



CESHIRE POLICE AUTHORITY

STATEMENT OF ACCOUNTS

2010/11

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THE EXPLANATORY FOREWORD

Introduction

The financial statements of Cheshire Police Authority for 2010/11, which are set out on the following pages, show the financial performance for the year and the position at 31 March 2011. The pages that follow include:

Statement of Responsibilities – sets out who is responsible for the various aspects of producing and approving these accounts.

Auditor's Report – the report from the Authority's External Auditor giving his opinion on the accounts and whether they have been prepared in accordance with proper practices.

Statement of Accounting Policies – explains the policies used to prepare these accounts.

Comprehensive Income and Expenditure Statement – this statement shows the accounting cost in the year of providing policing in Cheshire in accordance with generally accepted accounting practices rather than the amount funded from taxation. The Authority raises council tax 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.

Movement in Reserves Statement – this statement shows the movement in year on the different reserves held by the Authority, analysed into 'useable reserves' (i.e. those that can be applied to fund expenditure or reduce local council tax) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing policing in Cheshire, more details are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for council tax setting purposes. The net increase/decrease before transfers to earmarked reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Authority.

Balance Sheet – shows the value as at the Balance Sheet date of the asset 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 useable 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 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 includes reserves that hold unrealised gains and losses (for example the revaluation reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustment between accounting basis and funding basis under regulations'.

Cashflow 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.

Police Pension Fund – shows the details of the police pension fund. The expenditure is met from three main sources, employee contributions, employers' contributions with any surplus or deficit paid to or by the Home Office. The only element of this met by Council Tax is the employers' contribution which is included in the Comprehensive Income and Expenditure Statement.

Annual Governance Statement – provides assurance that the policies, procedures and controls to ensure corporate governance and internal control are working and highlights any areas requiring further action.

In addition to the above Statements, notes are also included, giving additional information and explanations to support the accounts.

These published accounts are a vital aspect in demonstrating the Authority's stewardship of public money in delivering policing services to the communities of Cheshire, Halton and Warrington.

The key duty of the Police Authority is to provide an efficient and effective police service. The Authority sets a budget and levies a council tax precept to finance expenditure that is not met by either Government grants or other income. Responsibility for day to day management is delegated to the Chief Constable within a financial framework and an annual budget set by the Authority.

The explanatory foreword summarises the most significant matters reported in these accounts and provides an introduction to the detailed accounts that follow.

Changes to the way in which the accounts are produced

In the 2007 Budget, the then-Chancellor announced that the UK public sector would adopt the International Financial Reporting Standards (IFRS) as this was seen as best practice and allowed for international comparisons to be made. These reporting standards are a suite of accounting standards used across the world and replace the UK Generally Accepted Accounting Practice (UKGAAP) which the Authority's accounts have been produced under previously.

As this is a fundamental change in the way in which the accounts are produced, prior year accounts going back to 2008/09 have been re-worked under these new standards and are included in this Statement of Accounts to allow meaningful comparisons.

The Authority's accounting policies have been re-written to comply with the standards and these can be read on pages 14 to 24. The main changes are:

- Short-term accumulating compensated absences
- Government grants
- Assets Held for Sale

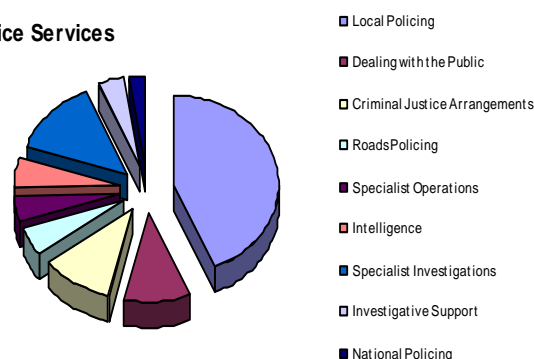
and are explained in detail in Note 1 on page 31.

Service Expenditure and Income

The Comprehensive Income and Expenditure Statement on page 27 shows the Authority spent £217.8m in 2010/11, in providing the following services.

Services	£000	%
Local Policing	94,915	43.6
Dealing with the Public	21,934	10.1
Criminal Justice Arrangements	23,681	10.9
Roads Policing	11,931	5.5
Specialist Operations	9,523	4.4
Intelligence	12,264	5.6
Specialist Investigations	29,552	13.6
Investigative Support	8,497	3.9
National Policing	5,276	2.4
	<u>217,573</u>	100.0
Corporate Costs & Financing	7,503	
Less: Accounting Adjustments	8,540	
	<u>216,535</u>	

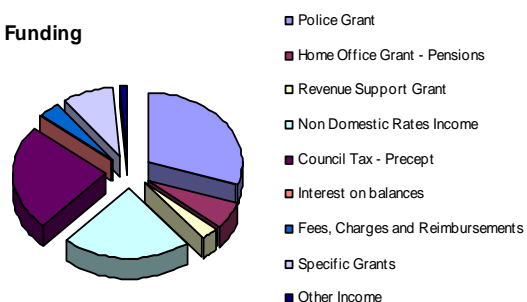
Police Services



This expenditure is funded from a number of sources mainly Government Grants, Business Rates and Council Tax, shown in the table below.

Funding	£000	%
Police Grant	67,033	30.2
Home Office Grant - Pensions	13,421	6.0
Revenue Support Grant	7,165	3.2
Non Domestic Rates Income	49,341	22.2
Council Tax - Precept	53,944	24.3
Interest on balances	309	0.1
Fees, Charges & Reimbursements	7,658	3.5
Specific Grants	19,897	9.0
Other Income	3,074	1.4
	<u>221,842</u>	

Funding



Comparison of the accounts with the revenue outturn

The difference between the above two tables is a net surplus of £5.307m which does not represent the actual outturn position due to a number of technical accounting adjustments. The actual reconciliation of the Comprehensive Income and Expenditure Account to the outturn reported to the Finance Committee is on page 55.

As mentioned above the accounts are prepared under International Financing Reporting Standards which do not fully take into consideration the way in which the Authority is funded. There are certain charges that are reflected in the Accounts such as depreciation (the cost of using the Authority's assets) that are correctly shown in the Accounts but are not funded through council tax. To calculate the cash position and the impact on the Authority's reserves, these accounting adjustments are excluded as shown in the top table. When these adjustments have been made the net surplus is £5.307m which, after a transfer to earmarked reserves of £6.7m, leaves a decrease in general reserves (the amount of cash increase) of £1.4m. This is detailed in the Movement in Reserves Statement on page 25 and in the associated note on page 35.

At its meeting on 23 February 2010, the Authority set a budget of £177.5m for 2010/11 representing an increase of 2.65% from 2009/10 and an increase of 2.72% in council tax. At year end the actual amount spent was £170.9m, giving an underspend of £6.6m as summarised in the table below.

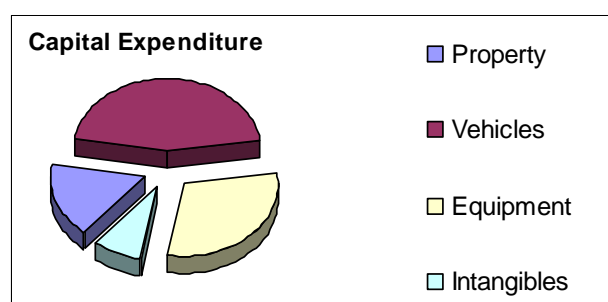
	Revised Budget	2010/11 Outturn	Variance
	£000	£000	£000
Constabulary Operations	178,802	174,353	(4,449)
Centrally Held Budgets	2,001	17	(1,984)
Police Authority	1,129	945	(184)
Capital Financing	1,777	1,836	59
Grant Funding	(5,333)	(5,333)	-
Total Revenue Budget	178,376	171,818	(6,558)
Contributions to/(from):			
General Reserves	-	6,558	6,558
Resource Centre Revenue Reserve	(474)	(474)	-
Capital Systems Reserve	(1,027)	(1,027)	-
Underwater Search Unit Reserve	173	173	-
IT Reimbursement Reserve	172	172	-
Revenue Contribution to Capital	263	263	-
External Financing	177,483	177,483	-

The reasons for the underspending of £6.6m were the early realisation of savings to be delivered in 2011/12 and in support of transformational change.

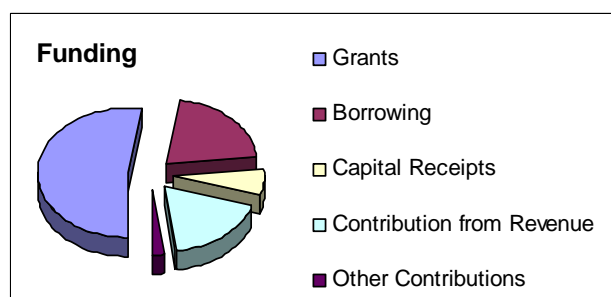
Capital Expenditure

The following tables shows how much the Authority invested in assets during 2010/11 and how this expenditure was funded.

Capital Expenditure	£000	%
Property	808	16.8%
Vehicles	2,142	44.5%
Equipment	1,460	30.3%
Intangibles	402	8.4%
	<u>4,812</u>	



Funding	£000	%
Grants	2,522	52.4%
Borrowing	1,000	20.8%
Capital Receipts	319	6.6%
Contribution from Reserves	874	18.2%
Other Contributions	97	2.0%
	<u>4,812</u>	



The main increase in spend on vehicles is the annual replacement programme and the balance due on delivery of the helicopter. Equipment spend includes fittings for the new Tactical Training Centre and IT hardware.

Grants, predominately from the Home Office, form the bulk of the funding for capital expenditure. At the start of the year the Authority was allocated £2.195m general capital grant which was subsequently reduced by £0.148m as part of the Coalition's Government's Emergency Budget in June 2010.

Since 2003, under the prudential framework, authorities can borrow capital funding providing they can demonstrate through the prudential indicators that it does not breach acceptable levels in terms of revenue impact in future years. These are set out in the Treasury Management Strategy which is available on-line via the Authority's website at www.cheshirepa.gov.uk.

The Authority borrowed an additional £1m in 2010/11 bringing the total borrowing to £23.1m with the revenue impact for 2011/12 of £1.1m in interest charges and £1.2m in minimum revenue provision (the amount set aside to repay the loans).

Balance Sheet – the Authority's Assets and Liabilities

The Balance Sheet includes a liability of £1.41bn to represent all the future liabilities of police officer and staff pensions at current prices. This is included to comply with the International Accounting Standard (IAS) 19. The principle behind this standard is that costs of retirement benefits should be accounted for at the time they are committed by the Authority even if the actual payments may be many years in the future. This is a technical accounting entry and does not have any impact on the council tax charge beyond the employer's pension contributions made in the year.

In the UK budget statement on 22 June 2010 the Chancellor announced that with effect from 1 April 2011 public service pensions would be up-rated in line with the Consumer Price Index (CPI) rather than the Retail Price Index (RPI). For the police pension scheme this amounts to £144.78m and for the Local Government Pension Scheme £15.86m, total amount £160.64m. These are shown within the Comprehensive Income and Expenditure Statement as Exceptional Items. The impact of this is incorporated in the actuarial calculations included in these accounts and further details of this change and the rest of the pension accounting entries are shown in Note 26 on page 69.

As a result of the above technical accounting entry the Balance Sheet shows a "book" deficit net worth of £1.35bn. To calculate the actual net worth of the Authority, the £1.41bn needs to be deducted, resulting in the actual net worth of £56.9m.

Future Developments

The Government's Comprehensive Spending Review announcement in October 2010 requires the Authority to make cash savings on £36m over the period 2011-15, of which £11m falls in 2011/12. This level of reduction represents a significant challenge, particularly if the Authority is to meet its objective to maintain and if possible, improve services. The Authority has embarked on two key transformational programmes – Transforming Policing and Transforming Business Services to deliver the majority of these savings and to preserve front-line services. The Authority will also need to take into account the Government's response to the Winsor pay and

Hutton pension reviews in its Medium Term Financing Strategy.

The Police Reform and Social Responsibility Bill sets out the Coalition Government's proposals for police reform which include abolishing police authorities and replacing them with directly elected Police & Crime Commissioners, however the Constabulary remains a "going concern" under the Police and Magistrates Act 1994. This Bill has yet to be agreed but the proposed timetable would see the election of the Police and Crime Commissioners in May 2012.

Further Information

Every effort has been made to ensure that the information provided in this Statement of Accounts is clear and informative. Should you require any further information or if you have any comments, please contact the Treasurer, Liz Lunn on telephone number 01606 364109 or the Director of Finance, Richard Muirhead on telephone number 01606 364500.

Liz Lunn BA CPFA
Treasurer

STATEMENT OF RESPONSIBILITIES

Responsibilities of the Cheshire Police Authority

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 chief financial officer.
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- approve the Statement of Accounts.

Certificate of the Chairman of the Audit Committee

I certify that the Final Statement of Accounts has received the full approval of the Audit Committee.

J. Paul Findlow
Chairman of the Audit Committee
26 September 2011

Responsibilities of the Treasurer

The Treasurer is responsible for ensuring that the financial affairs of the Authority and the Constabulary are properly administered. The Treasurer is also required to provide financial advice to the Authority, secure an effective internal audit service and prepare the Authority's Statement of Accounts. In terms of the CIPFA/LASAAC *Code of Practice on Local Authority Accounting in the UK*, the Statement is required to present a true and fair view of the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31 March 2011. In order to fulfil these obligations the Treasurer has made the following arrangements:

In preparing this Statement of Accounts, the Treasurer has;

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

In addition, 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 certify that the Statement of Accounts presents a true and fair view of the financial position of the Authority as at 31 March 2011 and of its expenditure and income for the year ended 31 March 2011.

Liz Lunn, BA CPFA
Treasurer
26 September 2011

INDEPENDENT EXTERNAL AUDITOR'S REPORT TO THE MEMBERS OF CHESHIRE POLICE AUTHORITY

Opinion on the Authority and Pension Fund accounting statements

I have audited the accounting statements and the police pension fund accounting statements of Cheshire Police Authority for the year ended 31 March 2011 under the Audit Commission Act 1998. The accounting statements comprise the Movement in Reserves Statement, the Comprehensive Income and Expenditure Statement, the Balance Sheet, the Cash Flow Statement and the related notes. The police pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. These accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

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

Respective responsibilities of the Treasurer and auditor

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

Scope of the audit of the financial statements

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

INDEPENDENT EXTERNAL AUDITOR'S REPORT TO THE MEMBERS OF CHESHIRE POLICE AUTHORITY

Opinion on accounting statements

In my opinion the accounting statements:

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

Opinion on other matters

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

Matters on which I report by exception

I have nothing to report in respect of the governance statement on which I report to you if, in my opinion the governance statement does not reflect compliance with 'Delivering Good Governance in Local Government: a Framework' published by CIPFA/SOLACE in June 2007.

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

Authority's responsibilities

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

Auditor's responsibilities

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion relating to proper arrangements, having regard to relevant criteria specified by the Audit Commission.

INDEPENDENT EXTERNAL AUDITOR'S REPORT TO THE MEMBERS OF CHESHIRE POLICE AUTHORITY

I report if significant matters have come to my attention which prevent me from concluding that the Authority has put in place proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

Basis of conclusion

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

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

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

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

Conclusion

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

Certificate

I certify that I have completed the audit of the accounts, including the police pension fund accounting statements, of Cheshire Police Authority in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Julian Farmer, Officer of the Audit Commission
2nd Floor, Aspinall House
Aspinall Close
Middlebrook, Horwich
Bolton, BL6 6QQ
30 September 2011

STATEMENT OF ACCOUNTING POLICIES

1. General Principles (IAS 8)

The Statement of Accounts summarises the Authority's transactions for the year 2010/11 financial year and its position at 31 March 2011. It has been prepared in accordance with the International Accounting Standards Board (IASB) *Framework for the Preparation and Presentation of Financial Statements* as interpreted by the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom 2010/11: Based on International Financial Reporting Standards ("The Code"). The principal accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all years presented unless otherwise stated.

1.1 Accounting Conventions

These financial statements have been prepared under the historical cost convention, modified by the revaluation of certain categories of non-current assets and, where material, financial instruments as determined by the relevant accounting standard.

These financial statements, except for the Cashflow, have also been prepared using the accruals basis of accounting, i.e. the Authority recognises items as assets, liabilities, income and expenses (the elements of the financial statements) when they satisfy the definitions and recognition criteria as set out in the Code. The accruals basis of accounting requires the non-cash effects of transactions to be reflected in the financial statements for the accounting period in which those effects are experienced and not in the period in which any cash is received or paid.

Under the accruals basis of accounting, the Authority will recognise in the Comprehensive Income and Expenditure Statement, the accrued council tax income for the year. Any difference between the amount of council tax due under regulation and the actual amounts received will be recognised on the Balance Sheet as either a debtor or creditor as appropriate. The General Fund will be credited with the regulatory amount and the balance shown in the Collection Fund Adjustment Account.

In addition, these financial statements assume the Authority will continue in operational existence for the foreseeable future under the 'Going Concern' concept.

1.2 Materiality

The Authority deems an item of information is material to the financial statements if its omission or misstatement could, individually or collectively; influence the decisions or assessments made on the basis of these statements. Materiality depends on the nature or size of the omission or misstatement judged in the surrounding circumstances. The nature or size of the item, or a combination of both, could be the determining factor. Therefore materiality provides a threshold or cut-off point rather than a primary qualitative characteristic which information must have if it is to be useful.

2. Intangible Assets (IAS38)

An intangible asset is an identifiable non-monetary asset without physical substance which is controlled by and has future economic or service benefit to the Authority for more than one financial year, for example computer software. Such assets will be measured initially at cost and amortised to the Comprehensive Income and Expenditure Statement over the finite useful life reflecting the expected pattern of use of the economic benefits.

3. Property, Plant and Equipment

Property, plant and equipment are tangible items that are held for use in the provision of services and support functions and are expected to be used during more than one period, i.e. on a continuing basis in line with International Accounting Standard (IAS) 16 and International Public Sector Accounting Standard (IPSAS) 17.

Recognition: The cost of an item of property, plant and equipment is recognised as an asset if:

- it is probable that future economic benefits associated with the item will flow to the Authority;
- the cost or fair value of the item can be measured reliably; and
- the cost is £10,000 or more (de-minimus level).

Measurement: At initial recognition the cost of an item of property, plant and equipment will include:

- its purchase price;
- any costs directly attributable to bringing the asset to working condition for its intended use including any directly attributable salary costs of the Authority's employees; and
- the initial estimate of the costs of dismantling and removing the items and restoring the site on which it is located.

After initial recognition as an asset, measurement will be at fair value with the exception of Assets under Construction. If there is no market based evidence of fair value, an estimate of fair value using a Depreciated Replacement Cost (DRC).

Assets under Construction will be valued on the basis of actual expenditure incurred (historical cost) until they become operational at which point they will be valued at fair value.

For non-property assets that have short useful lives, low value or both the Authority will use a depreciated historical cost basis as a proxy for fair value.

Componentisation: The Authority identifies any properties where it is considered that componentisation is appropriate and provides separate valuation of such components. Componentisation will only be applied routinely to new buildings or refurbishments completed after 1/4/10 onwards and will not apply to historical assets that have not been refurbished.

Specifically, valuers are required to consider whether componentisation is required for:

- all properties over £1m
- those which have been the subject of significant refurbishment or improvement during the year
- those properties which are expected to be the subject of significant refurbishment or improvement during the next two years

In this context significant expenditure is defined as 'greater than 25% of the total cost of the asset; and greater than £100,000'.

Borrowing Costs: Borrowing costs that are directly attributable to the acquisition, construction or production of a recognised asset will form part of the cost of that asset. Any other borrowing costs will be charged to the Comprehensive Income and Expenditure Statement.

Depreciation: Land and buildings are held as separate assets and will be accounted for separately. Depreciation will only be charged when an asset becomes operational. However, depreciation will not be charged when an asset becomes 'Available for Sale' or if the residual value of the asset is equal or greater than the assets carrying amount.

Depreciation, where applicable, will be charged based on the depreciable amount allocated over the useful life of the asset. The methodology shall be reviewed each year and the current bases for calculating depreciation are:

- Land – no depreciation applied
- Property (not land) – straight-line allocation over the life of the property as estimated by the valuer
- Plant and Equipment – straight-line allocation over the life of the asset as advised by a suitably qualified officer

Each part of an item of Property Plant and Equipment with a **cost** that is significant in relation to the total **cost** of the item will be depreciated separately. Where there is more than one significant part of the same asset which have the same useful life and depreciation method, such parts may be grouped in determining the depreciation charge.

Impairment: Impairment will be recognised on assets carried at a re-valued amount and historical cost. For a re-valued asset, impairment will be recognised in the Revaluation Reserve and reflected in the Movement in Reserves Statement, to the extent that the impairment does not exceed the amount held for that asset in the Reserve. Any balance will be recognised in the Comprehensive Income and Expenditure Statement. For assets held on a historical cost basis the impairment will be recognised in full in the Comprehensive Income and Expenditure Statement.

De-recognition: The carrying amount (value) of an asset will be removed from the Balance Sheet upon disposal or when no future economic benefit or service potential are expected from its use or disposal. The gain or loss arising from de-recognition is the difference between the net disposal proceeds, if any, and the carrying amount of the asset and will be recognised in full in the Comprehensive Income and Expenditure Statement.

The impact of de-recognition will not affect the council tax, as the cost of the assets is fully provided for under separate arrangements for capital financing. Amounts are appropriated to the Capital Adjustment Account from the Movement in Reserves Statement.

4. Assets Held For Sale

An asset will be recognised as 'held for sale' when it is declared surplus and placed on the market for sale after which it will be valued at the lower of its carrying value and fair value less costs to sell. If the sale is expected within 12 months of being recognised as 'for sale', the asset will be held in Current Assets otherwise it will be held in Long Term Assets on the Balance Sheet. Depreciation will not be applicable.

5. Provisions (IAS37)

Provisions are made when the Authority has an obligation (legal or constructive) resulting from a past event and it is probable that the Authority will be required to settle that obligation and a reasonable estimate of the settlement can be made. For example, the Authority may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged to the Comprehensive Income and Expenditure Statement in the year in which the Authority becomes aware of the obligation, based on the best estimate of the likely settlement. When payments are eventually made they are charged to that Provision. Estimated settlements are reviewed at the end of each financial year and where it becomes more likely than not that a settlement is no longer required (or a lower settlement than anticipated is made), the provision is adjusted and credited back to the Comprehensive Income and Expenditure Statement.

Where some or all of the payment required to settle an obligation is expected to be met by another party (e.g. from an insurance claim) it is only recognised as income in the Comprehensive Income and Expenditure Statement when it is virtually certain that reimbursement will be received.

6. Reserves

The Authority sets aside amounts as reserves for specific policy purposes through appropriations in the Movement of Reserves Statement. Expenditure funded by such reserves is charged directly to the Comprehensive Income and Expenditure Statement with the transfer from the reserve shown separately and accounted for in the Movement of Reserves Statement.

Certain reserves are held to manage the accounting processes of assets and retirement benefits and do not represent usable resources for the Authority – these reserves are explained in the relevant policies.

7. Government Revenue Grants, Contributions and Donations (IAS20)

Grants and contributions, including donated assets, are not recognised until there is reasonable assurance that the Authority will comply with the conditions attached to them and that the grants or contributions will be received. Such grants etc. relating to capital and revenue expenditure will be accounted for on an accruals basis and recognised immediately in the Comprehensive Income and Expenditure Statement as income, except to the extent that the grant or contribution has a condition(s) (as opposed to restrictions) which has not been currently met.

General grants and contributions, e.g. Revenue Support Grant, National Non Domestic Rates (NNDR) and Police Grant, are required to be disclosed as one or more items on the face of the Comprehensive Income and Expenditure Statement.

Donated assets transferred to the Authority for nil consideration will be recognised immediately at fair value as an asset on the Balance Sheet. The asset will be recognised in the Comprehensive Income and Expenditure Statement as income, except to the extent that the transfer has a condition(s) (as opposed to restrictions) has not been currently met. In this case the asset is credited to the Donated Assets Account and recognised in the Comprehensive Income and Expenditure Statement once the condition(s) has been met.

Where donated assets have been acquired for less than fair value (i.e. a non-exchange transaction), the difference between the fair value of the asset and the consideration paid will be recognised immediately in the Comprehensive Income and Expenditure Statement as income, or in the event that the transfer has a condition(s), recognised in the Donated Assets Account until such time as the condition(s) has been met. The measurement at fair value of an asset, acquired for no consideration or for less than fair value, does not constitute a revaluation.

A grant, contribution or donated asset may be received subject to a condition that it be returned to the original owner if a specified future event does or does not occur (for example, a grant may need to be returned if the Authority ceases to use the asset purchased with that grant for the purpose specified by the grant). In these cases, a return obligation will not be recognised until such time as it is expected that the condition will be breached and a liability is not recognised until that time. Such conditions do not prevent the grant, contribution or donated asset being recognised as income in the Comprehensive Income and Expenditure Statement.

8. Employee Benefits

Under IAS19, the Authority will recognise short term compensated absences that are carried forward at the year end. These absences covers annual leave, flexi-time and time off in-lieu held by officers and staff at 31 March.

Employees of the Authority are members of one of two separate pension schemes:

- The Local Government Pension Scheme administered by Cheshire West and Chester Borough Council; or
- The Police Pension Scheme for Police Officers.

The Police Pension Scheme is an unfunded scheme (Police Pension Fund Regulations 2007 (SI2007/1932)), meaning 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. The costs of the scheme are supported by an employer's contribution based on the costs of serving officers and central government grant.

Both schemes provide defined benefits to members (retirement lump sums and pensions) earned as employees of the Authority.

The impact of these two pension schemes is identified separately in the Comprehensive Income and Expenditure Statement and Balance Sheet and in the notes to the Primary Statements.

The Authority has implemented the following accounting policies:

- Net assets/net liabilities are identified for both funded and unfunded pension schemes. The attributable assets of the local government's scheme are measured at fair value.
- The attributable liabilities of both schemes are measured on an actuarial basis, using the projected unit method.
- Liabilities are discounted at a rate that reflects the time value of money and the characteristics of the liability.
- The surplus/deficit in each scheme is the excess/shortfall of the value of assets in the scheme over/below the present value of the scheme's liabilities.

The change in the net pensions' liability is analysed into the following components:

- The current service cost – the increase in liabilities as a result of years of service earned this year. This is charged to the Comprehensive Income and Expenditure Statement and is apportioned across service headings according to numbers of employees.
- Past service cost – the increase in liabilities arising from current year decisions, the effect of which relates to years of service earned in previous years. These are debited to the net cost of service 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. This is based on the discount rate and the present value of the scheme liabilities at the beginning of the period. The cost is debited to Other Operating Expenditure.
- Expected return on assets – the annual investment return on assets based on an average of the expected long term return. This is credited to Other Operating Expenditure.
- 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. These are not charged to revenue.
- Gains/losses arising from settlements or 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. This is debited to the Net Cost of Services as part of Non Distributed Costs.

Statutory provisions limit the Authority to raising council tax to cover the amounts payable in accordance with the employer's rate of contribution. 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 any amounts payable to the fund but unpaid at the year end.

Injury awards under The Police (Injury Benefits) Regulations 2006 are not part of the Police Pensions Scheme and are funded direct from the Comprehensive Income and Expenditure Statement. However, liabilities in respect of injury awards are disclosed in the Statement of Accounts as part of the Authority's overall liability and are measured on an actuarial basis, using the projected unit method.

9. Value Added Tax (VAT)

Income and expenditure exclude any amounts related to VAT as all VAT collected is payable to H.M Revenue and Customs and all VAT paid is recoverable from it.

10. Overhead and support services

The costs of overheads and support services not defined as Non Distributed Costs or Corporate and Democratic Core are fully recharged to the service expenditure headings as defined in CIPFA *Best Value Accounting Code of Practice* (BVACoP) including Corporate and Democratic Core.

- Corporate and Democratic Core relates to the Authority's democratic representation (i.e. Members of the Authority) and its management together with the corporate management of the Authority. Due to restructuring of business services and changes to centrally reported analysis, for 2010/11 the Corporate and Democratic Core costs have been based on the 2009/10 costs adjusted by inflation. Although business services have changed the actual committee process has not, therefore a similar level of corporate management is appropriate.
- Non distributed costs are the costs of discretionary benefits awarded to employees retiring early and any depreciation and impairment losses chargeable on non-operational properties

11. Private Finance Initiative (PFI)

PFI contracts typically involve a contractor constructing and maintaining an asset over a specified period of time for the use by a public service provider. If the PFI contract meets the following two tests, the asset will be recognised on the Balance Sheet and a matching liability created reflecting the outstanding amount due for the asset.

Test 1: the Authority controls or regulates the services provided as part of the contract

Test 2: the Authority controls any significant residual interest at the end of the contract

If the asset is recognised on the Balance Sheet it will be accounted for in line with all other property as set out in the property, plant and equipment policy above.

Payments made by the Authority under the contract will be split between the service element which will be charged to the Comprehensive Income and Expenditure Statement and the financing element which will be used to reduce the liability held on the Balance Sheet.

12. Leases (IAS17)

The Authority defines a lease as an agreement whereby the lessor conveys to the lessee in return for a payment or series of payments the right to use an asset for an agreed period of time. Finance leases are leases that transfers substantially all the risks and rewards incidental to ownership of an asset for which ownership may or may not be eventually transferred, all other leases are deemed operating leases. For finance leases the Authority recognises as assets and liabilities amounts equal to the fair value of the asset. The asset will be treated in line with the asset policy above and the liability being written down in equal instalments over the period of the lease.

13. Stocks (IAS2)

Stock is valued at the lower of cost or current replacement cost where they are held for distribution at no charge. The stock reflected in the Balance Sheet relates predominately to uniforms and equipment which is distributed to officers as appropriate.

14. Cash and Cash Equivalents

Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. This Authority classifies cash equivalents as any money held in instant access or 'on call' accounts as cash equivalents. All other investments will be classified as either short or long term investments based on the contract length.

15. Redemption of debt

The Authority is required by statute to set aside a minimum revenue provision (MRP) for the redemption of external debt. Under amendment regulation 4(1) of the 2008 Regulations the Authority is charged with a simple duty to make an amount of MRP which it considers to be 'prudent'. For the historic debt liability (pre 2008/09) MRP will continue to be charged at the rate of 4%, in accordance with the Guidance (Capital Finance and Accounting England Amendment Regulations 2008). For new prudential debt, MRP will be charged over a period which is reasonably commensurate with the estimated useful life applicable to the nature of expenditure, using the equal annual instalment method. For example, capital expenditure on a new building will be related to the estimated life of that building.

16. Financial Instruments (IAS32/39 & IFRS7)

Investments: Investments are carried at cost, but should the value of an investment fall below cost, the investment is written down to market value and a provision for the unrealised loss is made in the Consolidated Income and Expenditure Account if the fall is deemed permanent.

Financial Liabilities: Financial liabilities are initially measured at fair value and carried at their amortised cost with annual interest payable charged to the Consolidated Income and Expenditure Account based on the carrying amount of the liability multiplied by the effective interest rate of the instrument. For the Authority this means that the amount shown on the Balance Sheet represents the principal outstanding on its loans and the amount charged to the Consolidated Income and Expenditure Account is the interest payable in year on those loans.

Gains and losses on the repurchase or early settlement of borrowing are charged to the Consolidated Income and Expenditure Account in the year of repurchase or settlement. However, where repurchase has taken place as part of a loan restructuring that involves the modification or exchange of existing instruments, the premium or discount is respectively deducted from or added to the amortised costs of the new or modified loan and the write down to the Consolidated Income and Expenditure Account is spread over the life of the loan by an adjustment to the effective interest rate.

Where premiums and discounts have been charged to the Consolidated Income and Expenditure Account, regulations allow the impact on the General Fund Balance to be spread over future years. The Authority has a policy of spreading the gain/loss over the term that was remaining on the loan against which the premium was payable or discount receivable when it was repaid. The reconciliation of amounts charged to the Consolidated Income and Expenditure Account to the net charge required against the General Fund Balance is managed by a transfer to or from the Financial Instruments Adjustment Account in the Movement of Reserves Statement.

Financial Assets: assets are classified into two types:

- Loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market
- ‘Available for sale’ assets – assets that have a quoted market price and/or do not have fixed or determinable payments

Loans and Receivables are initially measured at fair value and carried at their amortised cost with annual credits to the Consolidated Income and Expenditure Account for interest receivable based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For the Authority this means that the amount shown on the Balance Sheet is the outstanding principal due and the amount charged to the Consolidated Income and Expenditure Account is the interest receivable in year on those loans.

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset is written down and a charge made to the Consolidated Income and Expenditure Account. Any gains or losses that arise on de-recognition of the asset are credited or debited to the Consolidated Income and Expenditure Account, along with any accumulated gains or losses previously recognised in the Consolidated Income and Expenditure Account. Where fair value cannot be measured reliably, the instrument is carried at cost less any impairment losses.

‘Available for sale’ assets are initially measured and carried at fair value. Where the asset has fixed or determinable payments, annual credits to the Consolidated Income and Expenditure Account for interest receivable are based on the amortised cost of the asset multiplied by the effective rate of interest for the instrument. Where there are no fixed or determinable payments, income such as from dividends is credited to the Consolidated Income and Expenditure Account when it becomes receivable by the Authority.

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

- Instruments with quoted market prices – the market price
- Other instruments with fixed and determinable payments – discounted cash flow analysis
- Equity shares with no quoted market prices – independent appraisal of company valuations

Changes in fair value are balanced by an entry in the 'Available for sale' Reserve and the gain/loss is recognised in the Consolidated Income and Expenditure Account. The exception is where impairment losses have been incurred and are debited to the Consolidated Income and Expenditure Account, along with any net gain/loss for the asset accumulated in the Reserve.

18. Debtors and Creditors

All sums due to the Authority are recorded at the time they become payable and any outstanding items at the end of the year are shown on the Balance Sheet as debtors. The only significant change to this relates to Government grants and estimates are made at the end of year for any further amounts due to the Authority and then recorded as debtors.

Creditors are accrued for on an actual basis where invoices have been received, on a purchase order basis where goods have been received but not invoiced or on an estimated basis where neither the invoice or purchase order is available (example, utility charges).

19. Contingent Assets and Liabilities (IAS37)

A contingent asset arises where an event has taken place that gives the Authority a possible asset whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Authority. Contingent assets are not recognised in the Balance Sheet but are disclosed in a Note to the Accounts where it is probable that there will be an inflow of economic benefits or service potential.

A contingent liability arises where an event has taken place that gives the Authority a possible obligation whose existence will only be confirmed by the occurrence or otherwise of uncertain future events not wholly within the control of the Authority. Contingent liabilities also arise in circumstances where a provision would otherwise be made but either it is not probable that an outcome 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 are disclosed in a Note to the Accounts.

20. Events after the Balance Sheet Date (IAS10)

The Statement of Accounts must be authorised for issue before 30 September after the Balance Sheet date. Events taking place after this date will not be reflected in the financial statement or notes. Where events take place before the Accounts are authorised for issue and provide information about conditions existing at the Balance Sheet date, the figures in the financial statement and notes will be adjusted in all material respects to reflect the impact of the information. Should any changes be made these will be declared in the Notes to the Accounts.

21. Exceptional Items and Prior Period Adjustments

When items of income and expenditure are material, their nature and amount is disclosed separately, either on the face of the Comprehensive Income and Expenditure Statement or in the Notes to the Accounts, depending on how significant the items are to the understanding of the Authority's financial performance.

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

22. Accounting Standards issued, not yet applied

The Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 (the Code) has introduced a change in accounting policy in relation to the treatment of heritage assets held by the Authority, which will need to be adopted fully by the Authority in the 2011/12 financial statements.

The Authority is required to disclose information relating to the impact of the accounting change on the financial statements as a result of the adoption by the Code of a new standard that has been issued by the International Accounting Standards Board but is not yet required to be adopted by local authorities, in this case, heritage assets.

As stated above, full adoption of the standard will be required in the 2011/12 financial statements, however the Authority is required to make a disclosure of the estimated effect of the new standard in these (2010/11) financial statements. The new standard will require that a new class of asset called "heritage assets" which will be disclosed separately on the face of the Authorities balance sheet in the 2011/12 financial statements.

The Authority does not hold any heritage assets and as such the new standard will not have any impact on the Statement of Accounts.

MOVEMENT IN RESERVES STATEMENT 2010/11

	General Fund Balance £000	Earmarked Reserves £000	Capital Receipts Reserve £000	Total Useable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 31 March 2010	9,188	4,505	2,568	16,261	(1,414,690)	(1,398,429)
Surplus or (deficit) on provision of services (accounting basis)	89,705			89,705		89,705
Other Comprehensive Expenditure and Income				0	(45,556)	(45,556)
Total Comprehensive Expenditure and Income	89,705	0	0	89,705	(45,556)	44,149
Adjustments between accounting basis & funding basis under regulations	(84,398)	(828)	(197)	(85,423)	85,425	2
Net Increase/(Decrease) before transfers to Earmarked Reserves	5,307	(828)	(197)	4,282	39,869	44,151
Transfers to/(from) Earmarked Reserves	(6,657)	6,657	0	0	0	0
Increase/(Decrease) in year	(1,350)	5,829	(197)	4,282	39,869	44,151
Balances at 31 March 2011	7,838	10,334	2,371	20,543	(1,374,821)	(1,354,278)

Details of the above reserves are in Notes 2 & 3.

MOVEMENT IN RESERVES STATEMENT 2009/10

	General Fund Balance £000	Earmarked Reserves £000	Capital Receipts Reserve £000	Total Useable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
Balance at 1 April 2009	7,303	10,756	5,113	23,172	(927,638)	(904,466)
Surplus or (deficit) on provision of services (accounting basis)	(57,588)			(57,588)		(57,588)
Other Comprehensive Expenditure and Income				0	(436,211)	(436,211)
Total Comprehensive Expenditure and Income	(57,588)	0	0	(57,588)	(436,211)	(493,799)
Adjustments between accounting basis & funding basis under regulations	57,791	(4,588)	(2,545)	50,658	(50,822)	(164)
Net Increase/(Decrease) before transfers to Earmarked Reserves	203	(4,588)	(2,545)	(6,930)	(487,033)	(493,963)
Transfers to/(from) Earmarked Reserves	1,682	(1,663)		19	(19)	0
Increase/(Decrease) in year	1,885	(6,251)	(2,545)	(6,911)	(487,033)	(493,963)
Balances at 31 March 2010	9,188	4,505	2,568	16,261	(1,414,690)	(1,398,429)

Details of the above reserves are in Notes 2 & 3.

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

2009/10		2010/11			Notes
£000		£000	£000	£000	
		Expenditure	Income	Net	
<u>Police Services:</u>					
77,528	Local Policing	94,915	(13,767)	81,148	
22,706	Dealing with the Public	21,934	(72)	21,862	
19,894	Criminal Justice Arrangements	23,681	(5,096)	18,585	
4,333	Roads Policing	11,931	(2,547)	9,384	
10,169	Specialist Operations	9,523	(1,052)	8,471	
9,342	Intelligence	12,264	(269)	11,995	
24,677	Specialist Investigations	29,552	(1,282)	28,270	
4,720	Investigative Support	8,497	(20)	8,477	
4,837	National Policing	5,276	(3,659)	1,617	
178,206		217,573	(27,764)	189,809	
1,795	Corporate and Democratic Core	2,034	(185)	1,849	
811	Non Distributed Cost	298		298	
0	Exceptional Items	(160,643)		(160,643)	27
180,812	Net Cost of Service	59,262	(27,949)	31,313	4
(30)	Other Operating Expenditure			41	4
69,180	Financing & Investment Income & Expenditure			75,154	4
(192,374)	Taxation & Non-Specific Grant Income			(196,213)	4
57,588	Deficit / (Surplus) on Provision of Services			(89,705)	
10,357	Surplus/(Deficit) on revaluation of fixed assets			3,748	
0	Surplus/(Deficit) on revaluation of "available for sale" assets			0	
(446,568)	Actuarial gains/(losses) on pension assets/ liabilities			41,808	26
(436,211)	Other Comprehensive Income and Expenditure			45,556	
(378,623)	Total Comprehensive Income and Expenditure			(44,149)	

BALANCE SHEET AS AT 31 MARCH 2011

<u>1 April</u> <u>2009</u> £000	<u>31 March</u> <u>2010</u> £000		<u>31 March</u> <u>2011</u> £000	£000	Notes
87,151	104,069	Property, Plant & Equipment	94,703		5
1,083	996	Intangible Assets	845		6
779	814	Long Term Debtors	573		-
<hr/> 89,013	<hr/> 105,879	Long Term Assets		96,121	
5,204	2,001	Short Term Investments	3,009		7
628	429	Stock	349		8
9,733	13,819	Short Term Debtors	9,227		10
11,623	9,948	Cash and Cash Equivalents	15,999		11
208	165	Assets (held for sale)	1,494		12
<hr/> 27,396	<hr/> 26,362	Current Assets		30,078	
0	(1,673)	Bank Overdraft	(1,991)		7
(120)	(205)	Short Term Borrowing	(304)		7
(16,114)	(19,696)	Short Term Creditors	(15,865)		13
<hr/> (16,234)	<hr/> (21,574)	Current Liabilities		(18,160)	
(29,298)	(28,574)	Long Term Creditors	(27,533)		24/25
(630)	(730)	Provisions	(823)		14
(18,733)	(22,078)	Long Term Borrowing	(22,760)		7
(955,980)	(1,457,714)	Other Long Term Liabilities	(1,411,201)		26
<hr/> (1,004,641)	<hr/> (1,509,096)	Long Term Liabilities		(1,462,317)	
<hr/> (904,466)	<hr/> (1,398,429)	Net Assets		(1,354,278)	
		Represented By:			
23,172	16,261	Usable Reserves		20,543	3
(927,638)	(1,414,690)	Unusable Reserves		(1,374,821)	3
<hr/> (904,466)	<hr/> (1,398,429)	Total Reserves		(1,354,278)	

CASHFLOW STATEMENT

(See Note 15)

	31 March 2011 £000	31 March 2010 £000	Notes
Net (surplus) or deficit on the provision of services	(89,705)	57,588	
Adjust net (surplus) or deficit on the provision of services for non-cash movement			
Depreciation	(8,346)	(7,518)	
Amortisation	(553)	(732)	
Pensions - actuarial movement	88,321	(55,166)	
Movement in Creditors	2,441	(790)	
Movement in Debtors	(4,470)	2,369	
Movement of Stock	(80)	(199)	
Other non-cash items	324	(137)	
Adjust for items included in the net (surplus) or deficit on the provision of services that are investing and financing activities	(228)	(54)	
Net cashflow from operating activities	(12,296)	(4,639)	15
Investing Activities	6,682	10,884	15
Financing Activities	(119)	(2,897)	15
Net (increase) or decrease in cash and cash equivalents	(5,733)	3,348	
Cash and cash equivalents at the beginning of the reporting period	(8,275)	(11,623)	
Cash and cash equivalents at the end of the reporting period	(14,008)	(8,275)	
Net (increase) or decrease in cash and cash equivalents	(5,733)	3,348	

Note: cash and cash equivalents above include the bank overdraft shown on the Balance Sheet under Current Liabilities.

POLICE PENSION FUND

The Government introduced new arrangements for the funding of Police Pensions with effect from 1 April 2006. Under these new arrangements income and expenditure on Police Pensions is taken to a separate fund account. The overall net cost of the fund is met by specific grant from Government; see Note 26 for further details.

FUND ACCOUNT

2009/10 £000		2010/11 £000
	Contributions Receivable from:	
(18,139)	Employer at 24.2% of pensionable pay	(18,331)
(518)	Early Retirements	(902)
(8,167)	From current employees	(8,249)
(26,824)		(27,482)
(367)	Transfers in from other Police Authorities	(333)
(707)	Transfers in from other pension schemes	(212)
(27,898)		(28,027)
	Benefits Payable:	
29,818	Pensions	31,113
9,066	Commutations and lump sum retirement benefits	10,200
-	Lump sum death benefits	-
	Payments to and on account of leavers	
2,589	Transfers out to other schemes	109
8	Refunds of contributions	24
41,481		41,446
13,583	Net amount payable for the year	13,419
(13,583)	Additional Contribution from the Police Authority	(13,419)
Nil	Net balance on fund in year	Nil

NOTES TO THE PRIMARY STATEMENTS

1. Transition arrangements between SORP & IFRS

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

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

a. Short-term accumulating compensated absences

Short-term accumulating compensated absences refers to benefits that employees receive as part of their contract of employment, entitlement to which is built up as they provide services to the Authority. This covers both holiday pay and the entitlement to time off in lieu or time accrued under flexible working.

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

The government has issued regulations that mean police authorities are only required to fund these benefits when they are used rather than when employees earn the benefits. Amounts are transferred to the Accumulated Absences Account until the benefits are used.

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

Opening 1 April 2009 Balance Sheet	2009/10 Statements £000	Adjustments Made £000
Short Term Creditors	(12,847)	(2,558)
Accumulated Absences Account	0	2,558

31 March 2010 Balance Sheet	2009/10 Statements £000	Adjustments Made £000
Short Term Creditors	(16,372)	(2,567)
Accumulated Absences Account	0	2,567

2009/10 Comprehensive Income and Expenditure Statement	2009/10 Statements £000	Adjustments Made £000
Local Policing	75,830	1
Dealing with the Public	22,242	1
Criminal Justice Arrangements	19,390	1
Roads Policing	4,195	1
Specialist Operations	9,948	1
Intelligence	9,153	1
Specialist Investigations	24,202	1
Investigative Support	4,590	1
National Policing	4,653	1

b. Government grants

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

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

- The balance on the Government Grants Deferred Account at 31 March 2009 has been transferred to the Capital Adjustment Account in the opening 1 April 2009 Balance Sheet.
- Portions of government grants deferred were previously recognised as income in 2009/10; these have been removed from the Comprehensive Income and Expenditure Statement in the comparative figures.
- A grant was received in 2009/10 but not used. Previously no income was recognised in respect of this grant, which was shown in the Grants Unapplied Account within the Liabilities section of the Balance Sheet. Following the change in accounting policy, the grant has been recognised in full and transferred to the Capital Grants Unapplied Account within the Reserve Section of the Balance Sheet.

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

Opening 1 April 2009 Balance Sheet	2009/10 Statements £000	Adjustments Made £000
Government Grants Deferred Account	(9,675)	9,675
Capital Adjustment Account	17,978	(9,675)

31 March 2010 Balance Sheet	2009/10 Statements £000	Adjustments Made £000
Government Grants Deferred Account	(11,678)	11,678
Capital Adjustment Account	20,627	(11,678)

2009/10 Comprehensive Income and Expenditure Statement	2009/10 Statements £000	Adjustments Made £000
Local Policing	75,830	(1,549)
Dealing with the Public	22,242	(380)
Criminal Justice Arrangements	19,390	(413)
Roads Policing	4,195	(112)
Specialist Operations	9,948	(182)
Intelligence	9,153	(157)
Specialist Investigations	24,202	(423)
Investigative Support	4,590	(107)
National Policing	4,653	(152)

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

c. Assets Held for Sale

Under the Code, assets which meet the strict criteria are classified as assets held for sale. An asset will be recognised as 'held for sale' when it is declared surplus and placed on the market for sale after which it will be valued at the lower of its carrying value and fair value less costs to sell. If the sale is expected within 12 months of being recognised as 'for sale', the asset will be held in Current Assets otherwise it will be held in Long Term Assets on the Balance Sheet. Depreciation will not be applicable. Previous to this, such assets were either shown as surplus assets or within fixed assets both on the Balance Sheet and depreciated in line with other assets.

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

Opening 1 April 2009 Balance Sheet	2009/10 Statements £000	Adjustments Made £000
Fixed Assets – Police Houses	3,120	(206)
Current Assets – Assets held for Sale	0	208
Capital Adjustment Account	17,978	(2)

31 March 2010 Balance Sheet	2009/10 Statements £000	Adjustments Made £000
Fixed Assets – Police Houses	3,148	(165)
Current Assets – Assets held for Sale	0	165
Capital Adjustment Account	20,627	0

2009/10 Comprehensive Income and Expenditure Statement	2009/10 Statements £000	Adjustments Made £000
Other Operating Expenditure	64,371	4

d. Employee Benefits (Injury Awards)

IAS 19 requires the Authority to include future injury awards within the calculation of the Authority's pension liability where the award is dependent on length of service. The previously adopted standard in relation to accounting for retirement benefits (FRS 17) did not require the Authority to recognise the expected liability in relation to injury benefits at the point service was rendered. As a result this leads to a change in accounting policy which necessitates prior period adjustments as follows:

Opening 1 April 2009 Balance Sheet	2009/10 Statements £000	Adjustments Made £000
Other Long Term Liabilities	(933,550)	(22,430)
Unusable Reserves	(933,550)	(22,430)

31 March 2010 Balance Sheet	2009/10 Statements £000	Adjustments Made £000
Other Long Term Liabilities	(1,420,714)	(37,000)
Unusable Reserves	(1,420,714)	(37,000)

2009/10 Comprehensive Income and Expenditure Statement	2009/10 Statements £000	Adjustments Made £000
Local Policing	75,830	343
Dealing with the Public	22,242	84
Criminal Justice Arrangements	19,390	92
Roads Policing	4,195	25
Specialist Operations	9,948	40
Intelligence	9,153	35
Specialist Investigations	24,202	94
Investigative Support	4,590	24
National Policing	4,653	33
Non Distributed Cost	741	70
Financing & Investment Income & Expenditure	67,752	1,428

31 March 2009 Cashflow	2009/10 Statements £000	Adjustments Made £000
Pensions - actuarial movement	(52,898)	(2,268)

2. Notes to the Movement of Reserves Statement

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

2010/11	General Fund Balance £000	Earmarked Reserves £000	Capital Receipts Reserve £000	Total Useable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
Reversal of items included in the CI&E Statement						
Other Comprehensive Expenditure and Income:						
Revaluation of Property Plant & Equipment				0	(3,748)	(3,748)
Pensions: Actuarial Gains and Losses				0	(41,808)	(41,808)
Sub-total	0	0	0	0	(45,556)	(45,556)
Adjustments between accounting basis & funding basis under regulations:						
<u>Pensions</u>						
Current Service Costs	40,299			40,299	(40,299)	0
Employers Contributions under IAS19	(40,082)			(40,082)	40,082	0
Past Service Costs	(160,609)			(160,609)	160,609	0
Curtailments	264			264	(264)	0
Pensions - Interest less Return on Assets	71,807			71,807	(71,807)	0
<u>Depreciation</u>						
Property	4,733			4,733	(4,733)	0
Equipment	1,574			1,574	(1,574)	0
Vehicles	2,038			2,038	(2,038)	0
<u>Amortisation</u>						
Intangible Assets	553			553	(553)	0
<u>(Gain)/Loss on Sale of Assets</u>	42		127	169	(167)	2
<u>Capital Grants</u>						
General Capital Grant	(2,047)	2,047		0		0
Specific Capital Grant	(352)			(352)	352	0
Reversal of items excluded in the CI&E Statement						
Adjustments between accounting basis & funding basis under regulations:						
<u>Capital Financing</u>						
Statutory Provision for Capital Financing	(1,548)			(1,548)	1,548	0
Revenue Contribution to Capital	(263)			(263)	263	0
Capital Receipts applied			(323)	(323)	323	0
Earmarked Reserves applied		(2,875)		(2,875)	2,875	0
<u>Other Adjustments</u>						
Collection Fund Adjustment Account	(231)			(231)	231	0
Accumulated Absences Account	(576)			(576)	576	0
Sub-total	(84,398)	(828)	(197)	(85,423)	85,425	2
Total	(84,398)	(828)	(197)	(85,423)	39,869	(45,554)

2009/10	General Fund Balance £000	Earmarked Reserves £000	Capital Receipts Reserve £000	Total Useable Reserves £000	Unusable Reserves £000	Total Authority Reserves £000
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Reversal of items included in the CI&E Statement

Other Comprehensive Expenditure and Income:

Revaluation of Property Plant & Equipment				0	10,357	10,357
Pensions: Actuarial Gains and Losses				0	(446,211)	(446,211)
Sub-total	0	0	0	0	(436,211)	(436,211)

Adjustments between accounting basis & funding basis under regulations:

Pensions

Current Service Costs	26,735			26,735	(26,735)	0
Employers Contributions under IAS19	(38,215)			(38,215)	38,215	0
Past Service Costs	426			426	(426)	0
Curtailments	385			385	(385)	0
Pensions - Interest less Return on Assets	65,835			65,835	(65,835)	0

Depreciation

Property	2,603			2,603	(2,603)	0
Equipment	2,645			2,645	(2,645)	0
Vehicles	2,079			2,079	(2,079)	0

Amortisation

Intangible Assets	732			732	(732)	0
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(Gain)/Loss on Sale of Assets

	(30)		268	238	(329)	(91)
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Capital Grants

General Capital Grant	(2,195)	2,195		0		0
Specific Capital Grant	(1,016)	940		(76)	3	(73)

Reversal of items excluded in the CI&E Statement

Adjustments between accounting basis & funding basis under regulations:

Capital Financing

Statutory Provision for Capital Financing	(1,329)			(1,329)	1,329	0
Revenue Contribution to Capital	(864)			(864)	864	0
Capital Receipts applied			(2,813)	(2,813)	2,813	0
Earmarked Reserves applied		(7,723)		(7,723)	7,723	0

Other Adjustments

Collection Fund Adjustment Account				0		0
Accumulated Absences Account				0		0

Sub-total	57,791	(4,588)	(2,545)	50,658	(50,822)	(164)
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Total	57,791	(4,588)	(2,545)	50,658	(487,033)	(436,375)
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3. Details of Reserves held

The Authority holds a number of reserves that are classified as useable (can be used to fund the Authority's future activities) and unusable (technical accounting adjustment accounts reflecting the difference between the outcome of applying proper accounting practices and the statutory requirements for funding expenditure within the public sector). Each reserve is explained below, all earmarked reserves are usable:

General Fund (Useable)

The General Fund is available to support general revenue expenditure.

	31 March 2011 £000	31 March 2010 £000	1 April 2009 £000
Balance at 1 April	(9188)	(7,303)	(9,350)
Movement in year	1,350	(1,885)	2,047
Balance at 31 March	(7,838)	(9,188)	(7,303)

Revenue Reserve for Capital Expenditure (Earmarked)

This is used to finance capital expenditure in future years.

	31 March 2011 £000	31 March 2010 £000	1 April 2009 £000
Balance at 1 April	(676)	(2,401)	(170)
Movement in year	413	1,725	(2,231)
Balance at 31 March	(263)	(676)	(2,401)

Resource Centre Carry Forward (Earmarked)

This is under-spending on resource centres for use in the following financial year.

	31 March 2011 £000	31 March 2010 £000	1 April 2009 £000
Balance at 1 April	(660)	(1,540)	(452)
Movement in year	660	880	(1,088)
Balance at 31 March	0	(660)	(1,540)

Insurance Reserve (Earmarked)

This is used to meet the cost of future losses which may arise as a result of public and employers liability claims, vehicle losses and any other such future claims that are presently unknown and that cannot be met from insurance premiums.

	31 March 2011 £000	31 March 2010 £000	1 April 2009 £000
Balance at 1 April	(200)	(200)	(200)
Movement in year	-	-	-
Balance at 31 March	(200)	(200)	(200)

Underwater Search Unit Reserve (Earmarked)

The Authority acts as the lead authority for the regional underwater search unit. The reserve holds resources that the unit can use to support its operations.

	31 March 2011 £000	31 March 2010 £000	1 April 2009 £000
Balance at 1 April	(261)	(206)	(234)
Movement in year	(78)	(55)	28
Balance at 31 March	(339)	(261)	(206)

Capital Systems Reserve (Earmarked)

This holds resources that have been set aside for the Transforming Business Services programme.

	31 March 2011 £000	31 March 2010 £000	1 April 2009 £000
Balance at 1 April	(1,750)	(1,750)	0
Movement in year	(1,973)	0	(1,750)
Balance at 31 March	(3,723)	(1,750)	(1,750)

IT Reimbursement Reserve (Earmarked)

This represents resources that can be used for the replacement of computer equipment.

	31 March 2011 £000	31 March 2010 £000	1 April 2009 £000
Balance at 1 April	(199)	(160)	(156)
Movement in year	27	(39)	(4)
Balance at 31 March	(172)	(199)	(160)

Neighbourhood Policing Reserve (Earmarked)

This reserve was agreed in July 2006, following the identification of surplus grant caused by timing differences in the receipt of grant compared to the recruitment dates of Officers. The final balance was returned to General Reserves in 2010/11.

	31 March 2011 £000	31 March 2010 £000	1 April 2009 £000
Balance at 1 April	0	(1,392)	(1,421)
Movement in year	0	1,392	29
Balance at 31 March	0	0	(1,392)

Redundancy Reserve (Earmarked)

As part of the 2010/11 Provisional Outturn report, Finance Committee agreed to set aside £5m to meet potential redundancy costs.

	31 March 2011 £000	31 March 2010 £000	1 April 2009 £000
Balance at 1 April	0	0	0
Movement in year	(5,000)	0	0
Balance at 31 March	(5,000)	0	0

Capital Receipts Reserve (Useable)

This contains the proceeds of asset sales and can be used to finance new investment.

	31 March 2011 £000	31 March 2010 £000	1 April 2009 £000
Balance at 1 April	(2,568)	(5,113)	(7,528)
Movement in year	196	2,545	2,415
Balance at 31 March	(2,372)	(2,568)	(5,113)

Capital Adjustment Account (Unusable)

This represents the difference between the current valuation of assets and the historic cost of those assets. It also comprises of amounts set aside from the Comprehensive Income and Expenditure Statement (e.g. the minimum revenue provision) or from capital receipts, to meet past expenditure on assets.

	31 March 2011 £000	31 March 2010 £000	1 April 2009 £000
Balance at 1 April	(31,470)	(26,810)	(23,638)
Movement in year	3,368	(4,660)	(3,172)
Balance at 31 March	(28,102)	(31,470)	(26,810)

Revaluation Reserve (Unusable)

Additions are made to the reserve as gains are made on the revaluation of assets. Any future losses are written against the reserve only to the extent by which previous gains exist. Any remaining loss is charged to the comprehensive income and expenditure account and is not available to finance new capital expenditure.

	31 March 2011 £000	31 March 2010 £000	1 April 2009 £000
Balance at 1 April	(14,334)	(4,293)	(4,477)
Movement in year	4,084	(10,041)	184
Balance at 31 March	(10,250)	(14,334)	(4,293)

Unapplied Capital Grants Reserve (Usable)

This is a usable reserve representing specific grants received but not yet applied to finance capital expenditure.

	31 March 2011 £000	31 March 2010 £000	1 April 2009 £000
Balance at 1 April	(760)	(3,108)	(2,266)
Movement in year	123	2,348	(842)
Balance at 31 March	(637)	(760)	(3,108)

FRS17/IAS19 Pension Reserve (Unusable)

This is a notional unusable reserve that records the various transactions that make up the overall movement on the pensions assets and liabilities in the Balance Sheet.

	31 March 2011 £000	31 March 2010 £000	1 April 2009 £000
Balance at 1 April	1,457,714	955,980	912,694
Movement in year	(46,513)	501,734	43,286
Balance at 31 March	1,411,201	1,457,714	955,980

Collection Fund Adjustment Account (Unusable)

The Collection Fund Adjustment Account is the difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by statute to be credited to the General Fund. The movement in year relates to the net creditor or debtor from billing authorities (i.e. the four unitary authorities) when accounting for collection fund balances on an accruals basis at the year end.

	31 March 2011 £000	31 March 2010 £000	1 April 2009 £000
Balance at 1 April	213	204	0
Movement in year	(232)	9	204
Balance at 31 March	(19)	213	204

Accumulated Absences Reserve (Unusable)

As part of the working terms and conditions employees at any given time can hold entitlement to leave, time off in lieu or flexi leave for additional hours worked. This reserve shows the financial impact of such untaken leave at the balance sheet date.

	31 March 2011 £000	31 March 2010 £000	1 April 2009 £000
Balance at 1 April	2,567	2,558	0
Movement in year	(576)	9	2,558
Balance at 31 March	1,991	2,567	2,558

4. Notes to the Comprehensive Income and Expenditure Statement

The Comprehensive Income and Expenditure Statement shows the Authority's expenditure and income under the mandatory headings required by the CIPFA Best Value Accounting Code of Practice. To understand further this has been restated below under the subjective headings reflecting the type of expenditure and income incurred.

Subjective Analysis of Expenditure

	2010/11	2009/10
	£000	£000
Employees - Police Pay and Allowances	91,152	91,247
- Civilian Pay and Allowances	52,211	52,370
- Other Pay and Allowances	4,993	4,820
Police Pensions	33,357	33,149
Premises	7,686	8,140
Transport	4,210	4,610
Supplies and Services	13,720	14,944
Third Party Payments	3,188	3,739
Contracted Out Services	549	579
Pensions - Current Service Net Cost	217	(11,480)
Pensions – Non Distributed Past Service Cost	(160,345)	811
Depreciation and Amortisation of Assets	8,899	8,250
Movement in Accumulated Absences Reserve	(575)	9
Total Service Expenditure	59,262	211,188
Service Income (<i>see next table for analysis</i>)	(27,949)	(30,376)
Net Cost Of Service	31,313	180,812
Interest Payable and Similar Charges	3,656	3,542
Interest and Investment Income	(309)	(197)
Pensions Interest Cost and Return on Pensions Assets	71,807	65,835
(Profit)/Loss on Disposal of Assets	41	(30)
Net Operating Expenditure	106,508	249,962
Police Grant	(67,033)	(65,310)
Home Office Grant - Pensions	(13,421)	(13,583)
Revenue Support Grant	(7,165)	(10,355)
Non Domestic Rates Income	(49,341)	(44,861)
Precept on Council Tax Collection Funds	(53,944)	(52,372)
Movement On Collection Fund Debtors/Creditors	(230)	9
PFI Grant – Interest Element	(2,680)	(2,691)
Capital Grants	(2,399)	(3,211)
Deficit / (Surplus) on Provision of Services	(89,705)	57,588

Subjective Analysis of Service Income

	2010/11 £000	2009/10 £000
Fees & Charges	2,553	2,478
Sales	101	146
Reimbursements		
- Casualty Reduction Partnership, Hypothecated Fines	1,114	1,085
- Central Services	1,230	1,826
- Regional Services	1,194	892
- Private Finance Initiative Reimbursements	172	164
- Reimbursements - Asset Recovery	285	418
- Other Reimbursements	1,009	846
Sub-total	7,658	7,855
Analysis of Grants		
- Private Finance Initiative (PFI)	4,550	4,539
- Crime Fighting Fund	4,173	4,173
- Community Support Officers	4,518	4,470
- Special Formula Grant	1,160	2,629
- Rural Policing	0	8
- Basic Command Unit Grant	526	526
- Initial Police Learning & Development Programme	0	231
- Rape Suite	110	167
- Counter Terrorism	1,146	1,337
- Bikesafe	72	28
- Other Grants	639	859
- Neighbourhood Policing Fund Discretionary Payments	323	312
Sub-total Grants	17,217	19,279
Other Income		
- Mutual Aid	33	5
- External Agency Funding	3,041	3,236
- Value Added Tax Recovered	0	1
Total Service Income	27,949	30,376

The above subjective analyses of both expenditure and income have been amended to reflect the new accounting arrangements under IFRS. In addition there have been changes to the way in which the pension liability is calculated to reflect the Government's decision to move from RPI (retail price index) to CPI (consumer price index for pension increases). This is shown on the Pensions – Non Distributed Past Service Cost line.

Within the Comprehensive Income and Expenditure Statement there are three summary lines which are explained in more detail within the next three tables.

Other Operating Expenditure

	2010/11 £000	2009/10 £000
(Profit)/Loss on Sale of Fixed Assets	41	(30)
Total	41	(30)

Financing and Investment Income and Expenditure

	2010/11 £000	2009/10 £000
Interest and Investment Income	(309)	(197)
Interest Payable and Similar Charges	3,656	3,542
Pension Interest Cost & Expected Return on Assets	71,807	65,835
Total	75,154	69,180

Taxation and Non Specific Grant Income

	2010/11 £000	2009/10 £000
Police Grant	(67,033)	(65,310)
Home Office Grant - Pensions	(13,421)	(13,583)
Revenue Support Grant	(7,165)	(10,355)
Non Domestic Rates Income	(49,341)	(44,861)
Precept on Council Tax Collection Funds	(53,944)	(52,372)
Movement on Collection Fund Debtors/Creditors	(230)	9
PFI Grant – Interest Element	(2,680)	(2,691)
Capital Grants	(2,399)	(3,211)
Total	(196,213)	(192,374)

5. Property, Plant & Equipment

The following table shows the movement of assets classified as property, plant and equipment held by the Authority in 2010/11.

	Property £000	Vehicles £000	Equipment £000	Total £000
<u>Cost or Valuation</u>				
At 1 April 2010	94,663	14,165	19,318	128,146
Prior Year Adjustments	-	-	-	-
Additions	808	2,142	1,460	4,410
Revaluations	(8,322)	-	-	(8,322)
Disposals	-	(695)	-	(695)
Reclassifications	(1,685)	-	-	(1,685)
At 31 March 2011	85,464	15,612	20,778	121,854

	Property £000	Vehicles £000	Equipment £000	Total £000
<u>Depreciation</u>				
At 1 April 2010	(2,362)	(7,619)	(14,096)	(24,077)
Prior Year Adjustments	-	-	-	-
Charge in year	(2,528)	(2,038)	(1,574)	(6,140)
Disposals		692		692
Revaluations	2,355			2,355
Reclassifications	19			19
At 31 March 2011	(2,516)	(8,965)	(15,670)	(27,151)
Net Book Value at 31 March 2010	92,301	6,546	5,222	104,069
Net Book Value at 31 March 2011	82,948	6,647	5,108	94,703

Comparative movement for 2009/10 are shown in the following table.

	Property £000	Vehicles £000	Equipment £000	Total £000
<u>Cost or Valuation</u>				
At 1 April 2009	88,572	9,557	15,985	114,114
Prior Year Adjustments	0	0	0	0
Additions	4,641	5,551	4,258	14,450
Revaluations	1,793	0	0	1,793
Disposals	(256)	(943)	(925)	(2,124)
Reclassifications	(87)	0	0	(87)
At 31 March 2010	94,663	14,165	19,318	128,146
<u>Depreciation</u>				
At 1 April 2009	(8,134)	(6,449)	(12,380)	(26,963)
Prior Year Adjustments	0	0	0	0
Charge in year	(2,253)	(2,081)	(2,641)	(6,975)
Impairment to Revaluation Reserve	0	0	0	0
Disposals	2	911	925	1,838
Revaluations	8,023	0	0	8,023
Reclassifications	0	0	0	0
At 31 March 2010	(2,362)	(7,619)	(14,096)	(24,077)
Net Book Value at 31 March 2009	80,438	3,108	3,605	87,151
Net Book Value at 31 March 2010	92,301	6,546	5,222	104,069

Depreciation

In line with IAS16, depreciation is defined as the systematic allocation of the depreciable amount of an asset over its useful life. Land and buildings are separable assets and are accounted for separately, even when they are acquired together.

Land has an unlimited useful life and therefore is not depreciated. Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. As stated in the accounting policies on page 16, depreciation is charged as follows:

- Land – no depreciation applied
- Property (not land) – straight-line allocation over 30 to 50 years
- Plant and Equipment – straight-line allocation over 3 to 20 years

Significant commitments under capital contracts

The Authority currently has no significant commitments outstanding.

Valuation

Property (land and buildings) are revalued in detail every five years in accordance with the relevant standards and guidance issued by the Royal Institute of Chartered Surveyors.

This year a full valuation was undertaken by Graham J Cooke BSc (Hons) FRICS of Matthews & Goodman, Property Advisors, Manchester.

Methodology and Assumptions (extract from Valuation report)

In preparation of our valuation report, we have relied upon the following information:

All properties have been inspected and measurements taken of various parts of the premises, although we have relied upon information provided by Cheshire Constabulary in respect of the measured survey exercise undertaken by Oakleaf Properties in relation to the individual gross internal and gross external areas of the properties.

Where material differences in floor areas were noted, we have made reference to these in our report, particularly noting where alterations have been undertaken within individual premises

Through a series of meetings and discussions with Cheshire Constabulary, we have agreed the basis upon which the properties have been valued, and further agreed that the properties which are operational of specialised use are to be valued on the basis of a valuation method of depreciated replacement cost.

Where alternative use has been identified, commentary is made in respect of the individual properties, as likely variation in market value as opposed to valuation on a depreciated replacement cost method.

We have considered and agreed with the client that where custody cells are incorporated into existing operational use buildings, that these are no longer utilised for custody purposes and have been included in the gross internal area for the purposes of calculation of reinstatement building costs.

Regarding plant and machinery, we have considered and agreed with Cheshire Constabulary that all plant and machinery which had been identified in individual properties form part of the operational use of the properties and are therefore not accounted for separately for the purposes of this valuation.

In particular regard to the custody suites, we have adopted a shorter life expectancy in the calculation of depreciated replacement costs.

Regarding land values, we have established consistency in respect of land value attributable to the individual sites based upon slight variance in values per acre throughout the geographical regions of the properties.

In respect of listed and conservation areas, where it has been established that the property is situated within a conservation area, or is listed, we have agreed with Cheshire Constabulary there would be a rebuild of the property in respect of listing as is; therefore, the cost of replacement of the building has been attributed to relatively high build costs. We have however adjusted the percentage of obsolescence in the calculation of our depreciated replacement costs.

We have considered in respect of all the sites potential relocation however, in consultation with Cheshire Constabulary, have agreed that all properties would be re-built utilising their existing sites and locations.

In respect of the mast site at Old Pale, Delamere, we have assumed that the rental achieved through the annual licence fees from the three separate agreements are current and up to date and have assumed specifically continuation of these agreements at the level specified in the report. The value therefore arrived at for asset purposes takes into account both the operational / specialised use to Cheshire Constabulary and also the annual income derived from the external parties on an investment method of valuation.

In the preparation of our valuation report we have had due regard to the following documents:

1. Land and Building Apportionments for Lease Classification Under International Financial Reporting Standards, Valuation Information Paper Number 9, prepared by the RICS.
2. Depreciated Replacement Costs Method of Valuation for Financial Reporting prepared by the RICS, Valuation Information Paper Number 10.
3. We confirm we have also had regard to the contents of published documentation prepared in agreement by the RICS and CIPFA in relation to the valuation of the Local Authority Assets.

In relation to fair value attributable to residual assets at Police Headquarters at Clemonds Hey, Winsford and Charles Stewart House, Warrington, we have assumed the following definition:

- (i) Fair value is a measurement basis required and permitted under IFRS where its application is subject to specific requirements discussed in Practice Statement 3.6.
- (ii) Fair Value is also to be used in other situations, for example where the valuer is required to determine the price that is fair between two specified parties; not necessarily the price that would be obtained in a wider market.

Regarding alternative use values, where appropriate, we have considered the potential for increase in Market Value attributable to change of use or likely change of use for sites, particularly where overage has been identified. These matters have been discussed in the individual property reports.

We confirm we have not undertaken detailed inspections internally of the residual properties and assume for the purposes of this report, that all properties are structurally sound and have a reasonable standard of decoration and fittings internally.

We confirm that all properties have been inspected during the months of February and March 2011 and therefore are current to the valuation dates provided within this report. The valuation date is shown initially on each report. The residential properties are valued as at 31 March 2011.

Capitalisation of borrowing costs

The borrowing costs in 2010/11 were not wholly attributable to any one asset and have therefore been charged to the Comprehensive Income and Expenditure Statement in line with the accounting policy on page 16.

6. Intangible Assets

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 or property, plant and equipment. The intangible assets reflect the purchased software licences.

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 generally assigned to the major software suites used by the Authority are:

- Non-police operational systems (e.g. finance system) – 4 years
- Operational police systems (e.g. Airwave) – 3 years

The carrying amount of intangible assets is amortised on a straight line basis. The amortisation of £0.6m charges to revenue in 2010/11 was charged to the IT department and then absorbed as an overhead across the service heading in the Net Expenditure of Services. Therefore, it is not possible to quantify exactly how much of the amortisation is attributable to each service heading.

The movement on intangible assets during the year is as follows:

	2010/11	2009/10
	£000	£000
<u>Carrying Amount</u>		
Balance at start of year	5,325	4,681
Additions	402	644
Disposals	-	-
Balance at end of year	5,727	5,325
<u>Amortisation</u>		
Balance at start of year	(4,330)	(3,598)
Charge for the year	(552)	(731)
Disposals	-	-
Balance at end of year	(4,882)	(4,330)
Net Book Value at 31 March 2010	996	1,083
Net Book Value at 31 March 2011	845	996

The value of these intangible assets is based on cost less depreciation. Depreciation is calculated in accordance with the accounting policies set out on page 16.

7. Financial Instruments (including Borrowing)

The definition of a financial instrument is “any contract that gives rise to a financial asset of one entity and a financial liability, or equity instrument of another entity”. The term ‘financial instrument’ covers both financial assets and liabilities. These range from straight forward debtors and creditors to more complex investments and borrowings. The following categories of financial instruments are carried in the Balance Sheet, current is deemed to be under one year and long-term over one year.

	Long-term		Current	
	31 March 2011 £000	31 March 2010 £000	31 March 2011 £000	31 March 2010 £000
Short-term Investments	0	0	3,009	2,001
Cash and Cash Equivalents	0	0	15,999	9,948
Debtors	573	814	9,227	13,819
Borrowings (including overdraft)	22,760	22,078	2,296	1,878
PFI & Finance Leases	27,073	27,736	-	-
Creditors	460	838	15,865	19,696

Fair Values of Assets and Liabilities

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

- Financial liabilities relate to the outstanding borrowing. The fair value is calculated on PWLB loans by reference to the premature repayment set of rates in force on 31 March 2009 with the exception of loans due within 12 months where the carrying amount is assumed to approximate the fair value.
- The fair value of the LOBO loan has been calculated using Sector's valuation. Sector use the Net Present Value (NPV) approach, which provides an estimate of the value of payments in the future in today's terms.

The discount rate used in the NPV calculation is equal to the current rate in relation to the same instrument from a comparable lender. This will be the rate applicable in the market on the date of valuation, for an instrument with the same duration i.e. equal to the outstanding period from valuation date to maturity. The structure and terms of the comparable instrument should be the same, although for complex structures it is sometimes difficult to obtain the rate for an instrument with identical features in an active market. In such cases, Sector uses the prevailing rate of a similar instrument with a published market rate, as the discount factor.

The rates quoted in this valuation were obtained by Sector from the market on 31st March, using bid prices where applicable. Assumptions: It is noted that the following assumptions do not have a material effect on the fair value of the instrument:

- Interest is calculated using the most common market convention, ACT/365
- Interest is not paid/received on the start date of an instrument, but is paid/received on the maturity date
- No adjustment made where a relevant date occurs on a non working day.

	31 March 2011		31 March 2010	
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
Financial Liabilities	22,759	24,749	22,178	23,866
Long-term Creditors	27,073	27,073	27,736	27,736
	49,832	51,822	49,914	51,602
Loans and Receivables	6,065	6,065	7,089	7,089
Long-term Debtors	573	573	814	814
	6,638	6,638	7,903	7,903

The differences between carrying and fair value amounts are not material. No gains or losses have been recognised in the year.

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

The Authority's activities in relation to financial instruments 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 and payments.
- Market Risk – the possibility that financial loss might arise for the Authority as a result of changes in measures such as interest rates, foreign exchange rates or stock market movements.

The Authority's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund police services. Risk management is carried out under policies approved by the Authority in the Annual Treasury Management Strategy which is published each year on the website www.cheshirepa.police.uk. The Strategy provides written principles for overall risk management as well as written policies covering specific areas such as interest rate risk, credit risk and the investment of surplus cash.

Credit Risk

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

This risk is minimised by treasury management that meet best practices, guidance and regulations. In February 2003, the Authority formally adopted the CIPFA Code of Practice for Treasury Management which includes key controls in respect of investment and borrowing in line with CIPFA's Prudential Code. For example, with investments there are restrictions in both amounts and counterparties using recognised credit ratings. All investments made by the Authority have been paid with agreed interest on the due dates.

A £10million credit limit is in place for all counter-parties (at group level). This limit was breached by a minimal amount (approx £2,000) on a number of occasions when interest was added to the account rather than transferred to the Authority's main bank account. These minor anomalies were corrected the following day.

In respect of debtors, action is taken when payments become overdue and may lead to legal action to recover the debt. The Authority provides for bad debts each year based on agreed debt management policy (non statutory debt only). The amount provided for in 2010/11 was £96,000 (£92,000 in 2009/10).

Invoiced Debt held by the Authority at the end of the financial year, analysed by age is as follows:

	31 March 2011 £000	31 March 2010 £000
Current (0-30 days)	959	543
1 Month	22	257
2 Months	3	14
3 Months +	151	261
Overpayments	(13)	(104)
Total	1,122	971

Liquidity Risk

Liquidity risk is that the Authority will be unable to meet its commitments and payments and this is mitigated in several ways. Firstly, by producing cashflow projections which allow for cash management including the repayment profile of borrowing, also by securing access to overdraft facilities and by utilising short-term borrowing through money markets if necessary.

As such there is no significant risk that the Authority will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the Authority will be bound to replenish a significant proportion of its borrowings at a time of unfavourable interest rates. The Authority sets a limit on the proportion of its fixed rate borrowing during specified periods as set out in the Authority's Treasury Management Strategy prudential indicators.

The following table shows the long-term borrowing outstanding at 31 March 2011.

	31 March 2011 £000	31 March 2010 £000
Analysis of loans by type		
• Public Works Loans Board	16,760	16,078
• Money Market	6,000	6,000
Total Outstanding	22,760	22,078
Analysis of loans by maturity		
• Between 1 and 2 years	200	104
• Between 2 and 5 years	3,186	2,700
• Between 5 and 10 years	905	905
• More than 10 years	18,469	18,369
Total Outstanding	22,760	22,078

Market Risk

Interest Rates

The Authority is exposed to risk in terms of movement in interest rates 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:

- Borrowing at variable rates – the interest charged to the Comprehensive Income and Expenditure Statement will rise
- Borrowing at fixed rates – the fair value of the borrowings will fall
- Investments at variable rates – the income credited to the Comprehensive Income and Expenditure Statement will rise
- Investments at fixed rates – the fair value of the investments will fall

Borrowings are not carried at fair value so nominal gains and losses on fixed rate borrowings would not impact the Comprehensive Income and Expenditure Statement. However, changes in interest rates on variable borrowings and investments will have a direct impact on the Comprehensive Income and Expenditure Statement and affect the General Fund balance.

The Authority takes into account interest rates as part of its investment strategy but recognises the need for security above return. Given the overall impact of the banking crisis of 2008, security has become an increasing area of risk. The Authority's Treasury Management Strategy places security above return and investments are only made with organisations that have the highest credit rating. To ensure the maximum security, the current strategy favours short-term or instant access deposits. Interest rates on borrowing remained unchanged during 2010/11.

The Authority has no material exposure to foreign exchange rates or stock market movements (price risk).

8. Stock

The value of stocks held at 31 March 2011 is as follows:

	31 March 2011 £000	31 March 2010 £000	1 April 2009 £000
Central Stores – Uniforms	260	338	495
Other Items	89	91	133
Total	349	429	628

9. Work in Progress

At the 31 March 2011 the Authority had one construction contract in progress relating to The Safe Centre, valued £0.05m and is recorded as Assets under Construction in the Balance Sheet. This scheme is expected to be completed during 2011/12.

In the 2009/10 Statement of Accounts, Assets under Construction showed a total of £8.6m relating to The Safe Centre (£0.05m) and the Tactical Training Centre (£8.5m). During 2010/11 the Tactical Training Centre was completed, brought into operational use and transferred to Property, Plant and Equipment in the Balance Sheet.

Work in Progress is valued at cost.

10. Analysis of Debtors (including Prepayments etc)

Analysis of debtors and prepayments are shown below.

	31 March 2011 £000	31 March 2010 £000	1 April 2009 £000
Central Government Bodies	4,725	7,482	5,580
Other Police Authorities	644	659	739
Other Local Authorities / NHS	2,757	2,517	1,501
Other organisations and individuals	1,197	3,253	1,975
LESS: Provision for Bad Debts	(96)	(92)	(62)
Total	9,227	13,819	9,733

11. Cash and Cash Equivalents

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

	31 March 2011 £000	31 March 2010 £000	1 April 2009 £000
Cash held by the Authority	66	66	64
Bank Current Accounts	0	0	165
Short-term deposits	15,933	9,882	11,394
Total	15,999	9,948	11,623

12. Assets Held for Sale

The Authority's Estates Strategy is to review all property held and when advantageous to do so place surplus property for sale. The following table shows the property for sale at the Balance Sheet dates. When classified as "for sale" the asset is no longer subject to depreciation.

	31 March 2011 £000	31 March 2010 £000	1 April 2009 £000
Balance at the start of year	165	208	0
Assets newly classified as held for sale			
• Property, Plant & Equipment	1,525	165	208
• Other Assets			
Revaluations gains / (losses)	(31)		
Impairment losses			
Assets sold	(165)	(208)	
Balance at the end of year	1,494	165	208

13. Analysis of Creditors (including Deposits)

Analysis of short-term creditors is shown below.

	31 March 2011 £000	31 March 2010 £000	1 April 2009 £000
Central Government Bodes	(3,709)	(3,473)	(3,693)
Other Police Authorities	(318)	(383)	(211)
Other Local Authorities / NHS	(3,635)	(3,881)	(1,018)
Other organisations and individuals	(8,203)	(11,959)	(11,192)
Total	(15,865)	(19,696)	(16,114)

The Police seize money, mainly as a result of anti-drugs activities and activities in accordance with the Proceeds of Crime Act. Where appropriate, this money is refunded to the individuals or organisations concerned.

Other money, particularly in respect of the Proceeds of Crime Act, is paid to the Home Office and is redistributed to Police Authorities. The amounts held by the Police Authority at the Balance Sheet date are shown below:

	31 March 2011 £000	31 March 2010 £000	1 April 2009 £000
Seizures from anti-drug activities	0	0	43
Seizures under Proceeds of Crime Act, held on deposit pending court proceedings	818	656	665
Total	818	656	708

14. Provisions

The Authority has an insurance provision to meet the cost of known quantifiable liabilities arising from claims in respect of fire and consequential loss, public and employer liability and vehicle losses not covered by external insurance. When claims are settled the cost is met from the provision. The Authority also has an insurance reserve which exists to meet the cost of unforeseen insurance liabilities which may arise in the future. Details of the provision are shown below.

	2010/11 £000	2009/10 £000	2008/09 £000
Balance at 1 April	730	630	9,810
Use of provision in the year	(161)	-	(210)
Increase in provision charged to Income and Expenditure account	254	100	225
Less: provision for custody work in progress	-	-	(9,195)
Balance at 31 March	823	730	630

Due to the nature of the claims covered by the above provision, a clear projection of when the actual payments will be made is not available. However, based on past experience it is estimated that the current provision will be spent £0.1m within next financial year, £0.3m within 1-5 years and the remainder between 5 and 10 years.

15. Notes to the Cashflow Statement

Other Operating Expenditure

The cashflows for operating activities include the following items:

	2010/11	2009/10
	£000	£000
Interest received	(309)	(197)
Interest paid	3,657	3,542
Total	3,348	3,345

Investing Activities

The cashflows investing activities are analysed below

	2010/11	2009/10
	£000	£000
Purchase of Property, Plant & Equipment and Intangible Assets	5,800	14,394
Proceeds from sale of assets	(127)	(268)
Proceeds from short and long-term investments	1,009	(3,203)
Other receipts from investing activities	0	(39)
Total	6,682	10,884

Financing Activities

The cashflows investing activities are analysed below

	2010/11	2009/10
	£000	£000
Cash receipts of short and long-term borrowing	(1,000)	(3,700)
Cash payments for the reduction of outstanding liabilities relating to finance leases and on-balance sheet PFI contracts	663	531
Repayment of short and long-term borrowing	218	272
Total	(119)	(2,897)

16. Reports for Decision-Making Purposes

The analysis of income and expenditure shown in the Comprehensive Income and Expenditure Statement is that specified by the Best Value Accounting Code of Practice. However, decisions about resource allocation are taken by the Authority and Constabulary on the basis of budget reports analysed across various departments and Areas. These reports are prepared on a different basis from the accounting policies used in these financial statements. In particular:

- no charges are made in relation to capital expenditure (where as 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 cashflows (payment of employer's contributions) rather than current service cost of benefits accrued in the year
- expenditure on some support services is budgeted for centrally and not charged directly to services

The following table shows the income and expenditure as reported to the Finance Committee on 7 June 2011 reconciled to the Comprehensive Income and Expenditure Statement.

Outturn Report 2010/11 reconciled to the Comprehensive Income and Expenditure Statement

Service Analysis	Police Officer Pay and Allowances £000	Police Pensions Employer's Contribution £000	Force Operations Directorate £000	Area Command Units £000	Business Services Directorate £000	ACC Budgets £000	Police Authority £000	Grant Funding £000	Other Budgets £000	Total £000
Fees, Charges & Other Service Income	0	0	(4,541)	(3,153)	(787)	(5)	(3)	0	(309)	(8,798)
Government Grants	0	0	(5,105)	(5,535)	(4,258)	0	0	(5,333)	0	(20,231)
Total Income	0	0	(9,646)	(8,688)	(5,045)	(5)	(3)	(5,333)	(309)	(29,029)
Employee Expenses	86,116	18,945	23,141	20,280	16,640	648	612	0	0	166,382
Other Operating Expenses	0	0	9,045	2,732	20,042	177	326	0	2,145	34,467
Support Service Recharges	0	0	100	90	(203)	1	10	0	0	(2)
Total Operating Expenses	86,116	18,945	32,286	23,102	36,479	826	948	0	2,145	200,847
Cost of Services	86,116	18,945	22,640	14,414	31,434	821	945	(5,333)	1,836	171,818

Reconciliation to Net Cost of Services in Comprehensive Income and Expenditure Statement

	£000	£000
Cost of Services in Service Analysis		171,818
Add: Services not included in the main analysis	95	
Add: Amounts not reported to management	(260,070)	
Less: Amounts reported to management and not included in Comprehensive Income & Expenditure Statement	1,548	
		<u>(261,523)</u>

Deficit / (Surplus) on Provision of Services as shown in the Comprehensive Income and Expenditure Statement

(89,705)

The above adjustments are detailed on the following page.

Reconciliation to Subjective Analysis 2010/11

<u>Reconciliation to Outturn Report</u>	Service Analysis £000	Services not Included £000	Amounts not Reported £000	Not included in CI&E £000	Total £000
Fees, Charges & Other Service Income	(8,798)	0	0	0	(8,703)
Income from Council Tax	0	95	(54,174)	0	(54,174)
Government Grants	(20,231)	0	(125,938)	0	(146,169)
Total Income	(29,029)	95	(180,112)	0	(209,046)
Employee Expenses	166,382	0	0	0	166,382
Movement in Accumulated Absences	0	0	(576)	0	(576)
IAS19 Actuarial Pension Entries	0	0	(88,321)	0	(88,321)
Other Operating Expenses	34,467	0	0	0	34,467
Depreciation and Amortisation	0	0	8,899	0	8,899
Minimum Revenue Provision & Capital Contributions	0	0	0	(1,548)	(1,548)
Gains and Losses on Disposal of Assets	0	0	41	0	41
Support Service Recharges	(2)	0	0	0	(2)
Total Operating Expenses	200,847	0	(79,958)	(1,548)	119,341
Deficit / (Surplus) on Provision of Services	171,818	95	(260,070)	(1,548)	(89,705)

Outturn Report 2009/10 reconciled to the Comprehensive Income and Expenditure Statement

Service Analysis	Police Officer Pay and Allowances £000	Police Pensions Employer's Contribution £000	Force Operations Directorate £000	Area Command Units £000	Business Services Directorate £000	ACC Budgets £000	Police Authority £000	Grant Funding £000	Other Budgets £000	Total £000
Fees, Charges & Other Service Income	(1,177)	0	(3,438)	(3,265)	(537)	(3)	(1)	0	(197)	(8,618)
Government Grants	(6,595)	0	(5,511)	(5,254)	(4,696)	0	0	0	0	((22,056))
Total Income	(7,772)	0	(8,949)	(8,519)	(5,232)	(3)	(1)	0	(197)	(30,674)
Employee Expenses	84,924	18,355	23,811	19,961	14,094	597	657	0	1,243	163,642
Other Operating Expenses	159	0	11,220	4,823	19,809	277	491	0	1,856	38,635
Support Service Recharges	0	0	130	109	-265	1	20	0	0	- 5
Total Operating Expenses	85,083	18,355	35,161	24,893	33,638	875	1,168	0	3,099	202,272
Cost of Services	77,311	18,355	26,212	16,374	28,406	872	1,167	0	2,902	171,599

Reconciliation to Net Cost of Services in Comprehensive Income and Expenditure Statement

	£000	£000
Cost of Services in Service Analysis		171,599
Add: Services not included in the main analysis	5	
Add: Amounts not reported to management	(112,687)	
Less: Amounts reported to management and not included in Comprehensive Income & Expenditure Statement	1,329	
		<u>(114,011)</u>

Deficit / (Surplus) on Provision of Services as shown in the Comprehensive Income and Expenditure Statement

57,588

The above adjustments are detailed on the following page.

Reconciliation to Subjective Analysis 2009/10

<u>Reconciliation to Outturn Report</u>	Service Analysis £000	Services not Included £000	Amounts not Reported £000	Not included in CI&E £000	Total £000
Fees, Charges & Other Service Income	(8,618)	0	0	0	(8,618)
Income from Council Tax	0	0	(52,363)	0	(52,363)
Government Grants	(22,056)	0	(123,737)	0	(145,793)
Total Income	(30,674)	0	(176,100)	0	(206,774)
Employee Expenses	163,642	0	0	0	163,642
Movement in Accumulated Absences	0	0	(9)	0	(9)
IAS19 Actuarial Pension Entries	0	0	55,166	0	55,166
Other Operating Expenses	38,635	0	36	0	38,671
Depreciation and Amortisation	0	0	8,250	0	8,250
Minimum Revenue Provision & Capital Contributions	0	0	0	(1,329)	(1,329)
Gains and Losses on Disposal of Assets	0	0	(30)	0	(30)
Support Service Recharges	(5)	5	0	0	0
Total Operating Expenses	202,272	5	63,413	(1,329)	264,361
Deficit / (Surplus) on Provision of Services	171,599	5	(112,687)	(1,329)	57,588

17. Partnerships

The Authority worked with a number of partners during 2010/11. An agreement exists that defines the role of each of the bodies involved. In all of these arrangements each party is responsible for their own liabilities and these cannot be passed or transferred to the other parties involved and operate as jointly controlled operations.

Underwater Search Unit

The Underwater Search Unit serves the areas of Cheshire, Greater Manchester, Merseyside, Lancashire, Cumbria and North Wales and is staffed by police officers from the six constituent police authorities with the overall expenditure being met by those authorities. The expenditure is apportioned on the basis of Home Office Police Grant allocations.

For 2010/11 Cheshire Police Authority incurred expenditure on the provision of police officers, police staff, equipment, vehicles etc. amounting to £302,000 (£293,000 in 2009/10). The Authority's overall net contribution to the Underwater Search Unit for 2010/11 was £107,000 (£106,000 in 2009/10) which is shown in the Comprehensive Income and Expenditure Statement.

North West Motorway Policing Group

The NWMPG serves the areas of Cheshire, Merseyside and Lancashire with Greater Manchester joining the Group from 1 July 2011. It is currently staffed by Cheshire police officers and staff with the overall expenditure being met by the three constituent police authorities. The staffing expenditure is apportioned based on specific agreement made in the Service Level Agreement. All other costs are apportioned based on the geographic "share" of the motorways being policed and the number of incidents occurring.

For 2010/11 Cheshire incurred expenditure of £0.8m and received contributions from Merseyside and Lancashire amounting to £0.5m, resulting in a net cost to Cheshire of £0.3m.

TITAN

TITAN consists of the Regional Crime Unit, Regional Intelligence Unit and the Regional Asset Recovery Team (RART). The combined Unit serves the areas of Cheshire, Greater Manchester, Merseyside, Lancashire, Cumbria and North Wales. It is staffed by police officers from the six constituent forces with the overall expenditure being met by those authorities. The RART element of TITAN is Home Office funded and the remaining costs apportioned based on each authority's police grant allocation.

For 2010/11 the total cost of the Regional Crime Unit was £4m and Cheshire's contribution amounted to £0.3m. The Regional Intelligence Unit total cost was £0.9m and Cheshire's contribution totalled £0.05m.

Cheshire Safer Roads Partnership

The Cheshire Safer Roads Partnership brings together Cheshire East, Cheshire West and Chester, Halton and Warrington Borough Councils, Cheshire Police, Cheshire Fire and Rescue Service, Her Majesty's Courts Service and the Highways Agency. The aim of the partnership is to reduce the number of people killed and injured on the roads. It does this through a number of initiatives, mainly in the use of speed and red light safety cameras on roads with a history of vehicle collisions. The Police Authority provides accommodation and management of resources and staff of the partnership and employs the majority of the staff involved in the partnership. In 2010/11 the Police Authority incurred £0.9m funded by the partnership. The number of people killed or seriously injured reduced by 50% between the years 2000 and 2010.

18. Officer Remuneration

The Authority is required to detail the remuneration received by senior officers of the Constabulary and Authority which are shown in the following tables. The regulations require detailed disclosure for officers who comprise the Strategic Management Team of the Constabulary whose total remuneration excluding the employer's pension contribution exceeds £50,000. The following definitions apply:

Salary including fees and allowances: the amount received under a contract of employment, including any allowances such as housing allowance before the deduction of employees' pension contributions, but excluding payments such as bonuses and benefits in kind. The figures shown separately in the Pensions Contributions column refer to the employers' pension contributions.

Bonuses: payments made under Police Reform Pay and Conditions Agreement 2002 & 2004 and payments for exceptional work.

Benefits in kind: the estimated value of benefits received other than in cash, for example, use of a fleet vehicle.

The number of employees (including the senior officers and relevant police officers detailed on page 61) whose remuneration, excluding employer's pension contributions exceeded £50,000 or more in bands of £5,000:

Remuneration band	Number of Employees		
	2010/11	2009/10	2008/09
£50,000 - £54,999	118	136	116
£55,000 - £59,999	57	30	48
£60,000 - £64,999	2	7	13
£65,000 - £69,999	6	3	8
£70,000 - £74,999	5	11	9
£75,000 - £79,999	9	7	7
£80,000 - £84,999	2	1	3
£85,000 - £89,999	3	2	1
£90,000 - £94,999	0	1	0
£95,000 - £99,999	0	2	1
£100,000 - £104,999	1	0	0
£105,000 - £109,999	1	0	0
£110,000 - £114,999	0	0	2
£115,000 - £119,999	0	0	1
£120,000 - £124,999	0	0	0
£125,000 - £129,999	1	0	0
£130,000 - £134,999	0	1	0
£135,000 - £139,999	0	0	1
£140,000 - £144,999	0	0	0
£145,000 - £149,999	0	0	0
£150,000 - £154,999	0	1	0
£155,000 - £159,999	1	0	0
Total	206	202	210

Note: In 2010/11 there has been a decrease in the number of Police Officers and Staff in the £50,000 - £54,999 band and a 27 person increase in the £55,000 - £59,999 band. This is mostly due to Inspectors being close to the top of the £50,000 - £54,999 band in 2009/10 and moving to the bottom of the next band in 2010/11. In addition to this 3 Police Staff in the £50,000 - £54,999 band in 2009/10 left during 2010/11.

Senior Officers and Relevant Police Officers emoluments >£150,000

2010/11				Total Remuneration excluding Pension Contributions 2010/11	Pension Contributions	Total Remuneration including Pension contributions 2010/11
Post title	Salary Inc Fees & Allowances	Bonuses	Benefits in Kind #			
Chief Constable – D Whatton	143,983	-	15,651	159,634	33,318	192,952

one additional month has been included in 2010/11 compared with 2009/10.

Senior Officers and Relevant Police Officers emoluments exceeding £50,000 to £150,000

2010/11				Total Remuneration excluding Pension Contributions 2010/11	Pension Contributions	Total Remuneration including Pension contributions 2010/11
Post title	Salary Inc Fees & Allowances	Bonuses	Benefits in Kind			
Deputy Chief Constable	121,301	-	4,754	126,055	#	126,055
Assistant Chief Constable	102,775	-	5,127	107,902	#	107,902
Assistant Chief Constable *	61,874	-	4,232	66,106	14,534	80,640
Temp Assistant Chief Constable **	38,478	-	-	38,478	8,947	47,425
Assistant Chief Officer	74,202	-	4,116	78,318	10,833	89,151
Chief Executive	96,591	-	5,081	101,672	14,376	116,048
Treasurer ***	39,138	750	-	39,888	5,910	45,798
Director of Human Resources	71,962	-	-	71,962	10,866	82,828
Director of Corporate Services ****	78,276	-	495	78,771	11,820	90,591
Director of Information	76,586	-	-	76,586	11,564	88,150
Director of Finance *****	70,159	-	-	70,159	10,594	80,753
Chief Superintendent	88,624	-	-	88,624	18,833	107,457
Chief Superintendent	83,333	3,834	-	87,167	18,833	106,000
Chief Superintendent	81,270	3,834	-	85,104	18,833	103,937
Chief Superintendent	77,518	3,539	-	81,057	17,979	99,036
Chief Superintendent	78,909	-	-	78,909	18,115	97,024
Chief Superintendent	78,352	-	-	78,352	18,116	96,468
Chief Superintendent	76,025	150	-	76,175	17,674	93,849

* Assistant Chief Constable in post from August 2010 ** Temporary Assistant Chief Constable left September 2010 *** Reduced to 18.5 hrs per week from April 2010, FTE £ 79,106

**** In 2010/11 post title was Director of Performance Development ***** Appointed as Director of Finance in June 2010 # Officers no longer in Police Pension Scheme

Senior Officers and Relevant Police Officers emoluments >£150,000

2009/10				Total Remuneration excluding Pension Contributions 2009/10	Pension Contributions	Total Remuneration including Pension contributions 2009/10
Post title	Salary Inc Fees & Allowances	Bonuses	Benefits in Kind			
Chief Constable - D Whatton	140,533	-	13,141	153,674	32,483	186,157

Senior Officers and Relevant Police Officers emoluments exceeding £50,000 to £150,000

2009/10				Total Remuneration excluding Pension Contributions 2009/10	Pension Contributions	Total Remuneration including Pension contributions 2009/10
Post title	Salary Inc Fees & Allowances	Bonuses	Benefits in Kind			
Deputy Chief Constable	118,243	8,181	4,886	131,310	26,798	158,108
Assistant Chief Constable *	94,537	-	3,353	97,890	20,428	118,318
Assistant Chief Constable **	87,831	-	-	87,831	20,426	108,257
Chief Executive	93,386	-	5,081	98,467	13,711	112,178
Assistant Chief Officer	88,126	-	4,181	92,307	12,965	105,272
Director of Human Resources	77,545	-	-	77,545	11,490	89,035
Director of Performance Development	76,301	-	518	76,819	11,521	88,340
Treasurer	76,198	-	-	76,198	11,506	87,704
Director of Information Technology	74,654	-	-	74,654	11,273	85,927
Chief Superintendent	86,673	-	-	86,673	18,361	105,034
Chief Superintendent	78,832	3,737	-	82,569	18,361	100,930
Chief Superintendent	77,786	-	-	77,786	17,990	95,776
Chief Superintendent	73,816	3,360	-	77,176	17,083	94,259
Chief Superintendent	73,911	-	1,533	75,444	17,075	92,519
Chief Superintendent	74,609	-	-	74,609	17,075	91,684
Chief Superintendent	72,547	-	-	72,547	16,840	89,387
Chief Superintendent ***	51,488	-	-	51,488	11,970	63,458

* Assistant Chief Constable in post since May 2009 ** Assistant Chief Constable in post since June 2009 *** Chief Superintendent left December 2009

19. Audit Fees

In 2010/11 the Authority incurred the following fees relating to external audit and inspection.

	2010/11 £000	2009/10 £000
Fees payable to the Audit Commission with regard to external audit services carried out by the appointed auditor	83	86

20. Grant Income

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

	2010/11 £000	2009/10 £000
<u>Credited to Taxation & Non-Specific Grant Income</u>		
Police Grant (Home Office)	67,033	65,310
Revenue Support Grant (CLG)	7,165	10,355
National Non-Domestic Rates (CLG)	49,341	44,861
Police Pension Grant (Home Office)	13,421	13,583
Total	136,960	134,109
<u>Capital Grants</u>		
General Capital Grant (Home Office)	2,047	2,195
Specific Grants:		
Helicopter (Home Office)	352	992
Counter Terrorism (Home Office)	0	24
Total	2,399	3,211
<u>Credited to Services</u>		
Private Finance Initiative	4,550	4,539
Crime Fighting Fund	4,173	4,173
Community Support Officers	4,518	4,470
Special Formula Grant	1,160	2,629
Rural Policing	0	8
Basic Command Unit Grant	526	526
Initial Police Learning & Development Programme	0	231
Rape Suite	110	167
Counter Terrorism	1,146	1,337
Bikesafe	72	28
Other Grants	640	859
Neighbourhood Policing Fund Discretionary Payments	322	312
Total	17,217	19,279

21. Related Parties

The Authority is required to disclose material transactions with related parties (i.e. bodies or individuals that have the potential to control or influence the Authority or be controlled or influenced by the Authority). Disclosure of these transactions allows readers to assess the extent to which the Authority might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Authority.

Central Government has 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). Government Grants are set out in Note 20.

Police Authority Members have direct control over the Authority's financial and operating policies. The total allowances and expenses paid to Members in 2011/12 are shown in Note 22.

The Constabulary maintains a Register of Members' Interests along with a Register of the Business Interests of Officers and Staff. These two registers were compared to a full supplier listing for 2010/11 which brought to light no material transactions between the Constabulary and any related parties.

Material transactions with other public bodies such as the Unitary Councils and the Cheshire Pension Fund have been disclosed within the Comprehensive Income and Expenditure Statement and the Cashflow Statement. Separate specific disclosures have also been made in other Notes to the Primary Statements including all partnerships and collaborations in Note 17.

There are no other related party transactions to report.

22. Member Allowances & Expenses

The cost of allowances paid to the 17 Members of the Police Authority was as follows:

	2010/11	2009/10
	£000	£000
Basic Allowances	52	46
Special Responsibility Allowances	129	136
Expenses	18	17
Total	199	199

23. Capital Expenditure & Financing

	2010/11	2009/10
	£000	£000
Capital Expenditure in year		
Property	808	4,663
Plant (e.g. vehicles)	2,142	5,617
Equipment	1,460	4,170
Intangibles	402	644
Total Expenditure	4,812	15,094

The capital expenditure has been funded as follows:

	2010/11	2009/10
	£000	£000
Capital Grants	2,522	5,359
Borrowing	1,000	3,700
Capital Receipts	319	2,811
Contribution from reserves	874	2,240
Revenue and Other contributions	97	984
Total Financing	4,812	15,094

24. Leases: Finance and Operating

Finance Leases

The Authority has a 25 year lease on Charles Stuart House in Warrington, which has been accounted for as a finance lease. The lease expires in 2021/2022.

Charles Stewart House is accounted for as part of the Authority's property, plant and equipment and is contractually subject to revaluation on a five year cycle. The last revaluation was in December 2007 with the next due in December 2012. The rentals payable in 2010/11 were £301,949 (2009/10 £301,949) – accounted for as £117,011 finance costs and £185,938 write-down of obligations. The fair value at 31 March 2011 is as follows:

	2010/11	2009/10
	£000	£000
Gross Book Value at start of year	2,128	2,128
Revaluation	(428)	-
Gross Book Value - revised	1,700	2,128
Depreciation at start of year	(90)	(90)
Depreciation Charge for the year (net)	(90)	(90)
Net Book Value at end of year	1,520	1,948

Outstanding obligations to make payments under these finance leases at 31 March 2011 accounted for as part of long term liabilities are as follows:

	Property
	£000
Obligations payable in 2011/12	185
Obligations payable 2012/13 to 2015/16	740
Obligations payable after 2016/17	1,110
Total	2,035

Operating Leases

The Authority rents properties and equipment, mostly on short term leases, which are accounted for as operating leases. A full review of operating leases was undertaken in 2009/10. The rentals payable in 2010/11 and 2009/10 were £239,619 and £319,218 respectively. The Authority was committed at 31 March 2011 to making payments of £213,527 under operating leases as follows:

	Property £000	Equipment £000	Total £000
Obligations payable in 2011/12	58	4	62
Obligations payable 2012/13 to 2015/16	42	77	119
Obligations payable after 2016/17	33	0	33
Total	133	81	214

25. Private Finance Initiative

Introduction

In 2002 the Authority entered into a long term contractual agreement under a Private Finance Initiative (PFI) for its headquarters facilities. Under the agreement the contractor is responsible for providing the buildings and facilities at Headquarters in Winsford for a period of 30 years. The annual unitary charge is £5.2m and is subject to annual increases using indexation data agreed within the contract. The services provided under the contract are subject to periodic market testing.

The contract provides the Authority with fully serviced headquarters accommodation throughout the contract period. These services include Building & Grounds Maintenance, Security, Receptions, Cleaning and Catering. At the end of the 30 year contract the Authority has the right to purchase the Headquarters for a nominal sum.

The contract transfers much of the operational risk to our private sector partner (Cheshire SPV Ltd.) supported by an agreed performance regime. The Authority retains the 'demand risk' whereby the Authority will be required to make payments for the facilities irrespective of the number of staff working from the site.

Assets

The land and buildings at Headquarters, together with the associated equipment are included in property, plant and equipment shown on the Balance Sheet and Note 5. The costs, depreciation and valuations undertaken during 2010/11 are detailed below:

	Land £000	Property £000	Equipment £000	Total £000
Gross Book Value on 1 April 2010	3,600	34,302	403	38,305
Revaluations	-	(4,802)	-	(4,802)
Gross Book Value on 31 March 2011	3,600	29,500	403	33,503
Depreciation on 1 April 2010	-	(762)	(141)	(903)
Charge for the year	-	(670)	(20)	(690)
Revaluation	-	762	-	762
Depreciation on 31 March 2011	-	(670)	(161)	(831)
Net Book Value on 1 April 2010	3,600	33,540	262	37,402
Net Book Value on 31 March 2011	3,600	28,830	242	32,672

Liabilities

At the start of the PFI contract the Authority's liability was equal to the cost of the assets now recognised on the Balance Sheet. This was initially reduced by the Authority making a prepayment of £6.49m and further reduced each year by the element of the unitary payment attributable to the capital expenditure. This is shown in the accounts under the Minimum Revenue Provision and for 2010/11 equated to £0.478m. The current liability at 31 March 2011 is £25m.

	31 March 2011 £000	31 March 2010 £000	1 April 2009 £000
PFI Liability			
Balance at 1 April	25,505	25,946	26,155
Movement in year	(478)	(441)	(209)
Balance at 31 March	25,027	25,505	25,946

Payments due

As stated above the Authority has an obligation to pay the annual payments for this contract until it ends in 2033. Details of the profiling of these payments split into their constituent parts are shown below and are based on the contractual figures before market testing and indexation:

Analysis of payments due within:	Service Charges £000	Finance Charges £000	Reduction to Liability £000	Total £000
1 year	1,871	2,633	527	5,031
2 to 5 years	7,469	10,057	2,573	20,099
6 to 10 years	9,334	11,177	4,603	25,114
11 to 15 years	9,334	8,927	6,868	25,129
16 to 20 years	9,334	5,581	10,111	25,026
21 to 25 years	4,826	1,091	7,057	12,974
Total due	42,168	39,466	31,739	113,373

26. Employee Benefits

Termination Benefits

The Authority terminated the contracts of a number of employees in 2010/11 incurring liabilities of £1.3m (£nil 2009/10). 78 employees were made redundant as part of the Authority's rationalisation of the service.

Participation in Pensions Schemes

As part of the terms and conditions of employment of its officers and staff, the Authority offers retirement benefits. Although these benefits will not actually be payable until employees retire, the Authority is required to record the future payments due at the time when employees earn their future entitlement.

The Authority participates in two pension schemes:

- The Local Government Pension Scheme (LGPS) for Police Staff is administered by Cheshire West and Chester Council. This is a funded defined benefit final salary scheme, meaning that the scheme's liabilities are backed by investment assets. The Authority and its employees pay contributions into the fund, calculated at a level intended to balance the pension liabilities with investment assets.
- The Police Pension Scheme for police officers is an unfunded defined benefit final salary scheme, meaning there are no investment assets built up to meet the pension liabilities and cash has to be generated to meet actual pension payments as they eventually fall due. Under the Police Pension Fund Regulations 2007, if the amounts receivable by the pensions fund for the year are less than amounts payable, the Authority must transfer annually an amount required to meet the deficit to the pension 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, this must be repaid to central government.

Transactions relating to retirement benefits

The Authority recognises the cost of retirement benefits in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However the charge made against council tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income & Expenditure Statement and General Fund Balance via the Movement in Reserves Statement during the year.

	Local Government Pension Scheme		Police Pension Scheme		Total	
	2010/11 £000	2009/10 £000	2010/11 £000	2009/10 £000	2010/11 £000	2009/10 £000
<i>Cost of Services</i>						
Current service costs	(7,519)	(3,395)	(32,780)	(23,340)	(40,299)	(26,735)
Past service cost	15,839	(356)	144,770	0	160,609	(356)
Curtailment	(264)	(385)	0	0	(264)	(385)
Interest cost	(8,878)	(6,377)	(70,040)	(63,828)	(78,918)	(70,205)
Expected return on assets in the scheme	7,111	4,370	0	0	7,111	4,370
Total	6,289	(6,143)	41,950	(87,168)	48,239	(93,311)
<i>Other post employment benefit charged to the Comprehensive Income & Expenditure Statement</i>						
Actuarial gains and losses	43,312	(48,466)	(85,120)	(398,102)	(41,808)	(446,568)
<i>Movement in Reserves Statement</i>						
Reversal of net charges made to the Surplus and Deficit for the Provision of Services for post employment benefits in accordance with the Code	(6,289)	6,143	(41,950)	87,168	(48,239)	93,311

Actual expenditure met from council tax through the General Fund:

	Local Government Pension Scheme		Police Pension Scheme		Total	
	2010/11 £000	2009/10 £000	2010/11 £000	2009/10 £000	2010/11 £000	2009/10 £000
Employer's contributions payable to the scheme	6,102	5,945			48,542	38,215
Retirement benefits payable to pensioners			42,440	32,270		

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement to the 31 March 2011 is a loss of £14.83m.

Assets and Liabilities in relation to Retirement Benefits

Reconciliation of present value of scheme liabilities

	Funded liabilities Local Government Pension Scheme		Unfunded liabilities Police Pension Scheme	
	2010/11 £000	2009/10 £000	2010/11 £000	2009/10 £000
At 1 April	(170,158)	(90,308)	(1,385,100)	(932,030)
- Current service costs	(7,783)	(3,780)	(32,780)	(23,340)
- Interest cost	(8,878)	(6,377)	(70,040)	(63,828)
- Contributions by scheme participants	(2,534)	(2,497)	(8,460)	(70)
- Actuarial gains and (losses)	35,587	(69,172)	(85,120)	(398,102)
- Benefits paid	3,145	2,332	42,440	32,270
- Past service costs	15,839	(356)	144,770	-
At 31 March	(134,782)	(170,158)	(1,394,290)	(1,385,100)

In the UK budget statement on 22 June 2010 the Chancellor announced that with effect from 1 April 2011 public service pensions would be up-rated in line with the Consumer Price Index (CPI) rather than the Retail Price Index (RPI). Included in the past service costs above is the impact of this change. For the police pension scheme this amounts to £144.78m and for the Local Government Pension Scheme £15.86m, total amount £160.64m.. These are shown within the Comprehensive Income and Expenditure Statement as Exceptional Items.

Under paragraph 130 of IAS19 any obligation arising from other long-term employee benefits that depend on length of service need to be recognised when service is rendered. As injury awards under the police schemes are dependent on service, GAD have valued the liability expected to arise due to injury awards in respect of service prior to the valuation date. Comparative figures have also been amended to reflect this liability. For 2010/11 the liability included above is £45.3m (£59.2m 2009/10).

Reconciliation of fair value of pension scheme assets

	Local Government Pension Scheme		Police Pensions	
	2010/11 £000	2009/10 £000	2010/11 £000	2009/10 £000
At 1 April	97,544	66,358	Nil	Nil
Expected rate of return	7,111	4,370	-	-
Actuarial gains and (losses)	7,725	20,706	-	-
Employer Contributions	6,102	5,945	33,980	32,200
Contributions by scheme participants	2,534	2,497	8,460	70
Benefits paid	(3,145)	(2,332)	(42,440)	(32,270)
At 31 March	117,871	97,544	Nil	Nil

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets.

The actual return on scheme assets in the year was £8.5m (£25.08m 2009/10).

Scheme History

	2007/08 £000 Restated	2008/09 £000	2009/10 £000	2010/11 £000
<i>Present Value of Liabilities at 31 March</i>				
Local Government Pension Scheme	(89,261)	(90,308)	(170,158)	(134,782)
Police Pension Scheme	(912,000)	(932,030)	(1,385,100)	(1,394,290)
	(1,001,261)	(1,022,338)	(1,555,258)	(1,529,072)
<i>Fair Value of assets in the Local Government Pension Scheme</i>				
Surplus (deficit) in the scheme at 31 March	78,157	66,358	97,544	117,871
Total	(923,104)	(955,980)	(1,457,714)	(1,411,201)

The liabilities show the underlying commitments that the Authority has in the long run to pay retirement benefits. The total liability for 2010/11 is £1.42bn has a substantial impact on the net worth of the Authority as recorded in the Balance Sheet, resulting in a negative overall balance of £1.36bn.

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 increasing contributions over the remaining working life of employees (i.e. before payments fall due), as assessed by the scheme actuary.
- Finance is only required to be raised to cover police pensions when the pensions are actually paid.

The total budgeted employer's contribution expected to be made to the Local Government Pension Scheme by the Authority in the year to 31 March 2012 is £5.9m. Expected employer's contribution for the Police Pension Scheme in the year to 31 March 2012 is £17.77m.

Basis for Estimating Assets and Liabilities

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 Police Pension Scheme has been assessed by the Government Actuary's Department and the Cheshire Pension Fund liabilities has been assessed by Hymans Robertson and Co, an independent firm of actuaries, estimates for the Cheshire Pension Fund being based on the latest full valuation of the scheme as at 31 March 2007.

The principal assumptions used in their calculations have been as follows:

	Local Government Pension Scheme		Police Pension Scheme	
	2010/11 %	2009/10 %	2010/11 %	2009/10 %
<u>Long-term expected rate of return on assets in the scheme:</u>				
Equity Investments	7.5	7.8	-	-
Bonds	4.9	5.0	-	-
Property	5.5	5.8	-	-
Other	4.6	4.8	-	-
<u>Mortality assumptions:</u>				
Longevity at 60 (police), 65 (LGPS) for current pensioners:				
Men	22.9	20.8	24.1	27.6
Women	25.7	24.1	27.3	31.0
Longevity at 60 (police), 65 (LGPS) for future pensioners:				
Men	24.9	22.3	26.1	29.2
Women	27.7	25.7	29.2	32.7
<u>Other assumptions:</u>				
Rate of Inflation	2.8	3.8	3.0	3.8
Rate of increase in salaries	5.1	5.3	5.3	5.3
Rate of increase in pensions	6.8	7.1	2.6	3.8
Proportion of employees opting to convert annual pension to retirement lump sum	50.0	50.0	n/a	n/a
Rate for discounting scheme liabilities	5.5	5.5	5.7	5.5

The Police Pension Scheme has no assets to cover its liabilities. The Local Government Pension Scheme's assets consist of the following categories, by proportion of the total assets held:

	Proportion of the Fund	
	31 March 2011 %	31 March 2010 %
Local Government Pension Scheme		
Equities	72	73
Bonds	15	14
Property	6	5
Cash	7	8
Total	100	100

History of experience on actuarial Gains and Losses

The actuarial gains identified as movements on the Pensions Reserve in 2010/11 can be analysed into the following categories, measured as a percentage of assets or liabilities as 31 March 2011:

Local Government Pension Scheme	2006/07 %	2007/08 %	2008/09 %	2009/10 %	2010/11 %
Difference between the expected and actual return on assets	(0.4)	(13.4)	(35.1)	21.2	6.6
Experience gains and losses on liabilities	0.0	0.3	0.0	0.0	(11.0)
<i>Police Pension Scheme:</i>					
Experience gains and losses on liabilities	(0.7)	7.8	(2.3)	(2.5)	9.4
<i>New Police Pension Scheme 2006:</i>					
Experience gains and losses on liabilities	0.0	42.9	5.6	1.6	(7.5)
<i>Police Injury Awards:</i>					
Experience gains and losses on liabilities	-	-	-	(0.61)	2.27

NOTES RELATING TO THE POLICE PENSION FUND

Basis of Fund

The Police Pension Fund Regulations which came into force on 1 August 2007, with backdated effect from 1 April, put on a statutory footing the requirement that police authorities:

- set up a pension fund;
- pay the employer contributions and officer contributions into the pension fund;
- make other specified payments into and from the pension fund; and
- transfer funds between the police fund and the pension fund as necessary to balance any audited deficit or surplus in the pension fund

and for the Secretary of State to:

- adjust grant funding to police authorities upwards to match the amounts transferred by them out of their police fund to balance their pension fund; and
- require police authorities to pay to the Secretary of State an amount to match the sums transferred from the pension fund to the police fund to balance their pension fund account

The financial arrangements introduced in 2007 apply to both the old and new police pension schemes – i.e. the Police Pension Scheme 1987 (PPS 1987) and the New Police Pension Scheme 2006 (NPPS 2006).

Accounting policies

The Police Pension Fund's accounting policies are set out in the main Statement of Accounting Policies as set out in page 14.

The Police Pension Fund account on page 30 summarises the transactions of the Fund. It does not take account of obligations to pay pensions and benefits which fall due after the end of the Scheme year. The actuarial position of the Scheme, which does take account of such obligations, is dealt with in Note 26 and the Police Pension Fund account should be read in conjunction with that note.

Status of the pension fund

The regulations refer to the new account as a "pension fund" since its legal status is that of a fund for the purposes of Section 30 of the Local Government Finance Act. The pension fund accounts, which must be included in the police authority's statement of accounts as separate statements, comprise a fund account and net assets statement. The fund account must be ring-fenced to prevent unauthorised transfers taking place. It is through the fund account that each police authority discharges its responsibility for paying the pensions of retired officers and their survivors.

Administration of the Fund

The fund is administered by Cheshire Police Authority within the management and operation requirements established under the Police Pension Fund Regulations 2007 (SI 2007 No 1932).

The police pension scheme operates as an unfunded scheme, and that consequently the fund has no investment assets, benefits payable are funded by contributions from employers and employees, and any difference between benefits payable and contributions receivable is met by top-up grant from the Home Office. The Fund is balanced to nil each year by a transfer to or from the Police Fund.

Employees' and employer's contribution levels are based on percentages of pensionable pay set nationally by the Home Office and subject to triennial revaluation by the Government Actuary's Department.

Benefits payable to and from the Fund

Under the new financial arrangements the funds payable into and out of the Police Authority's pension fund account will be:

Income

- Officer contributions, including those of officers seconded elsewhere.
- Employer contributions, including those for officers seconded elsewhere.
- Incoming transfers from other pension schemes.
- Inter-authority adjustments for 1966 and 1974 reorganisations.
- Re-instatement of pensions – mis-selling charges.
- Capital-equivalent charge payments for ill-health early retirements.
- Reimbursements of pension payments which could have been withheld under regulation K4 of the Police Pension Regulations 1987 and regulation 52 of the Police Pension Regulations 2006.
- Payments by an officer under regulation 84(3) of the Police Pension Regulations 2006.
- Other authorised income – to be specified by the Police Authority in the accounts.
- Top-up from the police fund (operating account) to meet any deficit.

Expenditure

- Pension payments to retired police officers and other beneficiaries.
- Inter-authority adjustments for 1966 and 1974 reorganisations.
- Refund of pension contributions.
- Outgoing transfers to other pension schemes.
- Payments by the authority to HMRC on behalf of an officer under regulation 84 or regulation 85 of the Police Pension Regulations 2006.
- Other authorised expenditure – to be specified by the police authority in the accounts.
- Payments to the police fund (operating account) to clear a surplus at the end of the accounting year.

Injury awards, including awards payable on death attributable to a qualifying injury, are not part of either Police Pension Scheme 1987 or New Police Pension Scheme 2006 and are payable irrespective of whether an officer is a member of the pension scheme. Tax rules from April 2006 prevent injury awards from being part of the regulations for either scheme. In order to comply with this requirement injury awards have, with effect from April 2006, been set out in the Police (Injury Benefit) Regulations 2006 which are entirely separate from the Police Pension Regulations 1987 and the Police Pension Regulations 2006. Injury awards are not pension scheme payments and therefore are not chargeable to the fund.

27. Exceptional Items

In the UK budget statement on 22 June 2010 the Chancellor announced that with effect from 1 April 2011 public service pensions would be up-rated in line with the Consumer Price Index (CPI) rather than the Retail Price Index (RPI). The initial impact of the change is shown as exceptional item in the Comprehensive Income and Expenditure Statement. For the police pension scheme this amounts to £144.78m and for the Local Government Pension Scheme £15.86m, total amount £160.64m.

28. Contingent Liabilities & Assets

A claim for damages has been made against the Authority by solicitors acting for an individual whose conviction by the courts 30 years ago was overturned by the Court of Appeal. As proceedings have yet to be served against the Authority, the amount of any potential liability or the timing cannot be estimated with certainty. The Authority disputes the validity of this claim and has made no provision in the accounts. There are strict limitation periods on such claims and this particular claim will expire in 2011.

During the initial building work on an infrastructure asset for the Authority the main contractor went into administration. A new contractor was appointed and the building was subsequently completed and became operational in 2010. There are potential claims relating to the changes but the full impact cannot yet be assessed and no provision has been made in the accounts.

29. Authorisation of Accounts

Under the new Accounts and Audit (England) Regulations 2011 the pre audited Statement of Accounts was signed by the Treasurer as the responsible financial officer of the Authority on 21 June 2011 for audit purposes.

The Statement of Accounts, as amended following the audit, was approved by the Audit Committee on 26 September 2011.

30. Post Balance Sheet events

There are no post balance sheet events to report.

ANNUAL GOVERNANCE STATEMENT

INTRODUCTION

Governance is about how police authorities ensure they are doing the right things, in the right way for the right people, in a timely, inclusive, open and accountable manner. It comprises the systems, processes, culture and values by which police authorities are directed and managed and also the activities through which they account to, and engage with, the communities they serve. This joint annual Governance Statement between Cheshire Police Authority and Cheshire Constabulary describes how the Authority can show it has discharged its two overarching statutory duties during 2010/11:

- To secure an effective and efficient local police service; and
- To hold the Chief Constable to account for the exercise of his functions and those of officers and staff under his direction and control

The Statement also demonstrates the assurances the Chief Constable relies upon to control, direct and deliver effective and efficient operational policing services.

SCOPE OF RESPONSIBILITY

The Cheshire Police Authority (the Authority) is responsible for ensuring its business is conducted in accordance with the law and proper standards and that public money is safeguarded, properly accounted for and used effectively, efficiently and economically. The Authority also has a duty under the Local Government Act 1999, Section 3(1) to make arrangements to secure continuous improvement in the way in which its functions are exercised and deliver an effective, efficient and economic service.

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 include a sound system of internal control and effective arrangements for the management of risk.

In April 2008 the Authority updated its local Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework: *Delivering Good Governance in Local Government*. A copy of this is on the Police Authority website at www.cheshirepa.police.uk or can be obtained from the Authority's offices. This Statement explains how the Authority has complied with the Governance framework and also meets the requirements of Regulation 4(2) of the Accounts and Audit (England) Regulations 2011.

THE PURPOSE OF THE GOVERNANCE FRAMEWORK (see page 85)

The governance framework 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 and the achievement of value for money.

The system of internal control is a significant part of that framework and is designed to manage risk to a level that is considered reasonable. It does not seek to eliminate all risk to the achievement of policies, aims and objectives; it can only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on a dynamic process designed to identify and evaluate the risks to the achievement of the Authority's policies, aims and objectives, in order to manage them effectively, efficiently and economically.

THE GOVERNANCE FRAMEWORK

Although the Chief Constable is responsible for operational policing matters, the control of police personnel and for the governance of the Constabulary, the Authority is required to hold him to account for the exercise of those functions and for delivering an efficient and effective policing service to the public. It therefore follows that the Authority must satisfy itself that both the Authority and the Constabulary have appropriate mechanisms in place for the maintenance of good governance and that these operate in practice.

A framework of governance and internal control has been created which pulls together all the processes that form both the governance arrangements and the key internal controls. Within this framework are a number of sources of assurance available to the Authority that ensure the arrangements and controls operate effectively and efficiently. The following sections cover the main processes within the assurance framework.

Establish, communicate & monitor the achievement of the Authority's Vision.

The Authority's key priorities have been developed following public consultation and consideration of national and local priorities. The Authority's vision, mission, aims and values were set out in its 2010/11 business plan which is available via the Police Authority website. The 2010/11 plan contained a commentary on progress in delivering the key actions of 2009/10.

Local policing summaries are currently published in July and report the extent to which the objectives outlined in the Policing Plan are achieved locally. The Authority's Business Plan and Policing Priorities were reviewed in Autumn 2009 to take into account national and local priorities, risk assessment and resources to inform the Policing Plan for 2010-13, which was approved in February 2010.

Performance scrutiny takes place via regular reporting to the Performance & Service Improvement Panel, which in turn reports to the full Authority. In addition, Area Commanders monitor performance on a regular basis using the Performance Management System. Internally, Constabulary managers receive regular update reports on performance issues and are held to account through line management and at quarterly Strategic Performance Meetings. The meetings review the performance of areas, support and protective services.

Performance monitoring and scrutiny is also conducted by the Authority through Audit, Staff and Finance Committees and through Area visits and meetings between individual Members and their Neighbourhood Policing Unit Inspectors. There is also a specific scrutiny of organised crime and terrorism investigation. Her Majesty's Inspector of Constabulary (HMIC) regularly conducts reviews of performance.

Ensure compliance with established policies, procedures, laws and regulations.

The business of the Authority is conducted in accordance with defined processes and responsibilities as set out in Standing Orders and Financial Regulations approved by the Authority on 7 April 2009 which were subsequently updated and approved by the Police Authority on 23 March 2010 and 13 July 2010 respectively. Financial Regulations have been updated further in April 2011 to reflect the Constabulary's new structure as a result of the Transforming Business Services programme. From 1 April 2011 the Directors of Finance, Corporate Services, Human Resources and Information Management now undertake the role previously covered by the Assistant Chief Officer.

Authority and Constabulary officers use their professional knowledge to ensure that decisions taken by the Authority comply with all Standing Orders, Regulations and with relevant laws, standards and regulations. Key officers include the Authority's Chief Executive (Monitoring Officer), the Treasurer (Section 151 Officer), the Chief Constable and the Constabulary's Assistant Chief Officer (from April 2011 this will be the four Directors mentioned above).

Governance arrangements also ensure that the Authority's financial management arrangements conform to the requirements of the 'CIPFA Statement on the Role of Chief Financial Officer'. A draft police specific version of this statement is currently under review and any changes will be incorporated into the governance framework upon approval.

Internal Audit conducts an agreed programme of reviews to assess compliance with established policies, procedures, laws and regulations. This is reinforced by Her Majesty's Inspector of Constabulary (HMIC), External Audit and when appropriate, the Independent Police Complaints Commission (IPCC).

The Constabulary regularly reports to the Authority, including the Audit Committee and the Finance Committee on levels of compliance. The Authority has its own Standards Committee to monitor compliance within the Authority. The Constabulary has developed its approach to Risk Management whereby risk assessments and action plans are reviewed quarterly and challenged by the Strategic Decision Board, comprising the Constabulary's senior managers. Progress is regularly reported to the Audit Committee. The Authority also established its own separate risk register and updates this on a quarterly basis. This is reviewed and challenged by the Audit Committee. Risk management procedures have been improved following the Police Authority inspection.

Ensure the effective, efficient and economical use of resources.

The Authority has an Audit Committee which meets on a quarterly basis and receives reports from the Constabulary, the Authority's officers and Internal and External Audit. The Constabulary has a Strategic Decision Board which oversees development projects and programmes via their respective boards. Progress against strategic projects and programmes are regularly reported to the Performance & Service Improvement Panel and where appropriate to the Authority for approval.

The Constabulary also has various Boards to oversee the transformational programmes on which the Authority is represented. These Boards report outcomes through the Strategic Decision Board and onwards to the Authority for approval. Members have recently established an Oversight Group to scrutinise all transformational activity and Authority officers attend Boards meetings. There are also Lead Members appointed to oversee specific departmental activities within the Constabulary (for example, Human Resources, Estates).

Quarterly reports are also presented to the Finance Committee detailing progress against efficiency targets and savings approved as part of the budget.

Ensure appropriate financial and performance management and reporting.

Standing Orders and Financial Regulations define the respective roles and responsibilities of the Authority, its Members and officers on financial matters. Collectively they provide a framework of rules and procedures within which the Authority conducts all its financial affairs. They embody relevant legislation and national standards of best practice in public authority financial management. Both the Financial Regulations and Scheme of Delegation were updated and approved by the Authority on 19 April 2011.

Budgets are monitored by the Constabulary, through the Strategic Decision Board and Strategic Performance Meeting with Members receiving quarterly monitoring reports. The Treasurer continually monitors the financial position and works closely with Constabulary officers. Officers are building an increased level of quality assurance to provide expanding checks and balances including financial mis-reporting to reflect best practice and in response to the changing financial reporting standards.

Annual Statutory Accounts are prepared in accordance with Accounts and Audit (England) Regulations 2011, professional guidance, accounting standards and the statutory timetable for publication and are approved by Members prior to publication and includes the opinion of the External Auditors.

A performance management framework has been put in place for operational policing which is monitored on a daily basis by Managers and Area Commanders on the force intranet. Monthly meetings with all their senior staff are held to check performance against the Authority performance targets in place for 2010/11 that encompasses both national and local objectives. The achievement of targets in line with the specified national and local policing objectives of the Authority is monitored and reported upon regularly to the Authority. This framework has been changed nationally for 2011/12.

A performance management framework using a balanced scorecard approach has been implemented for support services. Further work is in hand to refine and develop the process for monitoring further service standards for support departments with measures to assess performance against standards which have been put in place.

REVIEW OF EFFECTIVENESS

The Authority has responsibility for conducting, at least annually, a review of the effectiveness of the governance framework which culminates in production of the Annual Governance Statement. It includes:-

- The system of internal audit
- The system of internal control

These reviews have been undertaken by a multi-disciplinary Authority and Constabulary Group of Officers, including independent Member scrutiny by the Chairman of the Audit Committee and Internal and External Auditors. In addition, comments made by the external auditors and Her Majesty's Inspectorate of Constabulary (HMIC) support the annual review process.

The Treasurer as the Chief Financial Officer has maintained and reviewed the effectiveness of the governance framework through close working with the Constabulary finance staff, Internal and External Auditors and other inspection agencies. Reports from these sources together with any action plans are monitored and regular updates are presented to the Authority. One of the key roles for the Treasurer is to support and advise the Authority on financial matters including governance.

The reviews involved gathering examples of controls, ascertaining risks and assessing effectiveness. This evidence was then scrutinised by the Chairman of the Audit Committee in May 2011. The resulting Annual Governance Statement (this Statement) was approved by the Audit Committee on 26 September 2011.

SIGNIFICANT GOVERNANCE ISSUES

For 2009/10, the system of internal control and governance was considered satisfactory and effective through the review process undertaken by the multi-disciplinary Authority and Constabulary Group. The following areas were the key risks identified for further work in 2010/11:

1. **Funding: Medium Term Financial Strategy** – at the time of preparing the 2009/10 Statement there was uncertainty in the new political landscape about the future funding of police. This was highlighted as a key risk with the following action:-

Action: The Authority will update the medium term strategy as funding issues become clearer. The objective is to present the revised strategy to Finance Panel on 7 September 2010, with an assessment of the adequacy of savings planned. Mechanisms for further savings will also be agreed. As the two transformation projects progress, regular reports will be presented to the Authority via the Service Improvement Panel including financial implications and savings achieved.

Update: The Authority responded to the emergency Budget in June 2010 and the subsequent spending review in the Autumn. The current economic climate, the Coalition Government's cuts in police funding and the rising costs have made budgeting very challenging. The Authority has worked closely with the Constabulary and approved a revised financial strategy for 2011-16 at Finance Committee in December 2010. This strategy aims to minimise the impact on front-line services and to ensure that police services continue in a way that people expect whilst making £36.5m savings over the 2011-15 period.

2. **Confidence** – a single national confidence measure of 58.5% overall was set at the time of producing the 2009/10 Statement. This was deemed to be challenging and therefore included in the key risks of the Statement with the following action allocated to the Deputy Chief Constable. Since the change of Government this target has been removed.

Action: The Deputy Chief Constable oversees delivery of public confidence through the monthly Confidence and Pledge Management Group, which the Chair of the Engagement Committee attends. As well as being represented on this group, members of the Transforming Policing team sit on confidence working groups and vice-versa, to ensure that the two strands are fully coordinated.

Update: In July 2010 the Coalition Government announced that the single confidence target and the performance regime that went with it was being scrapped in favour of local accountability rather than central control. Cheshire is fully supportive of this position and has as part of the transformation programme started to move back to officers doing the right thing using their discretion rather than spending all their time following procedures and processes that deliver performance against top down measures to satisfy the Home Office rather than the victim. The Authority recognises that if it gets service right confidence will improve so the objectives set in April 2010 still apply. The British Crime Survey that previously measured "confidence" has continued and the Constabulary monitors its performance against the question "taking everything into account I have confidence in the police in this area" and reports this to the Authority. Between January and December 2009 63.7% of those surveyed had confidence and this had increased to 68.4% between January and December 2010. The Authority has retained the objective "To maintain the trust and confidence of the public in 2011/12 as it is one of the basic principles of policing."

3. **Partnerships & Collaborations** – the Authority works closely with many partners including local authorities and neighbouring police forces. Some reflect statutory partnerships such as Community Safety Partnerships, others as collaborations (e.g. motorway policing) and some as informal agreements for support or cover. There is potential for these arrangements, especially those without formal agreements, not to deliver value for money.

Action: the Authority is reviewing all its partnerships, collaborations and informal agreements to ensure that appropriate agreements are in place covering governance, accountability and the financial implications including value for money and benefit realisation. The Authority and Constabulary are now both represented on new strategic partnerships covering all Council areas within the Force boundaries and are playing a leading role in shaping the new strategic arrangements: these include the sub-regional Leadership Team (Chairman of the Authority), Management Team (Chief Executive and Chief Constable), Community Safety and Justice Commission (Chief Constable, Chair of the Engagement Committee and Head of Partnerships) and the Health and Wellbeing Commission (Head of Partnerships).

Update: The last 12 months has seen the continued success of collaborations that had started in 2009/10 and the agreement to develop new ones. In the North West region Cheshire, Greater Manchester, Merseyside, Lancashire, Cumbria and North Wales have a collaborative unit for serious crime, Titan. Cheshire, Merseyside and Lancashire have been collaborating on motorway policing and in 2010 Greater Manchester agreed to join the collaboration. The progress and achievements and efficiencies are reported to the Authority annually. A joint committee of authority chairs and Chief Constables for all six forces meets regularly to review existing collaborations and consider further areas. Further work during 2010 identified the potential for collaboration in air support, firearms, public order, learning and development and forensics and business cases were presented to the Joint Committee in February 2011. Agreement was reached for air support and public order to go ahead and for further work to be done on all the other business cases. A joint air support unit will be operational in mid 2011.

Work with crime and disorder partners has continued to progress, the long established Cheshire Safer Roads Partnership was subject to funding considerations by council partners during 2010/11 and there will be a reduction in the funding allocated in 2011/12. A review of the many partnership groups that covered Cheshire and Warrington (the sub-region) resulted in an over-arching group the Sub-regional Community Safety and Justice Commission being established which has made good progress to identify the key themes that are priorities for development in 2011. Progress is monitored through the Constabulary's Strategic Board and reported to the Authority on a regular basis.

4. **Responses to recent inspections** – both the Authority and Constabulary have been subjected to inspections by HM Inspector of Constabulary (HMIC) and the Audit Commission within 2009/10. Whilst there have been positive outcomes in most areas there are always opportunities for improvements. Given the financial scenario there is a risk that these improvements may not be achievable.

Action: The Authority and Constabulary monitor and regularly report on the action plans drawn up in response to inspections. As the financial situation becomes clearer and the impact of any funding changes become known, the action plans are updated accordingly.

Update: The Constabulary has responded to all inspection reports and made appropriate changes. One of the inspections was re-considered nationally by HMIC in May 2010 which was the police response to anti-social behaviour, the inspection found that the Constabulary had improved but needed to make more progress on the identification of repeat victims and this work has been a fundamental part of the Transforming Policing project which recognises that repeat victims and locations result in significant demand on officers' time.

For 2010/11, the system of internal control and governance was considered satisfactory and effective through the review process undertaken by the multi-disciplinary Authority and Constabulary Group. The following areas are the key risks identified for further work in 2011/12:

1. **Financial Constraints** – 2011/12 is the beginning of the Coalition Government's Spending Review period. This spending review is defined by wide ranging and significant cuts in public sector expenditure. The Authority has been required to address cuts in central government grant and has decided to freeze the council tax at the 2010/11 level. The impact of these constraints is in real terms in excess of a £11m reduction on the 2010/11 net budget requirement of £177m. This level of reduction is new to the Authority and the management of budget reductions will represent a significant challenge.

Action: The savings need to be tracked closely in 2011/12 by the Authority and Constabulary together with the delivery of the transformational programmes. In addition the impact of the Winsor Review and the detailed development of the outline budgets for 2012-15 will need to be scrutinised and agreed to deliver the £36.5m savings over the 2011-15 period.

2. **Police & Crime Commissioner** – the Police Reform and Social Responsibility Bill sets out the Coalition Government’s proposals for police reform which include abolishing police authorities and replacing them with directly elected Police & Crime Commissioners, however the Constabulary remains a “going concern” under the Police and Magistrates Act 1994. The Police Authority considers that there are a number of key risks associated with this possible change to the police governance model. The proposal could weaken public accountability as the Commissioners may have fewer powers than police authorities and evidence of measurable benefits from this costly reform have not been provided. Commissioners may introduce direct politics into policing which has been avoided under the current governance arrangements. The model concentrates power in the hands of a single individual and the Authority does not consider that there are sufficient checks and balances in place to hold the Commissioner to account. The Authority has concerns that this person will not be able to effectively represent the diverse needs of a million plus people in Cheshire and there is no evidence, either locally or nationally, that the public want changes to the governance of policing. The Bill has received extensive scrutiny within both Houses of Parliament and the timetable for implementation could be made more challenging if the Bill does not receive royal assent prior to the parliamentary Summer recess.

Action: It is clear there is a considerable amount of work to be undertaken in relation to the reform proposals whilst still supporting the Authority in delivering its statutory duties. Therefore, the Authority has established a Transition Board, led by the Chief Executive and including the Chief Constable, which will review the implications of the Police Reform and Social Responsibility Bill and oversee the transitional arrangements once the Bill has completed its passage through Parliament. Preparatory work is currently underway covering the impact on people, contracts, assets and liabilities and the election process.

3. **Delivery of Transformational Change Programmes** – The Authority’s response to the financial constraints has been organised under two change programmes; Transforming Policing and Transforming Business Services. The effective delivery of these programmes will enable the Authority to reduce its net expenditure whilst minimising the impact on public services. If these do not deliver then service cuts are to be expected.

Action: The Constabulary has a good track record of delivering change and major projects. It has a long established governance process, including Project and Programme Boards for both Transforming Business Services and Transforming Policing reporting to the Strategic Decision Board and held to account by the Authority through reports received by the Performance and Service Improvement Panel. The change programmes have strong leadership from the Chief Constable and the ACPO portfolios have been adjusted specifically to allow the Deputy Chief Constable to be dedicated fulltime to overseeing the change programmes. The Constabulary has redeployed staff with relevant experience and skills to work on both programmes and the Authority has invested in external support to ensure that the systems thinking methodology that the Constabulary has adopted for Transforming Policing is understood and used appropriately by project staff. There is already evidence to suggest that the programmes can deliver major savings, savings from the back office, in 2010/11 have exceeded the requirement for 2011/12 and will be higher by the year end with plans in place to deliver further savings next year. The Transforming Policing programme has already started to reduce demand for services and has achieved this with fewer officers as

recruitment slowed down in 2010/11 and is set at only two intakes in 2011/12 rather than the usual six. Collective consultation, with Officers, Staff & Unison, commences in June 2011 so that police staff numbers can be reduced against the programmes plan.

4. **Pension Payments** – as part of the review of processes a risk was identified in the level of assurance available in relation to pension payments.

Action: During 2010/11 a series of controls were introduced and applied retrospectively to ensure accuracy of pension payments. In addition two specific reviews were commissioned with Audit to evaluate these controls and to seek assurance that the processes within the contracted service were robust. These audits subsequently provided the assurances required.

SUMMARY

We have been advised on the implications of the result of the review of the effectiveness of the governance framework by the Audit Committee.

We propose over the coming year to take steps to address the issues identified above to further enhance our governance arrangements. We are satisfied that these steps will address the need for improvements that were identified in our review of effectiveness and we will monitor their implementation and operation as part of our next annual review.

Signed

Margaret Ollerenshaw
Chairman

David Whatton
Chief Constable

Mark Sellwood
Chief Executive

On behalf of the Members and senior officers of Cheshire Police Authority and Constabulary.

CHESHIRE POLICE AUTHORITY & CONSTABULARY - FRAMEWORK OF GOVERNANCE



GLOSSARY OF TERMS

Accruals - The concept that income and expenditure are recognised as they are earned or incurred, not as cash is received or paid.

Actuarial Gains and Losses - For a defined benefit pension scheme, the changes in actuarial deficits or surpluses that arise because (a) events have not coincided with the actuarial assumptions made for the last valuation; or (b) the actuarial assumptions have changed.

Appropriations - Amounts transferred to or from revenue or capital reserves.

Budget - A statement of the Authority's expected level of service and spending over a set period, usually one year.

Capital Expenditure - Expenditure on the acquisition of a fixed asset or expenditure which adds value to the life or value of an existing fixed asset.

Capital Adjustment Account - This account (formerly reserve) contains the amounts which are required by statute to be set aside from capital receipts for the repayment of external loans, and the amount of capital expenditure financed from revenue and capital receipts. It also contains the difference between the amounts provided for depreciation and that required to be charged to revenue to repay the principal elements of external loans. The balance on this account cannot be used to finance future capital expenditure.

Capital Receipts - These are proceeds from the sale of capital assets.

Capital Reserve - Created to provide an alternative source of financing for capital expenditure, and to ensure some stability in the level of capital programmes that can be financed.

Contribution to Capital Expenditure - The financing of capital expenditure by a direct contribution from revenue account, rather than by means of a loan or other forms of finance (sometimes referred to as revenue contribution to capital outlay).

Council Tax - The means of raising money locally to pay for Police Authority services. This is a property based tax where the amount levied depends on the valuation of each dwelling.

Creditors - Amounts owed by the Authority for goods and services received by 31 March, but for which payment has not yet been made.

Current Assets and Liabilities - Current assets are items which can be readily converted into cash. Current liabilities are items which are due immediately or in the short-term. By convention these items are ordered by reference to the ease that assets can be converted into cash, and the timescale in which the liability falls due.

Debtors - Amounts owed to the Authority for goods and services provided by 31 March, but for which payments have not yet been received.

Deferred Capital Receipts - Amounts representing capital receipts still to be received when disposals have taken place and deferred payments have been agreed.

Unitary Council's Collection Fund - A collection fund is maintained by each unitary council to receive all income raised through the Council Tax. The funds then pay precepts to the Authority, Fire Authority and parish councils to meet the cost of services. Central government support (Revenue Support Grant and National Non-domestic Rate) is no longer distributed via the collection fund, but is received by each authority direct.

Earmarked Reserves - These reserves represent monies set aside that can only be used for a specific usage or purpose.

Fair Value - The amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arms length transaction with no other motive than to secure a fair price.

Financial Instrument - Any contract that gives rise to a financial asset of one entity and a financial liability or equity of another.

General Reserves - This is the Authority's main revenue reserve to which all revenue receipts are credited and from which all revenue liabilities are discharged. The movement shown in the fund represents the excess of expenditure over revenue within the 2008/09 revenue account.

Income - Amounts which the Authority receives, or expects to receive, from any source. Income includes fees, charges, sales, capital receipts, government grants, the precept on Council Tax collection funds, Revenue Support Grant and National Non-Domestic Rate.

Long-Term Borrowing - Long-term borrowing relates to loans taken out by the Authority from the Public Works Loan Board and commercial banks.

National Non-Domestic Rate - The government levies a standard rate on all properties and cannot increase it by more than the Retail Price Index. The rates are collected on behalf of the government by district councils and are then redistributed nationally.

Net Debt - This comprises cash in hand, cash overdrawn, short term investments and long term borrowing.

Pension – Defined Benefit Scheme - A pension or other retirement benefit scheme other than a defined contribution scheme. The scheme rules define the benefits independently of the contribution payable, and the benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded.

Pension Assets – Expected Rate of Return - For a funded defined benefits scheme, the average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets held by the scheme.

Pension – Interest Costs - For a defined benefit scheme, the expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement.

Pension – Past Service Costs - For a defined benefit scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

Precept - The amount of money the Authority has to raise from Council Tax payers (via unitary collection funds) to pay for police services. Each collection fund pays a standard amount per Band D equivalent property.

Provisions - Provisions represent sums set aside for liabilities or losses which are certain to arise but owing to their inherent nature cannot be quantified with any certainty. The Authority's main provisions relate to insurances and pensions.

Public Works Loan Board (PWLB) - A government agency which provides longer term loans to Local Authorities at interest rates only slightly higher than those at which the government itself can borrow.

Reserves - There are two types of reserve; those which are available to meet revenue or, in some cases, capital expenditure and those which are not available to finance revenue or capital expenditure. Most revenue reserves are capable of being used to finance revenue or capital expenditure.

Revenue Expenditure - Amounts which the Authority pays or expects to pay to any source - includes the cost of employees, premises, transport, supplies and services.

Revenue Support Grant - General government grant support towards police authority expenditure.

Temporary Investments - This comprises of cash in hand, cash overdrawn and short-term investments which are readily convertible into known amounts of cash. These are deposited with banks or similar institutions under the Treasury Management Strategy.

Unapplied Capital Grants - Capital Grants received, but not yet used to finance capital expenditure.