

LANCASHIRE POLICE AUTHORITY

STATEMENT OF ACCOUNTS

2010/11

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EXPLANATORY FOREWORD

Background

Lancashire Police Authority is an independent body created by the Police and Magistrates' Courts Act 1994. It sets its own budget and holds its own reserves. The Authority has its own Formula Spending Share (FSS) for government grant purposes, and receives funding from the government through cash limited Police Grant, Revenue Support Grant (RSG) and National Non-Domestic Rates (NNDR). It also issues its own council tax demand, collected by local district and unitary authorities.

Contents of the Statement of Accounts

The production of the Statement of Accounts is prescribed by Statute; it is prepared in accordance with the Accounts and Audit Regulations 2011 and the Code of Practice on Local Authority Accounting in the United Kingdom 2010.

The Statement gives the reader an overall impression of the finances of Lancashire Police Authority for the financial year ended on 31 March 2011 (referred to as 2010/11).

The various sections contained within the Statement of Accounts are:

Auditor's Report – This sets out the opinion of the Authority's external auditor on whether the Accounts present a true and fair view of the financial position and operations of the Authority for 2010/11

Annual Governance Statement – This is a joint statement by the Authority and the Constabulary which states their position on governance issues, and which provides assurances on the systems of control which are maintained and on the way they conduct their business. Section five of the Annual Governance Statement identifies a programme of improvement to the governance framework for the coming year.

Movement in Reserves Statement - The statement shows the movement in the year on the different reserves held by the Authority, analysed into usable and unusable reserves. The Surplus or (Deficit) on the Provision of Services" line shows the true economic cost of providing the services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for council tax setting purposes. The Net Increase/Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the Authority.

Comprehensive Income and Expenditure Statement - The statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from taxation. Authorities raise taxation to cover expenditure in

accordance with regulations; this may be different from the accounting cost. The taxation position is shown in the Movement in Reserves Statement.

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

Cash Flow Statement – This 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 that 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.

The 2010/11 Budget and Resources

Revenue Budget

The Lancashire Police Authority budget was set in February 2010 at £277.803m, an increase of 2.8% on the 2009/10 budget. In order to fund the increased budget requirement the Authority used a combination of external resources totalling £209.661m which was made up as follows:

- Police Grant £112.789m
- Revenue Support Grant £12.283m
- Non Domestic Rates £84.589m

This represented a 2.7% increase in external resources which was slightly below the national average of 2.8% and left £68.142m to be raised from the Council Tax. The resultant Council Tax equated to a charge for a Band D property of £146.27, an increase of 2.95% over the 2009/10 charge. This compares with an average council tax increase for shire police authorities of 3.07%. Lancashire's increase in council tax

was at the midpoint of the shire police authorities, but the Authority's council tax of £146.27 remained in the lower quartile of all shire police authorities.

Following a change in government at the beginning of the financial year, a number of in year reductions were announced across a number of public sector organisations and services. As a result of this, the Lancashire Police Authority's revenue resources were reduced by £2.875m. The reduction was immediate and therefore action needed to be taken to ensure that the Authority was able to deliver services within the reduced funding available.

In order to bridge the funding gap, a strategic approach was undertaken which allowed the savings to be achieved and at the same time ensure the best possible level of service provision. This was achieved by taking a number of actions including bringing forward some planned organisational reviews and using one off reserves to fund the budget reduction in 2010/11 whilst developing strategies which would ensure that these savings could be achieved in future financial years.

Capital Funding

The 2010/11 Capital Programme was initially approved at £19.744m in February 2010. As with the revenue funding the government announced a budget reduction on capital grant which resulted in Lancashire's capital grant allocation being reduced by £0.250m. The Authority asked the Constabulary to review its capital requirements. This resulted in the reduction or rephasing of a number of schemes in-year.

The 2010/11 Revenue Outturn

2010/11 was an extremely challenging year for the Constabulary not only in meeting the identified cost pressures within each of the devolved (DFM) budgets but the additional pressure from the in-year funding reduction announced by government in June 2010 of £2.875m.

This reduction in the Constabulary's budget, some 5 months into the financial year, required immediate action in order to avoid overspending in 2010/11. Through close management scrutiny within the Constabulary and oversight by the Police Authority it was ensured that this position was managed. In addition, as part of the medium term financial planning process, actions in respect of a number of Organisational Reviews were accelerated not only to manage the in-year position but to contribute towards the budget reductions required in future years. This action achieved significant results and contributed significantly to an in year underspend of £2.965m. This underspend has been added to the DFM reserves and will be utilised as part of the medium term financial strategy to manage and achieve the budget reductions required over the next 4 financial years. .

Under the financial arrangements relating to the management of devolved resources there is a limit of 2% on the level of reserves that can be carried forward by budget holders. Any reserves above this limit are automatically transferred to the Authority's general reserves. In 2010/11 some £0.339m fell into this category and is a charge to the expenditure account in 2010/11 and reduces the in-year underspend on DFM

budgets, with a compensating reduction in the Non-DFM in year overspend of £0.339m. This is set out in the table below:

	(Surplus)/Deficit £m	£m
<u>DFM</u>		
Total scheme overspends	0.756	
Total scheme underspends	(4.060)	
Reported net underspends	(3.304)	
Transfer underspends in excess of 2% to Non-DFM	0.339	
Adjusted in-year underspend		(2.965)
Contribution to DFM reserves		2.965
 <u>Non-DFM</u>		
Overspend on police pensions due to a higher level of ill-health retirements than anticipated.	1.110	
Overspend on Specific Grants due in the main to the £2.875m in-year grant reduction referred to above	3.068	
Underspends on capital financing both as a result of the review of the capital programme as response to the in-year grant reduction (1.730m) and funding of the borrowing requirement using internal resources rather than external borrowing, so creating further savings.	(2.407)	
Underspend as a result of the decision not to make the budgeted contribution to reserves in light of the in-year specific grant reduction	(0.422)	
First year savings in respect of a number of Organisational Support Reviews carried out within the Constabulary.	(1.000)	
Other over/(underspends)	0.369	
Transfer underspends in excess of 2% from DFM	(0.339)	0.379
Net deficit for the year		0.379

The effect of the above is to reduce general fund balances to £6.938m at 31 March 2011, with a further £3.423m held in balances under the control of DFM Managers (included within "Other Earmarked Reserves" on the balance sheet). These total balances of £10.361m represent 3.8% of the 2011/12 budget requirement, which is considered an adequate level by the Treasurer to the Authority, bearing in mind the continuing financial pressure on the Authority over the short to medium term.

Earmarked Reserves

In addition to the balances mentioned above, as at 31 March 2011 the Authority holds a further £9.742m in Earmarked Reserves; these are analysed in note 9 to the accounts. The creation of a new Police and Crime Commissioner from May 2012 has been debated widely within the House of Lords. Whilst exact details are still to emerge, it is likely that some transition costs will be incurred. In anticipation of this,

£4.070m has been set aside in the Earmarked Reserves to assist with the transition process. The position in relation to costs and call on reserves will be monitored throughout the year.

Pension Liabilities

Pension costs are reported in line with International Accounting Standard 19 (IAS19). This treatment means that the Authority's balance sheet includes an entry for the accumulated pensions' liabilities, which is a forecast of the long term liability to pay staff retirement benefits. (The balance sheet also contains an equal and offsetting notional pensions' reserve entry.)

At 31 March 2011 the net pensions liability calculated by the actuary is £2,162m, a reduction of £192m over the previous year's figure of £2,354m. The net liability is split between the Local Government Pension Scheme (£73m) and the Police Pension Schemes (£2,089m); the police schemes are unfunded, ie no investments or other assets exist to offset future liabilities.

In his budget statement on 22 June 2010, the Chancellor announced that the government would start to increase public service pensions in line with the Consumer Price Index (CPI) rather than the Retail Price Index (RPI), which has been practice in the past. The effect of this change is to reduce the calculated value of the employer's liability by £188.4m. The actuaries have treated this as a Past Service Gain and it appears as income in the Non-Distributed Costs line in the Comprehensive Income and Expenditure Statement and contributes towards the surplus on provision of services of £51.341m. This also contributes significantly to the increase in the Authority's Net Asset of £188m which can be seen on the Balance Sheet on page 27.

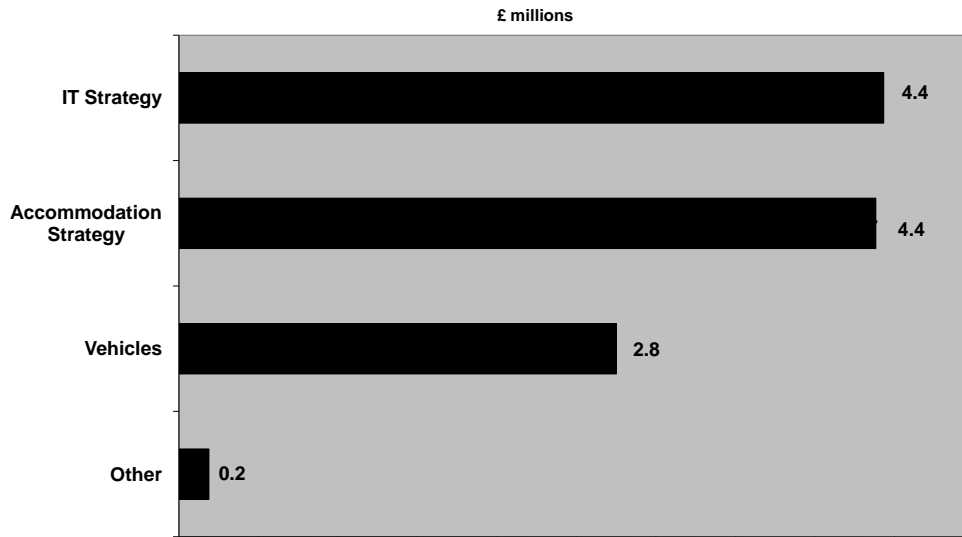
Other elements affecting the change in liability are explained in Accounting Policy (vii) and shown in detail in Note 47 to the accounts.

Capital Expenditure

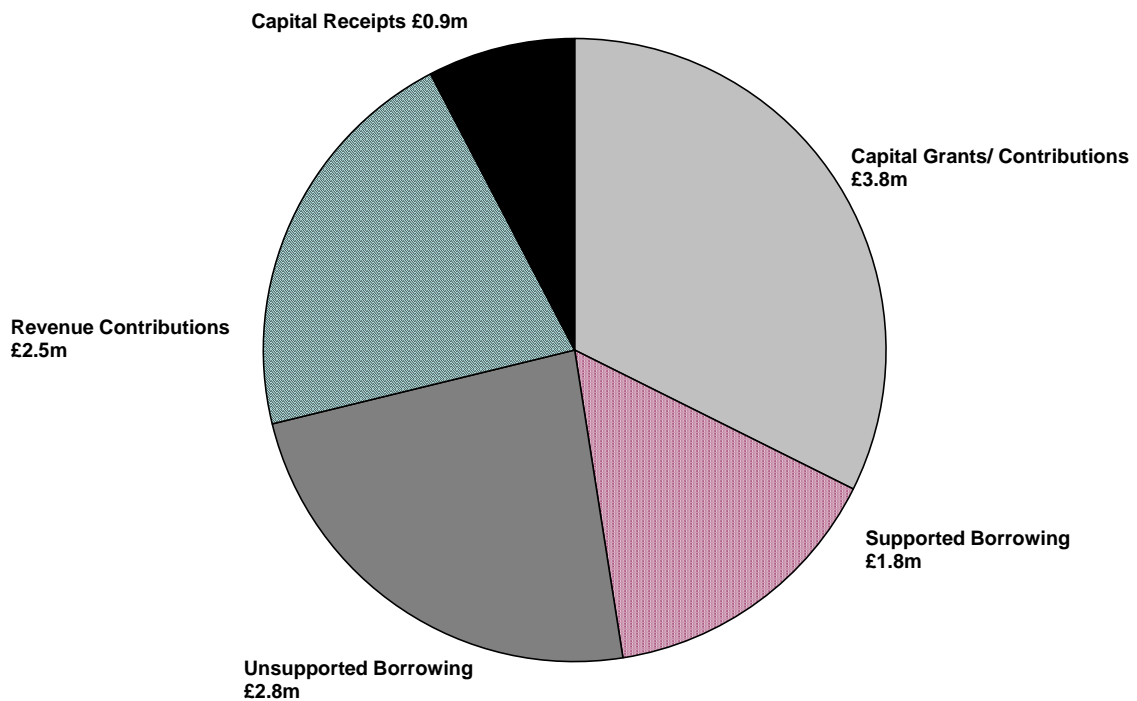
Capital spending in 2010/11 amounted to £11.8m with £1.057m additional carry-forward into 2011/12. Major areas of expenditure included the Police Authority's investment in assets of long-term benefit and included the continued development of Headquarters accommodation (£3.4m), costs associated with the Automatic Number-plate Recognition System (£1.8m), other IT infrastructure costs and ongoing vehicle replacement. After also allowing for depreciation, impairment and the disposal of assets, the value of long term assets held at 31 March 2011 is estimated at £181.490m with short term assets held for sale estimated at £3.197m.

The graph below shows our major areas of capital spending during the year:

LANCASHIRE POLICE AUTHORITY 2010/11
EXPLANATORY FOREWARD



The Authority's capital expenditure was financed from a combination of grants, external borrowing (supported and unsupported), capital receipts and revenue resources, as follows:



All external borrowing is currently secured from the Public Works Loan Board (PWLB). There are two types of borrowing that the Authority can undertake. The first is supported borrowing which the Government is prepared to grant-aid or 'support' to some extent by way of revenue grant. The second ("unsupported borrowing") is determined by the Authority, subject to it being affordable and prudent in the long term, and is funded from resources generally available to the Authority. All of the Police Authority debt, used to finance its Capital Programme, is held with the PWLB but no new loans were raised during 2010/11 as the borrowing requirement was met in the short term from cash balances. This was considered more cost effective than borrowing at this time. The borrowing strategy is outlined in the 2010/11 Treasury Management Strategy, a copy of which can be found on the Authority's website at the following link:

<http://committee.lancspa.gov.uk/ieSearchResults2.aspx?SS=Treasury%20Management%20Strategy&SD=01%2f01%2f2010&DT=3&CI=114&CA=false&SB=true&CX=113652&PG=1>

Resources available to support future capital expenditure plans

The Authority maintains a rolling five year capital forecast and resources are set aside to finance future capital expenditure. As at 31 March 2011 the following usable reserves are earmarked to support capital expenditure:

	£m
Capital Receipts Reserve	1,136
Capital Funding Reserve	<u>7,032</u>
	<u>8,168</u>

Significance of the movement from UK GAAP (Generally Accepted Accounting Practices) to IFRS (International Financial Reporting Standards)

The 2010/11 financial statements are the first to be prepared on an International Financial Reporting Standard (IFRS) basis. Adoption of the IFRS-based Code has brought about various changes to accounting policies which has resulted in the restatement of certain balances and transactions, with the result that some of the 2009/10 comparative figures presented in the 2010/11 financial statements are different from the equivalent figures presented in the Statement of Accounts for 2009/10 under UK GAAP accounting. Note 1 to the accounts shows the Accounting Policies applied under IFRS and Note 2 highlights the main accounting adjustments the Authority has made in order to change the presentation of the financial statements from a UK GAAP to an IFRS basis.

There has also been a requirement to change the way in which the financial statements are presented as follows:

Balance Sheet – the Authority has presented three balance sheets for the position as at

- 1st April 2009 (i.e. the opening position for the 2009/10 balance sheet) which is also the required transition date for all authorities to move from a UK GAAP accounting basis to an IFRS accounting basis.
- A comparative IFRS balance sheet as at 31st March 2010.
- A balance sheet as at 31st March 2011 – representing the first full year of an IFRS accounting basis for all local authorities.

Comprehensive Income and Expenditure Statement – this statement shows the Authority's cost of providing services. Further, under the additional category of 'Other Comprehensive Income and Expenditure', this statement now incorporates all the gains and losses of the Authority for the year, showing the aggregate increase in its net worth. Under UK GAAP accounting these additional gains and losses were shown separately under the Statement of Total Recognised Gains and Losses.

Movement in Reserves Statement – this is a new financial statement which shows the movement in year of the different reserves held by the Authority.

Cash Flow Statement - under IFRS accounting this statement shows the changes in the cash and cash equivalents of the Authority during the reporting year. IFRS accounting requires the Authority to reclassify certain categories of monies held as cash equivalents, which is shown in the cash equivalents accounting policy (iii) in Note 1 to the accounts.

Significant provisions, contingent assets/ liabilities or material write-offs

Under IFRS, Note 2 to the accounts introduces a new requirement to accrue for any annual leave, time off in lieu and flexi-time hours earned but not taken at 31st March each year. Under previous UK GAAP accounting arrangements no such accrual was required. The value of this accrual as at 31 March 2011 is £8.163m and is included within Short Term Creditors in the Current Liabilities section of the Balance Sheet.

However, the government has issued regulations that mean local authorities are only required to raise council tax to fund these costs when the leave, lieu time etc is used, rather than when employees earn the benefits. Amounts are therefore transferred to an unusable reserve, the Accumulated Absences Account, until the benefits are used.

Major Changes in Statutory Functions which have a significant impact on the accounts, along with planned future developments

A Police and Crime Commissioner is likely to be introduced from May 2012 which will impact on the future role of Police Authorities nationally. Further information is awaited however, in preparation for this, a review of potential issues and costs has been carried out. At this stage it has been agreed that some of the reserves held be earmarked to fund any transition costs as and when they emerge. The position in

relation to the establishment of a Police and Crime Commissioner and any likely costs will be monitored throughout the 2011/12 financial year.

Material Events after the Balance Sheet date

No material events after the balances sheet date have been identified.

Financial Outlook

The latest medium term financial forecast, which aims to reflect the potential impact that current information and trends will have on future financial years, was considered by the Authority when it set its 2011/12 revenue and capital budgets in February 2011. The forecast will continue to be monitored and developed on an ongoing basis, forming part of the setting of the budget for 2012/13 in February 2012.

This forecast reflects the Local Government Funding Settlement that was announced on 13th December 2010. This settlement provides some certainty, particularly for 2011/12 and 2012/13 but also represents a cut in funding of 20% in real terms (15% Cash terms) over the next 4 years. The cut in funding at this level has clearly resulted in difficult choices for the Authority going forward. It was widely acknowledged that this was the toughest settlement faced by authorities in a generation.

The Authority and Constabulary has been attuned to this challenge for some time and took a decision over 12 months ago to comprehensively plan for the financial challenge by setting in motion a programme of Organisational Reviews (ORs) aimed at driving out cash efficiencies whilst at the same time ensuring that the constabulary's ambition to consistently be amongst the top performing police forces in the country remained intact. Progress has been such that the required savings for 2011/12 have been identified through this process and plans are in place to ensure these are achieved.

There are likely to be some cost pressures that emerge during the year that will need to be managed. In particular the planned demonstrations by the English Defence League are known to require substantial policing and consequently the costs of these are estimated to be in the region of £900k for 2 events in 2011/12. Representations for additional funding to meet the costs of policing these events have been made to the Home Office.

In the years beyond 2011/12 the OR programme focuses on the total requirements over the settlement period and the forecast reflects that only £1.5m of the required savings target remains to be identified. Further work to establish these savings is currently underway and whilst this will be challenging there is recognition that the processes and culture now embedded in the Constabulary will ensure that the OR programme will deliver the required savings to ensure a balanced and robust financial programme for the constabulary

In relation to capital investment the medium term strategy reflects a continuing need for significant capital investment, especially in the IT infrastructure. The ability to

generate resources locally through asset sales is diminishing and finding the necessary resources will be challenging. The authority will continue to seek to utilise the flexibility offered through the prudential borrowing framework whilst ensuring that this is done within the parameters of affordability and prudence.

IAN L COSH CIPFA
Treasurer to the Police Authority
30 JUNE 2011

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF LANCASHIRE 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 Lancashire 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 Lancashire 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 Practices Board's Ethical Standards for Auditors.

Scope of the audit of the financial statements

An audit involves obtaining evidence about the amounts and disclosures in the 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.

Opinion on accounting statements

In my opinion the accounting statements:

- give a true and fair view of the state of Lancashire 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.

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, Lancashire 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 Lancashire Police Authority in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Clive Portman
District Auditor

Audit Commission
2nd Floor
Aspinall House
Aspinall Close
Middlebrook
Bolton
BL6 6QQ.

27 September 2011



**Lancashire
Constabulary**
police and communities together

ANNUAL GOVERNANCE STATEMENT 2010/11

1 INTRODUCTION

The Governance Framework comprises the systems and processes, culture and values by which the Authority is directed and controlled in order to discharge its two primary statutory duties:

- 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 system of internal control is a significant part of that framework and is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Authority and Constabulary's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The Authority has approved and adopted a Code of Corporate Governance which is consistent with the principles of the CIPFA / SOLACE Framework Delivering Good Governance in Local Government. This statement explains how the Authority seeks to comply with the Code, and also meets the requirements of Regulation 4(2) of the Accounts and Audit Regulations 2006 in relation to the publication of a Statement of Internal Control / Annual Governance Statement.

2 OVERALL ASSURANCE SUMMARY

No system of internal control can provide absolute assurance against material misstatement or loss.

However, on the basis of the review of the sources of assurance set out in this Statement, we are satisfied that Lancashire Police Authority and Lancashire Constabulary have in place satisfactory systems of corporate governance and internal control which facilitate the effective exercise of their functions and which include arrangements for the effective management of risk.

3 THE GOVERNANCE FRAMEWORK

The Authority's six principles of good governance are as follows:

3.1 Focusing on the purpose of the Authority, on outcomes for the Community and creating and implementing a vision for the local area.

A Local Policing Plan is produced jointly with the Constabulary, taking into consideration any objectives set by the Government, the views of the public and the plans of other relevant bodies, such as the Community Safety Partnerships

Increased emphasis is now placed on partnership working.

The issued version of the Local Policing Plan is produced by a joint Planning Working Group. The Plan for 2011 / 12 was developed through September 2010 to March 2011 and approved by the Authority on 23 March 2011. This Plan sets out the agreed policing objectives for 2011/12 which take account of public consultation which has taken place throughout 2010 / 11.

Value for Money is an integral part of the Local Policing Plan and has been added to the four existing strategic priorities, demonstrating the importance placed on the need to design and deliver services in the most efficient and effective way possible.

The Constabulary reported on areas of performance against targets in the Local Policing Plan to the Authority's Planning and Performance Review Committee throughout 2010 / 2011 and other Committees as relevant to their area of business. A scrutiny schedule sits alongside the Policing Plan and lays out the specific areas to be monitored throughout the year, indicating the scrutiny arrangements that have been agreed.

The Police Authority also publishes its own medium term Corporate Plan which sets out its objectives over the period and ensures that the Authority's resources are targeted into areas that have most impact and this is supported by an annual Business Plan.

3.2 Engaging with local people and other stakeholders to ensure robust public accountability.

The Authority has a statutory duty to consult with the public in relation to policing issues. The Authority and Constabulary have appropriate strategies for consultation, communication and marketing that are designed to ensure effective engagement with all sections of the community and stakeholders. These strategies also aim to promote visible awareness and create a positive, informed and recognisable profile for both the Authority and the Constabulary.

The Authority's, 'Investors in Policing' campaign has continued to increase active public participation in the scrutiny process and ensure full use of the outcomes from their involvement. The Authority is committed to engaging with diverse groups and has developed an accessible website with a British Sign language version. The Authority has also launched a new website, LOOP (Lancashire Opinions on Policing) where residents can respond to regular surveys as well as having their say on current issues around crime and policing.

The Constabulary, through its neighbourhood policing strategy, engages with local people to develop solutions to the local crime and policing issues which impact upon communities and undermine their confidence in receiving an effective policing service. Dedicated Community Beat Managers are deployed as are all members of the extended police family including the Special Constabulary, Police Community Support Officers, volunteers, other accredited organisations, Neighbourhood Watch scheme members and partner agencies.

Internal Audit has undertaken a review of the Authority's processes in respect of complaints handling. Subsequently, the Authority reviewed all the relevant policies and procedures for handling complaints. Members and staff have been provided with training in handling complaints against senior officers.

Further training on complaints handling will be provided in the near future to Members of the newly established Professional Standards and Citizen Focus Committee.

3.3 Having clear responsibilities and arrangements for accountability.

The Authority has clearly outlined who is responsible for the discharge of its responsibilities within its Constitutional and Procedural Standing Orders, Scheme of Delegation, Contractual Standing orders, Financial Regulations and formal constitution.

The Authority's Chief Executive acts as Clerk under Section 16 of the Police Act 1996 and Proper Officer under section 270(3) of the Local Government Act 1972. The Authority has appointed a separate Monitoring Officer, under section 5 of the Local Government and Housing Act 1989, with a statutory duty to highlight any proposals, decisions or omissions by the Authority which constitute, have given rise to, or are likely to give rise to, either a breach of the law, a breach of a statutory code, or which constitute maladministration or injustice.

The Treasurer is the Authority's professional advisor on financial matters. The statutory responsibilities of the Treasurer to the Police Authority are set out in various Acts, including sections 112 and 114 of the Local Government Finance Act 1988.

For the 2011/12 year, the role of Treasurer to the Authority and Director of Resources to the Constabulary is a dual role undertaken by one individual. As Director of Resources he is responsible to the Chief Constable for all financial activities within the Constabulary but the independent statutory role of the Treasurer is safeguarded through this aspect not being under the direction or control of the Chief Constable.

3.4 Taking Informed and transparent decisions which are subject to effective scrutiny and risk management.

The Authority conducts its business based around a committee structure and a scheme of delegated powers. Within this framework the Authority has formal and informal mechanisms for the monitoring and scrutiny of the performance of the Constabulary.

The Authority ensures that:

- Rules and procedures governing how decisions are made are in place.
- Key decisions taken by the Authority and its Committees are taken in public meetings.
- Arrangements are in place to allow members of the public to speak at all meetings.
- Committee papers are made available to the public (except where that information is exempt under the provision of Access to Information rules).
- Appropriate legal, financial, human resources and other professional advice is considered as part of the decision making process.

- Professional arrangements are in place for the protective services area of policing which addresses the police response to terrorism, serious crime and other major challenges to public safety.

The Constabulary has a decision making structure comprising:

- Strategic Tasking and Co-ordinating Group – the key strategic decision making body of the Constabulary, chaired by the Chief Constable and attended by the Chief Officer and Senior Command Teams
- Sustaining Excellence (SE) Governance Board – a strategic board which has oversight of the SE Programme, the emerging risks and opportunities for the Constabulary and the potential impacts of implementing widespread organisational change.
- Business Group is the financial decision making body of the Constabulary. It is chaired by the Chief Constable and attended by the Chief Officer Team. It considers business resourcing decisions in the context of the five year financial forecast and other relevant budgetary constraints.
- Tactical Tasking and Co-ordinating Group is the operational decision making body of the Constabulary. It is attended by Divisional Operations Managers and is chaired by the ACC for Specialist Operations.

Key business and operational decision making is also undertaken locally by Divisional Commanders and Heads of Departments.

The Authority and Constabulary both work to identify areas of risk and threat, assess the likely impact and seek to eliminate or reduce the consequences of those risks.

During 2010 / 11 additional activity was undertaken to improve the risk management arrangements. Internal Audit undertook a review of risk management processes in the Constabulary and the Authority as part of the 2010 / 11 internal audit plan in order to determine progress made with implementing recommendations made in the previous report in May 2009. A draft report prepared in March 2011 indicated substantial assurance and effective operation within both organisations.

The Constabulary has a strategic risk register which records details of its high level business risks. In addition, divisions and departments have their own risk registers dealing with operational risks. Risks in the divisional and departmental registers can, where appropriate, be escalated for inclusion in the strategic risk register. Both sets of registers are updated on a regular basis.

The Authority also has two risk registers in place, a strategic risk register and an operational risk register. On a quarterly basis, senior managers review both registers and both risk registers are also considered in a variety of forums, both informally and formally through the Authority's committee process. New governance arrangements for 2011 / 2012 will require a refresh of risk management processes and this is currently ongoing.

The impending findings of a recent internal audit into the effectiveness of the

Constabulary's business continuity arrangements are expected to highlight certain issues and make recommendations for improvements to those arrangements. The Authority and Constabulary have independently recognised and acknowledged those issues and measures are already being put in place to address them.

The Constabulary has been undertaking a programme of Organisational Reviews designed to ensure that it is operating in the most efficient and effective way, to achieve value for money as well as excellent performance across all areas of the business. The Constabulary must make savings of almost £42m over a four year period, as a result of the Spending Review announced in 2010. Having taken early action to identify areas where efficiencies can be made, it is already well on track to achieve those savings.

As part of this programme of work, 62 separate projects have been identified for review. 56 have already been completed with the remainder either ongoing or planned. The programme is subject to robust project management and is supported by a joint Constabulary and Authority Governance Board, which ensures that the process is quality assured to provide consistency and continuous improvement. The Police Authority is represented on the majority of Organisational Reviews, with Members and senior officers taking a scrutiny and monitoring role in the Sustaining Excellence Governance Board and participating in the preparation of recommendations and suggestions for savings and efficiencies.

The Constabulary has worked closely with partners to review existing arrangements and determine how shared outcomes might be delivered more effectively by improved joint working processes. This has resulted in significant changes to partnership delivery frameworks, including co-location arrangements and joint hubs. As part of the scrutiny schedule 2010-11, it was agreed that the Constabulary would provide updates to the Authority regarding progress to improve partnership arrangements. The Constabulary duly submitted a scrutiny report to the Authority's Improvement and Scrutiny Group in November 2010.

The Authority itself has also undertaken a review in a number of its own business areas. This had led to efficiencies being made and also to the development of a more streamlined committee structure, designed to free up member/officer time and simplify the processes.

3.5 Good Conduct and Behaviour

The Authority has a Code of Conduct for Police Authority Members which includes the statutory provisions contained in the model code of conduct.

Police Officers, Police Staff and the Police Authority's Officers are all subject to policies and procedures covering discipline, grievance and standards of conduct.

The Authority and the Constabulary have arrangements in place to address fraud and corruption and also have procedures in place to enable staff to report any issues of concern in confidence.

The Audit and Standards Committee of the Authority has responsibility for considering allegations of Police Authority Member misconduct. The Professional Standards Department of the Constabulary is responsible for recording and investigating complaints from members of the public and allegations made by

members of the Constabulary itself.

Meetings are held between Internal Audit and the Constabulary's Professional Standards Department to ensure effective liaison on any irregularities, investigations and issues of misconduct.

The Government has indicated its intention to abolish the standards board framework under the Decentralisation and Localism Bill. The Authority is monitoring developments and the Audit and Standards Committee receives regular reports on progress.

3.6 Developing the capacity and capability of Members and Officers to be effective.

All Police Authority Members are given the opportunity, through an annual review process, to identify development opportunities and areas of business where they wish to concentrate. Members receive regular briefings on key issues and are given prompt responses to any queries they raise. Individual one to one training / learning opportunities have been designed to ensure Members can engage effectively.

The Constabulary has an Assistant Chief Constable post to oversee its "People" portfolio and a Constabulary Learning and Development Plan that ensures that learning and development is effectively and efficiently utilised in support of the organisation's key strategic objectives.

A mandatory system of Performance Development Reviews for each Police Officer and member of the Constabulary's staff provides for the cascading of and targeting of key objectives which appear within plans; and the Authority uses monthly one to one meetings between staff and their line managers to set and review work priorities and identify any learning / training requirements.

Workforce planning in the Constabulary is undertaken by the Strategic Resourcing Group, taking the 5 year financial forecast, as well as predictions about potential impact on police officers and police staff, in order to determine the budgeted strength and recruitment needs for the Constabulary. An Annual Costed Human Resource Plan and Learning and Development Plan are submitted by the Constabulary to the Authority on an annual basis and progress is regularly monitored.

The Constabulary is an Investor in People and has put in place a range of support mechanisms for officers and staff who have been affected by the organisational change programme. This includes help and advice for officers returning to frontline from back office posts, those who are leaving the organisation through redundancy or retirement and those who are moving on to different posts within the Constabulary. The impact of change on officers and staff has been highlighted as a risk to the Constabulary and is included in the Strategic Risk Register.

4 REVIEW OF EFFECTIVENESS

The Authority conducts each year a review of the effectiveness of the governance framework, including the system of internal audit and the systems of internal control.

Regular monitoring reports and an annual report are received from the Internal Auditors, providing the Audit and Standards Committee with an opportunity to challenge the assurances that have been obtained over the operation of key controls.

The review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the senior managers within the Authority and the Constabulary who have responsibility for the development and maintenance of the internal control environment, and also by comments made by the external auditors and other review agencies and inspectorates in their annual audit letter and other reports.

As part of the assurance gathering process for this statement, certificates of assurance have been signed by the Authority's Senior Officers and the Constabulary's Chief Officer portfolio holders, which has increased ownership of the statement at a senior level in both organisations. The certificates of assurance cover all the principles set out in the Authority's Code of Corporate Governance. The certificates reveal no areas of weakness in the Authority and Constabulary's corporate governance arrangements; the arrangements are, in the majority of cases, considered to be good; and in a small number of cases adequate. These areas deemed to be adequate will be improved over the coming year.

A joint certificate of assurance has been completed by the Authority's Treasurer / Director of Resources as part of the assurance gathering process. This indicated that all the control areas have been assessed as good. On the basis of these assessments, the Authority and Constabulary are satisfied that adequate governance arrangements to support the role of the Chief Finance Officers have been maintained throughout the year.

4.1 Internal Audit

Internal audit provides an independent and objective opinion to the Authority on the control environment by evaluating its effectiveness in achieving the organisational objectives. It examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources. The Head of Internal Audit reports regularly to the Chief Executive and Treasurer of the Police Authority and the Constabulary's Director of Resources. The responsibility for maintaining and reviewing the systems of internal control rests with the Authority, but it takes significant assurance from the work of internal audit. In fulfilling this responsibility, each year it receives an opinion on the overall adequacy and effectiveness of the Authority's internal control environment, which provides details of any weaknesses particularly relevant to the preparation of the Annual Governance Statement. The report for 2010/11 affirmed that an adequate level of internal control had been maintained during the year. This maintains the level reported in the 2009/10 annual report.

4.2 External Audit

The external auditor's most recent annual audit letter gave an unqualified opinion on the Authority's accounts for the year and recorded that they had not identified any significant weaknesses in the overall control framework. The external auditors also concluded that the Authority had proper arrangements in place to secure economy, efficiency and effectiveness in the use of resources.

The Audit Commission abolished the use of the Police Use of Resources Evaluation (PURE) assessment tool during 2010. However, much of the work done prior to this was used by the auditor in reaching his value for money opinion which we received in September 2010 indicating that the Authority had performed well in this area.

4.3 Her Majesty's Inspectorate of Constabulary (HMIC)

The operations of the Police Authority and Constabulary are periodically inspected by Her Majesty's Inspectorate of Constabulary. In April 2010 HMIC published their Police Report Card which graded the Constabulary as:

Excellent :	Local Crime and Policing
Good:	Confidence and Satisfaction
Fair:	Protection from Serious Harm

In Spring 2010 HMIC carried out a review of how the Constabulary deals with anti-social behaviour (ASB). The report published in autumn 2010 indicated the progress made by the Constabulary on tackling ASB. Recent performance results have shown a 10% reduction in ASB incidents, as well as a reduction in the number of repeat incidents being reported.

In February 2011, the Constabulary agreed to be a pilot force for HMIC, to assist the development of their methodology for a review of police crime and incident data quality. Whilst no gradings were offered on their findings and some areas for improvement were identified, the Detailed Force Feedback Report indicated that:

“The force has high standards when recording crimes and incidents in a consistent and accurate manner”

From January to March 2011, the Constabulary and Authority were inspected on their preparedness to implement the necessary budget cuts and deliver value for money policing services. Whilst final reports are still awaited, initial feedback and draft reporting has indicated that positive findings can be expected.

5 PROGRAMME OF IMPROVEMENT FOR GOVERNANCE ISSUES

Neither the Authority nor the Constabulary are complacent and both recognise that the systems of control must be subject to continuous review to ensure they operate effectively. The following activities will be monitored closely over the coming year:

Business Continuity

The Authority and Constabulary have acknowledged certain issues around the effectiveness of arrangements that are currently in place for ensuring business continuity. It is expected that the impending findings of a recent internal audit will make recommendations for improvement to those arrangements. The work to address a number of issues has already commenced, with planned training for new staff and the development of a framework for the testing and reporting of business continuity plans. Progress will be reported to and scrutinised by the Authority through the relevant groups.

Partnerships

Following the Constabulary's Organisational Review of partnerships, a number of recommendations have been agreed which will move the Constabulary and its partners towards significantly closer joint working arrangements, to deliver desirable and necessary shared outcomes in the most effective way. This includes the

introduction of partnership hubs and co-location of both staff and services. The implementation of these plans will be closely monitored and assessed through the scrutiny reporting mechanisms in place through the scrutiny schedule and the quarterly performance bulletin.

Managing Change – Delivering Value for Money

The significant financial challenges facing the public sector over the next few years, means that both the Authority and Constabulary need to continue to ensure that excellent services are maintained with fewer resources. The Local Policing Plan 2011-2015 includes a Value for Money statement which sets out in detail the approach which will be taken to deliver significant financial savings whilst ensuring that service delivery is maintained at the highest standard. The first stage of this delivered £10m efficiencies by 31 March 2011. The Authority will ensure that the previous good performance in delivering value for money and significant efficiencies (over £31m delivered in the period 2008- 2011) will form the basis of a VFM strategy which will ensure that high quality, high performing policing is delivered which is at an acceptable cost to Lancashire residents.

This must be achieved within a context of implementing significant and widespread changes to the structure of the Constabulary. The implications for the public of Lancashire, the Constabulary itself and the impact on the officers and staff who work for it are also significant. The Constabulary has introduced a range of measures to manage this impact, taking care to understand the collective risks, keeping the public informed about decisions and developing a support framework to help officers and staff who are directly affected. The Constabulary and Authority will monitor and review outcomes from those plans and new processes, to ensure that they continue to deliver excellence in quality and performance whilst maintaining investment in people.

Transition

The Authority and Constabulary will need to have clear and detailed workplans, in the run up to the transition from Police Authority to the Police and Crime Commissioner due to take effect in May 2012. Effective engagement with stakeholders will be an essential aspect of this work. The Authority and Constabulary are working together to take this forward and it is proposed that a Transition Board will be established reporting to full Police Authority. Initial scoping has also identified the following project workstreams:

- Post transfer structures to the appropriate body
- Transfer of assets, rights and liabilities
- Elections
- Establishment of the Police and Crime Panel
- Community Safety Arrangements.

	Signature	Date
M T Doherty Chair, Lancashire Police Authority		27 May 2011
M Carruthers-Watt Chief Executive, Lancashire Police Authority		27 May 2011
S Finnigan Chief Constable, Lancashire Constabulary		27 May 2011

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Authority's Responsibilities

The Authority is required to:

- make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the chief financial officer.
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- approve the Statement of Accounts.

The Chief Financial Officer's Responsibilities

As the Authority's chief financial officer the Treasurer is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC *Code of Practice on Local Authority Accounting in the United Kingdom* (the Code).

In preparing this Statement of Accounts, the Treasurer has:

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

The Treasurer has also:

- kept proper accounting records which were up to date
- taken reasonable steps for the prevention and detection of fraud and other irregularities.

MOVEMENT IN RESERVES STATEMENT

This statement shows the movement in the year on the different reserves held by the Authority, analysed into "usable reserves" (ie those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Authority's services, more details of which are shown in the Comprehensive Income & 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 undertaken by the Authority.

	General Fund Balance	Earmarked General Fund Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£000	£000	£000	£000	£000	£000	£000
Balance at 31 March 2009	5,726	8,055	570	588	14,939	(1,449,130)	(1,434,191)
Movement in Reserves during 2009/10							
Surplus/(deficit) on the provision of services	(104,955)	-	-	-	(104,955)	-	(104,955)
Other Comprehensive Income & (Expenditure)	-	-	-	-	-	(653,030)	(653,030)
Total Comprehensive Income & (Expenditure)	(104,955)	-	-	-	(104,955)	(653,030)	(757,985)
Adjs between accounting basis & funding basis under regulations (Note 8)	103,378	-	183	(23)	103,538	(103,538)	-
Net Increase/(Decrease) before transfers to Earmarked Reserves	(1,577)		183	(23)	(1,417)	(756,568)	(757,985)
Transfers (to)/from Earmarked Reserves (Note 9)	3,168	(3,168)	-	-	-	-	-
Increase/(Decrease) in 2009/10	1,591	(3,168)	183	(23)	(1,417)	(756,568)	(757,985)
Balance at 31 March 2010 c/f	7,317	4,887	753	565	13,522	(2,205,698)	(2,192,176)
Surplus/(deficit) on the provision of services	51,341	-	-	-	51,341	-	51,341
Other Comprehensive Income & (Expenditure)	-	-	-	-	-	136,452	136,452
Total Comprehensive Income & (Expenditure)	51,341	-	-	-	51,341	136,452	187,793
Adjs between accounting basis & funding basis under regulations (Note 8)	(43,442)	-	383	(565)	(43,624)	43,624	-
Net Increase/(Decrease) before transfers to Earmarked Reserves	7,899	-	383	(565)	7,717	180,076	187,793
Transfers (to)/from Earmarked Reserves (Note 9)	(8,278)	8,278	-	-	-	-	-
Increase/(Decrease) in 2010/11	(379)	8,278	383	(565)	7,717	180,076	187,793
Balance at 31 March 2011 c/f	6,938	13,165	1,136	-	21,239	(2,025,622)	(2,004,383)

COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT

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

Gross Exp £000	2009/10			2010/11		Net Exp £000
	Gross Inc £00	Net Exp £000		Gross Exp £000	Gross Inc £000	
171,578	(23,702)	147,876	Local Policing	185,576	(22,773)	162,803
21,727	(295)	21,432	Dealing with the Public	23,456	(354)	23,102
30,598	(2,455)	28,143	Criminal Justice	30,788	(2,952)	27,836
12,976	(2,440)	10,536	Road Policing	13,260	(1,800)	11,460
21,178	(865)	20,313	Specialist Operations	22,826	(679)	22,147
15,255	(349)	14,906	Intelligence	16,568	(430)	16,138
32,093	(2,991)	29,102	Specialist Investigations	32,504	(3,102)	29,402
11,261	(2,051)	9,210	Investigative Support	11,770	(460)	11,310
7,202	(5,986)	1,216	National Policing	7,290	(5,573)	1,717
1,886	(6)	1,880	Corporate and Democratic Core	1,751	(24)	1,727
			Non-Distributed Costs:			
-	-	-	Past Service Gains	-	(188,366)	(188,366)
205		205	Other	188	-	188
325,959	(41,140)	284,819	Cost of Services	345,977	(226,513)	119,464
728	(20,376)	(19,648)	Other Operating Income & Expenditure (Note 11)	1,453	(24,584)	(23,131)
123,487	(9,098)	114,389	Financing & Investment Income & Expenditure (Note 12)	145,012	(11,366)	133,646
-	(274,605)	(274,605)	Taxation & non-specific grant income (Note 13)	-	(281,320)	(281,320)
450,174	(345,219)	104,955	(Surplus)/Deficit on Provision of Services	492,442	(543,783)	(51,341)
		29	(Surplus)/Deficit on Revaluation of Property, Plant & Equipment assets			1,204
		653,001	Actuarial (gains)/losses on pension assets/liabilities			(137,656)
		653,030	Other Comprehensive (Income) & Expenditure			(136,452)
		757,985	Total Comprehensive (Income) & Expenditure			(187,793)

BALANCE SHEET

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

1 April 2009	31 March 2010		Notes	31 March 2011
£000	£000			£000
195,067	187,407	Property, Plant & Equipment	18	177,569
18	33	Investment Property	19	29
3,502	3,976	Intangible Assets	20	3,892
198,587	191,416	Long Term Assets		181,490
563	529	Short Term Investments	22	18,566
260	1,999	Assets Held for Sale	23	3,197
893	862	Inventories	24	702
17,996	16,650	Short Term Debtors	25	15,537
22,507	13,016	Cash and Cash Equivalents	26	2,714
521	728	Payments in Advance	27	1,288
42,740	33,784	Current Assets		42,004
(800)	(350)	Short Term Borrowing	22	(1,000)
(37,034)	(32,099)	Short Term Creditors	28	(34,827)
(2,802)	(2,495)	Short-Term Provisions	29	(1,917)
(728)	(876)	Receipts in Advance	30	(951)
-	-	Capital Grants Receipts in Advance	31	(85)
(41,364)	(35,820)	Current Liabilities		(38,780)
(2,367)	(2,130)	Long Term Creditors	22	(1,894)
(391)	(342)	Long-Term Provisions	29	(1,469)
(25,004)	(24,654)	Long Term Borrowing	22	(23,654)
(1,606,392)	(2,354,430)	Pensions Liability	47	(2,162,080)
(1,634,154)	(2,381,556)	Long Term Liabilities		(2,189,097)
(1,434,191)	(2,192,176)	Net Assets		(2,004,383)
14,939	13,522	Usable Reserves		21,239
(1,449,130)	(2,205,698)	Unusable Reserves	32	(2,025,622)
(1,434,191)	(2,192,176)	Total Reserves		(2,004,383)

CASH FLOW STATEMENT

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

2009/10 £000		2010/11 £000
104,955	Net (surplus)/deficit on the provision of services	(51,341)
(112,397)	Adjustments to net (surplus)/deficit on the provision of services for non-cash movements (Note 33)	32,126
5,616	Adjustments for items included in the net (surplus)/deficit on the provision of services that are investing & financing activities (Note 34)	4,520
(1,826)	Net cash flows from Operating Activities (Note 35)	(14,695)
10,280	Investing Activities (Note 36)	24,410
1,037	Financing Activities (Note 37)	587
9,491	Net (Increase)/Decrease in cash & cash equivalents	10,302
22,507	Cash & cash equivalents at beginning of the reporting period	13,016
13,016	Cash & cash equivalents at the end of the reporting period (Note 26)	2,714

This statement of accounts is that upon which the auditor should enter a certificate and an opinion. It presents a true and fair view of the financial position of the Authority and its transactions as at 31 March 2011 and for the year then ended.

These financial statements replace the unaudited financial statements authorised by the Treasurer on 30 June 2011

IAN L COSH CIPFA
Treasurer to the Police Authority
19 September 2011

COUNCILLOR MALCOLM T DOHERTY
Chair of Lancashire Police Authority
27 September 2011

NOTES TO THE ACCOUNTS

1. STATEMENT OF ACCOUNTING POLICIES

i. General

The Statement of Accounts summarises the Authority's transactions for the financial year 2010/11 and its position at the year-end of 31 March 2011. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit Regulations 2003, which those regulations require to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2010/11, supported by International Financial Reporting Standards (IFRS) and statutory guidance issued under Section 12 of the 2003 Act.

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

ii. Accruals of Income and Expenditure

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

Revenue from the sale of goods is recognised when the Authority transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.

Revenue from the provision of services is recognised when the Authority can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the Authority.

Supplies are recorded as expenditure when they are consumed - where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet.

Expenses in respect of services received (including services supplied by employees) are recorded as expenditure when the services are received rather than when payments are made.

Interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract.

Where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor for the relevant amount is recorded in the Balance Sheet. Debtors and creditors have been included in the accounts at year end on an actual or estimated basis in line with the accruals concept.

Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

iii. Cash and Cash Equivalents

Cash is represented by cash in hand and deposits with financial institutions repayable without penalty on notice of not more than 24 hours. Cash equivalents are investments that mature in three months or less from the date of acquisition and that are readily convertible to known amounts of cash with insignificant risk of change in value.

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

iv. Exceptional Items

When items of income and expenditure are material, their nature and amount will be 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 an understanding of the Authority's performance.

v. Prior Period Adjustments, Changes to Accounting Policies and Estimates and Errors

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

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

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

vi. Charges to Revenue for Non-Current Assets

Services and support services are debited with the following amounts to record the cost of holding non-current assets during the year:

Depreciation attributable to the assets used by the service

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

Amortisation of intangible non-current assets attributable to the service.

The Authority is not required to raise council tax to fund depreciation, revaluation and impairment losses or amortisations. However, it is required to make an annual contribution from revenue towards the reduction in its overall borrowing requirement equal to an amount calculated on a prudent basis determined by the Authority in accordance with statutory guidance; this is known as the Minimum Revenue Provision

(MRP). Depreciation, impairment and revaluation losses and amortisations are therefore reversed to the Capital adjustment Account via the Movement in Reserves Statement and replaced by the MRP.

vii. **Employee Benefits**

Benefits payable during employment

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include such benefits as salaries, paid annual leave and paid sick leave, bonuses and non-monetary benefits (eg cars) for current employees and are recognised as an expense for services in the year in which employees render service to the Authority. An accrual is made for the cost of holiday entitlements (or any form of leave eg time off in lieu) earned by employees but not taken before the year-end which employees can carry forward into the next financial year. The accrual is made at the salary rates applicable in the following accounting year, being the period in which the employee takes the benefit. The accrual is charged to Surplus or Deficit on the Provision of Services, but then reversed out through the Movement in Reserves Statement so that holiday benefits are charged to revenue in the financial year in which the compensating absence occurs.

Termination Benefits

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

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

Post Employment Benefits

The Authority participates in two different types of pension schemes for police officers and a single scheme for police staff.

Local Government Scheme

Police staff are members of the Local Government Pension Scheme, a funded defined benefit scheme, which is managed by Lancashire County Council. The Authority paid an employer's contribution of 14.3% during 2010/11 (13.8% in 2009/10). The Fund was subject to a triennial valuation during 2010/11, the results of which will come into effect on 1 April 2011.

The liabilities of the Local Government Pension Scheme attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method: i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates and projected earnings for current employees.

Liabilities are discounted to their value at current prices, using discount rates which now vary according to the duration of the employer's liability, with an average of 5.5% (5.7% in 2009/10), based on the weighted average of "spot yields" on AA rated corporate bonds.

The assets of the Local Government Pension Fund attributable to the Authority are included in the Balance Sheet at their fair value:

- quoted securities: current bid price
- unquoted securities: professional estimate
- unitised securities: current bid price
- property: market value.

Police Officers

The Police Pension Scheme (PPS) is a contributory occupational pension scheme (contracted out from the State Earnings Related Pension Scheme), governed by the Police Pension Regulations (PPR) 1987 (as amended) and related regulations that are made under the Police Pension Act 1976. Officers make contributions of 11% of pensionable pay.

The New Police Pension Scheme (NPPS), which started on 1 April 2006, is also a contributory occupational pension scheme, governed by the Police Pension Act 1976 (as amended by the Police Pensions Regulations 2006). Officers make contributions of 9.5% of pensionable pay.

A Police Pension Account was set up on 1 April 2006 to administer both of the police pension schemes.

The NPPS and PPS both provide defined benefits to members (retirement lump sums and pensions), earned as employees work for the Authority. The employers' contribution for each serving officer is common to both schemes (24.2% of pensionable pay); this is set nationally and is subject to triennial review, the results of the first review having taken effect from 1 April 2008.

Accrued net pension liabilities have been assessed on an actuarial basis in accordance with IAS19. The net liability and a pensions reserve incorporating both

pension schemes have been recognised in the Balance Sheet, as have entries in the Comprehensive Income and Expenditure Statement for movements in the asset/liability relating to the defined benefit schemes. Transfers into and out of the schemes, representing joining and leaving police officers are recorded on a cash basis in the Pension Account as a result of the time taken to finalise the sums involved.

The liabilities of the PPS and NPPS attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates and projections of earnings for current employees.

Liabilities are discounted to their value at current prices, using a discount rate of 5.5% (5.7% in 2009/10), based on the weighted average of "spot yields" on AA rated corporate bonds.

Injury Awards

Injury awards are paid to police officers under the Police (Injury Benefits) Regulations 2006 and entitlement is dependent on the salary, service and also degree of disablement of the member at the time the injury is incurred. Accordingly the actuaries have calculated the defined benefit obligation as at 31 March 2011 including allowances for the following:

- the actuarial value of the injury pensions that are currently in payment;
- advance provision for the part of the injury pensions that are accrued up to 31 March 2011 and are not yet in payment, for members still in service, in the same way that provision is made for accrued pensions for members still in service for the 1987 and 2006 Schemes.

In addition, an ongoing "service cost" is also calculated which represents the cost of one year's accrual of injury benefits in relation to members in service. Therefore, in line with the IFRS Code of Practice Guidance Notes (Para. B73) the assumption that such awards are "not usually subject to the same degree of uncertainty as the measurement of post-employment benefits" has been rebutted and injury awards are therefore accounted for, under IAS 19, in the same manner as the main police pension schemes. Liabilities are included on the Balance Sheet within the Pensions Liabilities and shown separately in the notes to the accounts.

The movement on the pension asset/liability has to be analysed into seven components:

- current service cost: the increase in liabilities expected to arise from employee service in the current period; allocated in the Comprehensive Income and Expenditure Statement to the revenue accounts of services for which the employees worked
- past service cost: the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years - debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
- interest cost: the expected increase in the present value of liabilities during the year as they move one year closer to being paid - debited to the

Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement

- expected return on assets: the annual investment return on the fund assets attributable to the Authority, based on an average of the expected long term return - credited to Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement (as the Police Pension Scheme is unfunded it has no assets and therefore this adjustment is not relevant).
- gains/losses on settlements and curtailments: the result of actions to relieve the Authority of liabilities or events that reduce the expected future service or accrual of benefits of employees; debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of Non Distributed Costs
- actuarial gains and losses: changes in the net pensions liability that arise because events have not coincided with actuarial assumptions made at the last scheme valuation (experience) or because the actuaries have updated their assumptions - debited/ credited to the Pensions Reserve
- contributions paid to the pension fund – cash paid as employers' contributions to the pension fund in settlement of liabilities; not accounted for as an expense. In the case of the Police Pension scheme, this includes any contribution made by the Authority to meet the deficit on the Pension Fund.

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

viii. Events after the Balance Sheet Date

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

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

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

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

ix. Financial Instruments

Financial Liabilities

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

For all of the borrowings that the Authority has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable (plus accrued interest); and interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year according to the loan agreement. For trade payables the amortised cost is deemed to be a reasonable approximation of fair value and therefore no fair value adjustments have been made.

Financial Assets

The Authority's financial assets include bank deposits, trade receivables (debtors) and cash deposits invested in Lancashire County Council's general county fund. They are classified as loans and receivables which are defined as assets that have fixed or determinable payments but are not quoted in an active market.

Loans and Receivables

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

For trade receivables the amortised cost is deemed to be a reasonable approximation of fair value and therefore no fair value adjustments have been made.

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

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

x. Foreign Currency Translation

Where the Authority has entered into a transaction denominated in a foreign currency, the transaction is converted into sterling at the exchange rate applicable on the date the transaction was effective.

xi. Government Grants and Contributions

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

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

the grants or contributions will be received.

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

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

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

xii. Intangible Assets

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

Internally generated assets have been capitalised where the project is technically feasible and is intended to be completed (with adequate resources being available) and the Authority will be able to generate future economic benefits or deliver service potential by being able to sell or use the asset. Expenditure is capitalised where it can be measured reliably as attributable to the asset and is restricted to that incurred during the development phase. Intangible assets are measured initially at cost. Amounts are only revalued where the fair value of the assets held can be determined

by reference to an active market. The depreciable amount of an intangible asset is amortised over its useful life to the relevant service lines in the Comprehensive Income and Expenditure Statement. Economic lives are based on either the period for which the software licence has been granted or, in the case of developed software, its life is assessed by the Constabulary's Head of ICT. An asset is tested for impairment whenever there is an indication that the asset might be impaired –any losses recognised are posted to the relevant service lines in the Comprehensive Income and Expenditure Statement. Any gains or losses arising on the disposal or abandonment of an intangible asset are posted to the Other Operating Expenditure line in the Comprehensive Income and Expenditure Statement.

Where expenditure on intangible assets qualifies as capital expenditure for statutory purposes, amortisation, impairment losses and disposal gains and losses are not permitted to have an impact on the General Fund Balance. The gains and losses are therefore reversed out of the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

xiii. Inventories and Long Term Contracts

Inventories are maintained for such items as vehicles spares, IT equipment, firearms baton rounds, uniforms and dry store items. Uniforms, clothing and dry store items are valued at average cost and vehicle, baton rounds and IT stocks at current cost. In the case of the vehicle and IT stocks the difference between current cost and average cost (the use of the latter being prescribed as best practice by the ACOP guidance notes) is not material. The selected basis for valuation is applied to each category of inventory on a consistent basis from year to year.

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

xiv. Investment Properties

Investment properties are those that are used solely to earn rentals and/or for capital appreciation. If the property is used in any way to facilitate the delivery of services or is held for sale then it is not an investment property

Investment properties are measured initially at cost and subsequently at fair value, based on the amount at which the asset could be exchanged between knowledgeable parties at arm's-length. Properties are not depreciated but are revalued annually according to market conditions at year-end. Gains and losses on revaluation are posted to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement. The same treatment is applied to gains and losses on disposal.

The Authority has two small investment properties, only one of which generates rental income. The amount of rental income is immaterial and is included within the ICT trading account in the Other Operating Expenditure line of the Comprehensive Income and Expenditure Statement. Revaluation and disposal gains and losses are not permitted by statutory arrangements to have an impact on the General Fund Balance in the Movement in Reserves Statement and posted to the Capital Adjustment Account and (for any sale proceeds greater than £10,000) the Capital Receipts Reserve.

xv. Jointly Controlled Operations

Jointly controlled operations are activities undertaken by the Authority in conjunction with other venturers that involve the use of assets and resources of the venturers rather than the establishment of a separate entity. The Authority recognises on its Balance Sheet the assets that it controls and the liabilities that it incurs and debits and credits the Comprehensive Income and Expenditure Statement with the expenditure it incurs and the share of income it earns from the activity of the operation.

xvi. Leases

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

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

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

At present the Authority has neither taken nor granted any finance leases.

The Authority as Lessee

Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement as an expense of the services benefitting from use of the leased property, plant or equipment. Charges are made on a straight-line basis over the life of the lease,

The Authority as a Lessor

Operating Leases

Where the Authority grants an operating lease over a property or an item or plant or equipment, the asset is retained in the Balance Sheet. With the exception of a minor investment asset all leases/licences granted by the Authority are in respect of low value short-term rentals, which are included within the Cost of Service section in the Comprehensive Income and Expenditure Statement or for use of space on radio transmitters, the income from which is included within the surplus/deficit on Trading Activities within the Financing and Investment Income line in the Comprehensive Income and Expenditure Statement. Credits are made on a straight-line basis over the life of the lease, even if this does not match the pattern of payments (e.g. there is a premium paid at the commencement of the lease).

xvii. Property Plant and Equipment

Physical assets that are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes and that are expected to be used during more than one financial year are classified as Property, Plant and Equipment.

Recognition

Expenditure on the acquisition, creation or enhancement of Property, Plant and Equipment in excess of £15,000 is capitalised provided the benefits accruing from the expenditure is for more than one year. This expenditure is accounted for on an accruals basis. Expenditure that maintains but does not add to an asset's potential to deliver future economic benefits or service potential (i.e. repairs and maintenance) is charged as a revenue expense when it is incurred.

Measurement

For assets that are purchased they are initially recognised at cost. The cost comprises:

- the purchase price
- any costs attributable to bringing the asset to the location and condition necessary for it to be operational.

Assets that are being constructed by the Authority will initially be recognised at cost. Only those costs that can be directly attributable to bringing the asset into operation will be capitalised.

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

Assets are then carried in the Balance Sheet using the following measurement bases:

- assets under construction – depreciated historical cost
- all other assets – fair value, determined as the amount that would be paid for the asset in its existing use (existing use value – EUV).

Where there is no market-based evidence of fair value because of the specialist nature of an asset, depreciated replacement cost (DRC) is used as an estimate of fair value.

Where non-property assets, principally furniture, equipment and vehicles that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value.

All assets held on a valuation basis as determined by the code of practice have to be reviewed within a five-year period by the Constabulary's Principal Estates Officer, Tim Ellams BSc MRISC or his colleague Julie Whurr MRISC. These are reviewed on a structured basis over the five year period. Increases in valuations are matched by credits to the Revaluation Reserve to recognise unrealised gains unless the gain reverses a loss previously charged to a service. In this case the gain up to the amount of the loss will be credited to the Comprehensive Income and Expenditure Statement.

Where decreases in value are identified, they are accounted for as follows:

- where there is a balance of revaluation gains for the asset in the Revaluation Reserve, the carrying amount of the asset is written down against that balance (up to the amount of the accumulated gains)

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

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. The Revaluation Reserve was created with effect from 1 April 2007 with a zero opening balance and for accounting purposes valuations as at 31 March 2007 are treated as historical cost. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Impairment

Assets are assessed at each year-end as to whether there is any indication that an asset may be impaired. Where indications exist and any possible differences are estimated to be material, the recoverable amount of the asset is estimated and, where this is less than the carrying amount of the asset, an impairment loss is recognised for the shortfall. No impairments were identified in 2010/11.

Depreciation

Depreciation is provided for on all Property, Plant and Equipment assets by the systematic allocation of their depreciable amounts over their useful lives. An exception is made for assets without a determinable finite useful life (i.e. freehold land) and assets that are not yet available for use (i.e. assets under construction).

Depreciation is calculated on the following bases:

- buildings – straight-line allocation over the useful life of the property as estimated by the valuer
- Vehicles and IT equipment, - straight line basis over lives which are assessed individually by professional staff within the Constabulary.
- Furniture and equipment other than IT equipment is depreciated over 10 years, unless it is known that a different period is required.

Where an item of Property, Plant and Equipment asset has major components whose cost is significant in relation to the total cost of the item, the components are depreciated separately. In considering whether or not there is a component the policy followed is:

- The land element will continue to be considered as a separate asset with its own valuation which, are not subject to depreciation;
- The asset will be reviewed and any part of the asset which can be identified as a self contained building will be subject to a separate valuation and asset life. This will ensure that any part of the overall asset which is not of the same construction quality has a specific use and/or economic life identified;
- For any building with a value above £1m consideration will be given as to whether or not there is any significant part which requires a separate component. This will take into consideration whether there is any aspect of the construction, such as roof, windows, services or any specialist item which has a substantially different asset life. For the purpose of this exercise it is considered that an element that represents more than 25% of the valuation is considered significant;

- Any equipment which is a fixture of the building will be included within the overall asset valuation. There will be a separate valuation if it is likely to exceed 25% of the property value.

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

Disposals and Non-current Assets Held for Sale

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

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

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

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

Amounts received for a disposal in excess of £10,000 are categorised as capital receipts. The balance of receipts is required to be credited to the Capital Receipts Reserve, and can then only be used for new capital investment or be set aside to reduce the Authority's underlying need to borrow (the capital financing requirement). Receipts are appropriated to the reserve from the County Fund balance in the Movement in Reserve Statement.

The written-off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing.

Amounts are appropriated to the Capital Adjustment Account from the General Fund balance in the Movement in Reserve Statement.

xviii. Provisions, Contingent Liabilities and Contingent Assets**Provisions**

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

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

When payments are eventually made, they are charged to the provision carried in the balance sheet. Estimated settlements are reviewed at the end of each financial year – where it becomes more likely than not that a transfer of economic benefits will not now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the relevant service revenue account.

Where some or all of the payment required to settle a provision is expected to be met by another party (e.g. from an insurance claim), this is only recognised as income in the relevant service revenue account if it is virtually certain that reimbursement will be received if the obligation is settled. Details of our provisions are given in note 29 to the accounts.

Contingent Liabilities

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

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

Contingent Assets

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

The Authority has no contingent assets for 2010/11.

xix. Reserves

The Authority sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts out of the General Fund Balance in the Movement in Reserves Statement. When expenditure to be financed from a reserve is incurred, it is charged against the relevant service line to

score against the Surplus/Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement. The reserve is then appropriated back into the General Fund Balance in the Movement in Reserves Statement so that there is no net charge against council tax in the year that the expenditure is incurred.

Certain reserves are kept to manage the accounting processes for tangible fixed assets and retirement and employee benefits and they do not represent usable resources for the authority; these reserves are explained in the relevant policies below.

xx. VAT

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

xxi. Overheads and Support Services

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

Corporate and Democratic Core – costs relating to the Authority's status as a multi-functional, democratic organisation.

Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early and any depreciation and impairment losses chargeable on non-operational properties.

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

xxii. Transferred Debt

Outstanding debt on assets transferred from Lancashire County Council to the Police Authority on 1 April 1995 is managed by the County Council. The Police Authority is charged an amount to cover interest and principal repayments, and receives grant from central government to cover a proportion of these costs. This debt is being repaid on an equal instalment basis over 25 years.

xxiii. Council Tax Agency Arrangements

Billing authorities in England are required by statute to maintain a separate fund for the collection and distribution of amounts due in respect of Council Tax and National Non-Domestic Rates (NNDR). The funds key features relevant to accounting for council tax in core financial statements are:

- In its capacity as a billing authority an authority acts as an agent: it collects and distributes Council Tax income on behalf of the major preceptors and itself.
- While the Council tax income for the year credited to the billing authority's Collection Fund is the accrued income for the year, regulations determine when it should be released from the Collection Fund and transferred to the General Fund of the billing authority or paid out of the Collection Fund to major preceptors (and in turn credited to their General Fund).

Lancashire Police Authority is a major preceptor with 14 district and unitary billing authorities.

From the year commencing 1 April 2009, for both billing authorities and major preceptors the Council Tax income included in the Comprehensive Income and Expenditure Statement for the year is required to be the accrued income for the year.

The difference between the income included in the Comprehensive Income and Expenditure Statement and the amount required by regulation to be credited to the General Fund is taken to the Collection Fund Adjustment Account in the Movement in Reserves Statement to ensure that there is no impact from this change on the taxpayer.

Since the collection of Council Tax is, in substance, an agency arrangement, the cash collected by the billing authorities from Council Taxpayers belongs proportionately to the billing authority and the major preceptors (eg Lancashire Police Authority). There will therefore be a debtor/creditor position between the billing authorities and each major preceptor to be recognised since the net cash paid to each major preceptor in the year will not be its share of cash collected from Council Taxpayers.

In addition, the Balance Sheet of both billing and precepting authorities will include:

- An attributable share of council tax debtors, net of impairment allowances for doubtful debts, and
- An attributable share of creditors for overpaid council tax, and
- A debtor for the billing authorities for cash collected from council tax payers but not paid across, or a creditor for cash paid in advance from council tax payers.

2. **Prior Period Adjustments –International Financial Reporting Standards (IFRS)**

The 2010/11 financial statements are the first to be prepared on an International Financial Reporting Standard (IFRS) basis. Adoption of the IFRS-based Code of Practice (Code) has required the restatement of various balances and transactions in the 2009/10 financial statements so that year on year the statements are comparable. The move from the old Statement of Recommended Practice (SORP) to the Code results in some changes to the equivalent figures previously presented in the 2009/10 statements.

The tables that follow show the position disclosed in the 2009/10 accounts, the adjustments necessary as a result of the IFRS transition and the restated position. An explanation of the adjustments is given below and referenced to the tables.

Table a) shows the adjustments made to the 31 March 2009 Balance Sheet for the implementation of IFRS to the 1 April 2009 position.

Table b) restates the original 31 March 2010 Balance Sheet for the IFRS adjustments, incorporating the changes to the 1 April 2009 position from Table a).

Table c) reflects the impact on the 2009/10 SORP Income and Expenditure Account of the IFRS Balance Sheet changes to produce the restated 2009/10 Code compliant Comprehensive Income and Expenditure Statement. The first part shows the impact on the Deficit on the Provision of Services. The second part restates the SORP Statement of Recognised Gains and Losses to the Code Total Comprehensive Income and Expenditure, taking into account the changes from the original 2009/10 deficit

position to the restated 2009/10 position and the impact on the unrealised revaluation gains and prior period adjustments.

Table d) charts the adjustments to the 'Additional General Fund Movements Required by Statute' of the Statement of Movement in the General Fund Balance to restate it as the 'Adjustments between Funding Basis and Accounting Basis under Regulations' and 'Transfers to and from Earmarked Reserves' in the Movement in Reserves Statement.

Table e) restates the 2009/10 Cash Flow to the new Code format, incorporating the change in definition of cash and cash equivalents and all of the above non-cash movement adjustments.

Note (i) - IFRS presentation

There are several differences between the SORP and Code requirements that result in presentational differences in the financial statements. One of the main differences is due to the change in accounting policy as to what constitutes cash and its extension to include cash equivalents for the Balance Sheet and Cash Flow Statements under the Code.

Under the Code, cash includes all bank credit balances and overdrafts held by the Authority as part of its normal cash management, including all deposit accounts accessible without notice. Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of change in value. Cash equivalents include investments with a fixed maturity of three months or less from the date of acquisition and available for sale assets such as cash placed in money market funds. Using this accounting policy, the IFRS compliant restatement of the SORP Balance Sheet at 1 April 2009 results in the combining of Cash in Hand (£0.681m) and Bank Overdraft (-£0.230m) and the movement of £22.057m from Short-term Investments to become the new classification of Cash and Cash Equivalents, £22.508m. This combining of balances is applied to the restatement of the 31 March 2010 Balance Sheet. The 2009/10 Cash Flow Statement has been restated to incorporate the cash equivalents into the movement in cash during the year.

The remaining adjustment to the 1 April 2009 and 31 March 2010 Balance Sheets in this category is for adjustments to categorise balances created under the Code, distinguishing between current and long-term i.e. provisions which showed £2.812m reclassified as current at 1 April 2009.

On the bottom half of the Balance Sheet, the reserves have been categorised into those that are useable to fund future expenditure 'usable reserves' and those that are not, but are a mix of the statutory accounts, deferred expenditure and unrecognised gains and losses as 'unusable reserves'.

Note (ii) - Assets Held for Sale

Under IFRS accounting rules a much stricter definition is applied for Assets Held for Sale. The assets must be available for immediate sale in their present condition, are being actively marketed, and the sale should be expected to be completed within one year. Assets not meeting this new stricter definition must remain within the Property, Plant and Equipment (PPE) category in the Balance Sheet. Assets Held for Sale must not be depreciated and must be held on the Balance Sheet at the lower of carrying

amount and fair value less costs to sell. The impact of the above changes has resulted in the following accounting adjustments:

- Reclassification of assets to the value of £0.260m at 1 April 2009 (£1.999m at 31 March 2010) as Assets held for Sale with the consequent reduction being made to PPE on the Balance Sheet.
- Revaluations and adjustments for depreciation resulting in an increase to PPE of £0.005m at 1 April 2009 (reduction of £0.143m at 31 March 2010), a reduction in depreciation of £0.076m and reduction in gain on disposal of fixed assets of £0.019m, both charged to the Surplus or Deficit on Provision of Services in the Statement of Comprehensive Income and Expenditure (SCIE) for 2009/10.

Note (iii) - 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 built up as they provide services to the Authority. The most significant benefits covered by this heading are holiday pay and time off in lieu. Employees build up an entitlement to paid holidays as they work, police officers are allowed to accrue time off in lieu as a consequence of additional hours worked, public holidays or rest days worked and police staff are entitled to accrue additional hours worked, under a flexi-time scheme.

Under the IFRS Code, the cost of providing holidays and similar benefits is required to be recognised when employees render services that increase their entitlement to future compensated absences. As a result, the Authority is required to accrue for any annual leave, time off in lieu and flexi-time hours earned but not taken at 31st March each year. Under previous UK GAAP accounting arrangements, no such accrual was required.

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

The impact of these new IFRS accounting rules has resulted in the following changes to the accounts:

£8.752m has been recognised as a Short Term Creditor in the Current Liabilities section of the Balance Sheet as at 1st April 2009 (£8.162m at 31 March 2010) with the reduction of £0.590m being credited to the Cost of Services section of the SCIE in 2009/10 across appropriate service areas. £8.752m has been transferred to a new Accumulated Absences Account within the Unusable Reserves category of the Balance Sheet as at 1st April 2009 (£8.162m at 31 March 2010).

Note (iv) - Property, Plant & Equipment

The restatement of Plant, Property and Equipment has impacted on the accounts in two areas: one relating to the change in accounting for impairments and the other in respect of the definition of Investment Assets.

a) Impairment

Under the SORP, economic benefit impairment of fixed assets was charged straight to the Income and Expenditure Account and any subsequent reversal recognised in the Income and Expenditure Account had to be a direct result of the reversal of the original conditions causing the impairment. Market value impairment as a result of revaluation was charged in the first instance against any Revaluation Reserve balance that an asset may have had and then any remainder charged to the Income and Expenditure Account. The SORP also required revaluation gains to be credited to the Revaluation Reserve in most cases.

Under the Code, economic benefit impairment (impairment) is also now charged in the first instance against any Revaluation Reserve balance that an asset may have and then any remainder charged to the Comprehensive Income and Expenditure Statement, in the same way as market value impairment (now known as revaluation losses). Also under IFRS, reversal of revaluation losses against the Surplus or Deficit on Provision of Services is permitted where sufficient evidence exists that a diminution of value has been reversed, up to the value of the revaluation loss originally recognised, net of any depreciation that would have been charged had the original revaluation loss not been processed. Any excess of revaluation gain above the calculated reversal is then credited to the Revaluation Reserve.

As the Authority did not have any economic benefit impairments during 2009/10 the only impact on the accounts was to reclassify £6.959m, previously shown as Impairment, as a Revaluation Loss. The impact of this can be seen in Note d) Additional General Fund Movements.

b) Investment Assets

Assets that are held by the Authority solely to earn rentals or for capital appreciation, or both, are now defined as Investment Assets and must be shown separately on the face of the Balance Sheet. Investment Assets must be held at fair value and revalued every year. They are not subject to depreciation charges but any movement in fair value must be taken through the Financing and Investment Income and Expenditure section of the SCIE. One asset was identified as Investment Assets at 1 April 2009 and two at 31 March 2010 under the above definition and resulted in the following changes:

- A new Balance Sheet category of Investment Assets was included on the Balance Sheet showing a balance of £0.018m at 1 April 2009 (£0.033m at 31 March 2010) with corresponding reductions being recognised in PPE;
- A further reduction in the Balance Sheet value for PPE of £0.032m at 1 April 2009 with a corresponding reduction in the Capital Adjustment Account, taken as revaluation loss through the Cost of Service Section of the SCIE and reversed out to the Capital Adjustment Account.

Note (v) - Leases

The government has issued regulations and statutory guidance in relation to accounting for leases. As a result of the changes the Authority carried out a review of all known lease arrangements both to ensure correct accounting treatment of lease arrangements but also to ensure appropriate treatment of assets on the Authority's asset register and hence Balance Sheet. As a consequence two issues required changes to the accounts:

- Ten properties were found to have a value on the Authority's Balance Sheet when they were held under operating leases and therefore not the Authority's assets.
- Four assets owned by the Authority were not included on the Authority's Balance Sheet

The adjustments required to the Balance Sheet in respect of the above were to increase the value of PPE by £0.101m at 1 April 2009 (reduction of £0.226m at 31 March 2010), reducing the balance on the Revaluation Reserve by £0.003m at 1 April 2009 (£0.443m at 31 March 2010) and increasing the balance on the Capital Adjustment Account by £0.104m at 1 April 2009 (0.217m at 31 March 2010).

Adjustments to the Cost of Services Section of the CIES for 2009/10 were as follows:

- £0.025m increase in depreciation
- £0.352m reduction in revaluation losses
- £0.100m revenue expenditure funded by capital under statute

A net £0.227m was debited to the Movement in Reserves Statement to ensure no impact on council tax and is included in the Capital Adjustment Account adjustment above.

Note (vi) - Grants and Contributions

Under the Code, grants and contributions (grants) are recognised as income when they become receivable. Previously, grants were held in a Government Grants Deferred Account and recognised as income over the life of the assets that they were used to fund. As a consequence of adopting the accounting policy required by the Code, the financial statements have been amended as follows:

- The £22.533m balance on the Government Grants Deferred Account at 31 March 2009 has been transferred to the Capital Adjustment Account and a further £0.428m as at 31 March 2010.
- Portions of government grants deferred totalling £3.906m were previously recognised as income in 2009/10; these have been removed from the comparative Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement in accordance with statutory requirement.
- £0.588m Capital Grants unapplied at 1 April 2009, and a movement during 2009/10 of -£0.022m have been transferred from Deferred Credits, in the Long term Liabilities section of the Balance Sheet to Capital Grant Unapplied, a Useable Reserve.
- Grants and contributions used to finance capital expenditure in 2009/10 totalling £4.312m have been recognised in Taxation and Non Specific Grant income in the Comprehensive Income and Expenditure Statement.

a) Restatement of 31 March 2009 SORP compliant Balance Sheet to 1 April 2009 IFRS compliant Balance Sheet

	Note (i)	Note (ii)	Note (iii)	Note (iv)	Note (v)	Note (vi)		
				Property	Leases	Grants		
		Assets Held	Employee	Plant &		and	(Restated)	
	IFRS	for Sale	Benefits	Equipment		Contributions	1 April 2009	
(Restated)	Presentation							
31 March 2009	£000	£000	£000	£000	£000	£000	£000	
Property, Plant & Equipment	195,271	0	-255	0	-50	101	0	195,067
Investment Assets	0		0		18			18
Intangible Assets	3502	0	0	0	0	0	0	3,502
Total Long-Term Assets	198,773	0	-255	0	-32	101	0	198,587
Inventories	893	0	0	0	0	0	0	893
Debtors	17,996	0	0	0	0	0	0	17,996
Payments in Advance	521	0	0	0	0	0	0	521
Short Term Investments	22,620	-22,057	0	0	0	0	0	563
Cash and Cash Equivalents	680	21,827	0	0	0	0	0	22,507
Assets Held for Sale	0	0	260	0	0	0	0	260
Total Current Assets	42,710	-230	260	0	0	0	0	42,740
Cash and Cash Equivalents	-230	230	0	0	0	0	0	0
Short Term Borrowing	-800	0	0	0	0	0	0	-800
Creditors	-28,282		0	-8,752	0	0	0	-37,034
Receipts In Advance	-728							-728
Capital Grants Receipt in Advance	0		0	0	0	0	0	0
Provisions	0	-2,812	0	0	0	0	0	-2,812
Total Current Liabilities	-30,040	-2,582	0	-8,752	0	0	0	-41,374
Long-term borrowing	-25,004	0	0	0	0	0	0	-25,004
Long-term creditors	-2,367	0	0	0	0	0	0	-2,367
Capital Grants Receipt in Advance	0	0	0	0	0	0	0	0
Deferred credits	-588	0	0	0	0	0	588	0
Governement Grants Deferred	-22,533	0	0	0	0	0	22,533	0
Provisions	-3,193	2,812	0	0	0	0	0	-381
Net pension liability	-1,606,392	0	0	0	0	0	0	-1,606,392
Total Long-Term Liabilities	-1,660,077	2,812	0	0	0	0	23,121	-1,634,144
NET ASSETS	-1,448,634	0	5	-8,752	-32	101	23,121	-1,434,191

LANCASHIRE POLICE AUTHORITY STATEMENT OF ACCOUNTS 2010/11
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	(Restated) 31 March 2009 £000	Note (i) IFRS Presentation £000	Note (ii) Assets Held for Sale £000	Note (iii) Employee Benefits £000	Note (iv) Property Plant & Equipment £000	Note (v) Leases £000	Note (vi) Grants and Contributions £000	(Restated) 1 April 2009 £000
NET ASSETS	-1,448,634	0	5	-8,752	-32	101	23,121	-1,434,191
Financed by								
General Fund	5,726	0	0	0	0	0	0	5,726
Other Earmarked Revenue Reserves	8,055	0	0	0	0	0	0	8,055
Usable Capital Receipts	570	0	0	0	0	0	0	570
Capital Grant Unapplied Reserve	0	0	0	0	0	0	588	588
Total Usable Reserves	14,351	0	0	0	0	0	588	14,939
Revaluation Reserve	31,882	0	0	0	0	-3	0	31,879
Capital Adjustment Account	111,976	0	5	0	-32	104	22,533	134,586
Financial Instrument Adjustment Account	-105	0	0	0	0	0	0	-105
Accumulated Absences Account	0	0	0	-8,752	0	0	0	-8,752
Collection Fund Adjustment Account	-346	0	0	0	0	0	0	-346
Pension Reserve	-1,606,392	0	0	0	0	0	0	-1,606,392
Total Unusable Reserves	-1,462,985	0	5	-8,752	-32	101	22,533	-1,449,130
TOTAL EQUITY	-1,448,634	0	5	-8,752	-32	101	23,121	-1,434,191

LANCASHIRE POLICE AUTHORITY STATEMENT OF ACCOUNTS 2010/11
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b) Restatement of 31 March 2010 SORP compliant Balance Sheet to 31 March 2010 IFRS compliant Balance Sheet

	(Original) 31 March 2010 £000	1 April 09 Restatement £000	Note (i) IFRS Presentation £000	Note (ii) Assets Held for Sale £000	Note (iii) Employee Benefits £000	Note (iv) Property Plant & Equipment £000	Note (v) Leases £000	Note (vi) Grants and Contributions £000	(Restated) 31 March 2010 £000
Property, Plant & Equipment	189,702	-204	0	-1,882	0	17	-226	0	187,407
Intangible Assets	3,976	0	0	0	0	0	0	0	3,976
Investment Assets	0	18	0	0	0	15	0	0	33
Total Long-Term Assets	193,678	-186	0	-1,882	0	32	-226	0	191,416
Inventories	862	0	0	0	0	0	0	0	862
Debtors	16,650	0	0	0	0	0	0	0	16,650
Payments in Advance	728	0							728
Short Term Investments	13,201	-22,057	9,385	0	0	0	0	0	529
Cash and Cash Equivalents	398	21,827	-9,209	0	0	0	0	0	13,016
Assets Held for Sale	0	260	0	1,739	0	0	0	0	1,999
Total Current Assets	31,839	30	176	1,739	0	0	0	0	33,784
Cash and Cash Equivalents	-54	230	-176	0	0	0	0	0	0
Short Term Borrowing	-350	0	0	0	0	0	0	0	-350
Creditors	-23,937	-8,752	0	0	590	0	0	0	-32,099
Receipts in Advance	-876	0							-876
Capital Grants Receipt in Advance	0	0	0	0	0	0	0	0	0
Provisions	0	-2,812	317	0	0	0	0	0	-2,495
Total Current Liabilities	-25,217	-11,334	141	0	590	0	0	0	-35,820
Long-term borrowing	-24,654	0	0	0	0	0	0	0	-24,654
Long-term creditors	-2,130	0	0	0	0	0	0	0	-2,130
Capital Grants Receipt in Advance	0	0	0	0	0	0	0	0	0
Deferred credits	-566	588	0	0	0	0	0	-22	0
Government Grants Deferred	-22,961	22,533	0	0	0	0	0	428	0
Provisions	-2,837	2,812	-317	0	0	0	0	0	-342
Net pension liability	-2,354,430	0	0	0	0	0	0	0	-2,354,430
Total Long-Term Liabilities	-2,407,578	25,933	-317	0	0	0	0	406	-2,381,556
NET ASSETS	-2,207,278	14,443	0	-143	590	32	-226	406	-2,192,176

LANCASHIRE POLICE AUTHORITY STATEMENT OF ACCOUNTS 2010/11
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	(Original) 31 March 2010 £000	1 April 09 Restatement £000	Note (i) IFRS Presentation £000	Note (ii) Assets Held for Sale £000	Note (iii) Employee Benefits £000	Note (iv) Property Plant & Equipment £000	Note (v) Leases £000	Note (vi) Grants and Contributions £000	(Restated) 31 March 2010 £000
NET ASSETS	<u>-2,207,278</u>	<u>14,443</u>	<u>0</u>	<u>-143</u>	<u>590</u>	<u>32</u>	<u>-226</u>	<u>406</u>	<u>-2,192,176</u>
Financed by									
General Fund	7,317	0	0	0	0	0	0	0	7,317
Other Earmarked Revenue Reserves	4,887	0	0	0	0	0	0	0	4,887
Usable Capital Receipts	752	0	0	0	0	0	0	0	752
Capital Grant Unapplied Reserve	0	588	0	0	0	0	0	-22	566
Total Usable Reserves	<u>12,956</u>	<u>588</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>0</u>	<u>-22</u>	<u>13,522</u>
Revaluation Reserve	31,573	-3	0	-195	0		-443	0	30,932
Capital Adjustment Account	103,065	22,610	0	52	0	32	217	428	126,404
Financial Instrument Adjustment Account	-139	0	0	0	0	0	0	0	-139
Accumulated Absences Account	0	-8,752	0	0	590	0	0	0	-8,162
Collection Fund Adjustment Account	-303	0	0	0	0	0	0	0	-303
Pension Reserve	-2,354,430	0	0	0	0	0	0	0	-2,354,430
Total Unusable Reserves	<u>-2,220,234</u>	<u>13,855</u>	<u>0</u>	<u>-143</u>	<u>590</u>	<u>32</u>	<u>-226</u>	<u>428</u>	<u>-2,205,698</u>
TOTAL EQUITY	<u>-2,207,278</u>	<u>14,443</u>	<u>0</u>	<u>-143</u>	<u>590</u>	<u>32</u>	<u>-226</u>	<u>406</u>	<u>-2,192,176</u>

c) Restatement of 2009/10 SORP compliant Income and Expenditure Account to IFRS compliant Comprehensive Income and Expenditure Statement

	<i>Original 2009/10 Net Expenditure £000</i>	Notes ii, iv, v Property Adjustments £000	Note iii Employee Accrual £000	Note vi Grants and Contributions £000	Restated 2009/10 Net Expenditure £000
Service Expenditure					
Local Policing	146,425	-297	29	1,555	147,712
Dealing with the Public	22,096	-7	-303	282	22,068
Criminal Justice	29,238	1	-196	518	29,561
Road Policing	10,308	-2	21	298	10,625
Specialist Ops	23,065	-5	2	318	23,380
Intelligence	8,591	-2	-22	236	8,803
Specialist Investigations	29,349	-6	-17	455	29,781
Investigative Support	9,381	-15	-96	106	9,376
National Policing	1,300	-2	-8	138	1,428
Corporate and Democratic Core	1,880				1,880
Non Distributed Costs	205	0	0	0	205
Total Cost of Services	281,838	-335	-590	3,906	284,819
Other Operating Expenditure					
Gains on disposal of fixed assets	-917	19	0	0	-898
Home Office Police Pensions Grant	-18,749	0	0	0	-18,749
	-19,666	19	0	0	-19,647
Financing and Investment Income and Expenditure					
Interest payable and similar charges	1,224	0	0	0	1,224
Surplus on Trading Accounts	-385	0	0	0	-385
Interest and investment income	-645	0	0	0	-645
Impairment of investments	34				34
Pension interest cost/expected return on pension assets	114,160	0	0	0	114,160
	114,388	0	0	0	114,388
Taxation and Non-Specific Grant Income					
Precept demanded from the Collection Fund	-66,155	0	0	0	-66,155
National Non-Domestic Rates	-76,761	0	0	0	-76,761
General Government Grants	-127,377	0	0	0	-127,377
Capital Grants and Contributions	0	0	0	-4,312	-4,312
Deficit on the Provision of Services	106,267	-316	-590	-406	104,955

The SORP required a Statement of Total Recognised Gains and Losses (STRGL) to be shown. This statement brought together all the gains and losses of the Authority for the year and showed the aggregate increase in its net worth. In addition to the deficit generated on the Income and Expenditure Account, it included gains and losses relating to the revaluation of fixed assets and re-measurement of the net liability to cover the cost of retirement benefits.

Under the Code, the STRGL has been incorporated into the Comprehensive Income and Expenditure Statement as 'Other Comprehensive Income and Expenditure' to give the Total Comprehensive Income and Expenditure for the year. The effect of the restatement is shown below.

	<i>Original</i> <i>2009/10</i> <i>£000</i>	Notes ii, iv, v Property Adjustments £000	Note iii Employee Accrual £000	Note vi Grants and Contributions £000	Restated 2009/10 £000
Deficit on the Provision of Services	106,267	-316	-590	-406	104,955
Deficit / (surplus) arising on revaluation of fixed assets	-624	653	0	0	29
Actuarial loss on pension fund assets and liabilities	653,001	0	0	0	653,001
Other Comprehensive (Income) and Expenditure	<u>652,377</u>	<u>653</u>	<u>0</u>	<u>0</u>	653,030
Total Comprehensive (Income) and Expenditure	<u><u>758,644</u></u>	<u><u>337</u></u>	<u><u>-590</u></u>	<u><u>-406</u></u>	757,985

d) Restatement of 2009/10 SORP Additional General Fund Movements Required by Statute analysis relating to the Statement of Movement in the General Fund Balance to the Code Analysis of Adjustments between accounting basis and funding basis under regulations and Transfers to/from Earmarked Reserves in the Movement in Reserves Statement.

	(Original) 31 March 2010 £000	Note (i) IFRS Presentation £000	Notes ii, iv, v Property Adjustments £000	Note (iii) Employee Benefits £000	Note (vi) Grants and Contributions £000	(Restated) 31 March 2010 £000
<i>Adjustments involving the Capital Adjustment Account</i>						
Reversal of items debited or credited to the Comprehensive Income and Expenditure Account						
Provision for depreciation and impairment	-18,850	6,959	52	0	0	-11,839
Revaluation losses on Property, Plant and Equipment	0	-6,959	384	0	0	-6,575
Amortisation of intangible assets	-879	0	0	0	0	-879
Capital grants and contributions applied from in-year income	0	0	0	0	3,746	3,746
Net gain on sale of fixed assets	630	-630	0	0	0	0
Non-current asset written out in gain or loss on disposal/sale of non-current assets	0	-674	-19	0	0	-693
REFCUS expenditure	0	0	-100	0	0	-100
Government Grants Deferred amortisation	3,906	0	0	0	-3,906	0
Addition of items not debited or credited to the Comprehensive Income and Expenditure Account						
Statutory provision for repayment of debt (MRP)	1,169	0	0	0	0	1,169
Capital expenditure charged to General Fund	4,362	0	0	0	0	4,362
<i>Adjustments involving the Capital Receipts Reserve</i>						
Transfer of sale proceeds credited as part of disposal/sale of non-current assets	0	1,304	0	0	0	1,304
Sub-total of adjustment to carry forward to next page	-9,662	0	317	0	-160	-9,505

LANCASHIRE POLICE AUTHORITY STATEMENT OF ACCOUNTS 2010/11
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	(Original) 31 March 2010	Note (i) IFRS Presentation £000	Notes ii, iv & v Property Adjustments £000	Note (iii) Employee Benefits £000	Note (vi) Grants and Contributions £000	(Restated) 31 March 2010 £000
<i>Adjustment carried over from previous page</i>	-9,662	0	317	0	-160	-9,505
<i>Adjustments involving the Capital Grants Unapplied Account</i>						
Capital grants and contributions unapplied credited to CI&ES	0	0	0	0	566	566
<i>Adjustments involving the Financial Instrument Adjustment Account</i>						
Difference between amounts debited & credited to the CI&ES & amounts payable under statutory provisions relating to impairment of investments	-34	0	0	0	0	-34
<i>Adjustments involving the Pensions Reserve</i>						
Net charges made for retirement benefits in accordance with IAS 19	-154,003	0	0	0	0	-154,003
Employer's pension contributions paid	58,965	0	0	0	0	58,965
<i>Adjustments involving the Collection Fund Adjustment Account</i>						
Collection Fund adjustment to surplus amount	43	0	0	0	0	43
<i>Adjustments involving the Accumulating Compensated Absences Adjustment Account</i>						
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements	0	0	0	590	0	590
Total adjustments between accounting basis and funding basis under regulations	-104,691	0	317	590	406	-103,378
Net transfer to or from earmarked reserves	-3,168	0	0	0	0	-3,168
Surplus for the year on General Fund	-107,859	0	317	590	406	-106,546

e) **Restatement of 2009/10 SORP compliant Cash Flow Statement to 2009/10 IFRS compliant Cash Flow Statement**

Cash Flow Statement	<i>Original 2009/10 £000</i>	Cash Equivalent Adj. £000	Non Cash Movement Adj £000	Investing & Financing Classification Adj £000	Restated 2009/10 £000
Net Deficit on the Provision of Services	106,267	0	-1,312	0	104,955
Adjust net surplus or deficit on the provision of services for non cash movements	-108,093	0	-4,304	0	-112,397
Adjustment for items included in the net surplus or deficit on the provision of services that are investing and financing activities	-579	0	1,883	4,312	5,616
Net Cash Flows from Operating Activities	<u>-2,405</u>	<u>0</u>	<u>-3,733</u>	<u>4,312</u>	<u>-1,826</u>
Investment Activities					
Purchase of property, plant & equipment	15,396	0	0	0	15,396
Purchase of short-term and long-term investments	0	0	0	0	0
Proceeds from short-term and long-term investments	0	0	0	0	0
Interest paid	1,224	0	0	-1,224	0
Interest received	-645	0	0	645	0
Other capital cash payments	0	0	0	0	0
Proceeds from the sale of property, plant & equipment	-804	0	0	0	-804
Capital grants received	-3,487	0	0	0	-3,487
Other capital cash receipts	-825	0	0	0	-825
Net Cash flows from Investment Activities	<u>10,859</u>	<u>0</u>	<u>0</u>	<u>-579</u>	<u>10,280</u>
Financing Activities					
Repayments of amounts borrowed	1,037	0	0	0	1,037
New loans raised	0	0	0	0	0
Other receipts from financing activities	0	0	0	0	0
Net increase/(decrease) in short term deposits	-9,385	9,385	0	0	0
Net Cash Outflow from Financing Activities	<u>-8,348</u>	<u>9,385</u>	<u>0</u>	<u>0</u>	<u>1,037</u>
Net Increase (-) / decrease in Cash and Cash Equivalents	<u><u>106</u></u>	<u><u>9,385</u></u>	<u><u>-3,733</u></u>	<u><u>3,733</u></u>	<u><u>9,491</u></u>
Cash and cash equivalents at 1 April	450	22,057	0	0	22,507
Cash and cash equivalents at 31 March	344	12,672	0	0	13,016

3. Prior Period Adjustments –Police Objective Analysis

The service categories included within the Comprehensive Income and Expenditure Account are defined by CIPFA under the Best Value Accounting Code of Practice. A working group with forcewide representation produces guidance on the methodology for apportionment of expenditure across these categories. The methodology has changed slightly in 2010/11 and, in addition, a data validation exercise was carried out across forces to ensure consistent treatment nationally and this highlighted one or two classification changes, the most significant being around the classification of divisional intelligence staff. In order to allow realistic comparison of the two year's data 2009/10 figures have been restated as follows:

	<i>Restated 2009/10 Net Exp (IFRS) £000</i>	Police Objective Analysis Adjustments £000	Restated 2009/10 Net Exp Final £000
Service Expenditure			
Local Policing	147,712	164	147,876
Dealing with the Public	22,068	-636	21,432
Criminal Justice	29,561	-1,418	28,143
Road Policing	10,625	-89	10,536
Specialist Ops	23,380	-3,067	20,313
Intelligence	8,803	6,103	14,906
Specialist Investigations	29,781	-679	29,102
Investigative Support	9,376	-166	9,210
National Policing	1,428	-212	1,216
Corporate and Democratic Core	1,880	-	1,880
Non Distributed Costs	205	-	205
Total Cost of Services	<u>284,819</u>	<u>0</u>	<u>284,819</u>

4. Critical judgements in applying accounting policies

The Statement of Accounting Policies is set out at Note 1 to the accounts. In applying the accounting policies, the Authority has to make certain judgements about complex transactions or those involving uncertainty about future events.

The critical judgements made in the Statement of Accounts are:

- There is a high degree of uncertainty about future levels of funding for local government. However, the Authority has determined that this uncertainty is not yet sufficient to provide an indication that the assets of the Authority might be impaired as a result of a need to close facilities and reduces levels of service provision.
- The Authority has to decide whether land and buildings owned by the Authority are investment properties, whereby they are held solely for rental income or capital appreciation purposes or both. It has been determined that the Authority does hold investment properties which have been valued at £0.029m as at 31st March 2011.
- The Authority has to determine whether the leases it enters should be classified as operating or finance leases. The Authority must also consider whether contractual arrangements it enters into have the substance of a lease. These judgements are made on the professional opinion of the Authority's accountants, valuers and procurement managers based on contract procedure rules and the strict criteria set out in

International Accounting Standard 17 (IAS 17) relating to leases. In addition the International Financial Interpretations Committees 4 and 12 (IFRIC 4 and IFRIC 12) contain specific criteria relating to whether contractual arrangements have the substance of a lease. The relevant accounting policy has been applied based on the outcome of the assessment.

- The Authority has to determine whether there is a group relationship between the Authority and other entities. The accountants have assessed each relationship that exists between the authority and other entities in accordance with the accounting standards and the finance guidance provided by the Chartered Institute of Public Finance and Accountancy (CIPFA). The Authority's relationships with other entities can be found in Note 42. It has been determined that there are no material group relationships that require the production of group accounts.
- The Constabulary's valuers are required to exercise judgement in determining the carrying value of land and, buildings on the Authority's Balance Sheet. The valuations are undertaken by in-house qualified staff who follow best practice. In addition to valuations which are undertaken in year the valuer uses the knowledge of the local market conditions and available national data to assess whether there have been changes which would require a review of all asset values held at 31 March 2011. It was not considered that there was any such need in 2010/11.

5. Accounting Standards that have been issued but have not yet been adopted

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 been issued, but is not yet required to be adopted by the Authority, in this case, heritage assets. As is set out above, full adoption of the standard will be required for the 2011/12 financial statements. The new standard will require that a new class of asset, Heritage Assets, is disclosed separately on the face of the Authority's Balance Sheet in the 2011/12 financial statements.

The Authority do not currently own any heritage assets but will review the position for the 2011/12 financial statements.

6. Assumptions made about the future and other major sources of estimation uncertainty

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

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

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
Property, Plant and Equipment	The value of the PPE is dependent upon a professional judgement based on information available at the time of making the valuation. Due to changes in economic conditions a valuation taken on a different date could potentially result in a different valuation	Impossible to quantify as economic changes could lead to an increase or decrease in the value of PPE
Pensions Liability	Estimation of net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the Authority with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, a 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of £227m. However, the assumptions interact in complex ways. During 2010/11, the Authority's actuaries advised that the net pension liability had decreased by £132m, as a result of estimates being corrected as a result of experience and decreased by a further £6m attributable to updating of the assumptions.

7. Events after the Balance Sheet date

The Statement of Accounts was authorised for issue by the Treasurer to the Police Authority on **xx September 2011**. Events taking place after this date are not reflected in the financial statements or notes. Where events taking place before this date provided information about conditions existing at 31st March 2011, the figures in the financial statements and notes have been adjusted in all material respects to reflect the impact of this information.

Notes to the Movement in Reserves Statement

8. Adjustments between Funding Basis and Regulation

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

2010/11 Adjustments

	Usable Reserves			Movement in Unusable Reserves
	General Fund Balance	Capital Receipts Reserve	Capital Grant Unapplied	
	£000	£000	£000	
Adjustments primarily involving the Capital Adjustment Account:				
Reversal of items debited or credited to the Comprehensive Inc & Exp Statement:				
Charges for depreciation & impairment of non-current assets	10,594			(10,594)
Revaluation losses	5,929			(5,929)
Amortisation of intangible assets	1,348			(1,348)
Capital grants & contributions applied	(3,237)			3,237
Revenue expenditure funded from capital under statute	-			-
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Inc & Exp Statement	1,403			(1,403)
Change in fair value of investment property	4			(4)
Insertion of items not debited or credited to the Comprehensive Inc & Exp Statement:				

LANCASHIRE POLICE AUTHORITY STATEMENT OF ACCOUNTS 2010/11
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	Usable Reserves			Movement in Unusable Reserves
	General Fund Balance	Capital Receipts Reserve	Capital Grant Unapplied	
	£000	£000	£000	£000
Statutory provision for the financing of capital investment	(1,280)			1,280
Capital expenditure charged against the General Fund	(2,486)			2,486
Adjustments primarily involving the Pensions Reserve				
Reversal of retirement benefits	9,667			(9,667)
Employer's pension contributions (including additional contribution funded from Home Office Grant)	(64,361)			64,361
Adjustments primarily involving the Capital Grants Unapplied Account:				
Capital grants & contributions unapplied credited to the Comprehensive Inc & Exp Statement				-
Application of grants to capital financing transferred to the Capital Adjustment Account			(565)	565
Adjustments primarily involving the Capital Receipts Reserve:				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Inc & Exp Statement	(1,283)	1,283		-
Use of Capital Receipts Reserve to finance new capital expenditure		(900)		900
Adjustments primarily involving the Financial Instruments Adjustment Account:				
Amount by which finance costs charged to the Comprehensive Inc & Exp Statement are different from finance costs chargeable in the year in accordance with statutory requirements. NB For 2010/11 this represents the reversal of the total balance to revenue in respect of the Icelandic Bank impairment (See Note 22)	(139)			139

LANCASHIRE POLICE AUTHORITY STATEMENT OF ACCOUNTS 2010/11
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	Usable Reserves			Movement in Unusable Reserves
	General Fund Balance	Capital Receipts Reserve	Capital Grant Unapplied	
	£000	£000	£000	£000
Adjustments primarily involving the Collection Fund Adjustment Account:				
Amount by which council tax income credited to the Comprehensive Inc & Exp Statement is different from council tax income calculated for the year in accordance with statutory requirements.	(280)			280
Adjustments primarily involving the Accumulated Absences Account:				
Amount by which officer remuneration charged to the Comprehensive Inc & Exp Statement is different from officer remuneration chargeable in year in accordance with statutory requirements.	680			(680)
TOTAL ADJUSTMENTS	(43,442)	383	(565)	43,624

2009/10 Comparative Adjustments

	Usable Reserves			Movement in Unusable Reserves £000
	General Fund Balance	Capital Receipts Reserve	Capital Grant Unapplied	
	£000	£000	£000	
Adjustments primarily involving the Capital Adjustment Account:				
Reversal of items debited or credited to the Comprehensive Inc & Exp Statement:				
Charges for depreciation & impairment of non-current assets	11,839			(11,839)
Revaluation losses	6,575			(6,575)
Amortisation of intangible assets	879			(879)
Capital grants & contributions applied	(3,746)			3,746
Revenue expenditure funded from capital under statute	100			(100)
Amounts of non-current assets written off on disposal or sale as part of the gain/loss on disposal to the Comprehensive Inc & Exp Statement	693			(693)
Insertion of items not debited or credited to the Comprehensive Inc & Exp Statement:				
Statutory provision for the financing of capital investment	(1,169)			1,169
Capital expenditure charged against the General Fund	(4,362)			4,362
Adjustments primarily involving the Pensions Reserve				
Reversal of retirement benefits	154,003			(154,003)
Employer's pension contributions (including additional contribution funded from Home Office Grant)	(58,965)			58,965
Adjustments primarily involving the Capital Grants Unapplied Account:				

LANCASHIRE POLICE AUTHORITY STATEMENT OF ACCOUNTS 2010/11
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	Usable Reserves			Movement in Unusable Reserves
	General Fund Balance	Capital Receipts Reserve	Capital Grant Unapplied	
	£000	£000	£000	
Capital grants & contributions unapplied credited to the Comprehensive Inc & Exp Statement	(565)		565	-
Application of grants to capital financing transferred to the Capital Adjustment Account	-		(588)	588
Adjustments primarily involving the Capital Receipts Reserve:				
Transfer of cash sale proceeds credited as part of the gain/loss on disposal to the Comprehensive Inc & Exp Statement	(1,304)	1,304		-
Use of Capital Receipts Reserve to finance new capital expenditure		(1,121)		1,121
Adjustments primarily involving the Financial Instruments Adjustment Account:				
Amount by which finance costs charged to the Comprehensive Inc & Exp Statement are different from finance costs chargeable in the year in accordance with statutory requirements.	34			(34)
Adjustments primarily involving the Collection Fund Adjustment Account:				
Amount by which council tax income credited to the Comprehensive Inc & Exp Statement is different from council tax income calculated for the year in accordance with statutory requirements.	(43)			43
Adjustments primarily involving the Accumulated Absences Account:				
Amount by which officer remuneration charged to the Comprehensive Inc & Exp Statement is different from officer remuneration chargeable in year in accordance with statutory requirements.	(589)			589
TOTAL ADJUSTMENTS	103,378	183	(23)	(103,538)

9. **Transfers to/from Earmarked Reserves**

This note sets out the amounts set aside from the General Fund balances in earmarked reserves to provide financing for future expenditure plans, and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2010/11.

	Comparative Year 2009/10			2010/11			Balance at 31 March 2011
	Balance at 1 April 2009	Transfers Out 2009/10	Transfers In 2009/10	Balance at 31 March 2010	Transfers Out 2010/11	Transfers In 2010/11	
<u>Earmarked Reserves:</u>	£000	£000	£000	£000	£000	£000	£000
Devolved Financial Management	1,594	(1,136)	-	458	-	2,965	3,423
Capital Funding Reserve	8,054	(4,362)	2,401	6,093	(2,486)	3,424	7,031
Drugs Forfeiture Reserve	84	(115)	74	43	(38)	11	16
Clothing Development Reserve	823	(112)	154	865	(557)	197	505
Vehicle Maintenance Reserves	90	(25)	15	80	(9)	15	86
IT Replacement Reserve	41	-	-	41	(3)	-	38
Early Debt Repayment Reserve	(3,300)	-	300	(3,000)	-	300	(2,700)
POCA Equalisation Reserve	71	(3)	239	307	(72)	-	235
Neighbourhood Policing Reserve	598	(598)	-	-	-	-	-
Police Authority Transition Reserve	-	-	-	-	-	4,070	4,070
Operational Policing Reserve	-	-	-	-	-	305	305
PCCA (Courts Act)	-	-	-	-	-	96	96
Road Safety Reserve	-	-	-	-	-	60	60
Total Earmarked Reserves	8,055	(6,351)	3,183	4,887	(3,165)	11,443	13,165

Notes to the Comprehensive Income and Expenditure Statement

10. Material Items of Income & Expenditure

This year the category of Non-Distributed Costs has been sub-divided on the face of the Comprehensive Income and Expenditure Statement to allow separate disclosure of an amount of £188.366m representing a Past Service gain. This gain has arisen as a result of the government's decision to increase public service pensions in line with the Consumer Price Index (CPI) rather than the Retail Price Index (RPI), which has been practice in the past. This decision has the effect of reducing the Authority's future pension liabilities by £188.366m. The Code of Practice requires that Past Service costs/gains should be included with the Cost of Services and, as a result, the Cost of Services has reduced considerably compared to 2009/10 and the Authority is reporting a surplus on provision of services of £51m compared to the deficit of £105m reported in 2009/10.

11. Other Operating Expenditure

	2010/11	2009/10
	£000	£000
Gains on the disposal of non current assets	(234)	(899)
Home Office Pension Grant	(22,897)	(18,749)
Total	(23,131)	(19,648)

12. Financing and Investment Income and Expenditure

	2010/11	2009/10
	£000	£000
Interest payable and similar charges	1,152	1,225
Pensions interest cost and expected return on pensions assets	133,139	114,160
Interest receivable and similar income	(339)	(645)
Impairment of financial instruments	(6)	34
Income and expenditure in relation to investment properties and changes in their fair value	4	-
Gains on Trading Accounts	(304)	(385)
Total	133,646	114,389

13. **Taxation and Non-Specific Grant Income**

	2010/11	2009/10
	£000	£000
Council Tax Income	68,422	66,155
Non Domestic Rates	84,589	76,761
Non Ring-fenced government grants	125,072	127,377
Capital grants and contributions	3,237	4,312
Total	281,320	274,605

14. Amounts Reported for Resource Allocation Decisions

The analysis of income and expenditure by service on the face of the Comprehensive Income & Expenditure Statement is that specified by the *Best Value Accounting Code of Practice*. However, decisions about resource allocations are taken by the Authority's Resources Committee on the basis of budget reports analysed across Devolved and Non-Devolved areas, the devolved budgets being delegated to individual members of the Constabulary's Senior Management team and the Authority's Chief Executive. These reports are prepared on a different basis from the accounting policies used in the financial statements. In particular:

- No charges are made in respect of capital expenditure (whereas depreciation, revaluation & impairment losses in excess of the balance on the Revaluation Reserve and amortisations are charged to services in the Comprehensive Income & Expenditure Statement);
- The cost of retirement benefits is based on cash flows (payments of employer's pension contributions) rather than current service cost of benefits accrued in year;
- Contributions to/from earmarked reserves are reported with income and expenditure across individual budget areas when monitoring against budgets

The income and expenditure of the Authority's principal areas recorded in the budget reports for the year is as follows:

(Note: ACC = Assistant Chief Constable; DCC = Deputy Chief Constable)

2010/11	ACC Territorial Ops and Criminal Justice '£000	ACC Specialist Ops. £000	ACC People £000	DCC £000	Director of Resources £000	Police Authority £000	Specific Grants £000	Total £000
Fees & Charges & Other Service Income	(5,947)	(2,764)	(599)	(141)	(4,074)	(24)	-	(13,549)
Government Grants & Contributions	-	-	-	-	-	-	(22,316)	(22,316)
TOTAL INCOME	(5,947)	(2,764)	(599)	(141)	(4,074)	(24)	(22,316)	(35,865)
Employee Expenses	179,480	42,763	7,059	5,498	10,377	544	-	245,721
Other Service Expenses	15,422	9,351	1,429	1,955	16,714	1,260	-	46,131
TOTAL OPERATING EXPENSES	194,902	52,114	8,488	7,453	27,091	1,804	-	291,852
NET COST OF SERVICES	188,955	49,350	7,889	7,312	23,017	1,780	(22,316)	255,987
Contributions to/(from) reserve	762	1,588	385	370	377	255	-	3,737
NET EXPENDITURE REPORTED TO MANAGEMENT	189,717	50,938	8,274	7,682	23,394	2,035	(22,316)	259,724

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2009/10 Comparative Figures	ACC Territorial Ops and Criminal Justice £000	ACC Specialist Ops. £000	ACC People £000	DCC £000	Director of Resources £000	Police Authority £000	Specific Grants £000	Total £000
Fees & Charges & Other Service Income	(6,939)	(2,339)	(533)	(229)	(3,432)	(6)	-	(13,478)
Government Grants & Contributions	(219)	-	-	-	-	-	(24,081)	(24,300)
TOTAL INCOME	(7,158)	(2,339)	(533)	(229)	(3,432)	(6)	(24,081)	(37,778)
Employee Expenses	181,905	41,391	7,490	5,999	10,704	550	-	248,039
Other Service Expenses	17,860	11,667	1,485	2,352	15,298	1,425	-	50,087
TOTAL OPERATING EXPENSES	199,765	53,058	8,975	8,351	26,002	1,975	-	298,126
NET COST OF SERVICES	192,607	50,719	8,443	8,121	22,570	1,969	(24,081)	260,348
Contributions to/(from) reserves	52	216	19	-	405	7	-	699
NET EXPENDITURE REPORTED TO MANAGEMENT	192,659	50,935	8,462	8,121	22,975	1,976	(24,081)	261,047

Reconciliation of expenditure reported to management to the Cost of Services in the Comprehensive Income & Expenditure Statement

This reconciliation shows how the figures in the analysis of income & expenditure reported to management relate to the amounts included in the Comprehensive Income & Expenditure Statement.

	2010/11 £000	2009/10 £000
Net expenditure in Service Analysis	259,724	261,047
Add services not included in main analysis	15,493	8,749
Add amounts not reported to management	(104,921)	58,648
Remove amounts reported to management not included in Comprehensive Income & Expenditure Statement	(50,832)	(43,625)
NET COST OF SERVICE IN COMPREHENSIVE INCOME & EXPENDITURE STATEMENT	119,464	284,819

Reconciliation to Subjective Analysis

2010/11	Service Analysis	Services not in Analysis	Not Reported to Mgmt.	Not incl. in Comp Inc & Exp State't	Net Cost of Service	Corporate Amounts	Total
	£000	£000	£000	£000	£000	£000	£000
Fees, charges & other service income	(13,549)	(4,518)	-	2,229	(15,838)	(1,486)	(17,324)
Interest and Investment Income (net of impairment)	-	-	-	-	-	(339)	(339)
Income from Council tax	-	-	-	-	-	(68,422)	(68,422)
Pensions –Return on Assets	-	-	-	-	-	(9,535)	(9,535)
Pensions – Past Service Gains	-	-	(188,366)	-	(188,366)	-	(188,366)
Receipts from sale of Non-current Assets	-	-	-	-	-	(1,686)	(1,686)
Government Grants and Contributions	(22,316)	-	-	-	(22,316)	(235,795)	(258,111)
TOTAL INCOME	(35,865)	(4,518)	(188,366)	2,229	(226,520)	(317,263)	(543,783)
Employee Expenses	245,722	9,252	65,574	(42,342)	278,206	878	279,084
Other Service Expenses	46,130	5,417	-	(1,507)	50,040	305	50,345
Depreciation, Amortisation & Impairment	-	-	17,871	(133)	17,738	(4)	17,734
Interest Payments	-	-	-	-	-	1,152	1,152
Pensions Interest Costs	-	-	-	-	-	142,674	142,674
Write out of Non-current assets sold during the year	-	-	-	-	-	1,453	1,453
TOTAL OPERATING EXPENSES	291,852	14,669	83,445	(43,982)	345,984	146,458	492,442
(SURPLUS)/DEFICIT ON PROVISION OF SERVICES	255,987	10,151	(104,921)	(41,753)	119,464	(170,805)	(51,341)
Adjustments Reported to Management , included in Movement in Reserves Statement:							
Contributions to/(from) reserves	3,737	1,576	-	(5,313)	-	-	-
Other appropriations included in MIRS	-	3,766	-	(3,766)	-	-	-
Management reporting reconciliation	259,724	15,493	(104,921)	(50,832)	119,464	(170,805)	(51,341)

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2009/10 Comparatives

	Service Analysis	Services not in Analysis	Not Reported to Mgmt. £000	Not incl. in Comp Inc & Exp State't £000	Net Cost of Service £000	Corporate Amounts £000	Total £000
Fees, charges & other service income	(13,478)	(4,824)	-	2,614	(15,688)	(1,649)	(17,337)
Interest and Investment Income (net of impairment)					-	(611)	(611)
Income from Council tax					-	(66,155)	(66,155)
Pensions –Return on Assets	-	-	-	-	-	(6,806)	(6,806)
Receipts from sale of Non-current Assets					-	(1,627)	(1,627)
Government Grants and Contributions	(24,300)	(1,159)	-	(24)	(25,483)	(227,200)	(252,683)
TOTAL INCOME	(37,778)	(5,983)	-	2,590	(41,171)	(304,048)	(345,219)
Employee Expenses	248,039	7,840	39,255	(41,144)	253,990	955	254,945
Other Service Expenses	50,087	4,089	-	(1,569)	52,607	310	52,917
Depreciation, Amortisation & Impairment			19,393		19,393	-	19,393
Interest Payments					-	1,224	1,224
Pensions Interest Costs					-	120,966	120,966
Write out of Non-current assets sold during the year					-	729	729
TOTAL OPERATING EXPENSES	298,126	11,929	58,648	(42,713)	325,990	124,184	450,174
(SURPLUS)/DEFICIT ON PROVISION OF SERVICES	260,348	5,946	58,648	(40,123)	284,819	(179,864)	104,955
Adjustments Reported to Management , included in Movement in Reserves Statement:							
Contributions to/(from) reserves	699	(2,729)		2,030	-		
Other appropriations included in MIRS		5,532		(5,532)	-		
Management reporting reconciliation	261,047	8,749	58,648	(43,625)	284,819	(179,864)	104,955

15. Grant Income

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

	2010/11	2009/10
	£000	£000
Credited to Taxation and Non-Specific Grant Income:		
Police Grant	112,789	109,659
Revenue Support Grant	12,283	17,718
National Non-Domestic Rates	84,589	76,761
Capital Grant and contributions	3,237	4,312
Total	212,898	208,450
Credited to Other Income and Expenditure:		
Home Office Grant payable towards the cost of retirement benefits	22,897	18,749
Credited to Services:		
Additional Rule 2 Grant	1,153	4,027
Basic Command Unit Grant	917	917
Crime Fighting Fund	6,578	6,578
Dedicated Security Posts	2,527	2,976
Loan Charges	154	177
Neighbourhood Policing Fund	8,213	7,997
Knife Crime	240	266
Regional Asset Recovery Team	1,162	1,159
PREVENT	698	769
Drug testing	211	219
Other	463	402
Total	22,316	25,487

16. Council Tax

Each district council (the "billing authority") collects council tax on our behalf and pays it into their collection fund. We then levy a precept on those collection funds to raise the Authority's council tax income. We also receive a share of any surplus or deficit in respect of previous year's council tax collections.

	2010/11	2009/10
	£000	£000
Precept from district council collection funds	68,335	66,274
Collection fund surplus/(losses)	(193)	(162)
Budgeted council tax for the year paid by billing authorities	68,142	66,112
Billing authorities collection fund accruals adjustment	280	43
Total Council Tax income shown in the accounts	68,422	66,155

Trading Operations Notes

17. Trading Accounts

The Authority operates the following three trading activities whose primary objectives are to provide services to Lancashire Constabulary. They also provide some services to external organisations:

- a) Training Centre – The centre primarily provides training for Lancashire uniformed and police staff, in addition to providing training for a number of other organisations, mainly police forces.
- b) ICT – This unit provides technical support and maintenance to the Constabulary’s communication systems, whilst also providing similar services for external organisations such as schools and other police authorities.
- c) Vehicle Maintenance Unit – The majority of the unit’s work relates to the servicing, maintenance and repair of the Constabulary’s vehicle fleet. In addition the unit carries out repair work for the Authority’s insurers.

Trading accounts have been prepared for the above units. The surplus/(deficit) on the trading element of the units for 2010/11 is summarised as follows:-

	2010/11		2009/10
	Surplus/ (Deficit) £000	Turnover £000	Surplus/ (Deficit) £000
Training School	168	548	188
ICT	81	756	165
VMU	55	184	32
Total	304		385

The above figures exclude depreciation charges, a proportion of which would relate to the trading element of the units.

Balance Sheet Notes**18. Property Plant and Equipment**

Movements in 2010/11:

	Land and Buildings	Vehicles, Plant, Furniture & Equipment	Assets Under Construction	Total Property, Plant and Equipment
	£000	£000	£000	£000
Cost or Valuation				
At 1 April 2010	169,380	50,684	-	220,064
Additions	548	6,195	3,745	10,488
Revaluation Increases/(Decreases) recognised in the Revaluation Reserve.	(1,447)	309	-	(1,138)
Revaluation Increases/(Decreases) recognised in the Surplus/Deficit on the Provision of Services	(6,216)	-	-	(6,216)
Derecognition – disposals	-	(236)	-	(236)
Derecognition - other	(2,025)	-	-	(2,025)
Assets reclassified (to)/from Held for Sale	(2,144)	-	-	(2,144)
Other movements in cost or valuation	-	-	-	-
At 31 March 2011	158,096	56,952	3,745	218,793

Accumulated Depreciation & Impairment				
At 1 April 2010	(6,155)	(26,502)	-	(32,657)
Depreciation charge:				
Depreciation written out to the Revaluation Reserve	(545)	(127)	-	(672)
Depreciation written out to the Surplus/Deficit on the Provision of Services	(2,803)	(7,117)	-	(9,920)
Impairment Losses/(Reversals) recognised in the Revaluation Reserve	-	-	-	-
Impairment Losses/(Reversals) recognised in the Surplus/Deficit on the Provision of Services	-	-	-	-
Derecognition - disposals	-	-	-	-
Derecognition-other	2,025	-	-	2,025
Other movements in depreciation & impairment	-	-	-	-
At 31 March 2011	(7,478)	(33,746)	-	(41,224)

Net Book Value				
At 31 March 2011	150,618	23,206	3,745	177,569
At 31 March 2010	163,225	24,182	-	187,407

Comparative Movements in 2009/10:

	Land and Buildings	Vehicles, Plant, Furniture & Equipment	Assets Under Construction	Total Property, Plant and Equipment
	£000	£000	£000	£000
Cost or Valuation				
At 1 April 2009	185,334	41,422	7,035	233,791
Additions	5,665	7,567	-	13,232
Revaluation Increases/(Decreases) recognised in the Revaluation Reserve.	(1,768)	1,720	-	(48)
Revaluation Increases/(Decreases) recognised in the Surplus/Deficit on the Provision of Services	(6,575)	-	-	(6,575)
Derecognition - disposals	(441)	(25)	-	(466)
Derecognition - other	(17,877)	-	-	(17,877)
Assets reclassified (to)/from Held for Sale	(1,999)	-	-	(1,999)
Other movements in cost or valuation	7,041	-	(7,035)	6
At 31 March 2010	169,380	50,684	-	220,064

Accumulated Depreciation & Impairment				
At 1 April 2009	(20,194)	(18,530)	-	(38,724)
Depreciation charge				
Depreciation written out to the Revaluation Reserve	-	-	-	-
Depreciation written out to the Surplus/Deficit on the Provision of Services	(3,869)	(7,695)	-	(11,564)
Impairment Losses/(Reversals) recognised in the Revaluation Reserve	-	-	-	-
Impairment Losses/(Reversals) recognised in the Surplus/Deficit on the Provision of Services	-	(277)	-	(277)
Derecognition - disposals	31	-	-	31
Derecognition - other	17,877	-	-	17,877
Other movements in depreciation & impairment	-	-	-	-
At 31 March 2010	(6,155)	(26,502)	-	(32,657)

Net Book Value				
At 31 March 2010	163,225	24,182	-	187,407
At 31 March 2009	165,140	22,892	7,035	195,067

Depreciation

The following useful lives and depreciation rates have been used in the calculation of depreciation:

Property and property components:

- Under 10 years
- 10-14 years
- 15-20 years
- 20-29 years
- 30-39 years
- 40-49 years
- 50 years and over

Depreciation is based on the lower limit. Properties over 50 years are depreciated over a 50 year life, while properties under ten years are depreciated based on an assessment of their actual life.

The lives of vehicles, IT assets and intangibles such as software licences and internally developed software are assessed individually by professional staff within the Constabulary.

Furniture and equipment other than computer equipment is depreciated over ten years, unless it is known that a different period is required.

Capital Commitments

At 31 March 2011 the Authority has entered into a number of contracts for the construction or enhancement of Property Plant and Equipment in 2011/12 and future years, budgeted to cost £1.472m. Similar commitments at 31 March 2010 were £0.968m.

Effects of Changes in Estimates

In 2010/11 the Authority made no material changes to its accounting estimates for Property, Plant and Equipment.

Revaluations

The Authority carries out a rolling programme that ensures that all Property, Plant and Equipment required to be measured at fair value is revalued at least every five years. All revaluations were carried out internally by appropriate professionally qualified staff. Valuations of land and buildings were carried out in accordance with the methodologies and bases for estimation set out in the professional standards of the Royal Institute of Chartered Surveyors. Where non-property assets, principally furniture, equipment and vehicles that have short useful lives or low values (or both), depreciated historical cost basis is used as a proxy for fair value and these are not therefore subject to revaluation.

The following table shows the progress of the Authority's rolling programme for the revaluations of property plant and equipment. Accounting Policy xviii in Note 1 to the Accounts explains that, for accounting purposes, values as at 31 March 2007 are treated as historic cost in 2010/11.

	Land & Buildings	Vehicles, Plant, Furniture & Equipment	Total
	£000	£000	£000
Carried at historical cost	3,745	23,842	27,587
Valued at fair value as at:			
31 March 2011	72,923	6,828	79,751
31 March 2010	31,748	10,317	42,065
31 March 2009	53,425	7,835	61,260
31 March 2008	-	8,130	8,130
Total Cost or valuation	161,841	56,952	218,793

19. Investment Assets

The following table summarises the movement in the fair value of investment assets over the year:

	2010/11 £000	2009/10 £000
Balance at start of year	33	18
Additions:		
Purchases		-
Construction		-
Subsequent Expenditure		-
Disposals		-
Net gains/(Losses) from fair value adjustments	(4)	-
Transfers from Property Plant and Equipment		15
Balance at end of year	29	33

No expenditure has been incurred on these properties. Income in 2010/11 of £0.010m (£0.010m in 2009/10) has been included within the ICT trading account and is shown within the "Finance and Investment Income and Expenditure" section of the Comprehensive Income and Expenditure Statement.

20. Intangible Assets

The Authority accounts for its software as intangible assets, to the extent that the software is not an integral part of the hardware item of Property, Plant and Equipment. The intangible assets include both purchased licences covering a period of greater than one year and internally generated software.

All software is given a finite useful life, based on assessments of the period that the software is expected to be of use to the Authority, generally between three and five years. The carrying amount of intangible assets is amortised on a straight line basis. The amortisation of £1.348m charged to revenue in 2010/11 was charged to the ICT cost centre and apportioned over the

service headings in the Cost of Services section of the Comprehensive Income and Expenditure Statement according to the Police Objective Analysis guidance.

The movement on Intangible Asset balances during the year is as follows:

	2010/11			2009/10		
	Internally Generated Assets £000	Other Assets £000	Total £000	Internally Generated Assets £000	Other Assets £000	Total £000
Balance at start of year:						
Gross carrying amounts	1,213	4,225	5,438	1,213	2,873	4,086
Accumulated depreciation	(214)	(1,248)	(1,462)	(114)	(470)	(584)
Net carrying amount at start of year	999	2,977	3,976	1,099	2,403	3,502
Additions:						
Internal Development	-	-	-	-	-	-
Purchases	-	1,264	1,264	-	1,352	1,352
Revaluations						
Increases/(Decreases)	-	-	-	-	-	-
Impairment losses recognised in the Surplus/Deficit on the provision of Services	-	-	-	-	-	-
Amortisation for the period	-	(1,348)	(1,348)	(100)	(778)	(878)
Net carrying amount at end of year	999	2,893	3,892	999	2,977	3,976
Comprising:						
Gross carrying amounts	1,213	5,489		1,213	4,225	
Accumulated amortisation	214	2,596		214	1,248	

21. Details of Assets held

Shown below is the number of main assets held by the Authority:

At 31 March	2010/11	2009/10 (restated)
Headquarters and Divisions	7	7
Police Stations	75	76
Police Posts/Motorway Accommodation	1	2
Training Centre	1	1
Police Houses	8	9
Group Garages	3	3
Radio Mast Sites	4	4
	99	102

22. Financial Instruments

The following categories of financial instruments are carried in the balance sheet:

Balance Sheet Items	Long Term			Short Term		
	31 March 2011	31 March 2010	1 April 2009	31 March 2011	31 March 2010	1 April 2009
	£000	£000	£000	£000	£000	£000
Investments						
Loans and Receivables:						
Short Term Investments	-	-	-	18,566	529	563
Cash and Cash Equivalents	-	-	-	2,714	13,016	22,507
Total Investments	-	-	-	21,280	13,545	23,070
Debtors:						
Financial assets carried at contract amounts	-	-	-	15,537	16,651	17,996
Borrowings:						
Financial Liabilities at amortised cost	(23,654)	(24,654)	(25,004)	(1,000)	(350)	(800)
Creditors:						
Financial Liabilities carried at contract amount.	(1,894)	(2,130)	(2,367)	(25,984)	(23,937)	(28,283)

The borrowings at amortised cost are loans from the Public Works Loan Board. The terms of these loans are such that the amortised cost of the loans at 31 March 2011 is calculated as their nominal value plus interest accrued up to the balance sheet date. Because interest is paid on the balance sheet date each year the accrued interest is nil and the amortised cost of the loans is therefore the same as their nominal value.

Cash investments during 2010/11 are balances placed in Lancashire County Council's General County Fund. The counterparty is Lancashire County Council which pays a market rate of interest in return for borrowing the Police Authority's funds for capital financing and short term cash flow purposes

The Public Works Loan Board debt outstanding at 31 March 2011 is due for repayment as shown in the following table:

	2011 £000	2010 £000	2009 £000
Less than one year	1,000	350	800
Between one and two years	2,500	1,000	350
Between two and five years	2,000	4,500	4,500
Between five and ten years	4,600	4,300	4,200
Over 10 years	14,554	14,854	15,954
	24,654	25,004	25,804

Treatment of Icelandic Deposits

Lancashire Police Authority had £0.668m on deposit with the Icelandic Bank Landsbanki Is when it collapsed in October 2008. At the time the winding up committee decided that wholesale depositors, such as local authorities, were preferential creditors, meaning that they would be amongst the first claims to be paid distributions from the winding up of the company. This decision makes a great deal of difference to the amount of the claim against the assets of the bank which the Police Authority can expect to receive. Due to the sums involved the decision was challenged through the Icelandic courts by vulture funds and other non-preferential creditors.

The case was heard on 14-18 February in Reykjavik and the decision passed down by the judge on 1st April. The Icelandic District Court found in favour of local authorities and ruled that deposits placed by UK wholesale depositors have priority status in the winding up of the Icelandic banks. Subsequently an appeal to the Supreme Court has been made and a final decision is expected in September 2011. No indication has been given as yet to the timing of any distributions.

Based on the current statement of assets and liabilities of the bank the most up to date indications are that Authority will recover 94.85% of the value of the claim (CIPFA May 2011) although this figure is wholly dependent on realisations made from the assets of the bank and may change.

In terms of accounting treatment, since the collapse in 2008-09 the Icelandic deposit has been treated as an impaired asset, with the value of the asset written down to reflect the potential loss and this has been charged to the General Fund. In 2008-09 and 2009-10 the Authority took advantage of a special capital financing regulation, which enabled the Authority to defer the impact on the general fund by transferring the impairment to the financial instruments adjustment account. It has always been the case that the regulation would last for two years and that the impairment transfer to the financial instruments adjustment account would be reversed in 2010/11.

In accordance with legislation and CIPFA accounting guidance, all transactions relating to the Landsbanki investment transferred to the financial instruments adjustment account in previous years have now been reversed, and an impairment charge of £133k made to the 2010-11 accounts. In addition and also in accordance with recommended accounting practice £32k of notional interest has been credited to the investment interest account.

Income, Expense, Gains and Losses**Gains and Losses on Financial Instruments**

The gains and losses during 2010/11 on financial instruments, i.e. the borrowings and investments detailed above, which have been recognised in the Comprehensive Income and Expenditure Statement, are as shown in the following table.

	Financial Liabilities measured at amortised cost	Financial Assets measured at amortised cost
	£000	£000
Interest Expense	1,152	
Impairment losses	133	
Total Interest Impaired	1,285	
Interest income		(317)
Interest income accrued on impaired financial assets		(32)
Total interest receivable		(349)

Fair Value of Financial Liabilities and Assets

Financial liabilities, financial assets represented by loans and receivables are carried in the Balance Sheet at amortised cost. Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments. The Fair values are shown in the table below.

Balance Sheet Items	31 March 2011		31 March 2010		1 April 2009	
	Amortised Cost	Fair Value	Amortised Cost	Fair value	Amortised Cost	Fair Value
	£000	£000	£000	£000	£000	£000
Loans from the Public Works Loan Board	24,654	26,107	25,004	25,893	25,804	28,027
Cash deposits invested with Lancashire County Council	21,343	21,343	13,201	13,201	22,620	22,620

The fair value of our PWLB loans is the amount that would have been payable had those loans been repaid to the PWLB on the balance sheet date rather than on their contracted future maturity date. This valuation takes into account the penalties that would be payable or discounts receivable on early repayment of loans to the PWLB. These penalties and discounts depend on the rate and period of each individual loan and on the rates for loans with similar periods to maturity prevailing at the balance sheet date. Where the duration of a financial instrument is less than one year, its fair value may be deemed to be the same as its nominal value. All our deposits in the County Council's General County Fund may be recalled at any time without notice so the fair value of our investments is the same as their nominal value.

Exposure to Risk in Financial Instruments

There is some risk attached to our holdings of and transactions in financial instruments. The following sections show how we quantify, where possible, and control our exposure to the three main elements of financial risk. These are credit risk, liquidity risk and market risk.

Credit Risk

Credit risk is the possibility that counterparty, i.e. an entity in which we have placed a cash investment or a trade debtor will be unable to honour its debt to us. In previous years, although our investments were all in Lancashire County Council's General County Fund, the County Council would lend out our balances as part of an overall total that includes the County Council's own money and that of other organisations as well. We therefore accepted a share of the overall credit risk that was proportional to our share of the total on deposit in the County Council's name. The 2010/11 treasury management policy changed this so that the actual counterparty was Lancashire County Council and the Police Authority is no longer liable for any losses which might occur within the County Council's portfolio. This decision was taken to reduce the credit risk to the Police Authority's balances at a time of continued volatility in financial markets.

In the context of credit risk, trade debtors are treated as financial instruments. An assessment of this risk has been made, based on experience of default and uncollectability over the last four financial years, adjusted to reflect current market conditions, as follows:

Amount at 31 March 2011	Historical experience of default	Historical experience adjusted for market conditions at 31 March 2011	Estimated maximum exposure to default and uncollectability
£000	%	%	£000
A	B	C	A x C
2,137	36.3	22.4	479

For this exercise, historical experience of default relates to average debt outstanding in excess of the thirty day terms allowed for trade debtors. In reality, debt is pursued actively and actual debt ultimately written off over the four year period amounted to an average of only £13,000 per year so whilst the exposure noted above is high the risk of uncollectability is low.

On the basis that the Authority allows thirty days credit terms for customers, £0.7m of the £2.1m balance is past its due date for payment. The past due date amount can be analysed by age, as follows:

	31 Mar 11	31 Mar 10	1 April 2009
	£000	£000	£000
One to three months	337	341	813
Three to six months	234	175	351
Six months to one year	25	41	41
More than one year	142	181	103
	738	738	1,308

In addition to the above trade debtors the Authority is also required to account for its share of the Council tax owed to the fourteen District Council and Unitary Authority Collection Funds across Lancashire. As at 31 March 2011 this amounted to £5.0m (£4.9m at 31 March 2010). This debt relates to several tax years and the treasurers of the district councils have, based on their experience of collecting this debt, taken the view that £2.4m (48%) of this will not be collected (compared with £2.3m and 46.7% last year). These amounts need to be seen in the context of the whole amount of Council Tax raised by the Police Authority of £68m, therefore the amount owed at the end of the year represents 7.4% of the tax raised in the year

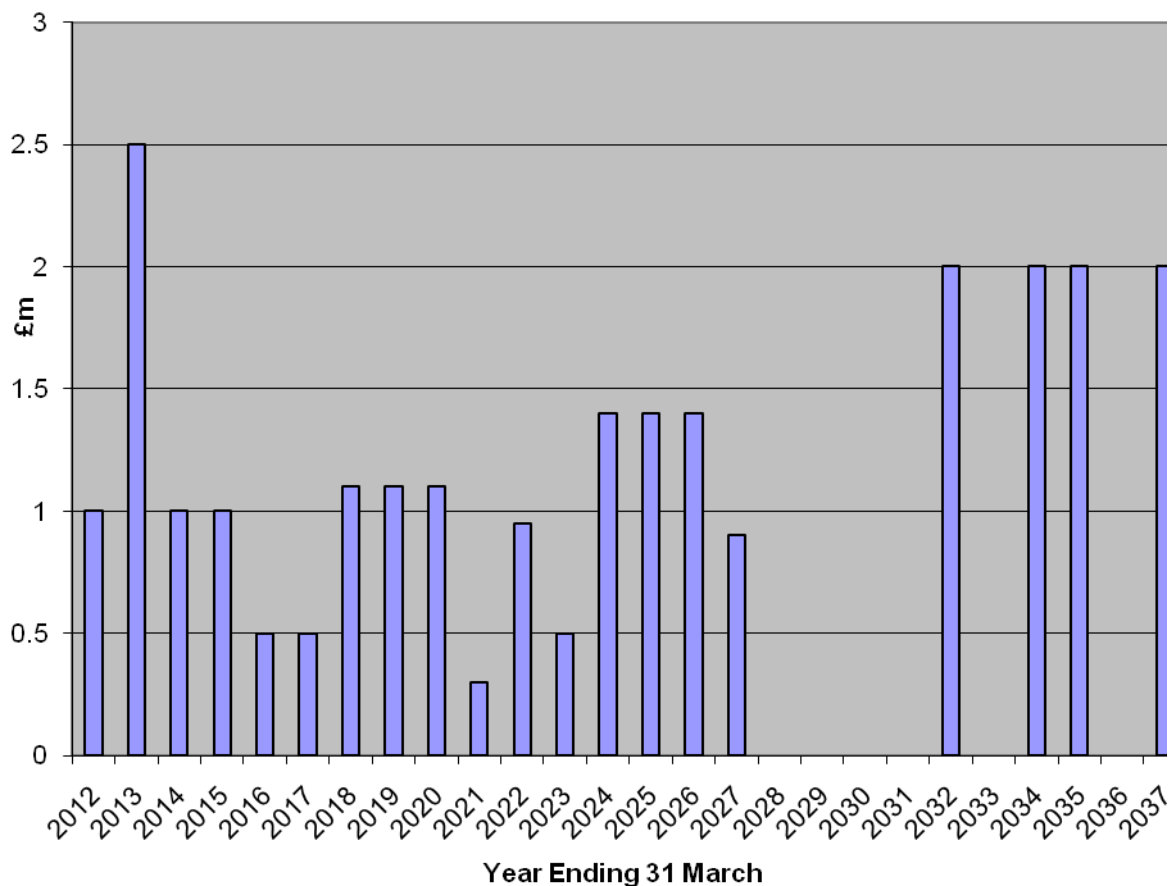
Liquidity Risk

Liquidity risk is the danger that, at any time, we will have insufficient funds in our bank account to make the payments necessary to meet our financial obligations. We must manage our financial liabilities and assets in such a way as to mitigate this risk.

In managing our financial liabilities, we seek to achieve a maturity pattern of our borrowings which will ensure that there are no heavy concentrations of maturities in any one year. In fact, the risk is more of a price risk than a liquidity risk as we can always secure replacement loans from the PWLB or Lancashire County Council, but would not want to replace too large a proportion of our loans at a time of high interest rates.

The maturity profile of our debt is shown in the table below. This illustrates the spread of maturities into the future and how we have avoided the need for too much debt to be replaced in any one year.

LPA PWLB DEBT BY MATURITY DATE AS AT 31 MARCH 2011



With our financial assets a proportion are recallable at any time. The Police Authority Treasurer meets on a regular basis with the County Council's Treasury Management team to discuss cash flow and the appropriate level of balances to keep on call.

Market Risk

The market risk to which we are exposed in our financial instruments arises mainly from interest rate movements in financial markets. The different types of financial instruments that we hold are affected in different ways by changes in market interest rates.

We hold fixed rate financial liabilities and variable rate financial assets. The fixed rate financial liabilities are long-term loans from the PWLB and the effect of changes in market interest rates is to change the fair value of the liabilities reported in the notes to the balance sheet.

These changes have no effect on any part of the revenue account or on the actual balance sheet carrying value. Fair values represent the amount due if debt is repaid before its maturity date. When the loans finally mature, they will be repayable at their nominal, balance sheet values.

There is some risk attached to our holdings of and transactions in financial instruments. The following sections show how we quantify, where possible, and control our exposure to the three main elements of financial risk. These are credit risk, liquidity risk and market risk.

23. Assets held for Sale

Under IFRS accounting rules, assets that are available for immediate sale in their present condition, are being actively marketed, and the sale is expected to be completed within one year must be treated as current liabilities. Details of the movements in this class of assets are shown below:

	Current 2011 £000	Current 2010 £000
Balance outstanding at start of year	1,999	260
Assets newly classified as held for sale:		
Property, Plant and Equipment	2,264	1,999
Revaluation Losses	(357)	-
Revaluation Gains	578	-
Impairment Losses	-	-
Assets declassified as held for sale:		
Property, Plant and Equipment	(120)	-
Assets sold	(1,167)	(260)
Other movements		
Balance outstanding at end of year	3,197	1,999

24. Inventories

	Clothing & Uniforms		Dry Store		ICT Equipment		Vehicle Parts		Firearms Baton Rounds		Total	
	2010/11 £000	2009/10 £000	2010/11 £000	2009/10 £000	2010/11 £000	2009/10 £000	2010/11 £000	2009/10 £000	2010/11 £000	2009/10 £000	2010/11 £000	2009/10 £000
Balance outstanding at start of year	493	567	13	38	126	87	171	157	58	44	861	893
Purchases	683	1,043	14	153	171	152	745	670	111	118	1,724	2,136
Recognised as an expense in the year	(820)	(1,117)	(21)	(178)	(127)	(113)	(789)	(655)	(126)	(104)	(1,883)	(2,167)
Written-off balances	-	-	-	-	-	-	-	-	-	-	-	-
Balance outstanding at the year-end	356	493	6	13	170	126	127	172	43	58	702	862

25. Debtors

	31 March 2011	31 March 2010	1 April 2009
	£000	£000	£000
At 31 March			
The major items included in debtors are:			
Central Government Bodies	9,672	9,420	10,055
Other Local Authorities	4,137	5,541	5,486
NHS bodies	4	5	32
Other Entities and Individuals	1,724	1,684	2,423
TOTAL	15,537	16,650	17,996

26. Cash and Cash Equivalents

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

	31 March 2011	31 March 2010	1 April 2009
	£000	£000	£000
Cash held by the Authority	287	398	680
Bank current accounts	(350)	(54)	(230)
Short-term deposits with Lancashire County Council County Fund	2,777	12,672	22,057
TOTAL	2,714	13,016	22,507

27. Payments in Advance

Payments in advance represent cash payments made by the Police Authority on or before 31 March which are chargeable to the Revenue Account in the following financial year

	31 March 2011	31 March 2010	1 April 2009
	£000	£000	£000
Payroll/Pensions payments	-	-	39
Insurance Premiums Payment	395	413	416
Other	893	315	65
TOTAL	1,288	728	520

28. Creditors

At 31 March	31 March 2011 £000	31 March 2010 £000	1 April 2009 £000
Creditors comprise:			
Central Government Bodies	7,244	6,642	5,776
Other Local Authorities	4,243	4,309	5,735
NHS bodies	93	135	93
Other Entities and Individuals	23,247	21,013	25,430
TOTAL	<u>34,827</u>	<u>32,099</u>	<u>37,034</u>

Included with the creditors balance is an amount of £1.400m representing cash seized by Police under the Proceeds of Crime Act 2002. This cash is collected on behalf of the Home Office and does not impact on the Income and Expenditure Account.

29. Provisions

	Insurance £000	Compensatory Grant £000	Total £000
Balance at 1 April 2010	2,237	600	2,837
Additional provisions made in 2010/11	2,309	-	2,309
Amounts used in 2010/11	(1,609)	(150)	(1,759)
Balance at 31 March 2011	<u>2,937</u>	<u>450</u>	<u>3,387</u>

The provisions are split in the Balance Sheet between long and short term as follows:

	Long-term			Short-term			Total		
	2011 £000	2010 £000	2009 £000	2011 £000	2010 £000	2009 £000	2011 £000	2010 £000	2009 £000
Insurances	1,368	201	224	1,569	2,036	2,269	2,937	2,237	2,493
Compensatory Grant	101	141	167	349	459	533	450	600	700
Total	<u>1,469</u>	<u>342</u>	<u>391</u>	<u>1,918</u>	<u>2,495</u>	<u>2,802</u>	<u>3,387</u>	<u>2,837</u>	<u>3,193</u>

Insurance Liabilities Provision

The Authority makes provision to meet insurance liabilities, the precise cost of which is uncertain but which are not reimbursable from insurers as they fall below individual excess clauses and the annual self-insured limits.

The following schedule outlines the main risks insured externally and those self-insured. With regard to the self-insured risks, the Authority normally earmarks an allocation from its revenue budget to meet actual expenditure arising from such losses.

Insured risks	Self-insured risks
Public & Employers Liability above £3,244,000 in total and above £250,000 for individual claims	Public & Employers Liability below £3,244,000 in total and below £250,000 for individual claims
Property – All Risks cover, with excess as follows. Malicious damage, escape of water above £500. Storm/flood above £1,000. Subsidence above £2,500	Property – Malicious Damage, escape of water below £500. Storm/flood below £1,000. Subsidence below £2,500
Money above £500	Money below £500
Motor – Comprehensive. Own damage & third party costs above £1,564,840 in total and above £100,000 for individual claims.	Motor – Own damage & third party costs below £1,564,840 in total and below £100,000 for individual claims.
Fidelity Guarantee Aviation, Airside Liability, Engineering and Marine Computer Employees' Personal Accident	Minor policy excesses

Compensatory Grant Provision

Compensatory Grant compensates officers for tax paid on Rent Allowance. As tax is also due on Compensatory Grant the full liability arising as a result of Rent Allowance paid in 2010/11 will not materialise for a number of years. The outstanding liability in respect of 2010/11 and earlier years is estimated as £0.450m at 31 March 2011, and the accounts provide for this.

30. Receipts in Advance

At 31 March	2011 £000	2010 £000	2009 £000
Receipts in Advance comprise:			
Revenue Grants	-	243	95
Other	951	633	632
TOTAL	951	876	727

31. Capital Grants - Receipts in Advance

At 31 March	2011 £000	2010 £000	2009 £000
Capital Grants	85	-	-
TOTAL	85	-	-

32. Unusable Reserves

	31 March 2011 £000	31 March 2010 £000	1 April 2009 £000
Revaluation Reserve	(29,040)	(30,932)	(31,879)
Capital Adjustment Account	(116,283)	(126,404)	(134,586)
Financial Instruments Adjustment Account	-	139	105
Pensions Reserve	2,162,080	2,354,430	1,606,391
Collection Fund Adjustment Account	23	303	346
Accumulated Absences Account	8,842	8,162	8752
Total Unusable Reserves	2,025,622	2,205,698	1,434,191

Revaluation Reserve

The Revaluation Reserve contains the gains made by the Authority arising from increases in value of its Property, Plant and Equipment and Intangible Assets. The balance is reduced when assets with accumulated gains are:

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

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

	31 March 2011 £000	31 March 2010 £000
Balance at 1 April	30,932	31,879
Upward revaluation of assets	1,807	6,353
Downward revaluation of assets and impairment losses not charged to the Surplus/Deficit on the Provision of Services	(3,011)	(6,385)
Surplus or deficit on revaluation of non-current assets not posted to the Surplus/Deficit on the Provision of Services	(1,204)	(32)
Difference between fair value depreciation and historical cost depreciation	(673)	(915)
Other amounts written off to the Capital Adjustment Account	(15)	-
Amount written off to the Capital Adjustment Account	(688)	(915)
Balance at 31 March	29,040	30,932

Capital Adjustment Account

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

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

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

	31 March 2011		31 March 2010
	£000	£000	£000
Balance at 1 April		126,404	134,586
Reversal of items relating to capital expenditure debited or credited to the Comprehensive Income and Expenditure Statement:			
Charges for depreciation and impairment of non-current assets	(10,594)		(11,839)
Revaluation losses on Property, Plant and Equipment	(5,929)		(6,575)
Amortisation of intangible assets	(1,348)		(879)
Revenue expenditure funded from capital under statute	-		(100)
Amounts of non-current assets written off on disposal or sale as part of gain/loss on disposal to the Comprehensive Income and Expenditure Statement	(1,403)		(693)
		(19,274)	
Adjusting amounts written out of the Revaluation Reserve	673		915
Revaluations to reflect reclassifications posted to the Surplus/Deficit on the Provision of Services	-	-	3
Other amounts written out of the Revaluation reserve	15		
		688	
Net written out amount of the cost of non-current assets consumed in the year		(18,586)	(19,167)
Capital financing applied in year:			
Use of the Capital Receipts Reserve to finance new capital expenditure	900		1,121

Capital grants and contributions credited to the Comprehensive Income and Expenditure Statement that have been applied to capital financing	3,237	3,746
Application of grants to capital financing from the Capital Grant Unapplied Account	566	588
Statutory provision for the financing of capital investment charged against the General Fund balance	1,280	1,169
Capital expenditure charged against the General Fund balance	2,486	4,362
	8,469	
Movement in the market value of Investment Properties debited or credited to the Comprehensive Income and Expenditure Statement		(4)
Balance at 31 March	116,283	126,404

Pensions Reserve

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

	31 March 2011 £000	31 March 2010 £000
Balance at 1 April	(2,354,430)	(1,606,391)
Actuarial gains or losses on pensions assets and liabilities	137,656	(653,001)
Reversal of items relating to retirement benefits debited or credited to the Surplus or Deficit on the Provision of Services	(9,667)	(154,003)
Employer's pensions contribution and direct payments to pensioners payable in the year	64,361	58,965
Balance at 31 March	(2,162,080)	(2,354,430)

Collection Fund Adjustment Account

The Collection Fund Adjustment Account manages the difference arising from the recognition of council tax income in the Comprehensive Income and Expenditure Statement as it falls due

from council tax payers compared with the statutory arrangements for paying across amounts to the General Fund from the Collection Fund.

	31 March 2011 £000	31 March 2010 £000
Balance at 1 April	(303)	(346)
Amount by which council tax income credited to the Comprehensive Income and Expenditure Statement is different from council tax income calculated for the year in accordance with statutory requirements	280	43
Balance at 31 March	(23)	(303)

Accumulated Absences Account

The Accumulated Absences Account absorbs the differences that would otherwise arise on the General Fund Balance from accruing for compensated absences earned but not taken in the year, eg annual leave entitlement and police officers lieu time carried forward at 31 March. Statutory arrangements require that the impact on the General Fund Balance is neutralised by transfers to or from the Account.

	31 March 2011		31 March 2010 £000
	£000	£000	
Balance at 1 April		(8,162)	(8,752)
Settlement or cancellation made at the end of the preceding year	8,162		8,752
Amounts accrued at the end of the current year	(8,842)		(8,162)
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Statement on an accruals basis is different from remuneration chargeable in the year in accordance with statutory requirements		(680)	590
Balance at 31 March		(8,842)	(8,162)

Financial Instruments Adjustment Account

The Financial Instruments Adjustment Account absorbs the timing differences arising from different arrangements for accounting for income and expenses relating to certain financial instruments and for bearing losses or benefiting from gains per statutory provisions.

	31 March 2011 £000	31 March 2010 £000
Balance at 1 April	(139)	(105)
Amount by which finance costs charged to the Comprehensive Income and Expenditure Statement are different from finance costs chargeable against the General Fund Balance in accordance with statutory requirements	139	(34)
Balance at 31 March	-	(139)

Cash Flow Notes**33. Cash Flow Statement -Adjustments to Net (Surplus)/Deficit on the provision of services for non-cash movement**

	2010/11 £000	2009/10 £000
Depreciation, impairments and downward valuations	(16,523)	(18,414)
REFCUS	-	(100)
Amortisation	(1,348)	(879)
Impairment losses on investments debited to (surplus)/deficit on provision of services	6	(34)
Net (increase)/decrease in revenue creditors	(2,110)	4,074
(Increase)/decrease in interest creditors	44	-
Net increase/(decrease) in revenue debtors	(747)	(1,638)
Increase/(decrease) in interest debtors	225	-
Increase/(decrease) in inventories	(160)	(32)
Pension liability	54,696	(95,038)
Contributions (to)/from provisions	(550)	357
Carrying amount of non-current assets sold (PPE, Inv Prop, Intangibles)	(1,403)	(693)
Movement in value of investment property	(4)	-
Total	32,126	(112,397)

34. Cash Flow Statement - Adjustments for items included in the net (surplus)/deficit on the provision of services that are investing and financing activities

	2010/11 £000	2009/10 £000
Capital Grants credited to (surplus)/deficit on provisions of services	3,237	4,312
Proceeds from sale of PPE, Inv Prop, Intangibles	1,283	1,304
Total	4,520	5,616

35. Cash Flow Statement – Operating Activities

The cash flows from operating activities include the following items:

	2010/11 £000	2009/10 £000
Interest received	(113)	(645)
Interest paid	1,196	1,224

36. Cash Flow Statement – Investing Activities

	2010/11 £000	2009/10 £000
Purchase of property, plant and equipment, investment property and intangible assets	11,015	15,396
Purchase of short and long-term investments	18,000	-
Proceeds from sale of property, plant and equipment, investments property and intangible assets	(1,283)	(804)
Other receipts from investing activities	(3,322)	(4,312)
Net cash outflows from investing activities	24,410	10,280

37. Cash Flow Statement – Cash Flows from Financing Activities

	2010/11 £000	2009/10 £000
Cash repayment of short and long term borrowing	350	800
Transferred debt repayment	237	237
Total cash outflows from financing activities	587	1,037

38. Expenditure on Publicity

The Authority has spent £0.674m (£0.800m in 2009/10) on certain categories of publicity including communication and consulting with Lancashire residents; this information is published in accordance with section 5(1) of the Local Government Act 1986. The categories are:

	2010/11	2009/10
	£000	£000
Publicity	648	733
Advertising -Recruitment	16	25
Advertising - Other	10	42
	674	800

39. Members' Allowances

In 2010/11, £0.293m (£0.261m in 2009/10) was paid in members' allowances and expenses.

40. Officers' Remuneration

The remuneration paid to the Authority's senior employees is as follows:

Senior Officers and Relevant Police Officers 2010-11

Post Holder Information (Post title only)	Notes	Salary (including allowances)	Bonuses	Expense Allowances	Benefits in Kind	Total Remuneration excl. pension contribs	Pension Contribs.	Total Remuneration
		£	£	£	£	£	£	£
Chief Constable -S Finnigan		156,726	-	-	5,645	162,371	-	162,371
Deputy Chief Constable		127,135	-	-	4,698	131,833	29,877	161,710
Assistant Chief Constable-People		107,583	-	-	5,393	112,976	25,350	138,326
Assistant Chief Constable- Territorial Divs. & Criminal Justice	Note 1	103,494	-	2,083	2,648	108,225	24,161	132,386
Assistant Chief Constable- Specialist Ops.	Note 2	102,850	-	2,917	1,891	107,658	23,509	131,167
Director of Resources	Note 3	99,608	-	-	11,143	110,751	15,106	125,857
Chief Executive		94,277	-	-	10,495	104,772	13,482	118,254

Note 1: Post covered by two officers over the year: 1 April-31 August 2010; 1 September 2010-31 March 2011

Note 2: Post covered by three officers over the year: 1 April-31 August 2010; 1 September-31 December 2010; 1 January 2011-31 March 2011

Note 3: The Director of Resources works reduced hours under a "V-time" arrangement. The whole time equivalent salary is £120,741.

NB: The two statutory officers: Treasurer (S151 officer) and Monitoring Officer, are not employees of the Authority but are bought in services and will be included, if relevant, on the disclosure of their employing authority. The costs of these functions are included within Note 50 – Police Authority Costs (Bought-in Services).

Senior Officers and Relevant Police Officers 2009-10 (comparative information)

Post Holder Information (Post title only)	Notes	Salary (including allowances)	Bonuses	Expense Allowances	Benefits in Kind	Total Remuneration excl. pension contribs	Pension Contribs.	Total Remuneration
		£	£	£	£	£	£	£
Chief Constable -S Finnigan	Note 1	152,749	21,277	-	4,637	178,663	23,358	202,021
Deputy Chief Constable	Note 2	121,280	14,660	3	3,087	139,030	28,753	167,783
Assistant Chief Constable-People	Note 3	102,836	9,951	417	4,246	117,450	24,451	141,901
Director of Resources	Note 4	98,210	9,951	-	10,778	118,939	14,094	133,033
Assistant Chief Constable- Specialist Ops.		101,533	500	-	4,838	106,871	23,171	130,042
Assistant Chief Constable- Territorial Divs. & Criminal Justice	Note 5	98,498	500	1,838	2,939	103,775	22,921	126,696
Chief Executive		91,915	-	-	9,825	101,740	12,684	114,424

Note 1: Pension contributions relate to the period April-November 2009

Note 2: Post covered by three officers over the year: 1 April-13 September 2009; 14 September-10 November 2009; 11 November 2009-31 March 2010

Note 3: Post covered by two officers over the year: 1 April-13 September 2009 & 11 November 2009-31 March 2010; 14 September-10 November 2009.

Note 4: The Director of Resources works reduced hours under a "V-time" arrangement. The whole time equivalent salary is £102,128.

Note 5: Post covered by three officers over the year: 1 April-10 November 2009; 11 November 2009-31 January 2010; 1 February-31 March 2010.

NB: The two statutory officers: Treasurer (S151 officer) and Monitoring Officer, are not employees of the Authority but are bought in services and will be included, if relevant, on the disclosure of their employing authority. The costs of these functions are included within Note 50 – Police Authority Costs (Bought-in Services).

The Authority employed an estimated 5,620 full time equivalents during 2010/11 (5,966 in 2009/10). Of the remaining employees, those receiving remuneration of greater than £50,000 for the year (excluding employer's pension contributions) were paid the following amounts:-

	2010/11	2009/10
£104,000 - £109,999	1	-
£100,000 - £104,999	1	-
£95,000 - £99,999	1	1
£90,000 - £94,999	4	1
£85,000 - £89,999	3	1
£80,000 - £84,999	4	7
£75,000 - £79,999	13	6
£70,000 - £74,999	7	12
£65,000 - £69,999	9	10
£60,000 - £64,999	11	7
£55,000 - £59,999	83	66
£50,000 - £54,999	160	168
Total	<u>297</u>	<u>279</u>

NB Remuneration includes gross pay, before the deduction of employees' pension contributions, together with expense allowances and benefits declared to HM Customs & Excise on form P11D. It does not include employers' pension contributions. Senior Officers posts that are included in the Officers Remuneration note have been excluded.

41. External Audit Costs

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	80	81
Fees payable to the Audit Commission in respect of statutory inspection	-	-
Fees payable to the Audit Commission for the certification of grant claims and returns	-	-
Fees payable in respect of other services provided by the appointed auditor	-	-
Total Costs	<u>80</u>	<u>81</u>

42. Related Parties

The Authority is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Authority or to be controlled or influenced by the Authority. Disclosure of these transactions allows readers 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

Related parties include:

- Central Government
- Other local authorities
- Subsidiary and associated companies
- Joint ventures and joint venture partners
- Members and chief officers
- The Pension Fund

The Government

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. Details of transactions with government departments are set out in the subjective analysis in Note 14 on reporting for resource allocation decisions.

Members

Members of the Authority have direct control over the Authority's financial and operating policies. The total of members allowances paid in 2010/11 is shown in Note 39. As required under Section 81 of the Local Government Act 2000, members' outside interests are recorded in a formal register and the Code of Conduct operated by the Authority requires members to declare any related interests they have, and to take no part in meetings or decisions on issues concerning those related interests. The Register of Interests is available for inspection on the Authority's website by looking at the details for each Member using the following link:

<http://committee.lancspa.gov.uk/mgMemberIndex.aspx?bcr=1>

In addition, a survey of the related party interests of members and their immediate family members was carried out in preparing the Statement of Accounts. This survey showed that members have outside interests in bodies that have transactions with the Authority, such as:

- roles as members of Lancashire County Council, the district and unitary authorities;

- roles with voluntary organisations.

In none of these cases is there evidence either of control of one party by the other, or of any related material transaction which would require disclosure in this note.

Officers

During 2010/11 the following related parties exist:

Angela Harrison, Monitoring Officer and solicitor for Preston City Council, also provided services to Lancashire Police Authority as Monitoring Officer. The annual charge is included within Note 50 Police Authority Costs (Bought-in Services).

Ian Cosh, Assistant Director of Finance at Lancashire County Council, also provided services to Lancashire Police Authority as Treasurer. Again, the annual charge is included within Note 50 Police Authority Costs (Bought-in Services)

During the year no other chief officers or Members of the Authority have undertaken any material transactions with Lancashire Police Authority.

Jointly Controlled Operations

The Authority is party to a number of joint arrangements, shown below. In all instances the Authority's accounts reflect their share of the income, expenditure and cash flows arising from the structure of the arrangement:

Motorway Collaboration

The provision of strategic roads policing was established in April 2008 between regional Forces and the Highways Agency

The Highways Agency Regional Control Centre is the joint communications facility for this initiative. Lancashire makes contributions to the lead force, Cheshire Constabulary, who employs the staff for the North West Motorway Police Group (NWMPG) and incurs the operating costs.

The following income and expenditure has been included in the Authority's accounts for the financial year 2010/11:

	2010/11	2009/10
	£000	£000
<u>Expenditure</u>		
Contributions towards staff and running costs April 2010- March 2011	282	261
Admin Fee	-	8
Total Expenditure	282	269

Regional Collaboration

Titan was established in April 2009 bringing together the six regional police forces in collaboration to tackle serious and organised crime across the North West and other parts of the country. It encompasses the work of the Regional Crime Unit (RCU), the Regional Intelligence Unit (RIU) and the Regional Asset Recovery Team (RART).

The RCU aims to disrupt, dismantle and put before the courts criminals belonging to organised crime groups. The RIU identifies the types of crime and organised crime groups that represent a threat to the region and builds intelligence pictures that it relays to the RCU and /or other strategic partners for subsequent investigation. The RART plays a critical role in reducing crime in the region by seizing the assets of criminals through the powers of the Proceeds of Crime Act.

Merseyside is the lead force for the RCU and RIU. Lancashire continues to be the lead force for the RART. Costs met by Lancashire for RCU and RIU are reimbursed by Merseyside with Lancashire paying a contribution to the total cost of these regional Units.

The following income and expenditure has been included in the Authority's accounts for the financial year 2010/11 in respect of the RCU and the RIU:

	2010/11	2009/10
	£000	£000
<u>Expenditure</u>		
Costs associated with Lancashire's own seconded officers	608	493
Reimbursed from Merseyside	(608)	(493)
Contribution to Merseyside towards running costs	610	685
Total Expenditure	610	685

The following income and expenditure has been included in the Authority's accounts for the financial year 2010/11 in respect of the RART:

	2010/11	2009/10
	£000	£000
<u>Expenditure</u>		
Employees	413	336
Premises	264	254
Transport	27	40
Supplies & Services	102	107
Reimbursements to other Forces/Agencies	449	474
Revenue Contribution to Capital	-	19
Total Expenditure	1,255	1,230

Financed By:		
Home Office Grant	1,162	1,171
Other Costs Recovered	93	59
Total Financing	1,255	1,230

Lancashire Partnership for Road Safety

The Lancashire Partnership for Road Safety was created in 2001 as part of the Department for Transport's National Safety Camera Programme. The principal aims of the partnership are to help achieve the Government's 2010 casualty reduction targets, to reduce site specific ambient speed levels and to change road users' behaviour and attitude where this is unacceptable. The partnership has developed the use of enforcement of the relevant legislation through the use of camera technology.

The accountable body for the Partnership is Lancashire County Council and gross expenditure in 2010/11 was £2.049m, funded predominantly by contributions from Lancashire County Council, Blackburn with Darwen Council, Blackpool Council and Lancashire Police Authority.

Staff within the Central Ticket Office are employed by the Authority and their costs, together with running costs of the office and speed camera maintenance etc are shared on an agreed basis between the Authority, Lancashire County Council (on behalf of the Lancashire Partnership for Road Safety) and the Courts Service (the latter mainly for the occupation of premises). Should the arrangement cease there will be an exit strategy in relation to staff and the vacating of the premises.

The following income and expenditure has been included in the Authority's accounts for the financial year 2010/11:

	2010/11 £000	2009/10 £000
<u>Expenditure</u>		
Employees	1,275	1,262
Premises	169	154
Transport	24	26
Supplies & Services	356	277
Total Expenditure	1,824	1,719
<u>Income</u>		
Recharged to Lancashire Partnership for Road Safety	(1,344)	(1,193)
Recharged to Courts Service	(43)	(8)
Other Income	(24)	(58)
Net Expenditure	413	460

The net expenditure of £0.413m (£0.460m in 2009/10) is Lancashire Police Authority's contribution to the Lancashire Partnership for Road Safety.

Regional Underwater Search Unit

This Unit has been in operation since 2001 and provides an underwater search facility to the six regional Forces with Cheshire Constabulary being the lead Force. Costs met by Lancashire for the Unit are reimbursed by Cheshire with Lancashire paying a contribution to the total regional cost.

The following income and expenditure has been included in the Authority's accounts for the financial year 2010/11:

	2010/11	2009/10
	£000	£000
Costs initially met by Lancashire	188	176
Reimbursed by Cheshire Police	(188)	(176)
Lancashire's contribution towards running costs	180	178
Net Expenditure	180	178

43. Capital Expenditure and Financing

	2010/11	2009/10
	£000	£000
Opening Capital Financing Requirement	36,080	32,383
Capital Investment		
Property, Plant and Equipment	10,488	13,332
Intangible Assets	1,264	1,352
Sources of finance		
Capital receipts	(900)	(1,121)
Government grants & other contributions	(3,803)	(4,335)
Direct revenue contributions	(3,765)	(5,531)
Closing Capital Financing Requirement	39,364	36,080
Explanation of movements in year		
Increase in underlying need to borrow (supported by government financial assistance)	1,782	1,782
Increase in underlying need to borrow (unsupported by government financial assistance)	1,502	1,915
Increase/(decrease) in Capital Financing	3,284	3,697

44. Operating Leases

Operating lease charges were as follows:

	2010/11 £m	2009/10 £m
Land and Buildings	0.435	0.541

We are committed to making operating lease payments of £0.342m in 2011/12, as follows:

	Land and Buildings £m
Leases expiring in the following year	0.046
Leases expiring in two to five years	0.130
Leases expiring after five years	<u>0.166</u>
	<u>0.342</u>

45. Impairment Losses

No impairment losses were identified during 2010/11.

46. Termination Benefits

The Authority terminated the contracts of a number of employees in 2010/11, incurring liabilities of £0.385m (£0.310m in 2009/10). These amounts were payable to 16 police staff who were made redundant as part of the Constabulary's Organisational Review process.

47. Defined Benefit Pension Schemes

As part of the terms and conditions of employment of its officers and other employees, the Authority makes contributions towards the cost of post employment benefits. Although these benefits will not actually be payable until employees retire, the Authority has a commitment to make the payments that needs to be disclosed at the time that employees earn their future entitlement.

The Authority participates in three post employment schemes:

- The Local Government Pension Scheme for civilian employees, administered by Lancashire County Council: this is a funded, defined benefits, final salary scheme, meaning the Authority and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets.

- The Police Pension Scheme for police officers: the scheme is administered on behalf of the Authority by Lancashire County Council Pension Services and is an unfunded, defined benefits, final salary scheme, meaning that there are no investment assets built up to meet the pensions liabilities, and cash has to be generated to meet actual pensions payments as they eventually fall due. Under the Police Pension Fund Regulations 2007, if the amount receivable by the pensions account for the year is less than the amounts payable the Police Authority must transfer an amount required to meet the deficit to the pensions account. Subject to parliamentary scrutiny and approval, up to 100% of this cost is met by central government pension top-up grant. If, however, the pensions account is in surplus for the year, the surplus is required to be transferred from the pensions account to the Police Authority which then must repay this amount to central government. There are currently two separate police officer pension schemes, both meeting the above criteria but with different contribution rates and benefits:
 - Police Pensions Scheme (PPS), governed by the Police Pensions Regulations 1987 (as amended) which currently has an officer contribution rate of 11%. This scheme is no longer available to new members;
 - New Police Pension Scheme (NPPS), which started from 1 April 2006 and is governed by the Police Pensions Regulations 2006 and has an officer contribution rate of 9.5%.
- Injury awards are paid to police officers under the Police (Injury Benefits) Regulations 2006 and entitlement is earned as employees work for the Authority. Tax rules from April 2006 prevent injury awards from being part of the regulations for either police pension scheme. However, as the scheme is subject to the same degree of uncertainty as the two police officer pension schemes the accounting treatment and measurement of future liabilities is fundamentally the same.

Transactions Relating to Post Employment Benefits/Injury Awards

We recognise the cost of post employment/retirement benefits in the reported cost of services when they are earned by the employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against council tax is based on the employers' contributions payable in the year, so the real cost of post employment/retirement benefits is reversed out of the General Fund via the Movement in Reserves Statement. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the General Fund Balance via the Movement in Reserves Statement during the year:

LANCASHIRE POLICE AUTHORITY STATEMENT OF ACCOUNTS 2010/11
NOTES TO THE ACCOUNTS

	Local Government Pension Scheme		Police Officer Pension Schemes		Injury Awards		Total	
	2010/11 £000	2009/10 £000	2010/11 £000	2009/10 £000	2010/11	2009/10	2010/11 £000	2009/10 £000
Comprehensive Income and Expenditure Statement								
Cost of Services:								
• Current service cost	9,560	5,344	51,907	31,933	3,330	2,361	64,797	39,638
• Curtailment costs	97	155	-	-	-	-	97	155
• Past service costs/(gain)	(15,166)	50	(167,129)	-	(6,071)	-	(188,366)	50
Financing and Investment Income and Expenditure:								
• Interest cost	14,162	11,290	122,449	104,715	6,063	4,961	142,674	120,966
• Expected return on assets in the scheme	(9,535)	(6,806)	-	-	-	-	(9,535)	(6,806)
Total Post Employment Benefits Charged to the Comprehensive Income and Expenditure Statement	(882)	10,033	7,227	136,648	3,322	7,322	9,667	154,003
Other Post Employment Benefit charged to the Comprehensive Income and Expenditure Statement								
• Actuarial (gains) and losses	(17,104)	43,425	(91,856)	579,157	(28,696)	30,419	(137,656)	653,001
Total Post Employment Benefits Charged to the Comprehensive Income and Expenditure Statement	(17,986)	53,458	(84,629)	715,805	(25,374)	37,741	(127,989)	807,004
Movement in Reserves Statement								
Reversal of net charges made to the (Surplus)/Deficit on the Provision of Services for post employment benefits in accordance with the Code	882	(10,033)	(7,227)	(136,648)	(3,322)	(7,322)	(9,667)	(154,003)
Actual amount charged against the General Fund Balance for pensions in the year:								
• Employers' contributions payable to scheme	7,312	7,030	54,953	49,883			62,265	56,913
• Retirement benefits paid to pensioners	288	383			1,807	1,669	2,095	2,052

A further breakdown of the police officer schemes is shown below.

	PPS		NPPS		Total	
	2010/11 £000	2009/10 £000	2010/11 £000	2009/10 £000	2010/11 £000	2009/10 £000
Comprehensive Income and Expenditure Statement						
Cost of Services:						
• Current Service Cost	46,208	29,363	5,699	2,570	51,907	31,933
• Past Service Gains	(164,208)	-	(2,921)	-	(167,129)	-
Financing and Investment Income and Expenditure:						
• Interest cost	120,894	104,013	1,555	702	122,449	104,715
Net Charge to the Income and Expenditure Account Total Post Employment Benefits Charged to the Comprehensive Income and Expenditure Statement	2,894	133,376	4,333	3,272	7,227	136,648
Other Post Employment Benefit charged to the Comprehensive Income and Expenditure Statement						
• Actuarial (gains) and losses	(91,730)	568,509	(126)	10,648	(91,856)	579,157
Total Post Employment Benefits Charged to the Comprehensive Income and Expenditure Statement	(88,836)	701,885	4,207	13,920	(84,629)	715,805
Statement of Movement in the General Fund Balance:						
Reversal of net charges made for retirement benefits in accordance with FRS 17	(2,894)	(133,376)	(4,333)	(3,272)	(7,227)	(136,648)
Actual amount charged against Council tax for pensions in the year:						
Employers' contributions payable to scheme	56,492	52,153	(1,539)	(2,270)	54,953	49,883

The cumulative amount of actuarial gains and losses recognised in the Comprehensive Income and Expenditure Statement from 2002/03 to date is a loss of £457.473m (loss of £595,129m at 31 March 2010)

Assets and Liabilities in Relation to Retirement Benefits

Reconciliation of the present value of the scheme liabilities:

	Funded Liabilities:		Unfunded Liabilities:			
	Local Govt. Pension Scheme		Police Pension Schemes		Injury Benefits	
	2010/11 £000	2009/10 £000	2010/11 £000	2009/10 £000	2010/11 £000	2009/10 £000
1 April	244,744	156,694	2,149,754	1,483,833	105,599	69,527
Current Service	9,560	5,344	51,907	31,933	3,330	2,361
Interest Costs	14,162	11,290	122,449	104,715	6,063	4,961
Contributions by scheme participants	3,370	3,333	13,511	13,604	-	-
Actuarial (gains) and losses	(11,979)	71,910	(91,856)	579,157	(28,696)	30,419
Benefits paid	(5,505)	(4,032)	(68,464)	(63,488)	(1,807)	(1,669)
Past Service Cost/(Gain)	(15,166)	50	(167,129)	-	(6,071)	-
Curtailments	97	155	-	-	-	-
31 March	239,283	244,744	2,010,172	2,149,754	78,418	105,599

Reconciliation of the fair value of the scheme assets:

	Local Govt. Pension Scheme	
	2010/11 £000	2009/10 £000
1 April	145,667	103,662
Expected Rate of Return	9,535	6,806
Employer Contributions	7,600	7,413
Contributions by scheme participants	3,370	3,333
Actuarial gains and (losses)	5,125	28,485
Benefits paid	(5,505)	(4,032)
31 March	165,792	145,667

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 the LGPS scheme assets in the year was £11.978m (£35.291m in 2009/10)

Scheme History

	2006/07 £000	2007/08 £000	2008/09 £000	2009/10 £000	2010/11 £000
Present value of liabilities:					
Local Govt Pension Scheme (LGPS)	161,502	187,429	156,694	244,744	239,283
PPS	1,706,983	1,772,865	1,476,364	2,126,096	1,980,767
NPPS	n/a	5,953	7,468	23,658	29,404
Injury Awards	n/a	83,769	69,527	105,599	78,418
Fair value of assets in LGPS	116,557	124,025	103,662	145,667	165,792
Surplus/(deficit) in the scheme:					
Local Govt Pension Scheme (LGPS)	(44,945)	(63,404)	(53,032)	(99,077)	(73,491)
PPS	(1,706,983)	(1,772,865)	(1,476,365)	(2,126,096)	(1,980,767)
NPPS	n/a	(5,953)	(7,468)	(23,658)	(29,404)
Injury Awards	n/a	(83,769)	(69,527)	(105,599)	(78,418)
Total	(1,751,928)	(1,925,991)	(1,606,392)	(2,354,430)	(2,162,080)

The liabilities show the underlying commitments that the authority has in the long run to pay retirement benefits. The total liability of £2,162.080m has an impact on the net worth of the authority as recorded in the balance sheet, resulting in a net liability of £2,004.383m.

However, statutory arrangements for funding the liability mean that the financial position remains healthy:

- The deficit on the Local Government Pensions scheme will be made good by increased contributions over the remaining working life of the employees, as assessed by the scheme actuary.
- Finance is only required to be raised to cover police pensions and injury awards when the pensions are actually paid.

The total contributions expected to be made to the Local Government Pension Scheme by the Authority in the year to 31 March 2012 are £7.727m. Expected contributions for the Police Pension Schemes in the year to 31 March 2012 are £55m and Injury Awards £1.8m

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on the assumptions about mortality rates, salary levels etc. The Police Schemes, Injury Benefits and the Local Government Pension Fund

liabilities have been assessed by Mercer Resource Consulting Ltd, an independent firm of actuaries, estimates being based on the last full valuations of the schemes.

LANCASHIRE POLICE AUTHORITY STATEMENT OF ACCOUNTS 2010/11
NOTES TO THE ACCOUNTS

The principal assumptions used by the actuary have been:

	Local Govt. Pension Scheme		Police Pension Schemes		Injury Awards	
	2010/11	2009/10	2010/11	2009/10	2010/11	2009/10
Long-term expected rate of return on assets in the scheme:						
Equity investments	7.5%	7.5%	-	-		
Government Bonds	4.4%	4.5%	-	-		
Other Bonds	5.1%	5.2%	-	-		
Property	6.5%	6.5%	-	-		
Cash/Liquidity	0.5%	0.5%	-	-		
Other	7.5%	7.5%	-	-		
Mortality assumptions:						
Longevity at 65 for current pensioners (LGPS):						
Men	21.6	21.2	-	-		
Women	24.2	24.1	-	-		
Longevity at 65 for future pensioners (LGPS):						
Men	23.0	22.2	-	-		
Women	25.8	25.0	-	-		
Longevity at 60 for current pensioners (Police):						
Men	-	-	26.8	26.0	25.8	22.4
Women	-	-	29.1	28.9	28.0	25.2
Longevity at 60 for future pensioners (Police):						
Men	-	-	28.4	27.0	24.3	21.5
Women	-	-	30.7	29.9	26.4	24.4
Rate of inflation: RPI	3.5%	3.5%	3.5%	3.5%	3.5%	3.5%
CPI	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Rate of increase in salaries	5.0%	5.25%	4.5%	5.00%	4.5%	5.0%
Rate of increase in pensions	3.0%	3.5%	3.0%	3.5%	3.0%	3.5%
Rate for discounting scheme liabilities	5.5%	5.7%	5.5%	5.7%	5.5%	5.7%
Take up of option to convert annual pension into retirement lump	50.0%	50.0%	50.0%*	-	-	-

* 1987 scheme only

Neither the Police Pension Schemes nor Injury Awards have assets to cover their liabilities. Assets in the Local Government Pension Fund consist of the following categories, by proportion of the total assets held by the Fund

	Assets at 31 March 2011	Assets at 31 March 2010
	%	%
Equity investments	64.0	66.0
Government Bonds	7.0	7.0
Other Bonds	14.0	12.0
Property	8.0	5.0
Cash/Liquidity	1.0	4.0
Other	6.0	6.0
	<u>100.0</u>	<u>100.0</u>

History of Experience Gains and Losses relating to Pensions

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

Local Government Pensions Scheme:

	2010/11	2009/10	2008/09	2007/08	2006/07
	%	%	%	%	%
Differences between the expected and actual return on assets	3.1	19.6	(33.3)	(4.5)	(0.7)
Experience gains and (losses) on liabilities.	4.7	-	-	(0.7)	-

Police Pension Schemes and Injury Awards – As these are unfunded schemes there are no assets so the following table shows the "experience gains and (losses) on liabilities in respect of the Police Pension Schemes and Injury Awards

	2010/11	2009/10	2008/09	2007/08	2006/07
	%	%	%	%	%
PPS	4.2	-	-	3.2	-
NPPS	2.7	-	-	(15.8)	n/a
Injury Awards	43.1	-	-	-	n/a

48. Contingent Liabilities

Municipal Mutual Insurance

Municipal Mutual Insurance provided insurance to Lancashire County Council until the company ceased to underwrite in 1992. A scheme of arrangement was entered into by MMI with its creditors under the terms of which claims relating to the period of insurance continue to be paid out but, if a trigger point is reached where MMI has insufficient assets to pay remaining claims, a clawback of some or all claims paid since 30 September 1993 could occur (to the value of the total claims paid minus £50k). During the period in question police services were provided by the County Council, prior to the creation of Lancashire Police Authority as an independent body from 1 April 2005. However on disaggregation Lancashire Police Authority accepted liability for any future costs associated with insurance claims and hence will be liable for a share of the clawback.

The position of the company is reviewed on an ongoing basis to ascertain the likelihood of the trigger point being reached. In the latest Annual Reports & Accounts of the Company (to 30 June 2010) the Directors of MMI are still hopeful of achieving a solvent run-off of the Company with all claims costs (past or future) being met in full by MMI. However, a solvent run-off is not guaranteed and the Police Authority may incur some costs if it is not achieved.

49. Sponsorship

The Police Authority has powers to receive gifts, loans of property and sponsorship up to a limit of 1% of its budget (2010/11 limit £2.8m). During the year monies and gifts amounting to a value of £0.257m (£0.693m in 2009/10) were received. This was principally gifts, or loans, of equipment and vehicles.

50. Police Authority Costs

In 2010/11, Police Authority costs amounted to £1.728m (£1.880m in 2009/10), analysed as follows:

	2010/11	2009/10
	£m	£m
Direct Employee Costs	0.634	0.644
Direct Member Costs	0.353	0.364
Bought-In Services (incl Statutory Officers)	0.304	0.310
Consultation & Media	0.270	0.377
Subscriptions	0.069	0.069
Audit Fee	0.080	0.081
Other	0.018	0.035
	<u>1.728</u>	<u>1.880</u>

POLICE PENSION ACCOUNT

As from 1 April 2006 each individual Police Authority is required by the Police Pension Fund Regulations 2007 (SI 2007 No 1932) to operate a Pension Account in respect of the Police Pension Scheme and the amounts that must be paid into and out of the Pension Account are specified by those regulations. The scheme is administered by the Authority and liability remains with the Authority.

POLICE PENSION ACCOUNT

	PPS scheme £000	2010/11 NPPS scheme £000	Total £000	2009/10 Total £000
Contributions receivable				
Police Authority:				
Contributions at 24.2% of pensionable pay	(26,414)	(3,919)	(30,333)	(30,509)
Early Retirements	(1,723)	-	(1,723)	(600)
Pre 74 recharges	(1,214)	-	(1,214)	(1,417)
	(29,351)	(3,919)	(33,270)	(32,526)
Officer Contributions	(11,976)	(1,535)	(13,511)	(13,604)
Total Contributions Receivable	(41,327)	(5,454)	(46,781)	(46,130)
Transfers In	(140)	(11)	(151)	(906)
Benefits Payable				
Pensions	53,432	-	53,432	51,603
Commutations and lump sum retirement benefits	15,581	-	15,581	11,946
Lump sum death benefits	284	-	284	-
Other: Pre 74 payments	11	-	11	7
Total Benefits Payable	69,308	-	69,308	63,556
Payments on Account of Leavers				
Refund of contributions	14	-	14	13
Transfer values out	500	7	507	2,241
Total Payments on Account of Leavers	514	7	521	2,254
Net amount payable/(receivable) for the year before top-up contribution from Police Fund	28,355	(5,458)	22,897	18,774
Top-up contribution to/ (from) Police Fund.	(28,355)	5,458	(22,897)	(18,774)
Net amount payable/(receivable)	0	0	0	0

NET ASSET STATEMENT

1 April 2009 £000		31 March 2011 £000	31 March 2010 £000
(2,283)	Unpaid pensions due	-	-
(36)	Amounts owed re pre 74 pension recharges	(54)	(46)
2,319	Amounts owed from General Fund	54	46
-	Net Assets	-	-

NOTES TO THE FINANCIAL STATEMENT

1. Basis of preparation

The Police Pension Account combines the accounting transactions of two pension schemes; the Police Pension Scheme (PPS), which was set up in 1987 and the New Police Pension Scheme (NPPS) which was created by the Home office under the Police Pension Regulations 2006.

This financial statement has been prepared in accordance with the Police Pension Fund Regulations 2007 (SI 2007 No 1932) and CIPFA Code of Practice 2010/11. It summarise the transactions of the Pension Account. It does not take account of obligations to pay pensions and benefits which fall due after the end of the financial year – these obligations are taken into account by the actuary when valuing the schemes liabilities and are reflected in the Income and Expenditure Account and Balance Sheet of the authority.

Both pension schemes are unfunded and have no investment assets. Benefits payable are funded by contributions from employees and employers and any difference between benefits payable and contributions receivable is funded by an additional contribution from/to the Police General Fund, which is financed by top-up grant from the Home Office.

Membership at 31 March is as follows:

	PPS		NPPS		Total	
	31/3/11	31/3/10	31/3/11	31/3/10	31/3/11	31/3/10
Active Members	2,877	3,033	585	597	3,462	3,630
Deferred	468	444	20	10	488	454
Current Pensioners (incl widows/depends.)	3,852	3,817	-	-	3,852	3,817
	7,197	7,294	605	607	7,802	7,901

2. **Accounting policies**

General

The financial statements have been prepared on an accruals basis except for transfers to and from the account and contributions refunded, which are treated on a cash basis.

Employers' Contributions

The employers' contribution rate for both pension schemes is set nationally, based on a percentage of pensionable pay. The rate is subject to triennial revaluation by the Government Actuary's Department, timed to coincide with the revaluation of the local government pension scheme. The rate for 2010/11 was set at 24.2%, in line with the most recent valuation which came into effect from 1 April 2008.

Employees' Contributions

The employee contribution rates differ between the two schemes:

1987 Scheme (PSS)	11% of pensionable pay
2006 Scheme (NPPS)	9.5% of pensionable pay

3. **Net Asset Statement**

The Net Asset Statement does not include liability to pay pensions and other benefits after the 31 March 2011. These liabilities remain with the Authority and have been reflected in the Authority's Balance Sheet. Details of these liabilities can be found in Note 47 to the main Statement of Accounts.

4. **IFRS Transition**

There were no differences in the financial statements as a result of transition to IFRS based accounting.

GLOSSARY

Accounting Policies

The specific principles, bases, conventions, rules and practices applied by the authority in preparing and presenting financial statements.

Accrual

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

Actuary

An actuary is an expert on pension scheme assets and liabilities. The Local Government Pension Scheme Actuary reassesses the rate of employer contributions to the pension fund every three years.

Actuarial gains and losses

A change in pension fund liability due to the effects of differences between the previous actuarial assumptions and what has actually occurred. Outcomes are better or worse than the actuary had predicted or assumed – for example, because the fund's assets earn more than expected, salaries do not increase as fast as assumed or members retire later than assumed.

Agency services

Services which one authority is responsible for, but which another authority provides (as the agent). The authority responsible pays the agent authority the cost of the services provided.

Amortisation

An annual charge to the revenue account that spreads the cost of an asset over a period of time.

Appropriation

A contribution to or from a financial reserve.

Assets held for Sale

Assets that are no longer needed by the Authority and which it is selling.

Audit qualification

A comment made by the auditors if they are not completely satisfied with the accounts.

Budget

A statement which reflects the Authority's policies in financial terms and which sets out its spending plans for a given period.

Capital assets

Assets bought through capital expenditure. They are also known as 'capital items' and 'fixed assets'.

Capital creditors

Amounts owed by the county council for spending on buying or improving assets.

Capital expenditure

Spending on buying or improving assets that have a long-term benefit – for example land, buildings and roads. Capital expenditure is also known as 'capital spending', 'capital outlay' and 'capital payments'.

Capital grant

Money received for capital items (see 'capital expenditure' above).

Capitalisation

The classification of expenditure as capital rather than revenue, subject to the condition that the expenditure yields a benefit to the authority for a period of more than one year.

Capital investment

Money invested in capital projects.

Capital projects

Projects to buy or improve assets that have a long-term benefit – for example, land, buildings and roads. These projects are funded by capital expenditure.

Capital receipts

Proceeds received from the sale of capital assets. The proceeds are set aside in the Capital reserve in order to repay the county council's borrowings or to finance new capital expenditure.

Capital schemes

Another term for 'capital projects'.

Capitalise

To treat as capital expenditure rather than revenue expenditure.

Capital elements

Various items of costs e.g. materials and interest payments.

Capital funding

Money to support spending on capital projects.

Capital receipts

Amounts received from the sale of capital assets. These can only be used for 'capital purposes' – to repay an existing debt or to finance new capital expenditure. Amounts received which have not yet been used are referred to as 'capital receipts unapplied'.

Capital reserves

Amounts set aside to support future capital projects.

Capital value

Amount spent on capital.

Cash balance

Cash available to invest on the money market.

Cash Equivalents

Short term (less than 3 months), highly liquid investments that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Cash transactions

Cash amounts entering or leaving the accounts – for example, to pay for goods or services, or income from fees and charges.

Central items

Central overheads e.g. payroll costs.

Change in Accounting Estimate

An adjustment of the carrying amount of an asset or liability that results from an assessment of the present status and future benefits or obligations. These changes occur as a result of new information, and are not corrections of errors.

Class of tangible non current assets

The classes of tangible non current assets required to be included in the accounting statements are:

Property Plant & Equipment

- Land and buildings.
- Vehicles, plant, furniture and equipment.

- Assets under construction

CIPFA

The Chartered Institute of Public Finance and Accountants is the accountancy body which recommends accounting practice for the preparation of local authority accounts.

Collection fund

The system used by district and borough councils to keep Council Tax separate from their own accounts. The amount in the collection fund each year is fed into the Council Tax calculation for the following year.

Construction Contract

A contract specifically negotiated for the construction of an asset and services related to the construction, for example architects.

Contingent liabilities

Liabilities relating to a known set of circumstances which may or may not arise. They can also be liabilities which are likely to arise but which are very difficult to measure until future developments make things clearer.

Corporate and democratic core

The corporate and democratic core comprises all activities which local authorities engage in specifically because they are elected, multi-purpose authorities. The cost of these activities are thus over and above those which would be incurred by a series of independent, single purpose, nominated bodies managing the same services. There is therefore no logical basis for apportioning these costs to the services.

Corporate governance

The authoritative rules and controls in place within an organisation required to promote openness, inclusivity, integrity and accountability.

Council Tax precept

The Council Tax charged by one authority (the precepting authority) which is collected by another authority (the billing authority). The Police Authority's Council Tax income is charged through a precept on the district councils' collection funds. (The Environment Agency also charges the county council a precept for flood prevention purposes).

Creditors

Amounts owed by the Authority for work carried out, goods received or services provided, which had not been paid by the date of the balance sheet.

Current assets and liabilities

Current assets are cash, cash equivalents and items that can be readily converted into cash. Current liabilities are items that are due for payment immediately or in the short term.

By convention these items are ordered by reference to the ease that the asset can be converted into cash, and the timescale in which the liability falls due.

Current service cost (IAS 19)

The increase in the Authority's defined benefit scheme obligation (pension scheme liability) as a result of employees' service during the current year.

Curtailed cost (IAS 19)

Additional pension scheme liabilities as a result of redundancies and efficiency retirements during the year.

Debt redemption

This is where a debt is repaid early.

Debtors

Amounts owed to the Authority which had not been paid by the date of the balance sheet.

Defined Benefit Scheme

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

Depreciation

Charges to the income and expenditure account to reflect a decrease in the value of assets as a result of use or ageing.

Discretionary benefits

Retirement benefits which the employer has no legal, contractual or constructive obligation to award and are awarded under the authority's discretionary powers.

Devolved financial management (DFM)

The Authority's budget management system. The budget is managed by those who make the decisions in each area of responsibility ('accountable officers').

Employer's pension contributions

Payments to the pension scheme made by the Authority for current employees.

Exchange Transactions

The authority receives assets or services or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services and use of assets) to another entity in exchange.

Expected return on assets (IAS 19)

The average rate of return expected on investment assets held by the pension scheme.

Fair value

Fair value is the amount for which an asset could be exchanged, or a liability settled, in an arm's length transaction less, where applicable, any grants receivable towards the purchase or use of the asset.

Finance Lease

A lease that transfers substantially all the risks and rewards related to the ownership of the asset to the lessee.

Financial year

The period of 12 months for which the accounts are drawn up. For local authorities the financial year (or 'accounting period') begins on 1 April and finishes on 31 March of the following year.

Financing charges

Repayments on amounts loaned to the Authority by external organisations. These charges include interest as well as repayment of the amount borrowed (the 'principal').

Financial instrument

A financial instrument can be a financial asset or a financial liability. A financial asset is a contract such as an investment or loan representing amounts due to the authority. A financial liability is a contract such as borrowing representing amounts owed by the authority.

Fixed assets

Assets intended to be used for several years – for example, buildings, machinery and vehicles.

General Fund

The main revenue fund used to provide police services (also known as the 'General Fund'). Income to the fund consists of the precept on the collection funds, government grants and other income.

Government grants

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

Historic cost

The cost of an asset at the time it was bought.

Impairment

This is where the useful working life of an asset is significantly reduced – for example, because of damage to a piece of equipment or changes in technology which mean that a service can be provided more efficiently in other ways. When the amount at which the asset is held exceeds the amount the authority could receive for the asset, an impairment loss is recognised.

Intangible assets

Assets which do not have a physical form. Examples include internally developed systems, computer software, brand names, patents and copyrights.

Interest cost (pensions)

The expected increase in the value of pension scheme liabilities because benefits are one year closer to being paid.

Inventory

Raw materials and consumable goods bought but not yet used at the end of the accounting period.

Investing Activities

The acquisition of and disposal of long term assets and other investments not included as part of cash equivalents.

Investment Property

Property which is held solely to earn rentals or for capital appreciation, not as part of service delivery.

Market value

The monetary value of an asset as determined by current market conditions at the balance sheet date.

Materiality

The concept that any omission from or inaccuracy in the statement of accounts should not be so large as to affect the understanding of those statements by a reader.

Minimum revenue provision

The minimum amount (as laid down in statute) that the county council must charge to the accounts each year in order to meet the costs of repaying amounts borrowed.

National non-domestic rate

The government levies a standard rate on all properties used for commercial purposes and cannot increase it by any more than the retail price index. The rates are collected on behalf of the government by district councils, and are then redistributed from a national pot as part of formula grant.

Net book value

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

Net current replacement cost

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

Net pension liability

The amount the pension scheme will have to pay out in the future, less the value of pension fund assets.

Net realisable value

The amount for which an asset can be sold, less the cost of selling it.

Nil consideration

Where no charge is made for an item.

Nominal value of a financial instrument

The nominal value of a financial instrument is the amount, exclusive of interest, payable or receivable when the instrument matures.

Non-cash adjustments

Changes in debtors' and creditors' balances over the year.

Non-distributed costs

These are costs that cannot be specifically applied to a service or services and are held centrally, comprising certain pension costs and the costs of unused shares of IT facilities and other assets.

Non-operational assets

Assets which are not in use.

Operating lease

A lease where ownership of the goods remains with the company leasing them to the Authority.

Operational assets

Assets used for day-to-day activities – for example, land, buildings, furniture and equipment.

Past service cost or gain (FRS17)

The increase or decrease in pension scheme liabilities as a result of changes to benefits earned in previous years – for example, because of early retirement or changes to pension scheme regulations.

Pension enhancements

Additional pension benefits (such as added years on early retirement) awarded to scheme members in line with the county council's general conditions of employment.

Precept

A charge made by one authority which is collected by another authority – for example, the Council Tax precept.

Principal

The amount of money borrowed, not including interest charges.

Principal repayment of debt

Re-payment of a loan, not including interest charges.

Prior period adjustments

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

Projected unit method (Pensions)

An accrued benefits valuation method in which the scheme liabilities make allowance for the projected earnings. An accrued benefits valuation method is a valuation method in which the scheme liabilities at the valuation date relate to:

- (a) the benefits for pensioners and deferred pensioners (i.e. individuals who have ceased to be active members but are entitled to benefits payable at a later date) and their dependants, allowing where appropriate for future increases, and
- (b) the accrued benefits for members in service on the valuation date.

The accrued benefits are the benefits for service up to a given point in time, whether vested rights or not.

Provisions

Funds set aside to cover specific past expenses, where the exact cost or timing is still uncertain.

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.

Realisable value

The amount for which an asset can be sold.

Reconciliation

The process of checking figures from different areas which should logically match up – for example, matching invoices paid against amounts banked.

Related party

A person or organisation which has influence over another person or organisation.

Reserves

Amounts set aside in one year's accounts which can be spent in later years. Some types of reserve can only be spent if certain conditions are met.

Residual value

The amount an asset can be sold for, less the cost of selling it.

Revenue account

An account which records the Authority's day to day expenditure and income relating to items such as salaries, wages and the costs of running services.

Revenue contribution to capital outlay

This is where capital expenditure is financed by a direct contribution from the revenue account, rather than by a loan or another form of finance.

Revenue expenditure

The Authority's day-to-day spending. This is charged to the revenue account and consists mainly of salaries and wages, running costs and financing charges.

Revenue Support Grant

A general grant from central government to contribute towards the cost of providing services.

Reversed out

This is where an opposite entry is made in the accounts, to cancel the effect of a transaction.

Specific grants

Government grants for a particular service.

Tangible assets

Assets which have a physical form – for example, buildings, furniture and equipment.

Total net worth

The total net value of resources available to or owned by the Authority.

Transfer in

A transfer of money into the pension fund from another pension fund.

Transfer out

A transfer of money out of the pension fund to another pension fund.

Transfer value

A payment made by one pension fund to another when a scheme member changes schemes.

Useful life

The period which an asset is expected to be available for use.

Write down

This is where amounts are charged to the revenue account or offset against another balance sheet account.