64,243)	Pensions Liability - Staff	(115,041)	35
<u>(1,633,900)</u>	Pensions Liability - Officers	<u>(1,949,244)</u>	35
(1,731,466)	Total Long Term Liabilities	(2,097,563)	
<u>(1,551,803)</u>	Net Liabilities	<u>(1,912,225)</u>	
	Represented by		
(1,586,508)	Unusable Reserves	(1,957,141)	21
34,705	Usable Reserves	44,916	
<u>(1,551,803)</u>	Total Reserves	<u>(1,912,225)</u>	

CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2012

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.

For Year Ended 31 March 2011 £'000		For Year Ended 31 March 2012 £'000	Note
(51,637)	Net (surplus) or deficit on the provision of services	46,736	
	Adjustments to net surplus or deficit on the provision of services for non-cash movements		
48,144	(Increase)/Decrease in Pensions Liability	(52,561)	
(7,025)	Depreciation and amortisation	(5,700)	
(437)	(Increase)/Decrease in Provisions	(245)	
69	Surplus/(Loss) on sales of non-current assets	(768)	
0	Surplus/(Loss) on revaluation of non-current assets	(937)	
2,494	Movement in relevant assets/liabilities	6,379	
		(53,832)	
(8,392)	Net Cash (In flows)/Outflows from Operating Activities	(7,096)	22
8,040	Investing Activities	3,296	23
(3,992)	Financing Activities	0	24
(4,344)	Net (increase)/decrease in cash and cash equivalents	(3,800)	
(1,630)	Cash and cash equivalents at the beginning of the reporting period	(5,974)	
(5,974)	Cash and cash equivalents at the end of the reporting period	(9,774)	16

NOTE 1: STATEMENT OF ACCOUNTING POLICIES

General Principles

The Statement of Accounts summarises the Authority's transactions for the 2011-12 financial year and its position at the year end of 31 March 2012. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2003 which is required to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2011-12 and the Service Reporting Code 2011-12 supported by International Financial Reporting Standards (IFRS) and statutory guidance.

The accounting convention is historical cost modified by revaluation for certain categories non-current assets. There is a glossary of accounting terms on pages 92 to 98.

a. Accruals of Income and Expenditure

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

- Fees and charges due from customers are accounted for at the date the Authority provides the relevant goods or services.
- 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 stocks on the balance sheet.
- Expenses in relation to services received (including services supplied by employees) are recorded as expenditure as the services are received rather than when the payments are made.
- Interest payable and receivable is accounted for on the basis of the effective interest rate for the relevant financial instrument rather than the cash flow fixed or determined by the contract.
- Where income 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 the debtors is written down and a charge made to revenue for the income that might not be collected.
- The council tax income included in the Comprehensive Income and Expenditure Statement for the year is the accrued income for the year. The difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account.

b. Cash and cash equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are short term investments that are readily convertible to known amounts of cash without penalty and with insignificant risk of change in value.

In the Cash Flow Statement, cash and cash equivalents are shown net of bank overdrafts that are repayable on demand and form an integral part of the Authority's cash management.

c. Exceptional Items

When items of expenditure are outside the normal type of expenditure incurred by the Police Authority they will be disclosed separately on the face of the Income and Expenditure Statement if they are material and separate disclosure would aid the understanding of the Authority's financial performance.

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

Prior period adjustments may arise as a result of a change in accounting policies or to correct a material error.

Changes in accounting estimates are accounted for prospectively, i.e. in the current and future years affected by the change and do not give rise to a prior period adjustment.

Changes in accounting policies are only made when required by proper practices or the change provides more 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 by adjusting opening balance 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 comparatives amounts for the prior period.

e. Charges to Revenue Non - Current Assets

The Comprehensive Income and Expenditure Statement is debited with the following amounts to record the real 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 they can be written off
- amortisation of intangible fixed assets attributable to the service.

The Authority is not required to raise council tax to cover depreciation, impairment losses or amortisations. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement (calculated on a prudent basis determined by the Authority in accordance with statutory guidance). This is known as the Minimum Revenue Provision for the repayment of debt. Depreciation, revaluation and impairment losses and amortisations are therefore replaced by the contribution in the General Fund Balance, by way of an adjusting transaction within the Capital Adjustment Account in the Movement in Reserves Statement for the difference between the two.

f. Employee Costs and Benefits

(i) Benefits Payable During Employment

The full cost of employees (including salaries, paid annual leave, paid sick leave, bonuses and non monetary benefits) is charged to the accounting period in which the employees worked, including an adjustment for overtime claims due at the financial year-end.

An accrual is made for the cost of leave 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 wage and salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to the Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that the accrued leave is charged to revenue in the financial year in which the absence occurs.

(ii) 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 and are charged on an accruals basis to the Non Distributed Costs line in the Comprehensive Income and Expenditure Statement when the Authority is demonstrably committed to the termination of the employment of an employee.

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 (this only applies to compulsory redundancies). 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.

(iii) Post Employment Benefits

Employees of the Authority are members of three separate pension schemes:

- The Old Police Pension Scheme
- The New Police Pension Scheme
- The Local Government Pensions Scheme, administered by Devon County Council

All schemes provide defined benefits to members (retirement lump sums and pensions), earned as employees work for the Authority.

Police Officers' Pension Schemes

Both the Old and the New Police Officers' Pension Schemes are accounted for as defined benefits schemes:

- the liabilities of the Police Officers Pension Schemes are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates etc, and projections of projected earnings for current employees.
- liabilities are discounted to their value at current prices, using a discount rate of 5.5% (based on the indicative rate of return on high quality (AA) corporate bonds).
- the change in the net pensions liability is analysed into five components:
 - current service cost – the increase in liabilities as a result of service earned this year – allocated to the cost of Police Services in the Comprehensive Income and Expenditure Statement to the revenue accounts of services which the employees worked
 - past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – charged to the Net Cost of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
 - interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – charged to Net Operating Expenditure in the Comprehensive Income and Expenditure Statement
 - actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pension Reserve
 - benefits to pensioners – cash paid to pensioners including injury pension payments

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund in the year, not the amount calculated according to the relevant accounting standards. In the Movement of Reserves Statement this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any amounts payable but unpaid at the year end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Police Officer Injury Benefits

The Police Authority makes payment under the Police Injury Benefits Regulations. These payments are accounted for in the same way as payments under the main police officer pension schemes. The figures are included within the unfunded pension calculation as per IPSAS 25 Employee Benefits, as the injury benefits may be financially significant with volatile actuarial gains and losses. These have been estimated by the independent actuary.

The Local Government Pension Scheme

The Local Government Scheme is accounted for as a defined benefits scheme:

- the liabilities of the Devon County Council Pension Scheme attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates etc, and projections of projected earnings for current employees
- liabilities are discounted to their value at current prices, using a discount rate of 5.5% (based on the indicative rate of return on high quality (AA) corporate bonds)
- the assets of the Devon County Council pension fund attributable to the Authority are included in the Balance Sheet at their fair value:
 - quoted securities – current bid price
 - unquoted securities – professional estimate
 - unitised securities – current bid price
 - property securities – current bid price
 - property – market value
- the change in the net pensions liability is analysed into seven components:
 - current service cost – the increase in liabilities as a result of service earned this year – allocated to the cost of Police Services in the Comprehensive Income and Expenditure Statement to the revenue accounts of services which the employees worked
 - past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – charged to the Net Cost of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
 - interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – charged to Net Operating Expenditure in the Comprehensive Income and Expenditure Statement
 - expected return on assets – the annual investment return on the fund assets attributable to the Authority, based on an average of the expected long-term return – credited to Net Operating Expenditure in the Comprehensive Income and Expenditure Statement
 - actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Pensions Reserve
 - contributions paid to the Devon County Council Pension Fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense
 - gains or losses on settlements and curtailments – the result of actions to relieve the Authority of liabilities or events that reduce the expected future service or accrual of benefits of employees – charged to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of non-distributed costs

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund or directly to pensioners in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement, this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement 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.

Discretionary Benefits

The Authority also has restricted powers to make discretionary awards of retirement benefits in the event of early retirements. Any liabilities estimated to arise as a result of an award to any member of staff are accrued in the year of the decision to make the award and accounted for using the same policies as are applied to the Local Government Pension Scheme.

g. Events after the Balance Sheet Date

Post Balance Sheet events are material 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.

h. Financial Instruments

(i) Financial Liabilities (Borrowing)

Financial liabilities are recognised on the Balance Sheet when the Authority becomes a party to the contractual provisions of a financial instrument and initially measured at fair value and 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.

For 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 the interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement.

(ii) Financial Assets

Financial assets may be classified into three 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 determinable payments
- Fair value through profit and loss – assets that are held for trading and derivatives with positive value

Loans and Receivables

Loans and receivables are recognised on the Balance Sheet when the Authority becomes a party to the contractual provision of a financial instrument and initially measured at fair value are carried 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 the loans that the Authority has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable and the interest credited to the Comprehensive Income and

Expenditure Statement is the amount receivable for the year in the loan agreement.

Where the Authority has made loans to staff at less than market rates for policy purposes, the accounts are not adjusted for the difference between actual and market interest and would not be unless the total adjustment would be more than £25,000 in any one year.

Where financial 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 would be written down and a charge made to the Comprehensive Income and Expenditure Statement. Any gains or losses that arise once the contract is complete or is terminated are credited/debited to the Comprehensive Income and Expenditure Statement.

Available for Sale

The authority does not hold financial assets that should be classified as available for sale

Financial Instruments at Fair Value through the Profit and Loss

The Police Authority employs an external money market fund manager. The portfolio of the money market fund manager consists of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit taking

The instruments will be recognised at fair value and carried in the balance sheet at fair value. Movements in fair value recorded in the balance sheet will be balanced by posting gains and losses to the Financing and Investment Income and Expenditure line of the Comprehensive Income and Expenditure Statement as they arise. Instruments will be valued at mid market price as supplied by reputable sources.

i. 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.

j. Government Grants and Contributions

Government grants and third party contributions are recognised as due to the Authority when there is reasonable assurance that:

- the Authority will comply with the conditions attached
- 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 contributions are credited to 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 of Reserves Statement. Where the grant has yet to be used to finance capital expenditure, it is posted to the Capital Adjustment Account. Amounts in the Capital Grants Unapplied Reserve are transferred to the Capital Adjustments Account once they have been applied to fund capital expenditure.

k. Intangible Assets

(i) Recognition

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

Software that is integral to the operating of hardware is capitalised as part of the relevant item of property, plant and equipment.

(ii) Measurement

Intangible assets are measured initially at cost. Following initial recognition, intangible assets are carried at fair value by reference to an active market, where no active market exists, at amortised cost.

(iii) Amortisation

The depreciable amount of an intangible asset is amortised over its useful life and charged to the Comprehensive Income and Expenditure Statement.

(iv) Impairment

An asset is tested for impairment whenever there is an indication that the asset might be impaired – any losses recognised are posted to the Comprehensive Income and Expenditure Statement. Any gain or loss arising on the disposal or abandonment of an intangible asset is posted to Other Operating Expenditure in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and the Capital Receipts Reserve.

l. Inventories and Long Term Contracts

All inventories appear in the Balance Sheet at the lower of cost and net realisable value. The cost of inventories is assigned using an average cost formula.

Long term contracts are accounted for on the basis of charging the Surplus or Deficit on the Provision of Services with the value of works and services received under the contract during the financial year.

m. Jointly Controlled Operations

The Authority participates in a number of partnership activities. These arrangements involve the Authority carrying out activities relevant to its own functions jointly with others. The Authority accounts only for its share of the jointly controlled assets and the liabilities and expenses that it incurs on its own behalf or jointly with others in respect to its interest in the partnerships and income that it receives in relation to the partnership activities. Only significant partnerships where gross expenditure is over £100,000 are disclosed in the note on related party transactions.

n. Leases

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

Where a lease covers both land and buildings, the land and building 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.

Authority as Lessee

(i) Finance Leases

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

The Authority is not required to raise council tax to cover depreciation or revaluation and impairment losses arising on leased assets. Instead, a prudent annual contributions are 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.

(ii) 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.

Authority as Lessor

(i) Operating Leases

Where the Authority grants an operating lease over a property or items of plant or equipment, the asset is retained in the Balance Sheet. Rentals received under operating leases is credited to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment.

o. Overheads and Support services

The cost of overheads and support services are charged to the operational headings set out in the Comprehensive Income and Expenditure statement according to the principles set out in the CIPFA Service Reporting Code. Costs are allocated to all headings on the basis of benefits received with the exception of the Non-Distributed Costs heading which is not charged with overheads or support costs

p. Plant, Property and Equipment

Assets that have a physical substance and are held for use in providing police services and are expected to be used during more than one financial year are classified as Property Plant and Equipment.

(i) Recognition

All expenditure on the acquisition, creation and enhancement of property, plant and equipment is capitalised on an accruals basis. Expenditure on the acquisition of a tangible asset, or expenditure which adds to and not merely maintains the value of an existing asset is capitalised provided that it is probable that the future economic benefits or service potential will flow to the Authority for more than one year and the cost can be measured reliably. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as an expense as it is incurred.

(ii) Measurement

Assets are initially measured at cost, comprising:

- Purchase price
- Any costs attributable to bringing the asset into working condition.

The Authority does not capitalise borrowing costs incurred whilst the assets are under construction.

Donated assets are measured initially at fair value. The difference between fair value and any consideration paid is credited to the Taxation and Non-Specific Grant Income within the Comprehensive Income and Expenditure Statement, unless the donation has been made conditionally. Until conditions are satisfied, the gain is held in the Donated Assets Account. Where gains are credited to the Comprehensive Income and Expenditure Statement, they are reversed out of the General Fund Balance to the Capital Adjustment Account in the Movement in Reserves Statement.

Heritage Assets are only recognised if they have a value of more than £10,000.

Assets are then carried on the balance sheet using the following measurement bases:

- Assets under construction – historical cost
- Land and Buildings – fair value determined as the amount that would be paid for the asset in its existing use. Where insufficient market-based evidence of fair value is available Depreciated Replacement Cost has been used by the Police Authority's valuer as an estimate of fair value. Land and buildings are re-valued by a qualified external valuer every five years and this was last done as at 1 April 2009.
- For vehicles, plant and equipment that have short lives or low value or both, depreciated historical cost is used as a proxy for fair value.

Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains. The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Where decreases in value 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 that 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 Comprehensive Income and Expenditure Statement.

(iii) Impairment

Assets are reviewed at the end of the financial period to ensure that there has been no significant decrease in value because of factors such as obsolescence, environmental changes or declining market values. Where impairments are identified as part of this review these are accounted for as follows:

- 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 that 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 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.

(iv) Depreciation

Depreciation spreads the cost of assets over their useful working life (usually in equal annual instalments). An exception is made for assets without a determinable finite useful life (i.e. land) and assets that are not yet available for use (i.e. asset under construction).

The depreciation policy for assets is as follows:

Land and buildings – the useful life of each building is assessed by the valuer and buildings are depreciated individually; the land value is not depreciated. Where an asset comprises two or more major components with substantially different useful lives, each component is accounted for separately. Depreciation is charged in the year of acquisition.

Vehicles - are depreciated monthly over the forecast useful life of the vehicle and the depreciation in the first year will reflect the number of months that the vehicle has been registered.

Information and Communications Technology – depreciation is charged annually, starting in the year of acquisition. The asset life of individual groups of assets has been assessed and each group is depreciated individually according to asset life.

Force Helicopter – is depreciated over ten years.

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

(v) 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 or 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.

When an asset is disposed of or decommissioned, the value of the asset in the balance sheet is written off to the Comprehensive Income and Expenditure Statement as part of the gain or loss on disposal. Receipts from disposals are credited to the same line in the Comprehensive Income and Expenditure Statement 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 in the Revaluation Reserve are transferred to the Capital Adjustment Account. Amounts in excess of £10,000 are categorised as capital receipts. Receipts are credited to the Useable Capital Receipts Reserve. Receipts are appropriated to the Reserve from the General Fund Balance in the Movement in Reserves Statement. The written off value of disposals is not charged against council tax as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the General Fund Balance in the Movement in Reserves Statement.

q. Provisions, Contingent Liabilities and Assets

Provisions

Provisions are made where an event has taken place that gives the Authority a legal or constructive obligation that probably requires settlement by a transfer of economic benefits or service potential and a reliable estimate can be made of the obligation.

Provisions are charged to the appropriate service line in the Comprehensive Income and Expenditure Statement in the year the Authority becomes aware of the obligation and are measured at the best estimate at the balance sheet date of the expenditure required to settle the obligation taking account the relevant risk 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 the provision is no longer required or the estimated amount can be reduced the provision is reduced 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 the income for the relevant service if it is virtually certain that the reimbursement will be received if the Authority settle an obligation.

Provision is made for termination payments due to staff resulting from restructuring when the Authority has raised a valid expectation to the staff affected that it will carry out restructuring by starting to implement a particular restructuring plan or announcing its main features to those affected by it. Each element of the Force restructuring plan will be treated separately and provision made of the estimated termination payments as and when each element of the plan is announced.

Contingent Liabilities

A contingent liability arises where an event has taken place that gives the Authority a possible obligation whose existence can 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 the situation where a provision would otherwise be made but either it is not probable that an outflow of resources will be required or the amount of the obligation cannot be measured reliably.

Contingent liabilities are not recognised in the balance sheet but disclosed in a note to the accounts.

Contingent Assets

A contingent asset arises where an event has taken place that gives the Authority a possible asset whose existence can 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.

r. Reserves and Funds

The Authority sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged to the appropriate service in that year to be scored against the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement in the year. The reserve is then appropriated back the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax for the expenditure.

Certain reserves are kept to manage the accounting process for non-current assets, financial instruments, retirements and employee benefits and do not represent useable resources to the Authority – the reserves are explained in the relevant policies.

s. VAT

VAT is included as an expense only when it is not recoverable from Her Majesty's Revenue and Customs. VAT receivable is excluded from income.

NOTE 2: IMPACT OF THE ADOPTION OF NEW STANDARDS ON THE 2011-12 FINANCIAL STATEMENTS

The Code of Practice on Local Authority Accounting in the United Kingdom 2012-13 introduces new requirements with regard to the disclosures relating to Financial Instruments. The Police Authority is unlikely to undertake the type of transaction to which these requirements apply and for that reason the new standard will not have a material effect.

NOTE 3: CRITICAL JUDGEMENTS IN APPLYING ACCOUNTING POLICIES

In applying the accounting policies set out in Note 1, 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:

- (i) Note 36 describes a contingent liability with regard to potential equal pay claims. Because of the level of uncertainty attached to the value of the Police Authority's possible future obligations with regard to these claims, no provision has been made for future claims and the value of the contingent liability has not been quantified.
- (ii) It is clear from the Comprehensive Spending Review 2010 and the Chancellors Budget 2012 that funding for policing will reduce over the next four years. In response to this reduction in funding the Police Authority is rationalising the estate and disposing of surplus property. It is judged that this process means that the capacity of the estate will remain in line with operational requirements and assets will not become impaired to any material degree as a result of a need to close facilities and reduce levels of service provision.
- (iii) As set out in accounting policies the Police Authority investment managed by the Police Authority's external investment manager will be accounted for as Financial Instruments as Fair Value through the Profit and Loss. These assets are not held purely for the purposes of trading but are part of a portfolio of identified financial instruments for which there is evidence of a recent actual pattern of short-term profit taking. For this reason this is judged to be the most appropriate valuation approach for these assets.
- (iv) The National Police Aviation Service (NPAS) will amalgamate the current individual force provisions of air support into one single entity under a lead-force model. A draft order for the amalgamation was laid before parliament in March. Further work around the governance arrangements, the management of the service and firming up costs and savings are on going and will result in a collaboration agreement. Because the helicopter was fully operational as at 31 March 2012 and that the eventual transfer to NPAS will ensure that the helicopter is operated for public benefit in Devon and Cornwall, it is judged that there is no impairment to the value of the Helicopter as at 31 March 2012.
- (v) On the 22 November the functions and assets of the Police Authority will pass to a newly elected Police and Crime Commissioner. The continued use of the assets of the Police Authority for the public benefit mean that the Authority does not need to consider the restriction on its own ability to make use of the assets from the going concern perspective.
- (vi) The transfer of functions to the Police and Crime Commissioner will incur additional costs. The Police Authority has estimated these costs and set aside £0.183m in the Police Authority Transition Fund.

NOTE 4: 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 by 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 level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Authority will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets. The estimated value of property, plant and equipment as at 31 March 2012 is £148.823m.	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 £0.250m for every year that useful lives had to be reduced.
Provisions	The Authority has made a provision of £1.126m to cover the cost of self insured public and employers' liability claims. The cost of these claims has been estimated by the Force Legal Team.	A 10 percent increase in the cost of the outstanding claims would increase the charge to the Comprehensive Income and Expenditure Account by £0.112m.
Pensions Liability	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied. The total value of pension liabilities as at 31 March 2012 is £2,064.285.	The effects on the net pensions liability of changes in individual assumptions can be measured. For instance, a 0.1% increase in the discount rate assumption would result in a decrease in the total pension liabilities of £54.616m. However, the assumptions interact in complex ways. During 2011-12, the Authority's actuaries advised that the net pensions liability had increased by £6.803m as a result of estimates being corrected due to "actuarial experience" and increased by £306.778m attributable to updating of the assumptions.
Pensions Assets	Amounts charged to the Comprehensive Income and Expenditure Statement and the valuation of the pension reserve in the Balance Sheet in respect of police staff pension benefits are heavily influenced by the estimated future inflation and earnings on investments. The assumptions made in making these estimates are set out in note 35. The estimated value of pension assets for the local Government Pension Scheme based upon information available at the Balance Sheet date, was £173.161m. The actual valuations at the Balance Sheet date, which may not be available until some time later, may give a different value of pension assets. This difference is not considered to be material.	This difference is not considered to be material.

NOTE 5: MATERIAL ITEMS OF INCOME AND EXPENSE

The Police Authority incurred £2.867m in exit costs as a result of a restructuring plan to achieve budget savings. An analysis of these costs is provided in note 34, page 81.

NOTE 6: EVENTS AFTER THE BALANCE SHEET DATE

These accounts were certified as presenting a true and fair view by the Police Authority Treasurer on 29 June 2012. There were no significant post balance sheet events up to this date.

NOTE 7: ADJUSTMENTS BETWEEN ACCOUNTING BASIS AND FUNDING BASIS UNDER REGULATIONS

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

FOR YEAR ENDED 31 MARCH 2012

	Usable Reserves		Unusable Reserves
	General Balances	Capital Receipts Reserve	Capital Grants Unapplied
	£'000	£'000	£'000
			£'000
<u>Adjustments involving the Capital Adjustment Accounts:</u>			
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:			
Charges for depreciation and impairment of non current assets	5,569		(5,569)
Revaluation losses on property plant and equipment	937		(937)
Amortisation of Intangible Assets	131		(131)
Capital grant applied to finance capital expenditure			(3,500) 3,500
Amounts of non current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	2,418		(2,418)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:			
Statutory provision for the financing of capital investment	(1,072)		1,072
Capital expenditure charged against the General Fund	(158)		158
<u>Adjustments involving the Capital Grants Unapplied:</u>			
Capital Grants and Contributions unapplied credited to Comprehensive Income and Expenditure Account	(2,653)	2,653	0
<u>Adjustments involving the Pensions Reserve:</u>			
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure (see note 35)			
Police Officers (Unfunded) Schemes	112,369		(112,369)
Police Staff	13,038		(13,038)
Employer's pensions contributions and direct payments to pensioners payable in the year			
Police Officers (Unfunded) Schemes	(31,614)		31,614
Police Staff	(8,888)		8,888
Pensions Top Up Grant	(32,344)		32,344
<u>Adjustments primarily involving the Capital Receipts Reserve</u>			
Transfer of cash sale proceeds credited as part of the gain or loss on disposal to the Comprehensive Income and Expenditure Account	(1,650)	1,650	0
Use of capital receipts to finance new expenditure		(354)	354
<u>Adjustments involving the Collection Fund Adjustment Account:</u>			
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statements is different from council tax income calculated for the year in accordance with statutory requirements			
	(341)		341
<u>Adjustment involving the Short Term Compensated Absences Adjustment Account</u>			
Amount by which staff and officers 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			
	756		(756)
Total Adjustments	56,498	1,296	(847) (56,947)

FOR YEAR ENDED 31 MARCH 2011
(provided for comparative purposes)

	Usable Reserves			Unusable Reserves
	General Balances £'000	Capital Receipts Reserve £'000	Capital Grants Unapplied £'000	£'000
<u>Adjustments involving the Capital Adjustment Accounts:</u>				
Reversal of items debited or credited to the Comprehensive Income and Expenditure Statement:				
Charges for depreciation and impairment of non current assets	7,006			(7,006)
Amortisation of Intangible Assets	19			(19)
Capital grant applied to finance capital expenditure			(3,192)	3,192
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	(77)	386		(309)
Insertion of items not debited or credited to the Comprehensive Income and Expenditure Statement:				
Statutory provision for the financing of capital investment	(1,071)			1,071
Statutory repayment of finance leases	(8)			8
Capital expenditure charged against the General Fund	(405)			405
<u>Adjustments involving the Capital Grants Unapplied:</u>				
Capital Grants and Contributions unapplied credited to Comprehensive Income and Expenditure Account	(3,160)		3,160	0
<u>Adjustments involving the Pensions Reserve:</u>				
Reversal of items relating to retirement benefits debited or credited to the Comprehensive Income and Expenditure (see note 35)				
Police Officers (Unfunded) Schemes	16,140			(16,140)
Police Staff	(4,288)			4,288
Employer's pensions contributions and direct payments to pensioners payable in the year				
Police Officers (Unfunded) Schemes	(32,857)			32,857
Police Staff	(8,450)			8,450
Transfer from Police Fund to Pension Fund	(18,689)			18,689
<u>Adjustments involving the Collection Fund Adjustment Account:</u>				
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statements is different from council tax income calculated for the year in accordance with statutory requirements				
	(1,081)			1,081
<u>Adjustment involving the Short Term Compensated Absences Adjustment Account</u>				
Amount by which staff and officers 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				
	(975)			975
Total Adjustments	(47,896)	386	(32)	47,542

NOTE 8: TRANSFERS TO/FROM EARMARKED RESERVES

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

	Balance as at 1 April 2010	Transfers Out 2010-11	Transfers In 2010-11	Balance as at 31 March 2011	Transfers Out 2011-12	Transfers In 2011-12	Balance as at 31 March 2012
	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Desktop Replacement Reserve	393	(393)	0	0	0	0	0
Helicopter Replacement Fund	142	(142)	250	250	0	250	500
Police Officer Ill Health Reserve	500	0	0	500	0	0	500
Budget Management Fund	1,139	(1,139)	1,770	1,770	0	246	2,016
Major Operations Reserve	1,142	0	748	1,890	0	486	2,376
Programmes & Projects Reserve	1,168	(3,483)	7,678	5,363	0	283	5,646
Workforce Modernisation Reserve	5,025	(3,500)	1,873	3,398	0	2,710	6,108
Force Development Reserve	861	(1,134)	273	0	0	0	0
Invest to Save Reserve	250	(250)	0	0	0	0	0
Capital Financing Reserve	1,851	(143)	2,702	4,410	0	576	4,986
Airwave Reserve	1,782	(1,782)	0	0	0	0	0
Estates Development Reserve	645	0	0	645	0	0	645
Revenue Smoothing Fund	3,549	(1,000)	1,445	3,994	0	5,126	9,120
Employment Tribunal/Legal Fees Reserve	50	(50)	0	0	0	0	0
Firearms Asset Management Reserve	80	(80)	0	0	0	0	0
Police Authority Transition Fund	0	0	98	98	0	85	183
Total	18,577	(13,096)	16,837	22,318	0	9,762	32,080

This note only show transfers to/from earmarked revenue reserves. Transfers to usable capital reserves and the General Fund are shown in the Movement in Reserves Statements on pages 30 and 31

NOTE 9: OTHER OPERATING INCOME AND EXPENDITURE

For Year Ended 31 March 2011			For Year Ended 31 March 2012		
Expenditure £'000	Income £'000		Expenditure £'000	Income £'000	
0	(69)	Net (Surplus) /Deficit from sale of non-current assets	768	0	
0	0	Loss on revaluation of non-current assets	937	0	
0	(18,689)	Pensions Top Up Grant	0	(32,344)	
<u>0</u>	<u>(18,758)</u>	Total	<u>1,705</u>	<u>(32,344)</u>	

NOTE 10: FINANCING AND INVESTMENT INCOME AND EXPENDITURE

For Year Ended 31 March 2011			For Year Ended 31 March 2012		
Expenditure £'000	Income £'000		Expenditure £'000	Income £'000	
1,243	0	Interest payable	1,329	0	
0	(464)	Interest and investment income	0	(570)	
		Pensions Interest Costs and expected return on Pension Assets			
4,462	0	- Police Staff Scheme (Funded)	2,002	0	
127,146	0	- Police Officer Scheme (Unfunded)	88,770	0	
<u>132,851</u>	<u>(464)</u>	Total	<u>92,101</u>	<u>(570)</u>	

NOTE 11: TAXATION AND NON SPECIFIC GRANT INCOME

For Year Ended 31 March 2011		For Year Ended 31 March 2012	
Income £'000		Income £'000	
(191,152)	Non ring-fenced government grants	(191,220)	
(3,160)	Recognised capital grants and contributions	(2,653)	
<u>(194,312)</u>	Sub Total	<u>(193,873)</u>	
<u>(96,388)</u>	Council Tax	<u>(96,659)</u>	
<u>(290,700)</u>	Total	<u>(290,532)</u>	

NOTE 12 : PROPERTY, PLANT AND EQUIPMENT

(a) Movements on Balances in 2011-12

	Operational Assets		Assets under Construction		Total
Cost or Valuation	Land & Buildings £'000	Vehicles, Plant & Equipment £'000	Land & Buildings £'000	Vehicles, Plant & Equipment £'000	£'000
At 1 April 2011	138,782	27,431	5,447	632	172,292
Additions	0	1,122	5,446	1,677	8,245
Revaluation increases/(decreases) recognised in the Revaluation Reserve	(105)	0	0	0	(105)
Revaluation increases/(decreases) recognised in the Surplus/Deficit on the Provision of Services	(1,035)	0	0	0	(1,035)
Derecognition-Disposals	(961)	(1,209)	0	0	(2,170)
Derecognition-Other	0	(122)	0	0	(122)
Assets re-classified (to)/from Held for Sale	(4,526)	0	0	0	(4,526)
Other reclassification	7,364	632	(7,364)	(632)	0
At 31 March 2012	139,519	27,854	3,529	1,677	172,579

Accumulated Depreciation and Impairments

At 1 April 2011	(5,252)	(14,646)	0	0	(19,898)
Depreciation Charge	(2,688)	(2,881)	0	0	(5,569)
Depreciation written out to the Revaluation Reserve	32	0	0	0	32
Depreciation written out to the Surplus/Deficit on the Provision of Services	62	0	0	0	62
Derecognition-Disposals	53	1,197	0	0	1,250
Derecognition-Other	0	123	0	0	123
Assets re-classified (to)/from Held for Sale	244	0	0	0	244
At 31 March 2012	(7,549)	(16,207)	0	0	(23,756)

Net Book Value

At 31 March 2012	131,970	11,647	3,529	1,677	148,823
At 31 March 2011	133,530	12,785	5,447	632	152,394

(b) Movements on Balances in 2010-11 (included for comparative purposes)

	Operational Assets		Assets under Construction		Total
	Land & Buildings £'000	Vehicles, Plant & Equipment £'000	Land & Buildings £'000	Vehicles, Plant & Equipment £'000	£'000
Cost or Valuation					
At 1 April 2010	138,179	29,905	2,615	0	170,699
Additions	623	2,567	3,109	632	6,931
Derecognition-Disposals	(297)	(2,396)	0	0	(2,693)
Derecognition-Other	0	(2,645)	0	0	(2,645)
Other reclassification	277	0	(277)	0	0
At 31 March 2011	138,782	27,431	5,447	632	172,292
Accumulated Depreciation and Impairments					
At 1 April 2010	(2,757)	(15,164)	0	0	(17,921)
Depreciation Charge	(2,503)	(4,503)	0	0	(7,006)
Derecognition-Disposals	8	2,376	0	0	2,384
Derecognition-Other	0	2,645	0	0	2,645
At 31 March 2011	(5,252)	(14,646)	0	0	(19,898)
Net Book Value					
At 31 March 2011	133,530	12,785	5,447	632	152,394
At 31 March 2010	135,422	14,741	2,615	0	152,778

(c) Surplus Assets

A significant portion of the HQ site has been marketed for sale. A sale contract which is conditional on the purchaser achieving planning permission to develop the site is expected to be agreed in 2012-13. This asset is still in use and has not therefore been classified as surplus.

All properties that are not in use meet the criteria to be classified as Held for Sale. For this reason no properties are classified as surplus as at 31 March 2012.

(d) Depreciation

The following useful lives and approaches to depreciation have been used to calculate depreciation charges:

Land and Buildings – the asset lives for individual buildings are assessed by the valuer, asset lives are within the range 15 – 80 years.

Vehicles - Classes of vehicle are given specific asset lives these are within the range 3-8 years. Vehicles are depreciated monthly over the forecast useful life of the vehicle and the depreciation in the first year will reflect the number of months that the vehicle has been registered.

Information and Communication Technology (ICT) - Classes of ICT assets are given specific asset lives these are within the range 2-10 years. ICT assets are depreciated annually.

Helicopter – the estimated useful life of the helicopter is 10 years. The helicopter is depreciated annually.

All depreciation is calculated on a straight-line basis.

(e) Significant Capital Commitments

As at 31 March 2012 the Police Authority has entered into a contract for the construction and enhancement of Teignmouth Police Office in 2012-13 and future years estimated cost is £963k. Similar commitments at 31 March 2011 were £628k.

(f) Revaluations

Land and buildings are re-valued by a qualified external valuer every five years and this was last done as at 1 April 2009. Valuations were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institution of Chartered Surveyors. Following the annual impairment review, all property assets valued on the basis of existing use value were revalued as at 31 March 2012, as was Beacon Park Road Police Station. The revaluations were made by reference to observable prices in an active market. The result of these revaluations was a reduction to the value of land and buildings of £1.046m (£1.140m gross value less £0.094m depreciation). Of this £0.105m was charged to the revaluation reserve and £0.941m to the Comprehensive Income and Expenditure Statement in accordance with accounting policy p (iv) on page 43. Vehicles, plant and equipment are not revalued.

(g) Asset Transfers

Note 3(iv) gives information about the proposed transfer of the Force helicopter to the National Police Aviation Service.

NOTE 13: INTANGIBLE ASSETS

(a) Movements on Balances in 2011-12

The Authority accounts for its software as intangible assets, to the extent that the software is not an integral part of a particular IT system and accounted for as part of the hardware item of Property, Plant and Equipment. The intangible assets include purchased software.

All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the Authority. The useful lives assigned to the intangible assets range from 8 to 10 years and the carrying amount amortised on a straight line basis, resulting in an annual charge to the appropriate headings in the Comprehensive Income and Expenditure Account according to the usage of the assets.

	31 March 2011 £'000	31 March 2012 £'000
Gross carrying amounts	108	176
Accumulated amortisation	(13)	(32)
Net carrying amount at start of year	95	144
Additions	68	702
Disposals	0	0
Amortisation Charge	(19)	(131)
Net carrying amount at end of year	144	715
Comprising:		
Gross carrying amounts	176	878
Accumulated amortisation	(32)	(163)
Total	144	715

(b) Significant Capital Commitments

As at 31 March 2012 the Police Authority has entered into contracts for the enhancement of Command Control and Crime/Intelligence and the future years estimated cost is £1,340,000.

There were commitments of £936,000 at 31 March 2011.

NOTE 14: FINANCIAL INSTRUMENTS

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

	Long Term		Current	
	As at 31 March 2011	As at 31 March 2012	As at 31 March 2011	As at 31 March 2012
	£'000	£'000	£'000	£'000
Investments				
Loans and receivables	0	0	21,048	17,086 (b)
Financial assets at fair value through profit and loss	0	692	13,909	13,404 (c)
Total Investments	<u>0</u>	<u>692</u>	<u>34,957</u>	<u>30,490</u>
Cash and Cash Equivalents				
Loans and receivables	0	0	5,974	9,774 (d)
	<u>0</u>	<u>0</u>	<u>5,974</u>	<u>9,774</u>
Debtors				
Sundry Debtors – other entities & individuals	0	0	4,974	5,575
Total Debtors	<u>0</u>	<u>0</u>	<u>4,974</u>	<u>5,575</u>
Borrowings				
Financial Liabilities at amortised cost	32,778	32,778	528	528 (a)
Total Borrowings	<u>32,778</u>	<u>32,778</u>	<u>528</u>	<u>528</u>
Creditors				
Creditors – trade payables	0	0	20,360	20,835
Total Creditors	<u>0</u>	<u>0</u>	<u>20,360</u>	<u>20,835</u>

- (a) All long-term borrowing was from the Public Works Loan Board, an executive agency of HM Treasury. Annual repayments are for interest only and the principal is repayable at the date of loan maturity.
- (b) Loans and receivables consist of fixed interest deposits.
- (c) Financial investments at fair value through Profit and Loss consist of deposits with external fund managers. These are valued by reference to quoted market price.
- (d) Cash and cash equivalents consist of the bank current account and call accounts repayable at 24 hours notice without penalty.

Financial Instruments - Income, Expense, Gains and Losses

For Year Ended 31 March 2012

	Financial Liabilities measured at amortised cost	Financial Assets Loans and Receivables	Assets at Fair Value through Profit and Loss	Total
	£'000	£'000	£'000	£'000
Interest Expense				
Fee Expense	1,329	0	0	1,329
Total expense in Surplus or Deficit on the Provision of Services	1,329	0	0	1,329
Interest Income	0	(384)	(186)	(570)
Total Income in Surplus or Deficit on the Provision of Services	0	(384)	(186)	(570)
Net (gain)/loss for year	1,329	(384)	(186)	759

For Year Ended 31 March 2011
Provided for comparative purposes

	Financial Liabilities measured at amortised cost	Financial Assets Loans and Receivables	Assets at Fair Value through Profit and Loss	Total
	£'000	£'000	£'000	£'000
Interest Expense	1,241	0	0	1,241
Fee Expense	2	29	0	31
Total expense in Surplus or Deficit on the Provision of Services	1,243	29	0	1,272
Interest Income	0	(262)	(202)	(464)
Total Income in Surplus or Deficit on the Provision of Services	0	(262)	(202)	(464)
Net (gain)/loss for the year	1,243	(233)	(202)	808

Financial Instruments - Fair Value of Assets and Liabilities Carried at Amortised Cost

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

- The fair value balances for financial assets as at 31 March 2011 have been calculated using interest rates in force as at 31 March 2011 and 2012
- The long-term borrowing as at 31 March 2011 and 31 March 2012 have been calculated by reference to the premature repayment set of rates in force as at the respective dates
- The fair value of trade or other receivables is taken to be the invoiced or billed amount

Financial Assets

	As at 31 March 2011	As at 31 March 2011	As at 31 March 2012	As at 31 March 2012
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	£'000	£'000	£'000	£'000
Loans and Receivables – short term investments	21,048	21,070	17,086	17,243
Loans and receivables – cash and cash equivalents	5,974	5,974	9,774	9,774
Sundry Debtors* - other entities & individuals	4,974	4,974	5,575	5,575
	31,996	32,018	32,435	32,592

*See note 15

Financial Liabilities

	As at 31 March 2011	As at 31 March 2011	As at 31 March 2012	As at 31 March 2012
	Carrying Amount	Fair Value	Carrying Amount	Fair Value
	£'000	£'000	£'000	£'000
Total Borrowing	33,306	34,044	33,306	38,884
Creditors*	20,360	20,360	20,835	20,835
	53,666	54,404	54,141	59,719

*See note 18

NOTE 15: SHORT TERM DEBTORS

Sundry debtors arise from invoices raised by the Authority before 31 March 2012 but not actually paid until the new financial year.

As at 31 March 2011		As at 31 March 2012
£'000		£'000
7,624	Central government bodies	11,828
848	Other local authorities	1,477
4,974	Other entities and individuals	5,575
<u>13,446</u>	Total Debtors	<u>18,880</u>

NOTE 16: CASH AND CASH EQUIVALENTS

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

As at 31 March 2011		As at 31 March 2012
£'000		£'000
	Current Assets	
25	Cash held by the Authority	22
223	Bank Current Accounts (deposit)	198
5,726	Short-term deposits	9,554
<u>5,974</u>	Total Cash and Cash Equivalents	<u>9,774</u>
	Current Liabilities	
0	Bank Current Accounts (overdraft)	0
<u>0</u>	Total Cash and Cash Equivalents	<u>0</u>
	Net Cash and Cash Equivalents	
<u>5,974</u>	Total Cash and Cash Equivalents	<u>9,774</u>

NOTE 17: NON CURRENT ASSETS HELD FOR SALE

As at 31 March 2011 £'000		As at 31 March 2012 £'000
	Balance outstanding at start of year	
1,500	Property Plant and Equipment (Helicopter)	1,500
	Assets newly classified as held for sale	
0	Property Plant and Equipment (Property Assets)	4,282
	Assets Sold	
0	Property Plant and Equipment (Helicopter)	(1,500)
<u>1,500</u>	Balance outstanding at year end	<u>4,282</u>

The Police Authority has approved the disposal of eight property assets. The properties are vacant and sales are expected to be concluded within the next twelve months.

NOTE 18: CREDITORS

These are amounts owed by the Authority as at 31 March 2012 but not actually paid until after that date. Like debtors, the figure in the balance sheet depends very much on the timing of regular monthly payments to suppliers and for PAYE etc. The total is made up as follows:

As at 31 March 2011 £'000		As at 31 March 2012 £'000
5,351	Central government bodies	4,529
1,263	Other local authorities	941
20,360	Other entities and individuals	20,835
<u>26,974</u>	Total Creditors	<u>26,305</u>

NOTE 19: PROVISIONS

For Year Ended 31 March 2012	Insurance £'000	Remuneration £'000	Other £'000	Total £'000
Current Liabilities				
Balance as at 31 March 2011	640	1,481	0	2,121
Additional provisions made in 2011-12	51	1,025	674	1,750
Transfer from long term liabilities	626	0	0	626
Amounts used in 2011-12	(691)	(1,395)	0	(2,086)
Balance at 31 March 2012	626	1,111	674	2,411
Long Term Liabilities				
Balance as at 31 March 2011	545	0	0	545
Additional provisions made in 2011-12	581	0	0	581
Transfer to current liabilities	(626)	0	0	(626)
Balance at 31 March 2012	500	0	0	500
Total Provisions as at 31 March 2012	1,126	1,111	674	2,911
For Year Ended 31 March 2011 (provided for comparative purposes)	Insurance £'000	Remuneration £'000	Other £'000	Total £'000
Current Liabilities				
Balance as at 31 March 2010	841	975	0	1,816
Additional provisions made in 2010-11	144	1,895	0	2,039
Transfer from long term liabilities	639	0	0	639
Amounts used in 2010-11	(984)	(1,389)	0	(2,373)
Balance at 31 March 2011	640	1,481	0	2,121
Long Term Liabilities				
Balance as at 31 March 2011	413	0	0	413
Additional provisions made in 2010-11	771	0	0	771
Transfer to current liabilities	(639)	0	0	(639)
Balance at 31 March 2011	545	0	0	545
Total Provisions as at 31 March 2011	1,185	1,481	0	2,666

Insurance Provision

The Police Authority is uninsured for the first £0.1m of each public and employers liability claim up to a total stop loss of £0.8m for claims. The insurance provision is to cover any claims from 2011-12 and previous years. The majority of payments from the provision are expected to be made over the next five years. An assessment of liabilities as at 31 March 2012 has been undertaken and the provision has been slightly reduced to a level estimated to be sufficient to meet all the forecast obligations.

Remuneration Provision

1. Meeting the cost of known equal pay claims; the current level of the provision is estimated to be sufficient to meet known claims. These payments are expected to be made in 2012-13.
2. Meeting the employment termination benefits arising from restructuring the Force to meet budget reductions. Critical judgements applied in determining the level of the redundancy provision are provided in Note 3. The payments are expected to be made in 2012-13.
3. Meeting the liability from the September 2011 pay award that has yet to be agreed between the staff and official sides. This is expected to be agreed as part of the 2012 pay deal.

Other Provisions

1. To cover the legal costs relating to claims by retired former officers resulting from the A19 policy. These payments are expected to be made in 2012-13

2. To meet the Carbon Reduction Commitment for purchase of carbon allowances. This payment is expected to be made in June 2012
3. To meet the cost of retesting forensic submissions. These payments are expected to be made in 2012-13

NOTE 20: USABLE RESERVES

Movements in the Authority's usable reserves are detailed in the Movement of Reserves Statement and Note 8.

NOTE 21: UNUSABLE RESERVES

As at 31 March 2011 £'000		As at 31 March 2012 £'000
22,798	Revaluation Reserve	21,088
95,722	Capital Adjustment Account	93,357
(1,698,143)	Pensions Reserve	(2,064,285)
1,531	Collection Fund Adjustment Account	1,872
(8,416)	Short Term Compensated Absences Account	(9,173)
<u>(1,586,508)</u>	Total Unusable Reserves	<u>(1,957,141)</u>

Revaluation Reserve

The Revaluation Reserve contains the gains made by the Authority arising from increases in the value of its Property, Plant and Equipment. 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.

Year Ended 31 March 2011		Year Ended 31 March 2012
£'000		£'000
23,399	Balance at 1 April	22,798
0	Downward revaluation of assets - not posted to the Surplus or Deficit on the Provision of Services	(105)
(601)	Difference between fair value depreciation and historical cost depreciation	(105)
0	Accumulated gains on assets sold or scrapped	(1,500)
<u>(601)</u>	Amount written off to the Capital Adjustment Account	<u>(1,710)</u>
22,798	Balance at 31 March	21,088

Capital Adjustment Account

The Capital Adjustment Account absorbs the timing difference arising from the different arrangements 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 postings from the Revaluation Reserve to convert fair value figures to a historical cost basis). The Account is credited with the amounts set aside by the Authority as finance for the costs of acquisition and enhancement.

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

Note 7 provides details of the source of all the transactions posted to the Account, apart from those involving the Revaluation Reserve.

31 March 2011			31 March 2012
£'000		£'000	£'000
97,779	Balance at 1 April		95,722
	Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:		
(7,006)	Charges for depreciation and impairment of non-current assets	(5,568)	
0	Revaluation losses on Property, Plant and Equipment	(937)	
(19)	Amortisation of intangible assets	(131)	
	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	(918)	
(309)	Assets held for sale written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(1,500)	
0			
<hr/> (7,334)		<hr/> (9,055)	
601	Adjusting amounts written out of the Revaluation Reserve	1,605	
<hr/> (6,733)		<hr/>	
	Net written out amount of the cost of non-current assets consumed in the year		(7,450)
	Capital Financing applied in the year:		
0	Use of the Capital Receipts Reserve to finance new capital expenditure	354	
0	Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	2,653	
3,192	Application of grants to capital financing from the Capital Grants Unapplied Account	847	
1,079	Statutory provision for the financing of capital investment charged against the General Fund balances	1,072	
405	Capital expenditure charged against the General Fund balances	158	
<hr/> 4,676		<hr/>	<hr/> 5,084
95,722	Balance at 31 March		93,357

Pension 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 employment 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 investment returns on any resources set aside to meet the costs. However, statutory arrangements require benefits earned 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.

Year Ended 31 March 2011		Year Ended 31 March 2012
£'000		£'000
(2,427,558)	Balance at 1 April	(1,698,143)
681,271	Actuarial gains or (losses) on pensions assets and liabilities	(313,581)
(11,852)	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	(125,407)
59,996	Employer's pensions contributions and direct payments to pensioners payable in the year	72,846
<u>(1,698,143)</u>	Balance at 31 March	<u>(2,064,285)</u>

Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the differences arising from the recognition of council tax 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.

Year Ended 31 March 2011		Year Ended 31 March 2012
£'000		£'000
450	Balance at 1 April	1,531
1,081	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	341
<u>1,531</u>	Balance at 31 March	<u>1,872</u>

Short Term 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.

31 March 2011		31 March 2012	
£'000	£'000	£'000	£'000
	(9,391)		(8,416)
	Balance at 1 April		
9,391	Settlement or cancellation of accrual made at the end of the preceding year	8,416	
(8,416)	Amounts accrued at the end of the current year	(9,173)	
975	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	(757)	
	(8,416)		(9,173)
	Balance at 31 March		

NOTE 22: CASHFLOW STATEMENT - OPERATING ACTIVITIES

The cashflows for operating activities include the following items:

31 March 2011		31 March 2012	
£'000		£'000	
(9,231)	Net cash (receipts)/payments from operating activities excluding interest receipts and payments	(8,079)	
(340)	Interest received	(346)	
1,179	Interest paid	1,329	
(8,392)	Net Cash flows from operating activities	(7,096)	

NOTE 23: CASHFLOW STATEMENT - INVESTING ACTIVITIES

31 March 2011		31 March 2012	
£'000		£'000	
6,726	Purchase of property, plant and equipment, investment property and intangible assets	8,946	
1,700	Net movement in short and long term investments	(4,000)	
(386)	Proceeds from the sale of property, plant and equipment, investment property and intangible assets	(1,650)	
8,040	Net cash flows from investing activities	3,296	

NOTE 24: CASHFLOW STATEMENT - FINANCING ACTIVITIES

Year Ended 31 March 2011		Year Ended 31 March 2012
£'000		£'000
(4,000)	Cash receipts of short and long term borrowing	0
8	Cash payments to reduce finance lease liabilities	0
(3,992)	Net cash flows from financing activities	0

NOTE 25: AMOUNTS REPORTED FOR RESOURCE ALLOCATION DECISIONS

The analysis of income and expenditure by service on the face of the Comprehensive Income and Expenditure Statement is that specified by the Service Reporting Code. However, decisions about resource allocation are taken by the Police Authority's Resources Committee on the basis of budget reports analysed by operational and non-operational spending, financing and reserves. 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 pension contributions) rather than current service cost of benefits accrued in the year
- expenditure on some support services is budgeted for centrally

Income and Expenditure Reported to the Police Authority for the Year Ended 31 March 2012

	Operational Expenditure	Exit Costs	Outturn Spend	Transfers to Reserves	Total
	£'000s	£'000s	£'000s	£'000s	£'000s
Fees, charges & other service income	(9,823)	0	(9,823)	0	(9,823)
Government grants	(12,720)	0	(12,720)	0	(12,720)
Total Income	(22,543)	0	(22,543)	0	(22,543)
Employee expenses	246,131	2,867	248,998	0	248,998
Other operating expenses	51,321	0	51,321	0	51,321
Total Operating Expenses	297,452	2,867	300,319	0	300,319
Net Expenditure	274,909	2,867	277,776	0	277,776
Transfer to Earmarked Reserves	0	0	0	9,762	9,762
Overall Outturn Position	274,909	2,867	277,776	9,762	287,538

Income and Expenditure Reported to the Resources Committee for the Year Ended 31 March 2011

(Provided for comparative purposes)

	Operational Policing	Non-Operational Policing	Outturn Spend	Transfers to Reserves	Total
	£'000s	£'000s	£'000s	£'000s	£'000s
Fees, charges & other service income	(8,738)	(464)	(9,202)	0	(9,202)
Government grants	(21,514)	0	(21,514)	0	(21,514)
Total Income	(30,252)	(464)	(30,716)	0	(30,716)
Employee expenses	255,846	3,364	259,210	0	259,210
Other operating expenses	50,931	2,888	53,819	0	53,819
Total Operating Expenses	306,777	6,252	313,029	0	313,029
Net Expenditure	276,525	5,788	282,313	0	282,313
Transfers to Earmarked Reserves	652	0	652	3,494	4,146
Overall Outturn Position	277,177	5,788	282,965	3,494	286,459

Reconciliation of Income and Expenditure reported to the Resources Committee to the Net Cost of Services in the Comprehensive Income and Expenditure Statement

	2010-11	2011-12
	£'000s	£'000s
Cost of Services Reported to Resources Committee	286,459	287,538
Amounts in the Comprehensive Income and Expenditure Statement not reported in the Report to Resources Committee	(155,021)	589
Amounts reported to Resources Committee not reported in the Comprehensive Income and Expenditure Statement	(6,004)	(11,751)
Cost of Services in Comprehensive Income and Expenditure Statement	125,434	276,376

Reconciliation of Income and Expenditure reported to the Police Authority to the Surplus on the Provision of Services in the Comprehensive Income and Expenditure Statement by Subjective Heading
For the Year Ended 31 March 2012

	Reported to Police Authority	Not included in report to Police Authority*	Not included Income and Expenditure Account	Total
	£'000s	£'000s	£'000s	£'000s
Fees, charges & other service income	(9,152)	0	0	(9,151)
Interest and Investment Income	(570)	0	0	(570)
Government grants and contributions	(12,233)	(32,344)	0	(44,577)
Non specific government grant	(191,220)	(2,653)	0	(193,873)
Income from council tax	(96,318)	(341)	0	(96,659)
Total Income	(309,493)	(35,338)	0	(344,831)
Employee expenses	246,131	85,661	0	331,791
Exit Costs	2,867	0	0	2,867
Other service expenses	48,174	0	0	48,174
Interest Payments	1,329	0	0	1,329
Minimum Revenue Provisions for the Repayment of Debt	1,072	0	(1,072)	0
Capital Expenditure charged against general fund	158	0	(158)	0
Depreciation, amortisation and impairment	0	5,700	0	5,700
Loss on the disposal/revaluation of non Current assets	0	1,705	0	1,705
Total Operating Expenses	299,731	93,066	(1,230)	391,567
Net Operating Income	(9,762)	57,727	(1,230)	46,736
Transfer to reserves	9,762	0	(9,762)	0
Surplus on Provision of Services	0	57,727	(10,992)	46,736

*Expenses not included in the report to Police Authority are items that are excluded by regulation from the costs to be charged against taxation

Reconciliation of Income and Expenditure reported to the Police Authority Committee to the Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement by Subjective Heading

For the Year Ended 31 March 2011

(Provided for comparative purposes)

	Reported to Resources Committee	Not included in report to Resources Committee*	Not included Income and Expenditure Account	Total
	£'000s	£'000s	£'000s	£'000s
Fees, charges & other service income	(8,738)	0	0	(8,738)
Interest and Investment Income	(464)	0	0	(464)
Gain or loss on disposal of fixed assets	0	0	(69)	(69)
Government grants and contributions	(21,514)	(21,849)	0	(43,363)
Non specific government grant	0	(191,152)	0	(191,152)
Income from Council Tax	0	(96,388)	0	(96,388)
Total Income	(30,716)	(309,389)	(69)	(340,174)
Employee expenses	259,210	(30,430)	0	228,780
Other service expenses	52,576	0	(8)	52,568
Interest Payments	1,243	0	0	1,243
Minimum Revenue Provisions for the Repayment of Debt	0	0	(1,079)	(1,079)
Depreciation, amortisation and impairment	0	7,025	0	7,025
Total Operating Expenses	313,029	(23,405)	(1,087)	288,537
Net Operating Expenses	282,313	(332,794)	(1,156)	(51,637)
Transfer to/(from) Earmarked Reserves	4,146	0	(4,146)	0
Surplus on Provision of Services	286,459	(332,794)	(5,302)	(51,637)

*Expenses not included in the report to Resources Committee are items that are excluded by regulation from the costs to be charged against taxation

NOTE 26: POLICE AUTHORITY COSTS INCLUDING MEMBERS ALLOWANCES

The following costs of running the Police Authority itself are included in the Comprehensive Income and Expenditure Statement:

Year Ended 31 March 2011 £'000		Year Ended 31 March 2012 £'000
261	Members' allowances including national insurance*	261
47	Reimbursement of members expenses*	31
77	Other democratic representation costs (e.g. custody visiting, consultation)	63
986	Statutory Officers and associated costs	1,006
160	Other Costs (e.g. audit fees, local policing summaries)	144
<u>1,531</u>	Total Police Authority Costs	<u>1,505</u>
21	Pensions and Cost of Capital adjustments	20
<u>1,552</u>		<u>1,525</u>

*Full details of member allowances are provided on the Police Authority Website <http://www.dcpa.police.uk>

NOTE 27: EXTERNAL AUDIT COSTS

The Authority paid the following fees to its external auditors, the Audit Commission:

Year Ended 31 March 2011 £'000		Year Ended 31 March 2012 £'000
90	Fees payable to external auditors with regard to external audit services carried out by the appointed auditor for the year	83
0	Other services provided by external auditor	0
<u>90</u>		<u>83</u>

NOTE 28: OFFICERS' REMUNERATION FOR YEAR ENDED 31 MARCH 2012

Post Holder Information	Note	Salary (Including fees & allowances)	Bonuses	Subsistence & Expense Allowances	Benefits in Kind	Total Remuneration excl. Pension contributions 2011-12	Employers Pension Contributions	Total Remuneration including Pension Contributions 2011-12
<u>Salary £150,000 plus per year</u>								
		£	£	£	£	£	£	£
Chief Constable - Stephen Otter	1	167,510	-	8,535	3,236	179,281	35,315	214,596
Chief Constable – Shaun Sawyer	2	4,360	-	232	378	4,970	1,055	6,025
<u>Salary £50,000 to £149,999 per year</u>								
Police Authority Chief Executive		97,408	-	392	-	97,800	15,293	113,093
Police Authority Treasurer		52,953	-	-	-	52,953	6,155	59,108
Deputy Chief Constable	3	120,389	-	12,965	10,267	143,621	29,134	172,755
ACC Crime & Justice	4	54,618	-	2,211	2,558	59,387	12,791	72,178
ACC Crime & Justice	5	46,664	-	2,211	402	49,277	10,964	60,241
ACC Local Policing & Partnerships		106,837	-	4,422	438	111,697	24,827	136,524
ACC Operational Response		104,880	-	4,422	3,464	112,766	24,829	137,595
Director of Human Resources		100,557	-	4,422	8,272	113,251	15,787	129,038
Director of Legal Services		100,557	-	4,422	7,027	112,006	15,787	127,793
Director of Finance & Resources		103,222	-	4,422	-	107,644	15,028	122,672

Note

- 1 - Chief Constable 01/04/2011 – 18/03/2012
- 2 - Chief Constable 19/03/2012 – 31/03/2012
- 3 - Deputy Chief Constable 01/04/2011 – 18/03/2012
- 4 - ACC Crime & Justice 01/04/2011 – 30/09/2011
- 5 - ACC Crime & Justice 01/10/2011 – 31/03/2012

OFFICERS' REMUNERATION FOR YEAR ENDED 31 MARCH 2011

(included for comparative purposes)

Post Holder Information	Note	Salary (Including fees & allowances s)	Bonuses	Subsistence & Expense Allowances	Benefits in Kind	Total Remuneration excl. Pension contributions 2010-11	Employers Pension Contributions	Total Remuneration including Pension Contributions 2010-11
<u>Salary £150,000 plus per year</u>								
		£	£	£	£	£	£	£
Chief Constable - Stephen Otter		160,145	-	8,753	3,522	172,420	36,215	208,635
<u>Salary £50,000 to £149,999 per year</u>								
Police Authority Chief Executive		89,655	-	29,919	-	119,574	14,076	133,650
Police Authority Treasurer – A	1	27,624	-	-	-	27,624	-	27,624
Police Authority Treasurer – B	2	22,432	-	-	-	22,432	3,522	25,954
Deputy Chief Constable		123,457	-	-	4,336	127,793	29,876	157,669
ACC Crime & Justice		100,854	-	4,376	2,661	107,891	23,893	131,784
ACC Local Policing & Partnerships		102,780	-	4,376	139	107,295	23,846	131,141
ACC Operational Response		100,823	-	4,376	4,022	109,221	23,848	133,069
Director of Human Resources		98,246	-	4,376	7,904	110,526	15,425	125,951
Director of Legal Services		99,516	-	4,376	6,636	110,528	15,624	126,152
Director of Finance & Resources		99,398	-	4,376	-	103,774	14,428	118,202

Note

- 1 Fees of £27,624 were paid to an external agency for the provision of an interim treasurer for the period 01/04/10 to 02/09/10. This fee is inclusive of expenses and the agency's fees
- 2 Police Authority Treasurer for the period 01/09/10 to 31/03/11

The number of people paid by the Authority whose remuneration, excluding employer's pension contributions was £50,000 or more in bands of £5,000 were:

Remuneration Band	2010-11	2011-12
£50,000 - £54,999	147	138
£55,000 - £59,999	79	94
£60,000 - £64,999	23	14
£65,000 - £69,999	8	9
£70,000 - £74,999	12	7
£75,000 - £79,999	8	11
£80,000 - £84,999	6	5
£85,000 - £89,999	4	2
£90,000 - £94,999	1	2
£95,000 - £99,999	1	-
£100,000 - £104,999	-	1
£105,000 - £109,999	-	1
£110,000 - £114,999	-	-
£115,000 - £119,999	1	-
Total	290	284

- 1 These figures do not include the remuneration of the senior employees and relevant police officers who have been disclosed separately.
- 2 The banding figures include both police staff and police officers remuneration.
- 3 The Police Authority has chosen to disclose all police officers earning more than £50,000 on a voluntary basis (the legislative requirement is to include only police officers above the rank of superintendent).
- 4 Remuneration includes exit costs as set out in the table below
- 5 The above table does not include staff paid below £50,000. These staff make up approximately 94% of the workforce.

Exit Costs

The total exit costs shown in the table below are the cash payments made to individuals plus cash payments to recompense the pension for the strain payments that have been calculated on an actuarial basis in 2010-11 and 2011-12. The charge to the Comprehensive Income and Expenditure statement 2011-12 excludes those exit costs provided for in the 2010-11 accounts and includes a provision of £425,000 for costs due as at 31 March 2012 but not yet paid.

(a)	(b)		(c)		(d)		(e)	
Exit package cost band (including special payments)	Number of compulsory redundancies		Number of other departures agreed		Total number of exit packages by cost band (b) and (c)		Total cost of exit packages in each band	
	2010-11	2011-12	2010-11	2011-12	2010-11	2011-12	2010-11	2011-12
							£000	£000
£0 – £20,000	12	68	0	71	12	139	123	1,260
£20,001 - £40,000	3	23	0	48	3	71	79	1,943
£40,001 - £60,000	0	1	0	6	0	7	0	324
£60,001 - £150,000	1	0	0	4	1	4	69	310
TOTAL	16	92	0	129	16	221	271	3,837
							£000	£000
Provision for Forecast Redundancy Costs 2010-11							1,395	(1,395)
Provision for Forecast Redundancy Costs 2011-12							0	425
Exit Costs charged to the Comprehensive Income and Expenditure Statement							1,666	2,867

NOTE 29: RELATED TRANSACTIONS & PARTNERSHIPS

The Authority is required to disclose material transactions with related parties, including central government, other local authorities, and member and senior officers and their close families.

Central government

The United Kingdom government has effective control over the general operations of the Authority – it is responsible for providing the statutory framework, within which the Authority operates, provides the majority of its funding in the form of grants and prescribes the terms of many of the transactions that the Authority has with other parties (e.g. council tax bills). Grants received from government departments are set out in Note 25 on reporting for resources allocation decisions and in Note 31 on taxation and non specific grant income. Funding from central government outstanding as at 31 March 2012 is shown in Note 15. Outstanding balances are set out in Notes 15 and 18.

Members

The Chief Executive of the Authority has written to all members explaining the need for disclosure. Member's interests are also publicly reported on the Police Authority website. No relevant transactions have been reported.

Officers

The Chief Executive of the Authority has written to all senior officers explaining the need for disclosure. Senior officer interests are also publicly reported on the Police Authority website. No relevant transactions have been reported.

Other Public Bodies

Most of the revenue to pay for the costs of policing comes from government grants and business rates co-ordinated nationally. District councils, borough councils and unitary authorities collect the balance by charging their council tax payers a police precept. The amounts collected (adjusted for surpluses or shortfalls collected for previous years) are shown below. Outstanding balances with other public bodies are shown in Notes 15 and 18.

Precepts

Year Ended 31 March 2011 £000	Billing Authority:	Year Ended 31 March 2012 £000
8,934	East Devon	8,938
5,934	Exeter	5,942
4,476	Mid Devon	4,542
5,395	North Devon	5,431
12,073	Plymouth	12,045
5,976	South Hams	6,039
7,666	Teignbridge	7,711
7,669	Torbay	7,795
3,759	Torridge	3,802
3,224	West Devon	3,299
29,990	Cornwall	30,568
211	Isles of Scilly	206
95,307		96,318
1,081	Adjusted for accruals	341
96,388		96,659

The Authority purchases some services from Devon County Council, mainly internal audit and the pension administration services. Transactions within the pension fund are shown in note 35. Outstanding balances with other public bodies are shown in Notes 15 and 18.

Partnerships

There are a number of partnerships in which the Constabulary participates. These are arrangements where the Authority carries out activities relevant to its own functions jointly with others. For a number of the partnerships a formal partnership agreement is in place. The Authority accounts only for its share of the jointly controlled assets and the liabilities and expenses that it incurs in relation to partnership activities. The most significant partnerships are shown in the table below.

Expenditure 2010-11 £000	Income 2010-11 £000	Note	Expenditure 2011-12 £000	Income 2011-12 £000
		Activity		
149	0	(i) Drug Arrest Referral	163	0
431	(156)	(ii) Youth Offending Teams	315	0
367	(229)	(iii) Sexual Assault Referral Centres	442	(416)
205	(208)	(iv) Local Criminal Justice Board	0	0
1,000	(1,000)	(v) Devon and Cornwall Safety Camera Partnership	881	(717)
670	(671)	(vi) BCU Commanders Fund	0	0
0	0	(vii) Domestic Abuse	108	0
2,822	(2,264)		1,909	(1,133)

There are no significant jointly controlled assets or liabilities as at 31 March 2012.

The funding mechanisms for partnerships are complex, and the table above shows expenditure that has passed through the Police Authority accounts. These partnerships may receive funding for their activities direct from external funding bodies.

- (i) The Drug Arrest Referral Scheme is a partnership between the Police Authority, the local authorities and primary care trusts operating in Devon and Cornwall, the probation service and the prison service. Further assistance is provided by the Home Office and the National Treatment Agency. The team jointly commissions services related to substance misuse, education, access to information and development of services for vulnerable people.
- (ii) The Youth Offending Team is funded by a combination of government grants, and contributions from the Police Authority, Local Authorities, Primary Care Trusts and the National Probation Service. The initiative provides programmes for young people with the intention of preventing re-offending.
- (iii) The Sexual Assault Referral Centres are funded by a combination of government grants, partnership grants and contributions from the Police Authority. The centres are set up in safe locations, where victims of sexual assault can receive medical care and counselling. Referral centres bring together all agencies and departments in one place, which helps both the victims and those investigating the crimes.
- (iv) The Local Criminal Justice Board is funded by the Police Authority, Local Authorities and Cornwall Strategic Partnership. The Local Criminal Justice Board was formed in response to a need to locally manage the Criminal Justice System and ensure that all criminal justice agencies work together to tackle crime.
- (v) The Safety Camera Partnership membership includes the Police Authority, Highways Authorities in Devon and Cornwall and the Highways Agency. Its purpose is to reduce road casualties by deterring and detecting speeding and traffic light offences. Funding is drawn from a Road Safety Grant.
- (vi) The BCU Commanders Fund is funded directly by a Home Office grant.
- (vii) The Domestic Violence Partnership includes the Police Authority, Local Authorities, the National Probation Service, Primary Care Trusts and the Department of Communities and Local Government.

NOTE 30: THIRD PARTY FUNDS

These are funds held by the Police Authority in accordance with the Proceeds of Crime Act 2002. This money is held until the Courts issue a confiscation order or decides the money can be returned. The income and expenditure and assets and liabilities relating to these funds are not included in the Police Authority's accounting statements.

	31 March 2011		31 March 2012	
	Income	Expenditure	Income	Expenditure
	£'000	£'000	£'000	£'000
Seized Funds	940	1,025	1,274	1,274
	Assets	Liabilities	Assets	Liabilities
Seized Funds	924	924	1,274	1,274

NOTE 31: GRANT INCOME

The Authority credited the following grants, contributions and donations to the Comprehensive Income and Expenditure Statement.

	31 March 2011		31 March 2012	
	£'000	£'000	£'000	£'000
Credited to Taxation and Non Specific Grant Income				
Police Grant	(111,257)		(118,940)	
Revenue Support Grant	(10,131)		(17,067)	
Non-Domestic Rates	(69,764)		(55,213)	
		(191,152)		(191,220)
Recognised Capital grant and contributions		(3,160)		(2,653)
Total		(194,312)		(193,873)
Credited to Services				
Crime Fighting Fund		(6,661)		0
Rural Policing		(1,683)		0
DNA		(462)		0
Special Priority Payments		(1,256)		0
Council Tax Freeze		0		(2,392)
PCSO		(7,531)		(7,446)
Counter Terrorism		(1,955)		(1,726)
Criminal Justice		(191)		(35)
BCU Commanders Fund Grant		(671)		0
Other Local Grants		(785)		(393)
Other minor grants		(319)		(241)
Total		(21,514)		(12,233)
Credited to other Operating Expenditure				
Pensions Top Up Grant		(18,689)		(32,344)

Revenue Grants

The Authority has received a number of grants, contributions and donations that have yet to be recognised as income as they have conditions attached to them that will require the monies or property to be returned to the giver. These grants are included as short term creditors on the balance sheet. The balances at year end are as follows:

31 March 2011	31 March 2012
£'000	£'000
376	297
<u>376</u>	<u>297</u>

NOTE 32: CAPITAL EXPENDITURE AND FINANCING

Within its three-year financial planning model, the Police Authority approves an annual capital programme to provide and maintain buildings, vehicles and other equipment for the Force. The report below shows what was spent and how the spending was financed.

31 March 2011		31 March 2012	
£000		£000	£000
33,195	Opening capital financing requirement		35,519
Capital Investment:			
3,731	Land and buildings	5,446	
1,890	Vehicles & other transport	1,719	
184	Helicopter	0	
<u>1,125</u>	Equipment & ICT related	<u>1,079</u>	
6,930		8,244	
<u>68</u>	Intangible Assets	<u>702</u>	
6,998			8,946
Less Sources of Finance:			
(3,192)	Government grants	(3,500)	
0	Capital receipts	(354)	
<u>(1,482)</u>	Reserves, provisions and MRP	<u>(1,230)</u>	
(4,674)			(5,084)
<u>2,324</u>	Increase in capital financing requirement for the year		<u>3,862</u>
<u>35,519</u>	Closing capital financing requirement for the year		<u>39,381</u>
Represented by:			
Underlying need to borrow can be analysed as follows:			
32,778	External Borrowing (cumulative) excluding accruals for interest due	32,778	
2,738	Internal Borrowing	6,603	
<u>3</u>	Finance Lease Liabilities	<u>0</u>	
<u>35,519</u>		<u>39,381</u>	
Borrowing During the Year			
4,000	External Borrowing	0	
<u>(1,669)</u>	Internal Borrowing	<u>3,862</u>	
<u>2,331</u>		<u>3,862</u>	
1,891	Supported by Government financial assistance	0	
440	Unsupported by Government financial assistance	3,862	
<u>0</u>	Assets acquired under finance leases	<u>0</u>	
<u>2,331</u>		<u>3,862</u>	

NOTE 33: LEASES

Authority as Lessee

Finance leases

The Authority has acquired a number of multi functional printing and copying devices.

The assets acquired under these leases are carried as Property, Plant and Equipment in the Balance Sheet at the following net amounts:

	31 March 2011	31 March 2012
	£'000	£'000
Property, Plant and Equipment	3	0
	3	0

The Authority is committed to making minimum payments under these leases comprising settlement of the liability for the interest (where applicable) and finance costs that will be payable by the Authority in future years while the liability remains outstanding. The minimum lease payments are made up of the following amounts:

	31 March 2011	31 March 2012
	£'000	£'000
Finance lease liabilities (net present value of minimum lease payments):		
Current	3	0
Non-current	0	0
Finance costs payable in future years	0	0
Minimum lease payments	3	0

The minimum lease payments will be payable over the following periods:

	Minimum Lease Payments		Finance Lease Liabilities	
	31 March 2011	31 March 2012	31 March 2011	31 March 2012
	£'000	£'000	£'000	£'000
Not later than one year	3	0	0	0
Later than one year and not later than five years	0	0	0	0
Later than five years	0	0	3	0
	3	0	3	0

Operating Leases

The Authority leases some properties used to provide operational services. The total future minimum lease payments under non-cancellable leases in future years are:

As at 31 March 2011		As at 31 March 2012
£'000		£'000
1,221	Not later than one year	1,151
3,798	Later than one year and not later than five years	2,927
<u>1,354</u>	Later than five years	<u>1,163</u>
6,373	Later than five years	5,241

With the exception of dilapidation clauses, there are no significant terms attached to the Authority's property leases which lead to potential future assets or liabilities for the authority over and above those disclosed above.

The total costs of property leases included in the Comprehensive Income and Expenditure Statement are:

For year ended 31 March 2011		For year ended 31 March 2012
£'000		£'000
1,370	Cost of leases during year	1,357

NOTE 34: TERMINATION PAYMENTS

The Authority terminated the contracts of a number of employees in 2011-12.

31 March 2011 Redundancy Costs £'000	31 March 2011 Strain Payments £'000		31 March 2012 Redundancy Costs £'000	31 March 2012 Strain Payments £'000
140	138	Termination costs	2,732	1,105
<u>1032</u>	<u>363</u>	Movement in Provision	<u>(687)</u>	<u>(283)</u>
<u>1172</u>	<u>501</u>	Total	<u>2,045</u>	<u>822</u>

Strain payments have been included in the calculation of post employment benefit liabilities as set out in note 35 below.

NOTE 35: DEFINED BENEFIT PENSION 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. This needs to be disclosed at the time that the employees earn their future entitlement. The Authority operates three pension schemes, two for police officers and one for police staff. All are defined benefits schemes, providing members with benefits based on their final pensionable pay and length of service. The disclosures on pensions use specialist terminology. Definitions are provided in the glossary.

a) Participation in Pension Schemes – Police Officer Schemes

From 1 April 2006 the Police Officers' pension scheme was replaced by a "new Police Pension Scheme". The new scheme is open to all new recruits. Both of the police officer pension schemes are unfunded defined benefit final salary schemes administered by the Devon and Cornwall Police Authority, 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. Pensions are financed from the Authority's and employee's (police officers) contributions. Any deficit is met by the Home Office in the form of a top up grant. The Authority's and the employee contributions are paid into a separate Police Officers' Pension Fund Account. The details of this account are provided on page 91.

Police Pension Fund Regulations require police authorities to transfer a sum not exceeding the amount that the Police Pensions Fund is in deficit at 31 March from the Devon and Cornwall Police General Fund in to the Police Pensions Fund. Subject to parliamentary scrutiny and approval, up to 100% of this cost is met by 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 then must repay the amount to central government. The Police Authority makes payments under the Police Injury Benefits Regulations. These payments are accounted for in the same way as payments under the main police officer pension scheme (see accounting policies), the independent actuary has estimated the costs and they are included within Police Officers scheme disclosure.

b) Transactions relating to Retirement Benefits – Police Officer Schemes

The Police Authority recognises the cost of retirement benefits for police officers in the reported cost of services when they are earned by police officers rather than when the benefits are eventually paid as pensions. However the charge we are required to make against council tax is 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 for the police officer schemes in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year.

Year Ended 31 March 2011 Old Scheme £'000	Year Ended 31 March 2011 New Scheme £'000	<u>Comprehensive Income and Expenditure Account</u>	Year Ended 31 March 2012 Old Scheme £'000	Year Ended 31 March 2012 New Scheme £'000
		<i>Cost of Services</i>		
60,253	4,455	Current service cost	21,954	1,610
(174,059)	(1,655)	Past service cost	35	0
		<i>Financing and Investment Income and Expenditure</i>		
126,138	1,008	Interest cost	87,894	876
12,332	3,808	Total Post Employment Benefit charged to the surplus and deficit on the provision of services	109,883	2,486
		<i>Other Post Employment Benefits Charged to Comprehensive Income and Expenditure Account</i>		
(629,409)	(6,504)	Actuarial (gains) and losses	260,999	5,934
(617,077)	(2,696)	Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statements	370,882	8,420
		<u>Movement In Reserves Statement</u>		
		Reversal of charges made to the Surplus or Deficit for the Provision of services for post employment benefits	(109,883)	(2,486)
		Actual amount charged against the General Fund Balance for pensions in the year:		
27,467	3,003	Employer contributions payable to scheme	26,451	3,171
18,689	0	Home Office Top Up Grant	32,344	0

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statements to the 31 March 2012 is a gain of £14.994m.

c) Liabilities in relation to Retirement Benefits - Police Officer Schemes

Reconciliation of present value of the scheme liabilities:

Year Ended 31 March 2011 Old Scheme £'000	Year Ended 31 March 2011 New Scheme £'000		Year Ended 31 March 2012 Old Scheme £'000	Year Ended 31 March 2012 New Scheme £'000
(2,289,946)	(15,273)	Opening defined benefit obligation	(1,619,598)	(14,302)
(60,253)	(4,455)	Current service cost	(21,954)	(1,610)
(126,138)	(1,008)	Interest cost	(87,894)	(876)
629,409	6,504	Actuarial gains/(losses)	(260,999)	(5,934)
64,287	(540)	Net benefits paid	76,569	(433)
174,059	1,655	Past service cost/Gain	(35)	0
(12,548)	(1,185)	Contributions by participants	(12,014)	(1,241)
1,532	0	Injury Pension Payments	1,077	0
(1,619,598)	(14,302)	Closing defined benefit obligation	(1,924,848)	(24,396)

d) Scheme History – Police Officer Schemes

<u>Present value of liabilities</u>	31/03/08 £'000	31/03/09 £'000	31/03/10 £'000	31/03/11 £'000	31/03/12 £'000
Old Scheme	(1,478,230)	(1,498,801)	(2,289,946)	(1,619,598)	(1,924,848)
New Scheme	(2,270)	(4,946)	(15,273)	(14,302)	(24,396)
Deficit in the schemes	<u>(1,480,500)</u>	<u>(1,503,747)</u>	<u>(2,305,219)</u>	<u>(1,633,900)</u>	<u>(1,949,244)</u>

The liabilities show the underlying commitments that the Authority has in the long run to pay retirement benefits. The total liability of £1.949 billion has a substantial impact on the net worth of the Authority as recorded in the balance sheet resulting in a negative overall balance of £1.957 billion. However, statutory arrangements for funding the deficit mean that the financial position of the Authority remains healthy:

- scheme deficits are met by the Home Office
- finance is only required to be raised to cover police pensions when the pensions are actually paid, not when they are earned

The total contributions expected to be made to the Police Pension Fund Account by the Authority in the year to 31 March 2013 is £29.622m.

e) Basis for Estimating Assets and Liabilities – Police Officer Schemes

Liabilities have been assessed on an actuarial basis using the projected unit credit method an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The liabilities for both schemes have been assessed by Barnet Waddingham LLP an independent partnership of actuaries, based on the latest full valuation as at 31 March 2011.

The principal assumptions used by the actuary have been:

	31 March 2011 (% pa)		31 March 2012 (% pa)	
<u>Financial Assumptions</u>				
Discount rate for scheme liabilities	5.5		4.6	
Rate of general long term increase in salaries	5.0		4.8	
Rate of increase to pensions in payment	2.7		2.5	
Rate of inflation	2.7		2.5	
<u>Mortality Assumptions</u>	Females	Males	Females	Males
Life Expectancy from age 65 (retiring today)	24.1	21.5	24.1	21.5
Life Expectancy from age 65 (retiring in 20 years)	25.9	23.4	25.9	23.4

It is assumed that 50% of members will exchange half of their commutable pension for cash at retirement.

f) History of Experience Gains and Losses - Police Officer Schemes

The actuarial gains identified as movements on the Pensions Reserve can be analysed into the following categories:

	2007-08 %	2008-09 %	2009-10 %	2010-11 %	2011-12 %
<u>Old Scheme</u>					
Experience gains and (losses) on scheme liabilities	(0.3)	(1.0)	0	20.9	(0.1)
<u>New Scheme</u>					
Experience gains and (losses) on scheme liabilities	(1.8)	1.4	0	30.6	0

g) Participation in Pension Schemes – Police Staff Scheme

Police Staff are part of the Local Government Pension Scheme administered by Devon 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.

In addition to the above scheme there are arrangements for the award of discretionary post employment benefits upon early retirement – this is an unfunded defined benefit arrangement under which liabilities are recognised when awards are made. As these benefits are unfunded cash has to be generated to meet actual pension payments as they fall due.

h) Transactions relating to Retirement Benefits – Police Staff Schemes

The Police Authority recognises the cost of retirement benefits for police staff in the reported cost of services when they are earned by police staffs rather than when the benefits are eventually paid as pensions. However the charge we are required to make against council tax is 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 for the police officer schemes in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year.

Year Ended 31 March 2011 £'000	<u>Comprehensive Income and Expenditure Account</u>		Year Ended 31 March 2012 £'000	
	<i>Cost of Services</i>			
13,494	Current service cost		9,657	
(22,318)	Past service cost – Change to Consumer Price Index		0	
74	Loss on curtailments		1,379	
	<i>Financing and Investment Income and Expenditure</i>			
14,355	Interest cost		12,727	
(9,893)	Expected Return on Assets		(10,725)	
(4,288)	Total Post Employment Benefit Charged to the surplus or deficit on the provision of services		13,038	
	<i>Other Post Employment Benefits Charged to Comprehensive Income and Expenditure Account</i>			
(45,358)	Actuarial (gains) and losses		46,648	
(49,646)	Total Post Employment Benefit Charged to the Comprehensive Income and Expenditure Statements		59,686	
	<u>Movement In Reserves Statement</u>			
4,288	Reversal of charges made to the Surplus or Deficit for the Provision of services for post employment benefits		(13,038)	
Year Ended 31 March 2011 £'000			Year Ended 31 March 2012 £'000	
Funded Liabilities	Unfunded Liabilities	Actual amount charged against the General Fund Balance for pensions in the year:	Funded Liabilities	Unfunded Liabilities
8,300	0	Employer contributions payable to scheme	8,736	0
0	150	Retirement benefits payable to pensioners (net of transfers in)	0	152

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statements to the 31 March 2012 is a loss of £69.051m.

i) Assets and Liabilities in Relation to Post Employment Benefits – Police Staff Scheme

Reconciliation of the present value of the scheme liabilities:

Year Ended 31 March 2011 £'000	Local Government Pension Scheme	Year Ended 31 March 2012 £'000
(273,469)	Opening present value of liabilities	(228,584)
(13,494)	Current service cost	(9,657)
(14,355)	Interest cost	(12,727)
(3,434)	Contributions by participants	(3,202)
48,260	Actuarial gains/(losses) on liabilities	(41,223)
5,664	Net benefits paid out	8,570
22,318	Past service gain – Change to CPI*	0
(74)	Loss on curtailments	(1,379)
(228,584)	Closing present value of liabilities	(288,202)
	Unfunded Liabilities contained within the total liabilities shown above	
2,356	Present Value of Unfunded Obligation	2,486
2,356	Closing present value of liabilities	2,486

Reconciliation of the present value of the scheme assets:

31 March 2011 £'000		31 March 2012 £'000
151,130	Opening fair value of assets	164,341
9,893	Expected return on assets	10,725
(2,902)	Actuarial gains/(losses) on assets	(5,425)
8,450	Contributions by employer	8,888
3,434	Contributions by participants	3,202
(5,664)	Net benefits paid out	(8,570)
164,341	Closing fair value of assets	173,161

Devon and Cornwall Police 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 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.

The actual return on scheme assets in the year was £5.299m. (£11.068m 2010-11)

j) Scheme History – Police Staff Scheme

The history of asset values, present value of liabilities and surplus/deficit to 31 March 2012:

History of asset values, present value of liabilities and surplus/(deficit)	31/03/08 £'000	31/03/09 £'000	31/03/10 £'000	31/03/11 £'000	31/03/12 £'000
<u>Funded Benefits</u>					
Fair value of assets	129,960	109,750	151,130	164,341	173,161
Present value of liabilities	(162,090)	(191,790)	(270,746)	(226,228)	(285,716)
Surplus/(deficit)	(32,130)	(82,040)	(119,616)	(61,887)	(112,555)
<u>Unfunded Benefits</u>					
Fair value of assets	0	0	0	0	0
Present value of liabilities	(2,470)	(2,590)	(2,723)	(2,356)	(2,486)
Surplus/(deficit)	(2,470)	(2,590)	(2,723)	(2,356)	(2,486)
Total surplus/(deficit)	(34,600)	(84,630)	(122,339)	(64,243)	(115,041)

The liabilities show the underlying commitment that the Authority has in the long run to pay retirement benefits. The total liability of £115.041m has a substantial impact on the net worth of the Authority as recorded in the balance sheet resulting in a negative overall balance of £1.957 billion. However, statutory arrangements for funding the deficit mean that the financial position of the Authority remains healthy:

- the deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary
- finance is only required to be raised to cover discretionary benefits when the pensions are actually paid

The Authority's contribution to the Local Government Pension Scheme for the accounting period to 31 March 2013 is estimated to be £7.837m. Expected payments for discretionary benefits for the accounting period to 31 March 2013 are estimated to be £0.157m.

k) Basis for Estimating Assets and Liabilities – Police Staff Scheme

Liabilities have been assessed on an actuarial basis using the projected unit credit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The liabilities for both schemes have been assessed by Barnett Waddingham LLP an independent partnership of actuaries, based on the latest full valuation as at 31 March 2010.

The principal assumptions used by the actuary have been:

	31 March 2011	31 March 2012
<u>Financial Assumptions</u>	(% pa)	(% pa)
Discount rate for scheme liabilities	5.5	4.6
Rate of general long term increase in salaries	5.0	4.7
Rate of increase to pensions in payment	2.7	2.5
Rate of inflation	2.7	2.5
	31 March 2011	31 March 2012
<u>Mortality Assumptions</u>	Females	Males
Future lifetime from age 65 (currently aged 65)	24.4	20.3
Future lifetime from age 65 (currently aged 45)	26.3	22.4

The actuaries have updated their assumptions on mortality rates to reflect data collected at the last valuation in 2010, this led to a downward adjustment to life expectancy.

Expected Return on Assets

The expected return on assets is based on the long-term future expected investment return for each asset class as at the beginning of the period. The returns on gilts and other bonds are assumed to be the gilt yield and corporate bond yield (with an adjustment to reflect default risk) respectively at the relevant date. The returns on equities and property are then assumed to be a margin above gilt yields.

<u>Expected Rate of Return on Assets Assumptions</u>	31 March 2011	31 March 2012
	(% pa)	(% pa)
Equities	7.4	6.3
Gilts	4.4	3.3
Other bonds	5.5	4.6
Property	5.4	4.3
Cash	3.0	3.0
Absolute Return Funds	5.0	4.7
Weighted average of expected rate of return on fund assets	6.5	5.4

Other Assumptions

It is assumed that each member will exchange half of their commutable pension for cash at retirement and active members will retire one year later than they are first able to do so without reduction.

The Local Government Pension Scheme as administered by Devon County Council has assets consisting of the following categories, by proportion of the total assets held:

	31 March 2011 (%)	31 March 2012 (%)
Equities	70	69
Gilts	17	18
Property	5	6
Cash	7	6
Other	1	1
	<hr/> 100	<hr/> 100

I) History of Experience Gains and Losses – Police Staff Scheme

The actuarial gains and (losses) identified as movements on the Pensions Fund Reserve can be analysed into the following categories:

	2007-08 %	2008-09 %	2009-10 %	2010-11 %	2011-12 %
Differences between the expected and actual return on assets	(7.5)	(32.8)	19.9	(1.8)	(3.1)
Experience gains and (losses) on scheme liabilities	(2.0)	(0.2)	0.1	(3.3)	(0.0)

Devon County Council publishes annual details of the Fund's performance. They can be contacted at County Hall, Topsham Road, Exeter, EX2 4QJ.

NOTE 36: CONTINGENT LIABILITIES

During 2010-11 the Authority made payments in relation to a number of equal pay claims from members of staff. Further legitimate claims may exist, as the sums involved cannot be reliably quantified this liability has been treated as a contingent liability. The value of this contingent liability cannot be accurately estimated at this point.

The Police Authority has a policy that requires police officers to retire once they have 30 years pensionable service. This policy is based on regulation A19 of the Police Pensions Regulations which requires compulsory retirement on the basis of the efficiency of the force. A number of officers have made claims for compensation through an employment tribunal, stating lack of consultation and age discrimination as the basis of the claim. The claims with regard to lack of consultation were not successful, the claims with regard to age discrimination have yet to be heard. This is a complex case and the possible compensation costs are difficult to quantify.

The budget savings and workforce reduction plan may result in further claims against the Authority. It is not possible to quantify these potential claims at present and for this reason the value of this contingent liability is not disclosed in these accounts.

NOTE 37: CONTINGENT ASSETS

The Police Authority has no significant contingent assets.

NOTE 38: NATURE AND EXTENT OF RISKS ARISING FROM FINANCIAL INSTRUMENTS AND HOW THE AUTHORITY MANAGES THOSE RISKS

The Authority's activities expose it to a variety of financial risks:

- 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 and stock market movements.

Overall Procedures for Managing Risk

The Authority's overall risk management procedures focus on the unpredictability of financial markets, and implementing restrictions to minimise these risks. The procedures for risk management are contained in the Local Government Act 2003 and the associated regulations. These require the Authority to comply with the CIPFA Prudential Code, the CIPFA Treasury Management in the Public Services Code of Practice and Investment Guidance issued through the Act. Overall, the Police Authority has met these requirements in 2011-12 by:

- by formally adopting the requirements of the Code of Practice
- by approving annually in advance prudential indicators for the following three years
- by approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investment counter-parties in compliance with the government guidance

The indicators and the investment strategy are required to be reported and approved at the Authority's meeting where the council tax and budget are approved. They are reported with the annual treasury management strategy, which outlines the detailed approach to managing risk in relation to the Council's financial instrument exposure. Actual performance is also reported regularly to the Resources Committee of the Authority.

The Treasurer of the Authority (supported by Force finance staff) implements these policies.

Credit Risk

Credit risk arises from deposits with banks and financial institutions, as well as credit exposures to the Authority's customers.

This risk is minimised through the Annual Investment Strategy, which requires that deposits are not made with financial institutions unless they meet identified minimum credit criteria, as laid down by Fitch Ratings Service. The Annual Investment Strategy also imposes a maximum sum to be invested with a financial institution located within each category.

The credit criteria (as at 31 March 2012) in respect of financial assets held by the Authority are provided in the table below. It should be noted that these are the credit ratings that apply when the loan is first entered into.

Financial asset category	Criteria	Maximum Investment per Individual Institution
Deposits managed by external fund managers	Long Term: A- and above	10% of Fund
Deposits with UK banks	Short Term: F1 and above Long Term: A- and above	£10.0m
Money Market Funds	AAA	£8.0m
Deposits with building societies with a credit rating	Short Term: A- and above	£4.0m

Counter-parties are assessed, taking into account their financial position, past experience and other factors. They may be suspended from the counter-party list or have an individual credit limit set in accordance with an internal assessment.

The following analysis summarises the Authority's potential maximum exposure to credit risk, based on experience of default and uncollectability over the last financial year, adjusted to reflect current market conditions. The Authority does not expect any losses from non-performance by any of the counterparties in relation to deposits and bonds.

	31 March 2012 £000	Historical experience of default %	Historical Experience adjusted for market conditions at 31 March 2012 %	Estimated maximum exposure to default and uncollectability £000
	A	B	C	(A X C)
Deposits with banks and financial institutions	42,010	0%	0.047%	20
Customers	633	6.5%	6.5%	41
Other Debtors	18,247	0	0	0
	<u>60,890</u>			<u>61</u>

The Authority maintains strict credit criteria for investment counter-parties. For this reason the Authority does not expect any losses from non-performance by any of its counter-parties in relation to deposits.

The Authority does not generally allow more than 28 days credit for customers. The debt can be analysed by age as follows:

	31 March 2012 <u>£000</u>
Not past due date	528
1- 30 days past due date	27
31-50 days past due date	19
51 days and more past due date	59
Total	<u>633</u>

Liquidity Risk

The Authority has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. If unexpected movements happen, the authority has ready access to borrowings from the money markets and the Public Works Loan Board. There is no significant risk that it 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 borrowing at a time of unfavourable rates.

Borrowing has been planned to avoid a large amount of debt maturing in any one year. The maturity analysis of financial liabilities (including accrued interest) is as follows:

	31 March 2012 <u>£000</u>
Less than one year	528
Between one and ten years	6,500
More than ten years	26,278
Total	<u>33,306</u>

All trade and other payables are due to be paid in less than one year.

Market Risk

The Authority is exposed to risk in terms of its exposure to interest rate movements on its borrowings and investments. Movements in interest rates have a complex impact on the Authority. For instance, a rise in interest rates would have the following effects:

- borrowings at fixed rates – the fair value of the liabilities borrowings will fall
- investments at fixed rates – the fair value of the assets will fall

Borrowings are not carried at fair value, so nominal gains and losses on fixed rate borrowings would not impact on the Income and Expenditure Account or Statement of Total Recognised Gains and Losses. The Authority has an active strategy for assessing interest rate exposure that feeds into the setting of the annual budget and which is used to update the budget quarterly during the year.

If interest rates had been 1% higher with all other variables held constant, there would be no material impact on the accounts. This is because long term borrowing is at fixed rates, short term borrowing is minimal. There would have been some impact on the interest received from the externally managed loans but this would not have a material effect on the accounts.

Foreign Exchange Risk

The Authority has no financial assets or liabilities denominated in foreign currencies and thus has no exposure to loss on financial instruments arising from movements in exchange rates.

POLICE OFFICERS' PENSION FUND ACCOUNTING STATEMENTS

31 March 2011 £000		31 March 2012 £000
	FUND ACCOUNT	
	Contributions Receivable	
(30,470)	Employers (normal)	(29,622)
(13,733)	Employees (normal)	(13,255)
(855)	Ill Health capital charge	(915)
	Transfers In	
(627)	Individual transfers from other schemes	(529)
	Benefits payable	
48,467	Pensions	52,787
14,411	Commutations	23,551
	Payment to and on account of leavers	
1,496	Individual transfers to other schemes	327
<hr/> 18,689	Net amount paid during the year	<hr/> 32,344
(18,689)	Transfer from Devon and Cornwall Police General Fund*	(32,344)
<hr/> 0	Net amount payable / receivable for the year	<hr/> 0

*Additional contribution funded by the Police Authority is met by a top up grant from the Home Office as follows:

12,572	Received in year	21,598
6,117	Debtor	10,746
<hr/> 18,689		<hr/> 32,344

NET ASSETS STATEMENT

31 March 2011 £000		31 March 2012 £000
	CURRENT ASSETS	
186	Recoverable overpayments of pensions	0
	CURRENT LIABILITIES	
0	Unpaid pensions benefits	0
(186)	Surplus for the year owing to police authority	0
<hr/> 0		<hr/> 0

Notes

1. The Police Officers' Pension Fund account was established under the Police Pension Fund Regulations 2007 and is administered by the Police Authority. The main benefits payable are police officer pensions, lump sums that represent the commutation of pensions and other lump sum payments. The Police Authority paid a contribution equal to 24.2% of police officer pay for 2011-12. As this contribution was insufficient to meet the net costs of benefits after employees' contributions, the account was balanced to nil at the year end by the Home Office top up grant. As the scheme is unfunded there are no investment assets.
2. This Financial Statement does not take account of liabilities to pay pensions and other benefits after the 31 March 2012. For further information on the Police Officers' Pension Scheme see note 35.
3. The above accounting statement complies with the accounting policies set out in the statement of accounting policies for the Police Authority General Fund as set out in Note 1 where those policies are applicable. Recoverable overpayments have been estimated by Devon Pensions Service according to scheme regulations.

GLOSSARY OF FINANCIAL TERMS

The following definitions of technical terms used in these accounts may help the general reader:

Accounting period	The period of time covered by the accounts, usually a full year, which for this Authority runs from 1 April to 31 March.
Accrual	Amounts included in the final accounts to cover income and expenditure due in the accounting period but neither paid nor received by 31 March. (For example, goods delivered in March but not invoiced by suppliers until April.)
Actuarial gains and losses	Changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions.
Actuarial valuation	An independent report on the financial status of a Pension Fund, which shows the estimated cost today of providing benefits in the future.
Agency services	Services provided by one body (the agent) on behalf of, and generally with payment from, the responsible body.
Amortised Cost	This method applies to both financial assets and liabilities. It is a method of determining the Balance Sheet carrying amount and periodic charges or credits to the Income and Expenditure Account of a financial instrument from the expected cash flows. This approach sees through the contractual terms (for example discounts and premiums) to measure the real cost that an Authority bears each year from entering into a financial liability. The Police Authority does not currently have any complex financial instruments where the contractual terms vary significantly from the real cost. For this reason the amortised cost of financial instruments is close to contractual cost.
Appropriation	Charges to the revenue account that build up funds and reserves in the balance sheet.
Asset	Something of practical use that can be measured in cash terms, e.g. land and buildings, or computer and radio equipment.
Bid price	A valuation of financial assets based on the highest price a buyer is willing to offer.
Budget	The Authority's plan for providing resources to meet its service obligations. Devon and Cornwall Police Authority sets an annual budget within a three-year financial strategy.

GLOSSARY OF FINANCIAL TERMS

The following definitions of technical terms used in these accounts may help the general reader:

Capital expenditure	The cost of buying or building significant assets (e.g. land and buildings) which have a long-term value to the Authority. <i>(Also referred to as capital spending or capital payments).</i>
Capital grants	Grants received by the Authority that can only be used to pay for capital projects.
Capital receipts	Income from the sale of capital assets (land, buildings, etc.). In the public sector, there are generally strict rules on what the receipts can be spent on.
Carrying amount	This is the amount of a financial asset or liability that should be recorded in the Balance Sheet for a given date based upon the correct measurement approach for the financial asset or liability.
Cash flow Statement	This statement summarises the inflows and outflows of cash.
CIPFA	The Chartered Institute of Public Finance and Accountancy, the professional body that sets accounting standards for the public sector.
Collection fund	District and unitary councils pay all receipts from local taxpayers into a "collection fund". They then pay county, police, fire, district, unitary and parish council precepts from the fund.
Commutation of Pension	Commutation is where part of the entitlement to a pension for life is exchanged for a lump sum payable on retirement. This requires a calculation of the current value of the entitlement given up. The calculation is done using actuarial advice. The advice is set out in tables containing 'factors'. The level of the factors depends on age and life expectancy.
Contingency	A reserve set aside to meet unexpected costs. For example, the Force always has major operations every year, but can never tell how many will happen or how much each will cost.
Contingent liability	A possible cost of past events where the amount to be paid is not certain, or when the payment may not actually be made. (For example, where a court case is still undecided.)
Corporate & democratic core	The costs of actually running the Police Authority.

GLOSSARY OF FINANCIAL TERMS

The following definitions of technical terms used in these accounts may help the general reader:

Council tax	A tax based on the value of property, which is administered by District and Unitary authorities.
Creditors	Amounts owed by the Authority for work done, goods received or services received, but for which payment has not been made by the end of the accounting period.
Current Assets & Liabilities	Current assets are items that can be readily converted into cash. Current liabilities are items that are due immediately or in the short-term.
Current Service Cost	The increase in the benefits earned by employees in the current period based on their pay and length of service. This is charged to the net cost of services.
Curtailments	Curtailments arise as a result of the early payment of accrued pensions on retirement on the grounds of efficiency or redundancy or where the Employer has allowed employees to retire on unreduced benefits before they would otherwise have been able to do so.
Debtors	Amounts due to the Authority but unpaid by the end of the accounting period.
Deferred charges	Costs build up preparing for a capital project that does not eventually create or buy a fixed asset. Deferred charges are written out of the accounts in the year they are incurred.
Defined Benefit Scheme	A pension scheme which defines the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme.
Depreciation	The accounting principle that spreads the cost of a fixed asset over its useful working life.
Discretionary Benefits	Retirement benefits which the employer has no legal, contractual or constructive obligation to award and which are awarded under the authority's discretionary powers.
Earmarked Reserves	These reserves represent monies set aside to be used for a specific purpose.

GLOSSARY OF FINANCIAL TERMS

The following definitions of technical terms used in these accounts may help the general reader:

Exit costs	These are costs of packages for which the authority is demonstrably committed to. The cost of the package includes the termination benefits, all relevant redundancy costs including compulsory and voluntary redundancy costs, pension contributions in respect of added years, ex gratia payments and other departure costs.
Expected return on assets	The average rate of return expected over the remaining life of the pension scheme from the actual investments held by the scheme. Fees charged by investment managers are taken out. The net income is credited to net operating expenditure.
Experience gains & losses (IAS 19 Pensions disclosure)	This shows the impact of actual experience differing from the accounting assumptions, such as pension increases differing from those assumed and unexpected membership movements.
Fair value	This is defined as the amount for which an asset could be exchanged or a liability settled, assuming that the transaction was negotiated between parties knowledgeable about the market in which they are dealing and willing to buy/sell at an appropriate price, with no other motive in their negotiations other than to secure a fair price. In most cases, this amount will be the transaction price, e.g. the amount of a loan made.
Fixed assets	Assets that the Authority can use for a period of more than one year.
Financial Reporting Standards (FRS)	Accounting standards issued by the Accounting Standards Board of the Financial Reporting Council (FRC), the UK's independent regulator for corporate reporting and governance.
Home Office grant	A central government grant paid by the Home Office to Police Authorities in support of their day to day expenditure.
Impairment	A loss in the value of a fixed asset, caused by physical damage (such as a major fire) or a significant reduction in market value.

GLOSSARY OF FINANCIAL TERMS

The following definitions of technical terms used in these accounts may help the general reader:

Interest cost	The expected increase during the period in the present value of the scheme liabilities because members of the scheme are one year closer to retirement. This is charged to net operating expenditure.
LAAP	Local Authority Accounting Panel – which sets accounting rules for the public sector.
Loans and Receivables	These occur when money, goods or services are provided to a debtor and payment or repayment will be by fixed determinable payments. Such arrangements are not normally tradable.
Mid price	A valuation of financial assets based on the mid point between bid and offered prices
Minimum Revenue Provision	The minimum amount of the Authority's outstanding debt that must be charged to the General Fund each year.
National non-domestic rates (NNDR)	Rates set nationally and paid by local businesses to the Government, then shared by local and police authorities in proportion to their resident population.
Non distributed costs (NDC)	For the Police Authority these are principally past service costs relating to pensions benefits earned in prior periods.
Non-operational assets	Fixed assets that are not used to deliver direct services. For example, police houses, or assets that are still being built or are no longer used and about to be sold.
Past Service Cost	The increase in the benefits earned by employees from their service in previous years arising because of improved retirement benefits. These costs are paid directly by the employer and are charged to the net cost of services.
Pension scheme (defined benefit)	A pension scheme that pays benefits to members based on the rules of the scheme and not on the value of the pension fund. Benefits are usually based on pay and length of service.
Pension scheme (funded)	Each year both employers and members pay standard contributions that are invested in a separate pension fund. Benefits to contributors and their dependants are paid out of investments held in the fund.
Pension scheme (unfunded)	Members pay a standard contribution each year. The employer then pays the cash difference between members' annual contributions and the annual cost of benefits to contributors and their dependants.

GLOSSARY OF FINANCIAL TERMS

The following definitions of technical terms used in these accounts may help the general reader:

Precept	A levy collected by District and Unitary Councils from council taxpayers on behalf of the Authority.
Present value (or Net Present Value)	The amount of money that must be put aside today to pay for a cost in the future, allowing for inflation and interest rates.
Principal	The amount of a loan that was actually borrowed, before interest is added.
Provisions	Amounts set aside to meet costs that are likely to be incurred, but where the actual amount and timing are uncertain.
Related parties	Individuals or other bodies who have significant control and influence over the financial and operating policies of an entity.
Reserves	Amounts set aside to meet the cost of specific future expenditure. The Authority plans its reserves as part of a three-year strategy.
Revaluation Reserve	The Reserve records the accumulated gains on the fixed assets held by the Authority arising from increases in value. It is debited with the part of the depreciation charge for the asset relating to the revaluation. Any balance on this account is written back to the Capital Adjustment Account upon disposal of the asset.
Revenue support grant (RSG)	A general central government grant paid to the Authority, as well as the Home Office Grant, to support its day to day expenditure.
Running costs	Costs from the use of premises, transport and equipment, and other general expenditure needed to provide a service.
Specific grants	Grants (usually from the Home Office) that can only be spent on named services and projects.
Statement of Standard Accounting Practice	Guidance issued by the FRC on how to use and apply accounting standards.
Termination benefits	These are payable as a result of either an employer's decision to terminate an employee's employment before the normal retirement date; or an employee's decision to accept voluntary redundancy in exchange for those benefits excluding any voluntary early retirements.

GLOSSARY OF FINANCIAL TERMS

The following definitions of technical terms used in these accounts may help the general reader:

Third party payments Payments made to outside contractors and other bodies who provide specialist or support services for the Authority.