

# **SURREY POLICE AUTHORITY**

## **STATEMENT OF ACCOUNTS**

**2011/2012**

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## EXPLANATORY FOREWORD

### 1 Introduction

Surrey Police Authority is an independent body created by the Police and Magistrates' Courts Act 1994. The Surrey Police Authority is responsible for the finances of Surrey Police. The accounts therefore record all the expenditure and income for the year ending 31<sup>st</sup> March 2012. The accounting statements, the Core Financial Statements, which follow this foreword have been prepared in accordance with the 2011 Code (Code of Practice on Local Authority Accounting in the United Kingdom 2011/12 Based on International Financial Reporting Standards) issued by CIPFA (Chartered Institute of Public Finance & Accountancy) and comprise of:

- Movement in Reserves Statement. This statement shows the movement in the year on the different reserves held by the Authority, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the Authority's service, 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 for the year before any discretionary transfers to or from earmarked reserves undertaken by the Authority.
- 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. Surrey Police Authority raises 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 statement shows the value as at the 31<sup>st</sup> March 2012 of the assets and liabilities recognised by the Authority. The net assets of the Authority (assets less liabilities) are matched by the reserves held by the Authority. Reserves are reported in two categories. The first category of reserves is usable reserves, i.e. those reserves that the Authority may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt). The second category of reserves is that which the Authority is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold, and reserves that hold timing differences shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.
- 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. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Authority's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the Authority.

The Core Financial Statements are supported by various notes to the accounts including the Accounting Policies designed to aid the reader. As well as producing a guide to the Financial Statements, this foreword seeks to provide a concise account of the Authority's financial position, and of the significant matters during the year, which have brought about that position.

## 2 Police Authority Financial Arrangements

### 2.1 Method of Funding

Funding arrangements for police authorities broadly follow the arrangements for local authorities. The Surrey Police Authority gross revenue budget (or operating budget) for 2011/2012, was set at £213.2m (2010/2011, £214.4m), but was revised following the reclassification of £0.9m of Counter Terrorism funding to £212.3m. A summary of the funding sources is shown below:

	2010/2011 £m	2011/2012 £m
Home Office Police Grants	68.0	70.0
Non Domestic Rates	31.8	26.9
Revenue Support Grant	4.6	8.3
Crime Fighting Fund	4.1	0.0
Counter Terrorism Grant	1.0	0.0
Community Support Officers	4.5	4.5
Council Tax Freeze Grant	0.0	2.5
Additional Rule 2 Grants	2.1	0.0
<b>Total Central Support</b>	<b>116.1</b>	<b>112.2</b>
Gross Council Tax Requirement	98.3	98.9
General Reserves	0.0	1.2
<b>Total Funding</b>	<b>214.4</b>	<b>212.3</b>

All of the above is set centrally by Government, apart from the council tax requirement and use of general reserves which are set locally by the Police Authority prior to the start of the financial year.

In addition to the principal grants received from the Home Office and the Department for Communities & Local Government, there is a range of specific grants that are targeted towards initiatives to improve the police service. Details of these grants are available in the notes to the Core Financial Statements.

End of year variations to the £212.3m budget (2010/2011 £214.4m) are transferred to/from Police Authority balances.

Capital expenditure is financed from government grants, contributions from third parties, capital receipts, borrowing and direct funding from the operating (revenue) budget. The detail of the financing employed in 2011/2012 is shown in the Capital Account. The balances held for future capital expenditure are shown in the Balance Sheet and notes to the Core Financial Statements.

### 2.2 The Roles of the Authority and the Force

The principles to which police authorities should have due regard in ensuring sound financial management practices are set out in the Home Office Financial Management Code of Practice. The Code states that, unless there are good reasons to the contrary, police authorities should delegate financial management to the Chief Constable so that, as far as

possible, the financial management of a force takes place within the force itself. Surrey Police Authority has fully adopted the principles set out in the Code.

Key financial roles for the Police Authority are as follows:

- to agree a budget requirement and set the precept, on the advice of the Treasurer;
- to approve the Chief Constable’s proposed allocation of resources as set out in a format agreed by the Chief Constable and Treasurer;
- to monitor financial outcomes;
- to identify and agree longer term spending commitments.

The 2011/12 financial year is the last year in which the Surrey Police Authority will exist. Following the Police Reform and Social Responsibility Act 2011, police authorities are to be replaced by Police and Crime Commissioners (PCC) from November 2012. Further information on this change is covered within section 8 ‘Further Information’ of this Explanatory Foreward.

### 3 Operating (Revenue) Expenditure

The Police Authority budgeted to spend £212.3m in 2011/2012.

Against this budget, expenditure of £210.9m was incurred resulting in an under spend of £1.4m against the budget which was taken to reserves. This is summarised in the following table.

	£m
Gross Budget after mid-year reduction in government funding	212.3
Out-turn Expenditure	210.9
<b>Gross Variation</b>	<b>1.4</b>
To/(from) Local Reserves	0.0
To/(from) General Balances	1.4

Further information on the reserves movements for the year is shown in the Movement in Reserves Statement.

The variance is attributable to the Force’s austerity drive, in order to comply with Government funding reductions in the current and future years.

Detailed analysis of actual expenditure for the year ended 31<sup>st</sup> March 2012 can be seen in the Comprehensive Income and Expenditure Statement.

### 4 Capital Expenditure

Surrey Police Authority approved a capital budget of £10.1m for 2011/2012 (£12.4m in 2010/2011) which, combined with prior year budget approvals brought forward on incomplete schemes, increased the budget to £16.9m (£18.2m in 2010/2011). During the year the budget was adjusted twice; following recommendations from the Capital Strategy Board, the Authority authorised firstly an addition of £2.1m for purchase of property, and secondly, the carry forward of £4.7m capital budget to reflect a more realistic expenditure

profile. The net effect of these two adjustments was to reduce the capital budget (including prior year budget approvals) to £14.3m. The Capital Strategy Board closely monitors capital budget/expenditure as capital schemes by their nature often span a number of financial years. In 2011/2012 actual expenditure of £10.2m (£10.3m in 2010/2011) was incurred, which was funded by capital grants, capital receipts, revenue, and third party contributions. The under spend is to be carried forward to 2012/2013. The major elements that continue into 2012/2013 are:

- Enterprise / SIREN (CIS Development)
- Digital Audio Interviewing
- Purchase of Woking Magistrates Court

Details of actual expenditure and financing for the year are shown in the Capital Account.

## **5 Borrowing**

The approved capital programme is planned to be supported by borrowing but due to favourable cash flows in 2011/2012 it was not necessary for the Authority to take out any external borrowing to assist in financing the capital programme. As at 31st March 2012 the Authority had no outstanding external borrowing except for the liability against finance leases.

## **6 Employee Pension Schemes**

Employees of Surrey Police are able to join a pension scheme. For police staff the Local Government Pension Scheme (LGPS) is available and police officers can join the Police Pension Scheme. They are both defined benefit schemes, but differ in their operation. A fuller explanation is provided in the Notes to the Financial Statements.

## **7 Overall Financial Position**

The level of available revenue balances, earmarked reserves and general reserves, held by the Police Authority has increased from £12.8m to £15.4m. The balance of £15.4m represents 7.3% of the 2011/2012 annual budget. General Reserves are £8.9m, 4.2% of the annual budget at the end of 2011/12 with earmarked reserves at £6.5m.

The full costs associated with the pension schemes are disclosed in the Comprehensive Income and Expenditure Statement, the Movement in Reserves Statement, and Balance Sheet. As can be seen in more detail later in this document, Surrey Police has two pension schemes to meet the needs of its employees' retirement benefits. The scheme for police officers is an un-funded scheme and is in deficit, resulting in an estimated liability of £1,182.2m. The LGPS is a funded scheme but is also currently in deficit, with an estimated liability of £48.6m. Further details are disclosed in the notes.

At 31<sup>st</sup> March 2012 £2.9m was held against the Authority's estimate of existing insurance liabilities under the current self-funded arrangements, £1.1m in Ill health reserves, £0.3m in a healthcare reserve, £0.3m in an Olympics reserve and £0.5m in an OPR reorganisation reserve. Two new reserves have been created this year, an Enterprise / SIREN reserve of £0.5m and an Employee Retention reserve of £0.9m.

Full details can be seen in the Income & Expenditure Account, the Balance Sheet and the associated notes.

## **8 Further Information**

The Authority continues to monitor the impact on its business of the return to recession in the overall UK economy. The Authority has already reacted to the downturn in the short term by reducing senior leader numbers and restructuring the support function as funding from Government falls as part of the reductions to public expenditure to meet the national budget deficit. The Medium Term Financial Plan (MTFP) continues to reflect the decreasing level of funding from central Government, which is being mitigated by the Force's efficiency-driven strategic change programmes. In April 2010, the Authority ratified a radical programme to improve the way local policing is delivered. By reducing management and bureaucracy, making major cuts in support functions, rationalising our estate and investing in better technology for staff, the Force has been able to bolster resources on the frontline. Surrey Police set a target to recruit an additional 200 constables and these officers are now in place and working in our communities.

Details of provisions are contained in Note to the Accounts number 20. The provision against a potential deficit on the Police Staff pension scheme remains unchanged as the single largest item.

Surrey Police continues to be actively involved in a number of significant strategic collaborations, working together with neighbouring forces in the areas of Air Support, Covert Operations, Technical Surveillance, Witness Protection and Serious Crime Investigation. During 2011/12, bilateral collaborations with Sussex Police in the areas of Firearms, Major Crime and Forensics, went live, for the purpose of achieving significant cash savings and maintaining, or wherever possible, improving levels of service and public confidence in the agreed areas.

Details of the Authority's plans for revenue and capital expenditure in 2012/2013 can be found in the Budget and Precept paper considered by the full Police Authority on 6 February 2012 and the Local Policing Plan 2012/13. Copies of the documents can be obtained from Surrey Police Authority by telephoning: 01483 630200, or from the Police Authority web site at [www.surreypa.gov.uk](http://www.surreypa.gov.uk).

For 2013/14, the budget and precept will be set by the newly elected PCC who takes over from the Authority in November 2012. At the same time the Chief Constable will also become a corporation sole. The primary function of the Chief Constable is the exercise of operational policing duties under the Police Act 1996. The PCC's function is to hold the Chief Constable to account for the exercise of these duties, thereby securing the maintenance of an efficient and effective police force in Surrey.

**Ian Perkin, Treasurer to Surrey Police Authority**

**24<sup>th</sup> September 2012**

# **REPORT OF THE INDEPENDENT AUDITOR ON THE FINANCIAL STATEMENTS**

## **AUDITOR'S REPORT TO A SURREY POLICE AUTHORITY**

### **INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF SURREY POLICE AUTHORITY**

#### **Opinion on the Authority and Pension Fund financial statements**

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

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

#### **Respective responsibilities of the Treasurer and auditor**

As explained more fully in the Statement of the Treasurer's Responsibilities, the Treasurer is responsible for the preparation of the Statement of Accounts, which includes the financial statements and the police pension fund financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom, and for being satisfied that they give a true and fair view. My responsibility is to audit and express an opinion on the financial statements in accordance with applicable law and International Standards on Auditing (UK and Ireland). Those standards require me to comply with the Auditing Practices Board's Ethical Standards for Auditors.

#### **Scope of the audit of the financial statements**

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

## **Opinion on financial statements**

In my opinion the financial statements:

- give a true and fair view of the financial position of Surrey Police Authority as at 31 March 2012 and of its expenditure and income for the year then ended;
- give a true and fair view of the financial transactions of the police pension fund during the year ended 31 March 2012 and the amount and disposition of the fund's assets and liabilities as at 31 March 2012, other than liabilities to pay pensions and other benefits after the end of the scheme year; and
- have been prepared properly in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2011/12.

## **Opinion on other matters**

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

## **Matters on which I report by exception**

I report to you if:

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

I have nothing to report in these respects

## **Other matters on which I am required to conclude**

I am required under Section 5 of the Audit Commission Act 1998 to satisfy myself that the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources. I am also required by the Audit Commission's Code of Audit Practice to report any matters that prevent me being satisfied that the audited body has put in place such arrangements.

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

- my review of the annual governance statement;
- the work of other relevant regulatory bodies or inspectorates, to the extent the results of the work have an impact on my responsibilities; and
- my locally determined risk-based work.

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

**Certificate**

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

Paul Grady  
District Auditor

Audit Commission  
Bridge House  
1 Walnut Tree Close  
Guildford  
GU1 4UA

24<sup>th</sup> September 2012

## STATEMENT OF RESPONSIBILITIES

### **The Responsibilities of the Police Authority**

The Police Authority is required:

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

I confirm that these audited Accounts were approved by Surrey Police Authority on 24<sup>th</sup> September 2012.

**Peter Williams**  
**Chairman of Surrey Police Authority**

### **The Responsibilities of the Treasurer**

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), based on International Financial reporting Standards.

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.

I certify that the Statement of Accounts presents a true and fair view of the financial position of the Surrey Police Authority at the accounting date and its income and expenditure for the year ended 31<sup>st</sup> March 2012.

**Ian Perkin**  
**Treasurer of Surrey Police Authority**

# **SURREY POLICE AUTHORITY ANNUAL GOVERNANCE STATEMENT 2011-12**

## **1. Scope of Responsibility**

Surrey Police Authority is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively. In discharging these responsibilities, the Authority is responsible for putting in place proper accounting arrangements for the governance of its affairs and for ensuring that there is a sound system of internal control which facilitates the effective exercise of its functions and which includes arrangements for the management of risk. The Authority's overarching statutory responsibilities are:-

1. To secure an efficient and effective local police service
2. To hold to account the Chief Constable for the exercise of her functions and those of persons under her direction and control
3. To consult with the people of Surrey to identify their policing priorities and make sure that their council tax money is spent effectively.

The Chief Constable of Surrey Police is responsible for the direction and the control of the Force. In discharging her duties, the Chief Constable shall have regard to the Local Policing Plan issued by Surrey Police Authority. In addition, the Chief Constable will have responsibility where the Authority delegates its functions in respect of securing an efficient and effective police force. In this regard the Chief Constable is responsible for ensuring that the Force's business is conducted in accordance with the law and proper standards, and that public money is safeguarded, properly accounted for and used economically, efficiently and effectively.

The Chief Constable is also responsible for putting in place proper arrangements for the governance of the Force and for facilitating the exercise of its role, which includes ensuring that arrangements are in place for the management of risk.

CIPFA supports Government policy that it is best practice to for police forces to have a qualified accountant Director of Finance reporting directly to the Chief Constable with a status equal to that of any other member of the Chief Officer Group (COG). However, to deliver support services in a more effective and cost efficient way, the Force Chief Officer Group considers that it has adopted a more appropriate management arrangement, in that the Head of Finance reports to the Assistant Chief Officer (Support Services), albeit the Head of Finance continues under this arrangement to have a direct right of access to the Chief Constable on financial matters.

In November 2012, the Police Authority will be replaced by a single, directly elected Police & Crime Commissioner for Surrey. Current mechanisms of governance, control and risk management will be replaced by new ones (some statutory, some not), to be determined by the Commissioner once he or she has taken up office. The respective roles of the Commissioner and Chief Constable are set out in the Police Reform and Social Responsibility Act 2011 and also in the statutory Policing Protocol. In spite of these changes, the Authority has continued with its work on the principle of 'business as usual' and has not absolved from any of its responsibilities during the period of transition. The Authority's preparations for the arrival of the Commissioner have been the subject of inspection by Her Majesty's Inspector of Constabulary, the Audit Commission and by its own internal auditors.

## **2. The Purpose of the Governance Framework**

The governance framework comprises the systems, processes, culture and values through which the Authority manages its activities. It enables the Authority to monitor the achievement of Force objectives and to consider whether those objectives have led to the delivery of an appropriate, cost-effective service, including achieving value for money.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives; it can, therefore, only provide reasonable, and not absolute, assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Authority's policies, aims and objectives. The system is also designed to evaluate the likelihood of those risks being realised, the impact should they be realised, and to manage them effectively, efficiently and economically.

The governance framework has been in place within Surrey for the year ended 31<sup>st</sup> March 2012 and up to the date of approval of the Annual Statement of Accounts 2011/12.

## **3. The Governance Framework**

The way in which the Authority has put the core principles of good governance into practice is as follows:

The Authority sets out its purpose and role in its Code of Corporate Governance. This document demonstrates how the Authority discharges its governance arrangements – in other words, the systems, processes, culture and values by which the Authority is directed and by which it controls what it does. The Code is structured to show how the Authority complies with the principles of 'good governance', as defined by CIPFA (Chartered Institute of Public Finance and Accountancy) and complies with the CIPFA guidance note for Police Authorities in England & Wales. The Surrey Police Authority Code of Governance is available on the Authority's website.

The Authority has in place a vision, initially agreed in February 2008 and re-examined by Members on an annual basis since:

*"Surrey Police Authority is recognised as an independent, forward thinking body which actively scrutinises the Force while supporting it in providing an effective, value for money service as one of the leading forces in the country and in which our community has full respect and confidence"*

The Authority structures its Business Plan around this vision. The Authority's values, or general principles of business, are also set out both in its Business Plan and the Code of Corporate Governance and can be summarised as follows:

- Accountability – to parliament, by local people and by any oversight bodies
- Integrity – including honesty and observing confidentiality
- Openness – transparency of Authority activities to promote confidence
- Inclusivity – providing an impartial service to all.

In addition to the full Authority, both the Audit Committee and the Standards Committee keep an ongoing overview of the effectiveness of the Authority's overarching governance arrangements.

The Chief Constable is responsible for corporate governance issues affecting the Force, ensuring reviews are carried out as appropriate.

### **3.1 Processes for setting objectives and targets that support the policing priorities outlined in the Local Policing Plan including reporting to the Authority**

The Local Policing Plan is a key public document which describes how Surrey will focus the delivery of policing and sets out the performance targets against which the Force will be held to account. To prepare the objectives and targets for the Local Policing Plan, Surrey Police Authority considers a wide range of national and local agendas. The Police Authority and Force both consult with the residents of Surrey, businesses and stakeholders to ensure policing priorities reflect local needs and concerns. Surrey Police follows guidance, published by the Association of Police Authorities (APA), to ensure that consultation mechanisms and target setting processes are meaningful and effective.

The Government has recently published the shadow strategic policing requirement and where it supports the principle of putting the Surrey Public First, Surrey demonstrates delivery against national priorities. The Authority and Force are also committed to supporting delivery in partnership and ensure the Local Policing Plan reflects local risk assessments made as part of the County Strategic Assessment.

Members of the Authority ensure that targets in the Plan are based on analysis of detailed statistics, including trends, together with professional input from relevant business leads in Surrey Police. Following a series of workshops, the proposed priorities and targets are then put for approval by the full Police Authority in March. Progress against the Plan is monitored by the Authority and its panels and committees.

### **3.2 Decision making structure for establishing priorities and considering strategic issues**

The Authority has a system of panels and committees which enable it to hold the Chief Constable to account, provide scrutiny of force performance and consider strategic issues facing Surrey. The effectiveness of the Authority's Committee and Panel structure is kept under regular review. The roles of each Panel and Committee are set out in Terms of Reference which are reviewed on an annual basis.

Surrey Police has its own mechanisms for establishing priorities and considering strategic issues. The Chief Officer Group meets regularly and in addition, Chief Officers hold bi-weekly meetings with members of the Authority. Ongoing change programmes and collaboration initiatives with partners are reviewed at the Strategic Change Board. This Board has representation from all functional areas as well as Police Authority membership.

### **3.3 The monitoring processes by which performance against operational, financial and other strategic plans are considered and key issues identified and tasked**

The Authority and Force engage in a robust operational performance regime. Each of the Authority's panels reviews Force performance in its particular area of business.

Each month, Surrey Police hold SPECS (Surrey Performance Evaluation Computerised Statistics) performance meetings where performance (including financial performance) is reviewed and those responsible for service delivery challenged where necessary. A representative from the Police Authority also attends these meetings. In addition, financial management information is reported monthly to senior management teams across the Force, highlighting any variances experienced against budgets.

During 2009/10 a Scrutiny Panel was established comprising senior Officers and Staff from the Force and Members and senior Staff from the Police Authority. Chaired by the Deputy Chief Constable, the Panel's primary role is to review new and existing

contracts, areas of high value expenditure and centrally managed budgets within the Force to ensure that these continue to give value for money. The Panel has also encouraged innovation and the consideration of alternative options and approaches to business in order to promote expenditure savings and value for money.

### **3.4 The risk management processes by which the Authority and Force identify and seek to mitigate key risks**

The Authority maintains its own Risk Register and Assurance Framework which is reviewed regularly both by Authority staff and by the Audit Committee. The Audit Committee and full Authority also have oversight and scrutiny of the Force's high level and shared risks.

The responsibility for owning and managing Force organisational risks sits with its Chief Officers, overseen by the Chief Constable. The Force's risks are entered on its Risk Register database (which also includes shared risks with the Authority). High level and shared risks are considered at specific meetings of the Chief Officers Group where the Authority's Chief Executive is in attendance. The Risk Management policy and strategy is subject to scrutiny by internal and external audit.

The Authority and Force's risk management strategy has been developed and implemented to collate all internal and external organisational risk intelligence, to evaluate risk using a standard corporate methodology and to develop appropriate control strategies along with ongoing monitoring of progress and impact.

During 2011/12 risk management was embedded in the Force as 'day to day business'. Risk management is now a standardised agenda item for management, business change and project meetings ensuring management responsibilities are directed at managing risk appropriately.

### **3.5 Developing, communicating and embedding codes of conduct and defining the standards of behaviour for Members, officers and staff**

The Authority's Standards Committee has the key responsibility for promoting and maintaining high standards of conduct by the members of the Authority, advising on the adoption or revision of the Members Code of Conduct and monitoring its operation. The Committee also advises the Authority on compliance with the requirements for registration of interests and registers of gifts and hospitality. It has responsibilities for investigating and hearing complaints about allegations of misconduct by Authority Members.

The Committee also has responsibility for the local investigation of allegations of misconduct on the part of Authority Members. A detailed protocol has been agreed for the handling of such allegations although to date, it has not had to be used.

Surrey Police provides guidance on standards of conduct which is available to staff at all levels. The Force has in place a Code of Conduct for police staff and Standards of Professional Behaviour for police officers, with policies & procedures in support of this. Managers and supervisors at all levels of the Force are expected to set an example and to challenge any behaviour that does not meet this standard and to clearly communicate the Force's values, standards, expectations and priorities.

An anti-fraud and anti-corruption policy is in place that incorporates "Anonymous Contact", a confidential and independent web based reporting system. The Professional Standards Department (PSD) publishes bi-monthly reports on the Force's internal intranet, detailing the results and lessons learned for complaints and investigations to further provide guidance to all employees.

The Authority and Force also have in place arrangements for the reporting of all financial irregularities. Utilising existing arrangements for confidential reporting of unacceptable behaviour, it also incorporates procedures to ensure all reports are

conveyed to senior Force managers and thence to the Section 151 Officer, in line with Surrey Police Authority's Financial Regulations.

### **3.6 Reviewing and updating standing orders, financial regulations, a scheme of delegation and supporting procedure notes/manuals, which clearly define how decisions are taken and the processes to be followed**

The Authority's Audit Committee is responsible for the ongoing review of the Authority's Financial Regulations (which include the Scheme of Delegation) and Contract Standing Orders. The Standards Committee ensures that the Authority's Standing Orders remain fit for purpose.

In light of the imminent change in governance structure when the Police Authority is replaced by a Police and Crime Commissioner (PCC), a redrafted set of governance documents including Financial Regulations, Scheme of Consent/Delegation and Contract Standing Orders will be completed in good time for the PCC's arrival in late November 2012.

The Surrey Police Policy unit oversees policy, procedures and guidance in all areas except HR guidance which is held within the People Solutions system. The unit maintains the Force's 'Policies and Procedures Database'. All procedure manuals and guidance documents are available within it and are accessible by all officers and staff at all times.

During 2011/2012 the new policy and procedure process was embedded within Force and this has seen a reduction in bureaucracy and changes to more proportionate authority levels, reducing the numbers of documents and forms.

Any new or significantly updated policy or procedure is subjected to consultation to ensure that the document is clear, relevant and necessary and that any wider implications of the new policy or procedure are considered.

### **3.7 Ensuring compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful**

The Authority and Force ensure they maintain compliance with all statutory and other Government requirements. The Authority's systems of governance and financial control ensure that its business is carried out in a lawful way. The responsibilities of the Authority's Chief Executive and Treasurer to ensure that the Authority operates within its statutory framework are set out in various legislation and guidance.

The Police and Criminal Evidence Act 1984 (PACE) and accompanying Codes of Practice provide the core framework of police powers and safeguards around stop and search, arrest, detention, investigation, identification and interviewing detainees.

The Force's Investigation Support and Criminal Justice team is responsible for keeping the Force up to date with respect to legislative changes. The Force Policy and Procedure Team are responsible for producing the appropriate policies. The Investigation Support and Criminal Justice team also provides professional support and guidance to custody centres and criminal justice administration units.

To ensure compliance with the relevant laws, regulations and policies, portfolio heads are required to ensure that all relevant control systems within their area of responsibility are operating effectively. In 2011/12 a Management Assurance Statement was signed by each one, confirming that controls had been operating throughout the year. The statement also allowed any failings to be identified and addressed. No significant issues were identified for 2011/12.

The Procurement Management within the Support & Services function oversees all procurement activity conducted on behalf of Surrey Police Authority. The regulations that govern the expenditure activity are those determined by European and UK Law, together with those set out within the Authority's Contract Standing Orders.

### **3.8 Processes for receiving and investigating complaints from the public, and citizens and other areas of redress, and providing reports to the Authority**

There are a number of organisations with different responsibilities for complaints, depending on the nature of the complaint. The responsibilities of police authorities, Chief Police Officers, the Independent Police Complaints Commission (IPCC) and Her Majesty's Inspector of Constabulary (HMIC), for complaints are set out in the Police Reform Act 2002. The specific roles and responsibilities of the Police Authority are set out on its website for public information. The responsibility for overall oversight of the various whistle-blowing policies for Authority staff, Members and Force personnel rests with the Audit Committee.

Details of complaints and resolutions are reported to SPA at the Professional Standards Panel meeting on a quarterly basis.

### **3.9 Identifying the developmental needs of officers and staff in relation to their roles, supported by appropriate training and linked to the priorities of the Force**

The proactive involvement of the Authority's Chairman and Senior Personnel Committee in the Chief Officer appraisal process enables the Authority to ensure the Chief Constable is reflecting the Authority's vision. Whilst recognising the Chief Constable's responsibilities for the appraisal of the Chief Officer Group, the Authority has also drawn up an arrangement whereby it discusses with the Chief Constable on an annual basis how effectively the skills of the Chief Officer Group complement each other and how the team could be further developed.

### **3.10 Establishing clear channels of communication with all sections of the community and other stakeholders on priorities and plans**

The Authority's Community Engagement Strategy sets out its statutory responsibilities in terms of consulting with local people on policing priorities, the budget and on confidence in local policing. It also informs the public about how decisions are made and how they can make a complaint. It outlines how Members must exercise independent oversight of Surrey Police and ensure that the Force is accurately and adequately representing the concerns of local people. Our Partnership Strategy sets out arrangements for working in partnership with key stakeholders.

### **3.11 Incorporating good governance arrangements in respect of partnerships and other group workings as identified by the Audit Commission's report on the governance of partnerships**

Surrey Police Authority's Partnership Strategy underlines its commitment to understanding the community safety needs of Surrey residents and, with partners, to developing strategic priorities that are right for the County. The Authority aims to ensure that organisations work in synergy to make the most out of the resources they have and to improve quality of life in the county. It plays an active part on Community Safety Partnerships and the newly established Community and Public Safety Board. The Authority's Citizen Focus Panel has oversight of partnership activity.

## **4. Review of Effectiveness**

The Chief Constable has responsibility for conducting, at least annually, a review of the effectiveness of the governance framework and system of internal control within the Force. The review of effectiveness is informed by the work of the Head of Finance and Services, Internal Audit and managers within the Force who have responsibility for the development and maintenance of the governance framework. In addition, comments made by the External Auditors and other review agencies and inspectorates inform this review.

#### **4.1 Performance Management**

As described above, operational and financial performance is reviewed by the Authority at its regular panel and committee meetings and by the Force at monthly at SPECS meetings which are attended by senior leaders within the Force and an Authority representative.

The Force Analysis Unit facilitates the promotion of a performance culture throughout the Force. It provides guidance to support decision making across the Force whilst also ensuring all statutory management information requirements are met.

#### **4.2 Professional Standards**

The Professional Standards Department (PSD) exists primarily to deal with complaints against police officers and police staff by members of the public. It also has a responsibility to the Force and the wider police service to minimise exposure to corruption on which it reports to the Deputy Chief Constable.

In order to minimise exposure to corruption, PSD contains a vetting unit that operates in line with the requirements of the ACPO National Vetting Policy.

PSD periodically carries out strategic assessments of its intelligence capacity, in line with the National Intelligence Model.

#### **4.3 The Audit Committee**

The Committee gives independent assurance of the adequacy of the risk management framework and the associated control environment making recommendations for any required changes directly to the Authority. The Committee receives reports from the Treasurer, (the Authority's Section 151 officer), the Chief Executive, the Internal Auditors and the External Auditors on the efficiency and effectiveness of the internal control processes, as well as the probity of those processes.

#### **4.4 Internal Audit**

The Police Authority continued to contract Mazars LLP to act as Internal Auditors for the 2011/12 financial year. Mazars operate in accordance with the International Internal Auditing Standards Board of the Institute of Internal Auditors' *International Standards for the Professional Practice of Internal Auditing, 2006* and the CIPFA *Code of Practice for Internal Audit in Local Government in the United Kingdom 2006*. The Internal Auditors worked in line with an updated 2008/09 to 2010/11 Audit Strategy, drawn up by the Audit Committee in consultation with the Chief Officer Group. For 2011/12, an updated Internal Audit Operational Plan was agreed at the 21 March 2011 Audit Committee meeting.

The CIPFA code requires Internal Audit to provide an opinion on the overall adequacy and effectiveness of the governance framework. That opinion is provided below and is based on the work undertaken by the Internal Auditors in 2011/12 completed in line with the Audit Strategy referred to above.

##### Internal Audit opinion

*On the basis of our audit work, we consider that SPA's governance, risk management and internal control arrangements are generally adequate and effective. Certain weaknesses and exceptions were highlighted by our audit work, in particular in our review of Title Deeds and ICT. The issues arising from our work have been discussed with management, to whom we have made a number of recommendations. All of these have been, or are in the process of being addressed, as detailed in our individual reports.*

#### **4.5 Other explicit review/inspection mechanisms**

HMIC has carried out the following inspections in relation to Surrey Police during 2011/2012.

- ***"Demanding Times" - frontline and police visibility report***

Surrey Police contributed towards this thematic report which was commissioned to find a common ground for a definition of the frontline in policing and to look at the visibility and availability of Police Officers and PCSOs to carry out frontline policing activity. The report concluded that around two-thirds of the workforce is on the frontline although there was a significant degree of variation across the Service as to the proportion of the workforce that was both visible and available to the public at key times. Surrey performed well in comparison with other forces having the 4<sup>th</sup> highest proportion of officers and PCSOs that were visible and available to the public at key times of day.

In February 2012, HMIC re-visited all forces to re-examine a number of elements regarding the availability of officers and PCSOs and the Force awaits the result of this follow-up report.

- ***Collaboration Support and Challenge***

HMIC visited Surrey to review its collaboration activity. The Force is collaborating with many partners ranging from the local to the national. HMIC noted that collaboration, whilst forming only part of the wider transformational programme, is important to Surrey Police and has already delivered savings and improvements in operational service.

HMIC was particularly interested in the bi-lateral collaboration with Sussex Police, holding a separate meeting to discuss this. Feedback from this meeting was particularly positive, with recognition given for the solid progress made, sound governance structure in place and work that had gone into making the joint command acceptable to both Forces and Authorities as well as ensuring they could be satisfied with the level of service residents of both counties receive through collaborated units.

- ***Valuing the Police Preparedness Inspections***

The Authority and Force's plans to meet the current financial challenge and the impact, if any, on the service provided to the public were assessed. The report was very positive concluding the Force and Authority clearly understood the scale of the challenge facing them over the CSR period, particularly around the potential impact on service delivery. The report also praised Surrey Police for being the only Force in the country increasing frontline constables during the current period of austerity. As a result of a follow up visit, early feedback indicates that the Authority is on course to meet the savings targets, but the Force must continue to work hard on reducing crime and improving detection rates.

- ***Review of Police Service Integrity***

In the wake of the phone hacking scandal, the Home Secretary commissioned HMIC to examine the relationship between the Police Service, the media and other parties. The report concluded that actual incidences of corruption were very low and that, by and large, the public does not perceive the police to be corrupt. However, concerns were raised that as the issue had failed to appear on Forces' radars and that there was little consistency as to how matters of police integrity were dealt with across the Police Service, this could potentially leave the Service vulnerable in the future. The Authority and Force have reviewed their processes and procedures in light of the report's recommendations and have implemented a small number of improvements as a result.

- ***Police Crime and Incident Data Inspection***

This inspection reviewed the quality of data and the management arrangements in place for data assurance in relation to incident and crime recording and to assess how incidents and potential crime reports were recorded. Surrey received positive feedback; in particular HMIC commented that the Force has strong systems in place and they were impressed with the work that had taken place since 2011. Inspectors were complimentary of the staff they met and of the strong Force commitment to serving the public. The inspectors identified only minor areas for improvement which are being addressed through new processes already introduced in the Event Assessment Unit.

Surrey Police has also contributed towards a thematic report on rape which is due to be published later this year.

- ***Police and Crime Commissioner Transition Visits***

In March 2012, HMIC announced its intention to visit police authorities to examine their preparations for transition to new forms of police governance and accountability. In particular, HMIC and the Audit Commission have been examining the detailed plans for transition, the identification and management of risk, engagement with stakeholders and the Authority's commitment to 'business as usual'. A public report is expected imminently.

## **5. Significant Governance Issues**

### 2010/11

No fundamental issues to report.

### 2011/12

During 2011/12, the Authority was asked to reconsider the approval that it had given in 2009/10, for the development of a modular custody suite at a site in Salfords near Reigate. The Authority decided that despite a number of serious failings in the cost estimates included in the business case on which their original approval had been based, the scheme should still proceed, because further detailed examination of revised costings clearly demonstrated that the scheme still represented the most cost effective method of eliminating the long standing shortfall in custody cell provision in East Surrey.

As a result of having identified the problems experienced during the original approval process in 2009/10, the Authority has made changes to its governance procedures, which will ensure that in future all business cases for proposed capital projects will be subject to detailed scrutiny, review and challenge by the Authority's Capital Strategy Board. In addition all business cases will be checked to ensure that they contain detailed and robust costings, so that it can easily be demonstrated that the Authority is obtaining best value for money from the funds invested into each and every approved capital project.

### **Peter T D Williams, JP**

Chairman of Surrey Police Authority

## **2011/2012 FINANCIAL STATEMENTS**

## Movement in Reserves Statement

	General Fund Balance	Earmarked Reserves	Capital Receipts Reserve	Capital Grants Unapplied	Total Usable Reserves	Unusable Reserves	Total Authority Reserves
	£m	£m	£m	£m	£m	£m	£m
<b>IFRS Balance at 1 April 2010</b>	<b>6.3</b>	<b>5.4</b>	<b>1.1</b>	<b>1.6</b>	<b>14.4</b>	<b>(1,145.5)</b>	<b>(1,131.1)</b>
<b>Movement in Reserves during 2010/11</b>							
Surplus or (deficit) on provision of services	73.5	0.0	0.0	0.0	<b>73.5</b>	0.0	<b>73.5</b>
Other Comprehensive Expenditure and Income	0.0	0.0	0.0	0.0	<b>0.0</b>	59.5	<b>59.5</b>
<b>Total Comprehensive Expenditure and Income</b>	<b>73.5</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>73.5</b>	<b>59.5</b>	<b>133.0</b>
Adjustments between accounting basis & funding basis under regulations	(72.4)	0.0	(1.1)	(1.3)	<b>(74.8)</b>	75.0	<b>0.2</b>
<b>Net Increase / Decrease before Transfers to Earmarked Reserves</b>	<b>1.1</b>	<b>0.0</b>	<b>(1.1)</b>	<b>(1.3)</b>	<b>(1.3)</b>	<b>134.5</b>	<b>133.2</b>
Transfers to / from Earmarked Reserves	0.1	(0.1)	0.0	0.0	<b>0.0</b>	0.0	<b>0.0</b>
<b>Increase / Decrease in Year</b>	<b>1.2</b>	<b>(0.1)</b>	<b>(1.1)</b>	<b>(1.3)</b>	<b>(1.3)</b>	<b>134.5</b>	<b>133.2</b>
<b>Balance at 31 March 2011 carried forward</b>	<b>7.5</b>	<b>5.3</b>	<b>0.0</b>	<b>0.3</b>	<b>13.1</b>	<b>(1,011.0)</b>	<b>(997.9)</b>
<b>Movement in Reserves during 2011/12</b>							
Surplus or (deficit) on provision of services	(60.8)	0.0	0.0	0.0	<b>(60.8)</b>	0.0	<b>(60.8)</b>
Other Comprehensive Expenditure and Income	0.00	0.0	0.0	0.0	<b>0.00</b>	(52.2)	<b>(52.2)</b>
<b>Total Comprehensive Expenditure and Income</b>	<b>(60.8)</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>(60.8)</b>	<b>(52.2)</b>	<b>(113.0)</b>
Adjustments between accounting basis & funding basis under regulations	63.4	0.0	0.0	0.1	63.5	(63.4)	<b>0.1</b>
<b>Net Increase / Decrease before Transfers to Earmarked Reserves</b>	<b>2.6</b>	<b>0.0</b>	<b>0.0</b>	<b>0.1</b>	<b>2.7</b>	<b>(115.6)</b>	<b>(112.9)</b>
Transfers to / from Earmarked Reserves	(1.2)	1.2	0.0	0.0	0.0	0.0	<b>0.0</b>
<b>Increase / Decrease in Year</b>	<b>1.4</b>	<b>1.2</b>	<b>0.0</b>	<b>0.1</b>	<b>2.7</b>	<b>(115.6)</b>	<b>(112.9)</b>
<b>Balance at 31 March 2012</b>	<b>8.9</b>	<b>6.5</b>	<b>0.0</b>	<b>0.4</b>	<b>15.8</b>	<b>(1,126.6)</b>	<b>(1,110.8)</b>

## Comprehensive Income & Expenditure Statement

31 March 2011				31 March 2012		
Gross Expenditure £m	Gross Income £m	Net Expenditure £m		Gross Expenditure £m	Gross Income £m	Net Expenditure £m
88.0	(7.7)	80.3	Local Policing *	78.4	(4.9)	73.5
25.1	(1.9)	23.2	Dealing with the Public	23.2	(1.4)	21.8
21.2	(2.2)	19.0	Criminal Justice Arrangements	18.1	(2.5)	15.6
11.2	(1.8)	9.4	Roads Policing	10.8	(2.5)	8.3
14.6	(2.2)	12.4	Specialist Operations	14.4	(3.5)	10.9
20.7	(2.8)	17.9	Intelligence	22.6	(2.4)	20.2
49.8	(1.8)	48.0	Specialist Investigations *	58.2	(2.0)	56.2
10.3	(0.8)	9.5	Investigative Support	7.9	(0.4)	7.5
6.1	(3.3)	2.8	National Policing	5.7	(4.0)	1.7
<b>247.0</b>	<b>(24.5)</b>	<b>222.5</b>	<b>Cost of Policing Services</b>	<b>239.3</b>	<b>(23.6)</b>	<b>215.7</b>
0.3	0.0	0.3	Non Distributed Costs	1.0	0.0	1.0
(147.0)	0.0	(147.0)	Exceptional item	0.0	0.0	0.0
2.5	0.0	2.5	Corporate and Democratic Core	1.3	0.0	1.3
<b>102.8</b>	<b>(24.5)</b>	<b>78.3</b>	<b>Cost Of Services</b>	<b>241.6</b>	<b>(23.6)</b>	<b>218.0</b>
			<b>Other Operating Expenditure</b>			
0.0	(0.9)	(0.9)	Gain or Loss on the disposal of non-current assets	0.0	(1.3)	(1.3)
0.0	0.0	0.0	Levies	0.5	0.0	0.5
0.0	(9.1)	(9.1)	Home Office grant payable to the cost of retirement benefits	0.0	(11.5)	(11.5)
			<b>Financing and Investment Income and Expenditure</b>			
0.0	0.0	0.0	External Interest Payable	0.0	0.0	0.0
0.0	(0.2)	(0.2)	Interest and Investment Income	0.0	(0.2)	(0.2)
72.0	(7.9)	64.1	Pension Interest Cost and Expected Return on Assets	70.2	(8.5)	61.7
0.0	0.0	0.0	Surplus or Deficit of Discontinued Operations	0.0	0.0	0.0
			<b>Taxation and Non-Specific Grant Income</b>			
0.0	(2.7)	(2.7)	Capital Grants and Contributions	0.0	(1.6)	(1.6)
0.0	(4.6)	(4.6)	Revenue Support Grant	0.0	(8.4)	(8.4)
0.0	(98.6)	(98.6)	Precept Income	0.0	(99.5)	(99.5)
0.0	(31.8)	(31.8)	NNDR	0.0	(26.9)	(26.9)
0.0	(68.0)	(68.0)	Police Grant	0.0	(70.0)	(70.0)
<b>174.8</b>	<b>(248.3)</b>	<b>(73.5)</b>	<b>(Surplus) or Deficit on Provision of Services</b>	<b>312.3</b>	<b>(251.5)</b>	<b>60.8</b>
0.0	0.0	0.0	Surplus or deficit on revaluation of property, plant and equipment assets	0.0	(3.5)	(3.5)
0.0	0.0	0.0	Surplus or deficit on revaluation of available for sale financial assets	0.0	0.0	0.0
0.0	(59.5)	(59.5)	Actuarial gains / losses on pension assets / liabilities	55.7	0.0	55.7
<b>0.0</b>	<b>(59.5)</b>	<b>(59.5)</b>		<b>55.7</b>	<b>(3.5)</b>	<b>52.2</b>
<b>174.8</b>	<b>(307.8)</b>	<b>(133.0)</b>	<b>Total Comprehensive Income and Expenditure</b>	<b>368.0</b>	<b>(255.0)</b>	<b>113.0</b>

\* 2010/11 Figures restated due to transfer of costs for Local Policing to Specialist Investigations

## Balance Sheet

1 April 2010 £m	31 March 2011 £m		31 March 2012 £m	Notes
110.6	105.9	Property, Plant & Equipment	108.0	11
1.1	2.6	Intangible Assets	2.3	12
2.3	2.1	Long Term Debtors	1.8	16
<b>114.0</b>	<b>110.6</b>	<b>Long Term Assets</b>	<b>112.2</b>	
0.3	0.3	Inventories	0.3	15
15.8	17.1	Short Term Debtors	17.1	16
12.4	13.9	Cash and Cash Equivalents	10.4	17
2.9	1.5	Assets held for sale	5.8	18
<b>31.4</b>	<b>32.8</b>	<b>Current Assets</b>	<b>33.6</b>	
(23.5)	(25.1)	Short Term Creditors	(23.3)	19
<b>(23.5)</b>	<b>(25.1)</b>	<b>Current Liabilities</b>	<b>(23.3)</b>	
(2.0)	(3.1)	Provisions	(2.5)	20
(1,251.0)	(1,113.1)	Other Long Term Liabilities	(1,230.8)	36.2
<b>(1,253.0)</b>	<b>(1,116.2)</b>	<b>Long Term Liabilities</b>	<b>(1,233.3)</b>	
<b>(1,131.1)</b>	<b>(997.9)</b>	<b>Net Assets</b>	<b>(1,110.8)</b>	
		<b>Usable Reserves</b>		21
1.1	0.0	Usable Capital Receipts	0.0	
6.3	7.5	General Balances	8.9	
5.4	5.3	Earmarked Reserves	6.5	
1.6	0.3	Capital Grants Unapplied	0.4	
		<b>Unusable Reserves</b>		22
101.3	97.3	Capital Adjustment Account	94.7	
5.6	5.5	Revaluation Reserve	8.9	
(1,250.9)	(1,113.1)	Pension Reserve	(1,230.8)	
0.4	0.7	Collection Fund Adjustment Account	1.3	
(1.9)	(1.4)	Accumulated Absences Account	(0.7)	
<b>(1,131.1)</b>	<b>(997.9)</b>	<b>Total Reserves</b>	<b>(1,110.8)</b>	

## SURREY POLICE AUTHORITY CASHFLOW STATEMENT 2011/2012

	31 March 2011	31 March 2012		
	£m	£m	£m	£m
<b>OPERATING ACTIVITIES</b>				
<b>Cash Outflows</b>				
Cash paid to and on behalf of employees	194.8		186.5	
Other operating costs	37.1		40.3	
		231.9		226.8
<b>Cash Inflows</b>				
Council Tax Income	(98.5)		(98.9)	
NNDR income	(31.8)		(26.9)	
Revenue Support Grant	(4.6)		(8.3)	
Police Grant	(68.0)		(70.0)	
Other Government grants	(30.1)		(22.9)	
Cash received for good and services	(2.9)		(1.5)	
Interest received	(0.2)		(0.2)	
		(236.1)		(228.7)
<b>Net Cash Flow from Operating Activities</b>		<b>(4.2)</b>		<b>(1.9)</b>
<b>INVESTING ACTIVITIES</b>				
<b>Cash Outflows</b>				
Purchase of property plant and equipment	10.0		10.2	
Capital creditors	0.0		0.0	
		10.0		10.2
<b>Cash Inflows</b>				
Proceeds from sale of property, plant and equipment	(4.7)		(2.9)	
Capital grants received	(2.2)		(1.6)	
Other receipts from investing activities	(0.6)		(0.3)	
		(7.5)		(4.8)
<b>Net Cash Flow from Investing Activities</b>		<b>2.5</b>		<b>5.4</b>
<b>FINANCING ACTIVITIES</b>				
<b>Cash Outflows</b>				
Capital element of finance lease rental	0.2		0.0	
Interest element of finance lease	0.0		0.0	
		0.2		0.0
<b>Net Cash Flow from Financing Activities</b>		<b>0.2</b>		<b>0.0</b>
<b>NET (INCREASE)/DECREASE IN CASH AND CASH EQUIVALENTS</b>		<b>(1.5)</b>		<b>3.5</b>
<b>Cash and cash equivalents at the beginning of the reporting period</b>		<b>12.4</b>		<b>13.9</b>
<b>Cash and cash equivalents at the end of the reporting period</b>		<b>13.9</b>		<b>10.4</b>

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## Notes to the Accounts

### 1. Accounting Policies

The Accounts have been prepared in keeping with the Code of Practice on Local Authority Accounting in the U.K. 2011/12, issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) and approved by the Financial Reporting Advisory Board (FRAB). The Code is based on approved accounting standards issued by the International Accounting Standards Board and interpretations of the International Financial Reporting Interpretations Committee, except where these are inconsistent with specific statutory requirements. The Code also draws on approved accounting standards issued by the International Public Sector Accounting Standards Board and the UK Accounting Standards Board where these provide additional guidance. The Accounts follow the guidance notes produced by CIPFA for practitioners on the application of the Code to Local Authorities in the UK 2011/12.

#### Fundamental Accounting Policies

The Statement of Accounts has been prepared in accordance with the following accounting concepts and principles:

- Accruals – the accruals basis of accounting establishes that the non-cash effects of transactions are reflected in the accounting period in which those effects are experienced and not in the period in which any cash is received or paid.
- Going Concern – the Accounts have been prepared on the assumption that the Authority will operate for the foreseeable future. This means in particular that the Comprehensive Income and Expenditure Statement and Balance Sheet assume no intention to curtail significantly the scale of operation.
- Understandability - to ensure that the Statement of Accounts produced can be understood by its readers.
- Relevance – to ensure that the information provided about the Authority's financial position, performance and cash flow is useful for assessing stewardship of public funds and for making economic decisions.
- Materiality – provides a threshold or cut-off point to ensure that the information included in the Financial Statements is of such significance as to justify its inclusion. Omissions or misstatements of items are material if they could, individually or collectively, influence users decisions or assessment of the Financial Statements.
- Reliability – to ensure that the financial information provided accurately reflects the substance of the transactions and other events that have taken place.
- Comparability – the information contained in the Financial Statements has been prepared so that it can be readily compared with similar information about the same entity for different accounting periods and with similar information about other entities.
- Primacy of Legislative Requirements – Police Authorities derive their powers from statute and their financial and accounting framework is closely controlled by primary and secondary legislation. Where specific legislative requirements and accounting principles conflict, the legislative requirement is applied. However, the Code deals with such conflicts by showing the position required by the Code's accounting requirements in the Comprehensive Income and Expenditure Statement, and the effect of the legislative requirements in the Movement in Reserves Statement.

The following sections set out the Police Authority's general accounting policies, which have been followed in 2011/2012.

### **Income and Expenditure**

The accounts reflect the normal accruals concept for both capital and revenue. Creditors are included within the Balance Sheet for goods and services supplied but not paid for at the year end. Debtors are included within the Balance Sheet where services have been provided but not yet reimbursed at the year end.

An exception to this is for utilities (gas, electricity, telephones, etc), where invoices will be accounted for in the year they fall, providing that only four quarterly or twelve monthly invoices are charged in any one year.

A small number of internal trading accounts are operated for management purposes only. These internal transactions are excluded for the purpose of producing this Statement of Accounts.

### **Overheads and Support Services**

The costs of overheads and support services are charged to the service area that benefits from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice (SerCoP). The total absorption costing principle is used – the full cost of overheads and support services is 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 impairment losses chargeable on Assets Held for Sale.

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

### **Non-Current Assets - Property, plant and equipment**

#### **Recognition**

The cost of an item of property, plant and equipment is capitalised provided that the asset will benefit the Authority for a period of more than one year, and the cost of the item can be measured reliably.

Costs include the initial cost of acquisition or construction, and costs incurred subsequently to enhance, replace part of, or service the asset, provided that they meet the recognition criteria above.

Where a component is replaced or restored (i.e. an enhancement), the carrying amount of the old component is de-recognised, and the new component reflected in the carrying amount.

The general de minimis capitalisation limit is £10,000 for all relevant expenditure. There is no de minimis limit for the purchase of land and buildings, or fleet vehicles. Low value covert vehicles are not capitalised.

#### **Measurement**

Items of property, plant and equipment are initially measured at cost, comprising all expenditure that is directly attributable to bringing the assets into working condition for their intended use. Assets are then carried in the Balance Sheet using the following measurement:

Assets under construction are measured at historical cost.

Land and buildings are valued at fair value. Fair value for land and buildings under property, plant and equipment is the amount that would be paid for the asset in its existing use. Valuations are carried out by external professional valuers in accordance with the basis recommended by CIPFA and according to the Statement of Asset Valuation Principles and Guidance Notes issued by the Royal Institute of Chartered Surveyors (RICS).

Non-property assets that have short useful lives or low values (or both) (i.e. plant and equipment) are valued using the depreciated historical cost basis as a proxy for fair value. This is on the assumption that the useful life is a realistic reflection of the life of the asset and the depreciation method used is a realistic reflection of the consumption of that asset class.

Assets included in the Balance Sheet at fair value are revalued where there have been material changes in the value, or as a minimum, every 5 years.

Increases in valuation are recognised in the Revaluation Reserve unless the increase is reversing a previous impairment loss or revaluation decrease charged to the Comprehensive Income and Expenditure Statement for the same asset, in which case the increase is recognised in the Comprehensive Income and Expenditure Statement.

A decrease in valuation (i.e. a significant decline in an asset's carrying amount during the period that is not specific to the asset) is recognised in the Revaluation Reserve up to the credit balance existing in respect of the asset, and thereafter in the Comprehensive Income and Expenditure Statement.

### **Depreciation**

Depreciation is calculated on a straight-line basis over the estimated life of the asset, commencing in the month after capitalisation. Although depreciation is calculated on the estimated life of the specific individual asset concerned, the approximate average depreciation periods are as follows:

Buildings	25 years
Helicopter	10 years
Equipment	5 years
Vehicles	5 years

The economic lives of the assets are reviewed each accounting period and revised if necessary.

Land is not subject to depreciation.

Assets are not depreciated until they are available for use. Accordingly assets under construction are not depreciated.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately. (This is applicable to enhancement and acquisition expenditure incurred, and revaluations carried out, from 1 April 2010).

Residual values are thought to be unlikely (nil or insignificant) and are only assigned if they can be measured reliably.

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

## **Impairment**

Each category of asset (or individual asset where necessary) is reviewed at the end of each financial year for evidence of impairment.

Examples of events and changes in circumstances that indicate impairment may have incurred include:

- a significant decline in a specific asset's carrying amount during the period;
- evidence of obsolescence or physical damage of an asset;
- a commitment by the Authority to undertake a significant reorganisation; and
- a significant adverse change in the statutory or other regulatory environment in which the Authority operates.

All impairment losses are recognised in the Revaluation Reserve up to the amount in the Revaluation Reserve for each respective asset and thereafter in the Comprehensive Income and Expenditure Statement.

## **Disposal**

When a non-current asset is disposed of or decommissioned, the carrying value of the asset in the Balance Sheet is written off to the Comprehensive Income and Expenditure Statement. The disposal proceeds are credited to the Comprehensive Income and Expenditure Statement and netted off against the asset's carrying value. The resulting balance represents either the gain or loss on disposal. Any revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account.

Receipts (in excess of £10,000) from the sale of non-current assets are defined as capital receipts, and are used to fund future capital expenditure. These receipts are transferred to the Capital Receipts Reserve via the Movement in Reserves Statement. Individual receipts of less than £10,000 remain in the Comprehensive Income and Expenditure Statement.

Receipts from the sale of houses are only recognised in the accounts when cash is received, rather than when the sale is contractually committed. This is considered to be a prudent policy, in view of the uncertainties associated with property sales.

The disposal value is not a charge against council tax, as the cost of non-current assets is fully provided for under a separate arrangement for capital financing. Amounts are appropriated to the Capital Adjustment Account from the Movement in Reserves Statement.

## **Assets Held for Sale**

Non-current assets are classified as Held for Sale only if they meet all of the following criteria:

- The asset is available for immediate sale in its present condition;
- The sale is highly probable. This means that the Authority is committed to a plan to sell the asset and an active programme to locate a buyer and complete the plan has been initiated;
- The asset is being actively marketed for sale at a price that is reasonable in relation to its current fair value; and
- The sale is expected to complete within one year of the date of classification.

Assets Held for Sale are measured in the Balance Sheet at the lower of carrying value and fair value less costs to sell. Fair value for Assets Held for Sale is market value.

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).

Assets Held for Sale are not depreciated.

### **Funding of capital expenditure to purchase Non-Current Assets**

Capital expenditure is funded by borrowing, government grants, capital receipts, revenue contributions and third party contributions.

Capital contributions and grants are accounted for in the Comprehensive Income and Expenditure Statement on an accruals basis (unless the grant or contribution has an unsatisfied condition), they are then transferred to the Balance Sheet as follows:

- When a capital grant or contribution has been recognised in the Comprehensive Income and Expenditure Statement, and the expenditure to be financed from that grant or contribution has been incurred, the grant or contribution is transferred from the General Fund to the Capital Adjustment Account, reflecting the application of capital reserves to finance expenditure.
- When a capital grant or contribution has been recognised in the Comprehensive Income and Expenditure Statement, but the expenditure to be financed from that grant or contribution has not been incurred, the grant or contribution is transferred to the Capital Grants Unapplied Account, reflecting its status as a capital resource available to finance expenditure.
- When a capital grant or contribution has been received with conditions that the Authority has not met, the grant or contribution is recognised in the Balance Sheet as Capital Grants Receipts in Advance. Once the condition has been met, the grant or contribution is transferred from the Capital Grants Receipts in Advance Account and recognised as income in the Comprehensive Income and Expenditure Statement and accounted for as above depending on whether expenditure has been incurred.

The above transfers are reported in the Movement in Reserves Statement.

### **Charges to Revenue for Non-Current Assets**

The Authority is not required to raise council tax to cover charges for depreciation, impairment losses or amortisation. However it is required to make an annual provision from revenue towards the repayment of borrowing, known as the Minimum Revenue Provision (MRP).

Depreciation, impairment losses and amortisation are reversed from the General Fund via the Movement in Reserves Statement and MRP is charged as a contribution to the Capital Adjustment Account (see redemption of debt below).

### **Leases**

Leases are classified as either finance leases or operating leases based on risks and rewards of ownership. Land and building elements of a lease are classified and accounted for separately with the land element normally being an operating lease.

Arrangements that do not take the legal form of a lease, but allow the use of an asset in return for payments, are accounted for under this policy where fulfilment of the arrangement is dependant on the use of specific assets.

### Finance Leases

Where the Authority has substantially all the risks and rewards incidental to ownership of an asset, it is accounted for as a finance lease, and is capitalised as an asset and the corresponding liability shown on the Balance Sheet. Interest costs of the lease are charged to the Comprehensive Income and Expenditure Statement.

### Operating Leases

Rentals paid under operating leases are charged to the Comprehensive Income and Expenditure Statement on a straight-line basis over the life of the lease.

### **Heritage Assets**

The Authority's Heritage Assets are held in a small museum at Police Headquarters. The Assets relate to the history and development of Surrey Police and include items such as truncheons, medals and trophies. However they are not judged to be of significant monetary value and therefore are not included in the Balance Sheet. As such no specific accounting policy is required.

### **Intangible Assets**

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

Internally generated assets are capitalised where it is demonstrable that 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 by being able to 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 (research expenditure cannot be capitalised).

Intangible assets are included in the Balance Sheet at amortised cost. The depreciable amount of an intangible asset is amortised over its useful life (normally 3 years), commencing in the month the asset comes into service.

### **Inventories**

Inventories are included in the Balance Sheet at cost. The Authority's inventory includes such items as vehicle parts and uniforms. Damaged and obsolete items are written off in the year. Some minor inventory items are not valued and are excluded e.g. stationery.

This policy is a departure from IAS 2 which requires inventory to be valued at the lower of cost or net realisable value. For many inventory items, particularly uniforms, net realisable value would be minimal and does not accurately reflect the value to the Authority of holding these items. The variation from IAS 2 does not have a material impact on these financial statements.

### **Debts Outstanding**

Income is accounted for on an accruals basis. Debts that cannot be collected are written off via the Comprehensive Income and Expenditure Statement to the Command or department that raised the debt. The level of any bad debt provision is reviewed annually.

### **Reserves and Provisions**

The Police Authority maintains reserves to finance future expenditure and to protect the Authority against unexpected events. Certain reserves are kept to manage the accounting processes for non-current assets, financial instruments, retirement and employee benefits and do not represent usable resources for the Authority – these reserves are explained in the relevant policies.

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.

The classification of reserves and provisions is consistent with the CIPFA Code of Practice.

The nature and purpose of each reserve or provision set up by the Police Authority is described in the Notes to the Financial Statements.

### **Employee Benefits Payable During Employment**

Short-term employee benefits are those due to be settled within 12 months of the year-end. They include benefits such as salaries, paid annual leave and paid sick leave. An accrual is made for the cost of holiday entitlements (or any form of leave, e.g. time off in lieu) earned by employees but not taken before the year-end, which employees can carry forward into the next financial year. The accrual is charged to the Comprehensive Income and Expenditure Statement, but then reversed out through the Movement in Reserves Statement, so that holiday benefits are charged to revenue in the financial year in which the holiday absence occurs.

### **Termination Benefits / Exit Packages**

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 the appropriate service in the Comprehensive Income and Expenditure Statement when the Authority is demonstrably committed to the 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 notional debits and credits for pension enhancement termination benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable but unpaid at the year-end.

### **Long-term employee benefits**

Surrey Police pension schemes are accounted for under IAS 19 where any obligation arising from other long-term employee benefits that depend on length of service, need to be recognised when service is rendered. As injury awards under the Police schemes are dependent on service, the liability expected to arise due to injury awards has been valued at £33.9m in 2011/12 (£31.3m 2010/11).

### **Pension Arrangements**

Surrey Police pension schemes are accounted for under the International Financial Reporting Standard IAS 19 Employee benefits.

The Police Authority has decided, following actuarial advice, to rebut the IAS19 assumption that injury benefits are not subject to the same degree of uncertainty as pension payments. This means that the pension interest cost and expected return on assets is not charged to the Cost of Services, but instead has been charged to the Net Operating Expenditure, as at Note 22, and any actuarial gain or loss charged to the total Income and Expenditure.

The Police Authority participates in different pension schemes which meet the needs of its employees. The schemes provide members with defined benefits related to pay and service. The costs of providing pensions for employees are charged to the accounts in

accordance with the statutory requirements governing each scheme. The schemes are as follows:

- Police Officers:  
This scheme is un-funded and the employer's contribution is charged to the Comprehensive Income and Expenditure Statement.
- Local Government Pension Scheme (LGPS):  
Police staff employees, subject to certain qualifying criteria, are eligible to join the LGPS. The pension costs that are charged to the Authority's accounts in respect of these employees are equal to the contributions paid to the funded pension scheme for these employees and the net current service cost.

No transfer values are paid for officers transferring between police authorities, however, values are paid for transfers between other schemes.

The pension costs included in the Notes to the Financial Statements in respect of these schemes have been determined in accordance with relevant government regulations.

Where the payments made for the year in accordance with the scheme requirements do not match the change in the Authority's recognised asset or liability for the same period, the recognised cost of pensions will not match the amount required to be raised in taxation.

The attributable assets of the LGPS are measured at their fair value at the Balance Sheet date. From 2008/09 the quoted securities held as assets in the scheme are now valued at bid price rather than mid-market value. The attributable scheme liabilities are measured on an actuarial basis using the projected unit method. The scheme liabilities comprise any benefits promised under the formal terms of the scheme and, any obligations for further benefits where a public statement or past practice by the employer has created a valid expectation in the employees that such benefit will be granted.

Any unpaid contributions to the scheme are presented in the Balance Sheet as a Short Term Creditor.

Past service costs are recognised in Net Cost of Services on a straight-line basis over the period in which the increase in benefit accrues.

Losses arising on a settlement or curtailment not allowed for in the actuarial assumptions are measured at the date on which the Authority becomes demonstrably committed to the transaction and recognised in Net Cost of Services at that date. Gains arising on a settlement or curtailment not allowed for in the actuarial assumptions are measured at the date on which all parties whose consent is required are irrevocably committed to the transaction and recognised in Net Cost of Services at that date.

The accounts are constructed on the IAS 19 accounting basis and better reflect commitment in the long term to increase contributions to make up any shortfall in attributable net assets in the Pension Fund. The relationship between the Force and the Home Office is captured in the Pension Fund Account included within the Notes to the Financial Statements.

## **Revenue Grants and Contributions**

Government grants and third party contributions are recognised as income at the date the Authority satisfies the conditions of entitlement to the grant or contribution, where there is reasonable assurance that the monies will be received and the expenditure for which the grant is given has been incurred.

Net expenditure is expressed before deducting government grants in support of the overall expenditure of the Authority, i.e. specific police grants, Revenue Support Grant and National Non Domestic Rates. Other smaller revenue grants are shown as income in arriving at net expenditure, and can be matched against specific items of expenditure.

## **Redemption of Debt**

Throughout 2011/2012 the Authority had no external debt apart from a finance lease for land. Under prevailing regulation, the Authority is not debt free and therefore there is a requirement to make a provision for principal repayments through the Minimum Revenue Provision (MRP), (see Charges to Revenue for Non-Current Assets above).

## **Cash and Cash Equivalents**

Cash and cash equivalents include cash in hand and deposits held at call with Surrey County Council. In the cash flow statement, cash and cash equivalents are shown net of bank overdrafts.

Cash equivalents are held for the purpose of meeting short-term cash commitments rather than for investment or other purposes. Investments are held on the Balance Sheet as cash equivalents if; the investments are readily convertible to a known amount of cash, they are subject to insignificant risk of changes in value and, have a short maturity of three months or less from the date of acquisition.

Investments held by Surrey County Council on behalf of Surrey Police are classified as cash equivalents as they are low risk, short term and readily available.

## **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.

## **Financial Instruments**

### Financial Instruments – Financial Liabilities

Financial liabilities are initially measured at their fair value and carried at their amortised cost. Annual charges to the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective interest rate for the instrument. Short term financial liabilities such as trade creditors and cash overdrawn are measured at the original invoice amount as a proxy for fair value.

The Authority has adopted CIPFA's Treasury Management in the Public Services: Code of Practice and has set treasury management indicators to control key financial instrument risks in accordance with CIPFA's Prudential Code.

### Financial Instruments – Financial Assets

The Authority's financial assets are classified as:

- Loans and Receivables i.e. assets that have fixed or determinable payments but are not quoted in an active market, and
- Financial Assets at fair value through profit or loss – assets purchased with the intention of selling in the near term, part of a short term profit-taking portfolio, or derivatives.

### Loans and Receivables

Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Comprehensive Income and Expenditure Statement for interest receivable are based on the carrying amount of the asset multiplied by the effective interest rate for the instrument. Short term financial assets such as trade debtors, cash and loan investments are measured at the original transaction or invoice amount as a proxy for fair value.

### Financial Assets at Fair Value through Profit or Loss

Assets at fair value through profit or loss are initially measured and carried at fair value. Where the fair value cannot be measured reliably, the instrument is carried at cost less any impairment losses.

Changes in fair value recorded in the Balance Sheet are balanced by posting gains and losses to the Comprehensive Income and Expenditure Statement as they arise.

Where an asset is 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 Comprehensive Income and Expenditure Statement.

Any gains or losses that arise on the de-recognition of the asset are credited/debited to the Comprehensive Income and Expenditure Statement.

Until 2006/07, the Authority had a scheme that enabled police officers to apply for a loan which could only be used towards the purchase of a property. Only advances made after 1<sup>st</sup> April 2007 are classified as assets at fair value through profit or loss. Assets at fair value through profit or loss are revalued at a minimum every 5 years.

### **Prior Period Adjustments, Changes in Accounting Policies and Estimates and Errors**

Prior period adjustments 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 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.

### **Exceptional Items**

Exceptional items are disclosed and described separately in the financial statements where it is necessary to do so to provide further understanding of the Authority's financial position. They are material items of income or expense that have been shown separately due to the significance of their nature or amount.

## **2. FRS30 Heritage Assets**

The IFRS Code has introduced a change in accounting policy in relation to the treatment of heritage assets held by the Authority.

Surrey Police possesses a number of assets which relate to the history and development of the Force. The assets, which include items such as truncheons, medals and trophies, are kept in a small museum in the Police Headquarters. However they are not judged to be of significant monetary value and therefore are not included in the balance sheet.

## **3. Critical Judgements in Applying Accounting Policies**

In applying the accounting policies set out in Note 1, the Authority has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the Statement of Accounts are:

- Future funding levels – there is a high degree of uncertainty about future levels of funding for Police Authorities and their successors, Police and Crime Commissioners. 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 reduce levels of service provision.
- Estates strategy – timing and value of future station sales.
- Provisions – Police Staff Pension amount to offset potential increase in additional employer's contributions advised in last actuary's report – the Authority's treatment does not meet the strict definition of IAS 37 (to treat as a reserve) but is prudent and is consistent with the treatment adopted last year.
- Provisions – Icelandic banks – provision against not receiving full payment from Landsbanki (i.e. shown as a liability). There is some uncertainty about whether a present obligation exists in respect of payments currently outstanding with Icelandic banks. The Authority has decided to take a cautious and prudent approach in this matter and recognised a liability

## **4. Events After The Balance Sheet Date**

The audited Statement of Accounts were approved by the Audit Committee on 24 September 2012. Where events taking place before this date provide information about conditions existing at 31 March 2012, the figures in the Financial Statements and Notes have been adjusted in all material respects to reflect the impact of this information.

The Authority has no material post balance sheet events to report for the period up to 30 September 2012.

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

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

The items in the Authority's Balance Sheet at 31 March 2012 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if Actual Results Differ from Assumptions
<b>Property, Plant and Equipment</b>	Assets are depreciated over useful lives that are dependent on assumptions about the level of repairs and maintenance that will be incurred in relation to individual assets. The current economic climate makes it uncertain that the Authority will be able to sustain its current spending on repairs and maintenance, bringing into doubt the useful lives assigned to assets.	If the useful life of an asset is reduced, depreciation increases and the carrying amount of the asset falls. It is estimated that the annual depreciation charge for buildings increases by £93k for every year that useful lives are reduced. It is estimated that the annual depreciation charge for vehicles increases by £930k for every year that useful lives are reduced.
<b>Pensions Liability</b>	Estimation of the net liability to pay pensions depends on a number of complex judgements relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. We have engaged the Government's Actuary's Department to provide the Authority with expert advice about the assumptions to be applied for the Police Pension Schemes and Hymans Robertson LLP provides the same advice for the Police Staff Pension Scheme.	The Police Pension Scheme is governed by the Police Pensions Regulations 1987 and related regulations. An actuarial valuation has not been carried out as at 31 March 2012. Surrey Police Authority has applied the pension disclosures from Government Actuary's Department (GAD) model in accordance with the requirements of CIPFA's Code of Practice for accounting periods commencing on or after 1 April 2010. The accuracy of the outcome can only be assessed against the results of a full actuarial valuation as at 31 March 2012, and may be materially different from those results.

## 6. Prior Year Adjustments

### Comprehensive Income & Expenditure Statement

Following a consultation on the 2012 Police Objective Analysis resulting in a revision in the CIPFA Service Reporting Code of Practice (SeRCOP) 2012/13, it was decided to move Local Investigation expenditure from Local Policing and include within Specialist Investigations. To aid comparability, there has been a prior year adjustment which represents a reduction of £21.4m to £88.0m in Local Policing (£101.7m shown in 2010/11) and an increase of £21.4m to £48.0m in Specialist Investigations (£26.6m shown in 2010/11).

### Property, Plant and Equipment

Following a late audit recommendation in the 2010/11 accounts concerning double counting of £4m in Land and Buildings in previous years, the adjustment was not correctly treated in the 2010/11 accounts. The prior period adjustment of £4m in Note 11 of the 2011/12 accounts now recognises the correct treatment by adjusting the opening balance.

## **7. Exceptional Items**

The Authority has no exceptional items to report for the year ended 31<sup>st</sup> March 2012.

## **8. Environmental Management and Carbon Reduction Commitment**

Surrey Police Authority is committed to reducing its environmental impact in all of its day-to-day activities. In putting the public first and bringing communities together the Authority acknowledges its part in mitigating the effects of, and adapting to climate change. With continual improvement, the Authority can reduce resource consumption, and in particular its energy consumption, and respond to the changing environmental challenges that we all face. The Authority is committed to take into account energy efficiency and whole life costing in any major refurbishments or new builds, and procure sustainable products and services whenever practically possible. Furthermore, it is committed to continually reviewing its information and technologies to seek out energy efficiencies, and further reduce its environmental impact. The Authority had a target to reduce its carbon emissions across utilities by 10% by 2012 (from 2008/09 levels). To date carbon emissions have reduced by 15% since 2008/9.

The Authority is required to participate in the Carbon Reduction Commitment Energy Efficiency Scheme. This scheme is currently in its introductory phase, which will last until April 2014. The Authority is required to purchase and surrender allowances, currently retrospectively, on the basis of emissions i.e. Carbon Dioxide produced as energy is used. As Carbon Dioxide is emitted (i.e. as energy is used), a liability and an expense are recognised. The liability will be discharged by surrendering allowances. The liability is measured at the best estimate of the expenditure required to meet the obligation, normally at the current market price of the number of allowances required to meet the liability at the reporting date. For 2011/12, this liability was estimated at £82k.

## 9. Adjustments between Accounting Basis and Funding Basis under Regulations

The table below details the adjustments made to the total Comprehensive Income and Expenditure Statement 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.

2010/2011	Usable Reserves			Unusable Reserves				
	General Fund Balance £m	Capital Receipts Reserve £m	Capital Grants Unapplied £m	Capital Adjustment Account £m	Reval Res £m	Pension £m	Council Tax £m	Holiday pay £m
<b>Reversal of items included in the Comprehensive Income and Expenditure Statement:</b>								
Amortisation of intangible fixed assets	(0.8)			0.8				
Depreciation and impairment of property plant and equipment	(10.2)			10.2				
Capital Grants & Contributions Applied	2.7	1.3	1.1	(5.1)				
Capital Grant & Contributions Unapplied	0.0	(0.2)	0.2	0.0				
Net gain or loss on sale of property plant and equipment	0.6	0.0		(0.6)				
Short term employee benefits	0.5							(0.5)
Net charges made for retirement benefits in accordance with IAS 19	35.3					(35.3)		
Council Tax adjustment.	0.3						(0.3)	
<b>Addition of items excluded from the Comprehensive Income and Expenditure Statement:</b>								
Minimum revenue provision for capital financing	0.6			(0.6)				
Capital expenditure charged in-year to the General Fund Balance	0.4			(0.4)				
Employer's contribution payable to the Pensions Account and retirement benefits payable direct to pensioners	43.0					(43.0)		
Voluntary revenue provision for capital financing	0.0			0.0				
Amortisation of Revaluation Reserve				(0.1)	0.1			
Contributions moved to Usable Capital Receipts								
<b>Net additional amount required to be (credited) / debited to the General Fund balance for the year</b>	<b>72.4</b>	<b>1.1</b>	<b>1.3</b>	<b>4.2</b>	<b>0.1</b>	<b>(78.3)</b>	<b>(0.3)</b>	<b>(0.5)</b>

2011/2012	Usable Reserves			Unusable Reserves				
	General Fund Balance £m	Capital Receipts Reserve £m	Capital Grants Unapplied £m	Capital Adjustment Account £m	Reval Res £m	Pension £m	Council Tax £m	Holiday pay £m
<b>Reversal of items included in the Comprehensive Income and Expenditure Statement:</b>								
Amortisation of intangible fixed assets	(1.1)			1.1				
Depreciation of property plant and equipment	(6.2)			6.2				
Impairment of property plant and equipment	1.3			(1.3)				
Capital Grants & Contributions Applied	1.4			(1.4)				
Capital Grant & Contributions Unapplied	0.1		(0.1)					
Net gain or loss on sale of property plant and equipment	1.4			(1.4)				
Short term employee benefits	0.7							(0.7)
Net charges made for retirement benefits in accordance with IAS 19	(108.0)					108.0		
Council Tax adjustment.	0.6						(0.6)	
<b>Addition of items excluded from the Comprehensive Income and Expenditure Statement:</b>								
Minimum revenue provision for capital financing	0.4			(0.4)				
Capital expenditure charged in-year to the General Fund Balance	0.2			(0.2)				
Employer's contribution payable to the Pensions Account and retirement benefits payable direct to pensioners	45.9					(45.9)		
Voluntary revenue provision for capital financing	0.0			0.0				
Amortisation of Revaluation Reserve	0.0							
Contributions moved to Usable Capital Receipts								
<b>Net additional amount required to be (credited) / debited to the General Fund balance for the year</b>	<b>(63.3)</b>	<b>0.0</b>	<b>(0.1)</b>	<b>2.6</b>	<b>0.0</b>	<b>62.1</b>	<b>(0.6)</b>	<b>(0.7)</b>

## 10. Transfers To/From Earmarked Reserves

The table below sets out the amounts set aside from the General Fund in earmarked reserves to provide financing for future expenditure plans and the amounts posted back from earmarked reserves to meet General Fund expenditure in 2011/12.

	Balance as at 31 March 2011 £m	Appropriation £m to/from revenue	Balance as at 31 March 2012 £m
<b>Earmarked Reserve Category</b>			
Local	0.5	(0.5)	0.0
Insurance	2.2	0.7	2.9
Ill Health	1.0	0.1	1.1
Healthcare	0.3	0.0	0.3
Olympics	0.3	0.0	0.3
OPR	1.0	(0.5)	0.5
Enterprise/Siren Reserve	0.0	0.5	0.5
Employee Retention Reserve	0.0	0.9	0.9
<b>Total Earmarked Reserves</b>	<b>5.3</b>	<b>1.2</b>	<b>6.5</b>

### Local Reserve

This was established to encourage longer term financial planning by local budget holders.

### Insurance Reserve

This represents a reserve for insurance liabilities. The reserve is intended to cover likely insurance liabilities that occur and to cover risks in the areas of motor insurance, employers and public liability.

### Ill Health Reserve

This reserve is to meet the cost of police officers' ill health commutations in the future. For each instance of ill health the Authority has to provide for the capital equivalent charge that is required to be paid into the Police Pension Account.

### Healthcare Reserve

This reserve was established to smooth out the costs from one year to the next of the self funded healthcare provision within the Force.

### Olympics Reserve

This reserve was established to cover the additional staff costs of Surrey Police's role in the 2012 Olympics.

### Employee Retention Reserve

A new reserve for 2011/12, agreed by SPA in order to establish funding for actions that may be necessary to retain required Police Officer numbers in the event that other forces in the South-East start an officer recruitment campaign.

### Enterprise/Siren Reserve

Another new reserve for 2011/12, established in order to cover the costs of finalising and introducing the Siren system to the Force.

### OPR Reserve

This reserve was established to cover the additional implementation costs resulting from the Operational Policing Review (OPR).

## 11. Property, Plant and Equipment

Changes in Non-Current Assets during the year are summarised below:

### Property, Plant and Equipment

<b>Movements in 2010/2011</b>	<b>Land and Buildings £m</b>	<b>Vehicle, Plant, Furniture &amp; Equipment £m</b>	<b>Surplus Assets £m</b>	<b>Assets under construction £m</b>	<b>Total Property, Plant and Equipment £m</b>
<b>Cost or Valuation</b>					
At 1 April 2010	90.2	41.8	0.9	10.3	143.2
Additions	1.7	5.8			7.5
Disposals		(1.4)			(1.4)
Assets reclassified (to)/from Held for Sale	(1.1)		(0.9)		(2.0)
Other movements in cost or valuation - Transfers	(3.1)	0.2	3.1	(0.2)	0.0
<b>Gross Book Value at 31 March 2011</b>	<b>87.7</b>	<b>46.4</b>	<b>3.1</b>	<b>10.1</b>	<b>147.3</b>
<b>Accumulated Depreciation and Impairment</b>					
At 1 April 2010	(2.7)	(29.9)	0.0	0.0	(32.6)
Depreciation charge	(1.9)	(4.0)	(0.1)		(6.0)
Depreciation on Disposals & Write-Offs	0.1	1.1			1.2
Impairments	(4.0)				(4.0)
<b>Accumulated Depreciation and Impairments at 31 March 2011</b>	<b>(8.5)</b>	<b>(32.8)</b>	<b>(0.1)</b>	<b>0.0</b>	<b>(41.4)</b>
<b>Net Book Value at 31 March 2011</b>	<b>79.2</b>	<b>13.6</b>	<b>3.0</b>	<b>10.1</b>	<b>105.9</b>
<b>at 31 March 2010</b>	<b>87.5</b>	<b>11.9</b>	<b>0.9</b>	<b>10.3</b>	<b>110.6</b>
<b>at 31 March 2009</b>	<b>91.0</b>	<b>14.4</b>	<b>3.4</b>	<b>6.6</b>	<b>115.4</b>

## Property, Plant and Equipment

<b>Movements in 2011/2012</b>	Land and Buildings £'m	Vehicle, Plant, Furniture & Equipment £'m	Surplus Assets £'m	Assets under construction £'m	Total Property, Plant and Equipment £'m
<b>Cost or Valuation</b>					
At 31 March 2011	87.7	46.4	3.1	10.1	147.3
Prior period adjustment	(4.0)	0.0	0.0	0.0	(4.0)
Restated at 1 April 2011	83.7	46.4	3.1	10.1	143.3
Additions	3.0	6.2	1.5		10.7
Derecognition - disposals	(1.6)	(0.9)			(2.5)
Assets reclassified (to)/from Held for Sale	(6.3)		(0.7)		(7.0)
Revaluations	5.1				5.1
Other movements - Transfers		0.1			0.1
<b>At 31 March 2012</b>	<b>83.9</b>	<b>51.8</b>	<b>3.8</b>	<b>10.1</b>	<b>149.6</b>
<b>Accumulated Depreciation and Impairment</b>					
At 31 March 2011	(8.5)	(32.8)	(0.1)	0.0	(41.4)
Prior period adjustment	4.0	0.0	0.0	0.0	4.0
Restated at 1 April 2011	(4.5)	(32.8)	(0.1)		(37.4)
Depreciation charge	(2.2)	(3.8)			(6.0)
Depreciation on Disposals & W/O	1.4	0.7			2.1
Impairments	(0.3)				(0.3)
<b>At 31 March 2012</b>	<b>(5.6)</b>	<b>(35.9)</b>	<b>(0.1)</b>	<b>0.0</b>	<b>(41.6)</b>
<b>Net Book Value</b>					
<b>at 31 March 2012</b>	<b>78.3</b>	<b>15.9</b>	<b>3.7</b>	<b>10.1</b>	<b>108.0</b>
<b>at 31 March 2011</b>	<b>79.2</b>	<b>13.6</b>	<b>3.0</b>	<b>10.1</b>	<b>105.9</b>

### Depreciation

Depreciation is calculated on a straight-line basis over the estimated life of the asset. Although it is calculated on the estimated life of the specific individual asset concerned, the approximate average depreciation periods are as follows:

Buildings	25 years
Helicopter	10 years
Equipment	5 years
Vehicles	5 years

### Effects of Changes in Estimates

Assets are depreciated over useful lives that are dependent on assumptions about the level of repair and maintenance that will be incurred in relation to individual assets. If the useful life of an asset is reduced, depreciation increases and the carrying amount of the asset falls.

It is estimated that the annual depreciation charge would increase by £2.7m for every year that the useful lives had to be reduced.

### Land and Buildings

All operational police stations and offices were valued by the Bruton Knowles property consultants at 31<sup>st</sup> March 2009 on the basis of open market value in existing use.

All police houses have been valued by Bruton Knowles property consultants at 31<sup>st</sup> March 2012 on the basis of open market value in existing use with the exception of properties vacant pending disposal (assets held for sale), which were valued at market value. The values of police houses have been adjusted to reflect these valuations.

At 31<sup>st</sup> March 2012 the Authority's principal assets consisted of 40 operational stations and offices (including custody and control centres), 95 police houses and 873 police vehicles.

## 12. Intangible Assets

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

The amortisation of £1.1m (2010/11 (£1.6m)) charged to revenue in 2011/12 was charged to the central corporate cost centre and then absorbed as an overhead across all the service headings in the Net Expenditure of Services.

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

	2010/11	2011/12
	£m	£m
<b>Balance at start of year:</b>		
* Gross carrying amounts	4.2	4.2
* Accumulated amortisation	(3.2)	(1.6)
<b>Intangible assets net carrying amount at the start of year</b>	<b>1.0</b>	<b>2.6</b>
Additions:		
* Purchases	2.4	0.8
Disposals & write offs	(2.4)	0.0
Amortisation for the period	1.6	(1.1)
Other changes		
<b>Intangible assets net carrying amount at the end of the year</b>	<b>2.6</b>	<b>2.3</b>
Comprising:		
* Gross carrying amounts	4.2	5.0
* Accumulated amortisation	(1.6)	(2.7)
	<b>2.6</b>	<b>2.3</b>

### 13. Financial Instruments

The borrowings and investments disclosed in the Balance Sheet are made up of the following categories of financial instruments:

	Long Term		Current	
	31st March 2011 £m	31st March 2012 £m	31st March 2011 £m	31st March 2012 £m
Financial liabilities at amortised cost	0.0	0.0	(19.3)	(17.9)
Financial liabilities at fair value through income & expenditure	0.0	0.0	0.0	0.0
<b>Total Borrowings</b>	<b>0.0</b>	<b>0.0</b>	<b>(19.3)</b>	<b>(17.9)</b>
Loans and receivables	0.0	0.0	21.2	17.9
Financial Assets at fair value through income & expenditure	0.1	0.1	0.0	0.0
Unquoted equity investment at cost	0.0	0.0	0.0	0.0
<b>Total Investments</b>	<b>0.1</b>	<b>0.1</b>	<b>21.2</b>	<b>17.9</b>

The fair value of short-term, trade and other receivables / payables is taken to be the invoiced or billed amount.

The Authority had in place a scheme that enabled police officers to apply for a loan which could only be used towards the purchase of a property. The majority of these advances were made prior to 1<sup>st</sup> April 2007 (the scheme closed to new applicants during 2006/07) and are not classified as financial instruments. Instead they are treated as long term debtors that are recoverable when the officers leave Surrey Police or sell the property against which the advance has been made. However three advances made to existing applicants - total carrying value £0.1m - were made after 1<sup>st</sup> April 2007 and are classified as assets held at fair value through the Income & Expenditure Account. All income associated with these advances is credited to the Comprehensive Income and Expenditure Statement when it becomes receivable by the Authority.

#### Financial Instruments Gains or Losses

No gains or losses were recognised in the Comprehensive Income and Expenditure Statement in relation to financial instruments in either 2010/11 or 2011/12. Short term receivables or payables (i.e. trade debtors, trade creditors and cash) with no stated interest amount are measured at the original invoice or transaction amount.

### 14. Nature and extent of risks arising from Financial Instruments

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

- Credit Risk – the possibility that other parties might fail to pay amounts due to the Authority;
- Liquidity Risk – the risk that the Authority might not have funds available to meet its commitment to make payments;

- Market Risk/Interest Rate Risk – the possibility that financial loss might arise for the Authority as a result of changes in such measures as interest rates and stock market movements.
- Foreign Exchange Risk – the probability of loss arising from an adverse movement in foreign exchange rates.
- Market Failure Risk – the risk that financial loss might arise as a result of a failure in financial markets.

The Authority's overall risk management programme focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the resources available to fund services. The Head of Finance is responsible for implementing the Authority's approved Treasury Management Strategy which specifies the arrangements for specific areas such as interest rate risk, credit risk and the investment of surplus cash.

Day-to-day treasury management activity is undertaken on behalf of the Authority by Surrey County Council under the terms of a service level agreement.

#### Credit and Counterparty Risk

A prime objective of the Authority's treasury management activities is the security of the principal sums it invests. The Authority maintains a formal counterparty policy in respect of those organisations from which it may borrow, or with whom it may enter into other financing arrangements, which includes all organisations included on Surrey County Council's counterparty lists.

Surrey Police Authority's only direct counterparty in relation to treasury management is Surrey County Council. All investments made by Surrey County Council are made in accordance with that Council's investment policies and prevailing legislation and regulations. If the list of counterparties and their time or value limits need to be revised, amendments are presented to the Surrey County Council Audit & Governance Committee. It is considered that these arrangements minimise the risk in this area.

The maximum exposure to credit risk at the Balance Sheet date was as follows: trade receivables £17.1m (2010/11 £17.1m), and cash and temporary loan investments £9.5m (2010/11 £14.4m). The Authority does not have any material exposure to concentrations of credit risk with any single counterparty.

#### Liquidity Risk

The Authority aims to ensure that it has adequate but not excessive cash resources, borrowing arrangements, overdraft or standby facilities to enable it to have the level of funds available to it that are necessary to achieve the objectives stated in its Policing Plan.

Day-to-day cash balances are monitored on behalf of the Authority under a service level agreement by Surrey County Council, whose remit is to aggregate and invest any Surrey Police Authority surpluses with its own balances, and to pay interest based on its quarterly internal borrowing rate.

Throughout 2011/12 the Authority had sufficient available cash balances to meet its daily requirements, without having to borrow funds to meet any short term deficits, and there was no external borrowing outstanding as at

31<sup>st</sup> March 2012. If necessary, the Authority is able to borrow from either the Public Works Loans Board or Surrey County Council.

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

### Interest Rate Risk

The Authority aims to protect itself against the risk that fluctuations in the levels of interest rates create an unexpected or unbudgeted burden on the Authority's finances.

Since the Authority's investment activity is undertaken by Surrey County Council, fixed and variable rate exposure limits are set so as not to conflict with that Council's prevailing limits. In order to achieve this, both fixed and variable rate upper and lower exposure limits have been set at 100% and 0% respectively.

Surrey County Council employs a treasury consultant to advise on treasury strategy, provide economic data and interest rate forecasts. This information feeds into the Authority's annual budget setting process, and allows for any adverse changes to be accommodated.

Interest rate risk is minimised by the fact that a proportion of Government grant payable on financing costs will normally move with prevailing interest rates. This provides partial compensation for the higher costs incurred as a result of adverse interest rate movements.

As at 31<sup>st</sup> March 2012, the Authority had no borrowing outstanding but held £9.5m in variable rate loan investments (2010/11 £14.4m). If interest rates had been 1% higher, with all other variables held constant, additional interest receivable of £0.2m would have been received. The impact of a 1% fall in interest rates would be as above but with the movements being reversed.

### Price Risk

The Authority does not hold any investments in equity shares and therefore is not exposed to potential losses arising from movements in share prices.

Of the £1.8m Long Term Debtors, the Authority does hold £0.1m relating to loans to police officers issued after 1<sup>st</sup> April 2001 which could only be used for the purchase of property. These are classified as held at fair value through the income & expenditure account (see accounting policy note Financial Instruments - Financial Assets).

### Foreign Exchange Risk

The Authority does not hold any financial asset or liability denominated in a foreign currency, and, therefore, has no exposure to losses arising from exchange rate movements. Any foreign exchange risk associated with residual balances with Icelandic banks is borne by Surrey County Council as it is the organisation directly holding the deposits.

### Market Failure Risk

During 2011/12 and in 2012/13 to date, the Authority received repayments of approximately 64% of the total funds invested in Icelandic Banks (in 2008/09) therefore the exposure to market failure is significantly reduced (see note 20 for details).

## 15. Inventories

Inventory held by the Force consists of police clothing, supplies, vehicle parts and equipment. The movement in inventory during the year is shown in the table below.

	<b>As At 31 March 2011 £m</b>	<b>As At 31 March 2012 £m</b>
<b>Inventories</b>		
Balance as at 1 April	0.3	0.3
Purchases	1.1	1.2
Recognised as an expense in year	(1.1)	(1.2)
<b>Total</b>	<b>0.3</b>	<b>0.3</b>

## 16. Debtors

### Short Term Debtors

Debts outstanding at 31<sup>st</sup> March 2012 can be analysed as follows:

	<b>31 March 2011 £m</b>	<b>31 March 2012 £m</b>
<b>Short Term Debtors</b>		
Central Government Bodies	4.2	5.7
Other Local Authorities	5.7	4.9
NHS Bodies	0.5	0.0
Public Corporations	0.5	0.1
Other	0.2	1.0
<b>SUB TOTAL</b>	<b>11.1</b>	<b>11.7</b>
<b>Payments in Advance</b>		
Central Government Bodies	0.1	0.0
Other Local Authorities	4.0	4.3
NHS Bodies	0.0	0.0
Public Corporations	0.0	0.0
Other	1.9	1.1
<b>SUB TOTAL</b>	<b>6.0</b>	<b>5.4</b>
<b>TOTAL SHORT TERM DEBTORS</b>	<b>17.1</b>	<b>17.1</b>

Payments made in advance as at 31<sup>st</sup> March 2012 of £5.4m, include £1.9m of pay made to police officers in March 2012 for work undertaken in April 2012, and £2.2m of pension payments paid in advance.

### Long Term Debtors

Long term debts are those falling due after one year. As at 31<sup>st</sup> March 2012, the Authority's long term debtor balance of £1.8m (£2.1m 2010/11) consisted of outstanding advances made to employees, predominantly those made under the housing scheme.

## 17. Cash and Cash Equivalents

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

	<b>As At 31 March 2011</b>	<b>As At 31 March 2012</b>	<b>Movement</b>
<b>Analysis of Movement In Cash and Cash Equivalents</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Cash With Accounting Officers	0.2	0.2	0.0
Short-term deposits with Surrey County Council	14.4	9.5	(4.9)
Cash (Overdrawn) / Surplus	(0.7)	0.7	1.4
<b>Total Cash and Cash Equivalents</b>	<b>13.9</b>	<b>10.4</b>	<b>(3.5)</b>

### Short Term Deposits

The Surrey Police Authority treasury management function is carried out in conjunction with that of Surrey County Council. Daily transfers of cash are made between the accounts of the two authorities in the form of loans from Surrey Police Authority to Surrey County Council.

## 18. Assets Held for Sale

The movement in Assets Held for Sale is shown below:

	<b>2010/11 £m</b>	<b>2011/12 £m</b>
<b>Balance outstanding at start of year</b>	2.9	1.5
Assets newly classified as Held for Sale * Property, Plant and Equipment	2.0	6.9
Assets sold in year	(3.4)	(2.6)
<b>Total assets held at year-end</b>	<b>1.5</b>	<b>5.8</b>

## 19. Creditors

### Short Term Creditors

Payments due at 31<sup>st</sup> March 2012 can be analysed as follows:

	31 March 2011	31 March 2012
	£m	£m
<b>Short Term Creditors</b>		
Central Government Bodies	4.6	4.2
Other Local Authorities	6.8	5.3
NHS Bodies	0.0	0.0
Public Corporations	0.1	0.0
Other	11.9	12.2
<b>SUB TOTAL</b>	<b>23.4</b>	<b>21.7</b>
<b>Receipts in Advance</b>		
Central Government Bodies	1.6	1.5
Other Local Authorities	0.0	0.0
NHS Bodies	0.0	0.0
Public Corporations	0.0	0.1
Other	0.1	0.0
<b>SUB TOTAL</b>	<b>1.7</b>	<b>1.6</b>
<b>TOTAL SHORT TERM CREDITORS</b>	<b>25.1</b>	<b>23.3</b>

## 20. Provisions

Provisions held at 31<sup>st</sup> March 2012 are as follows:

	Balance as at 31 March 2011 £m	Appropriations to/from revenue £m	Balance as at 31 March 2012 £m
Icelandic Banks	0.5	(0.1)	0.4
Police Staff Pension	2.1	0.0	2.1
Council Tax Rebilling	0.0	0.0	0.0
Legal Claims	0.5	(0.5)	0.0
<b>Total Provisions</b>	<b>3.1</b>	<b>(0.6)</b>	<b>2.5</b>

### Icelandic Banks Impairment of Investments

All treasury management services for Surrey Police Authority are provided by Surrey County Council (SCC). The Authority's surplus funds are merged with the Council's funds, and invested in the name of SCC.

Early in October 2008, a number of Icelandic banks went into administration. SCC had £20m deposited in two of these institutions – Landsbanki and Glitnir. Surrey Police Authority's share of those deposits amounted to £1.5m – £0.75m in Landsbanki and £0.75m in Glitnir.

Accounting guidance issued in May 2012 stated that on 28 October 2011, the Reykjavik District Court ruled that local authorities' claims qualified for priority status and that 100% of the original deposits will be returned.

#### Landsbanki

On 17 February 2012 the Winding Up Board of Landsbanki made a distribution which represented approximately 30% of investments (7.5% attributable to Surrey Police). There was a second distribution of £1.3m in June 2012 bringing the total repayment of investment in Landsbanki to 44%. The remainder of the investment will be repaid over a number of years culminating in 2018.

#### Glitnir

The Winding-Up Board of Glitnir made a distribution proposal to priority creditors which was accepted by UK local authorities and implemented on 16 March 2012. SCC received approximately 84% of the deposit on this date, the remaining balance (Icelandic currency) is currently held in an escrow account pending permission of the Central Bank of Iceland to release.

A provision totalling £0.4m has been set aside for the above impairment and possible future losses due to European economic and banking uncertainty. Lost interest is not included in this provision but is treated in the Accounts on a cash basis.

### Police Staff Pension

Following advice from Surrey County Council of a potential deficit on the pension scheme which covers police staff, a provision of £0.8m was made in 2009/10 to start to address this deficit. In 2010/11 a further £1.3m was provided for. No changes have been made for 2011/12.

### Legal Claims

A new provision was established in 2010/11 to help cover the cost of legal claims, predominantly of a public liability nature, particularly as the Authority's insurers do not cover the first £250k of any such claim. This was transferred to self Funded Insurance in 2011/12.

## 21. Usable Reserves

Movements in the Authority's usable reserves are detailed in the Movements in Reserves Statement. The balances are as follows:

	<b>As At 31 March 2011 £m</b>	<b>As At 31 March 2012 £m</b>
<b>Usable Reserve</b>		
General Fund Balance	7.5	8.9
Earmarked Reserves	5.3	6.5
Usable Capital Receipts	0.0	0.0
Capital Grants Unapplied	0.3	0.4
<b>Total Usable Reserves</b>	<b>13.1</b>	<b>15.8</b>

### General Fund Balance

This represents the cumulative surplus of operating (revenue) income over operating (revenue) expenditure, which has not been set aside in a specific reserve, and is available to protect the Authority against unforeseen future events.

### Earmarked Reserves

See note 10.

### Usable Capital Receipts

This reserve comprises net proceeds arising from the sale of capital assets e.g. houses & vehicles. The use of these receipts is limited by regulation (Part 1 of the Local Government Act 2003 and the Local Authorities Regulations 2003, Capital Finance and Accounting, England). The receipts can only be used to finance capital expenditure or the repayment of debt.

### Capital Grants Unapplied

This balance represents capital grants or contributions that have been recognised as income in the Comprehensive Income and Expenditure Statement, but the expenditure to be financed from those grants or contributions has not been incurred.

## 22. Unusable reserves

	<b>As At 31 March 2011 £m</b>	<b>As At 31 March 2012 £m</b>
<b>Unusable Reserve</b>		
Capital Adjustment Account	97.3	94.7
Revaluation Reserve	5.5	8.9
Pensions Reserve	(1,113.1)	(1,230.8)
Collection Fund Adjustment Account	0.7	1.3
Accumulated Absences Account	(1.4)	(0.7)
<b>Total Unusable Reserves</b>	<b>(1,011.0)</b>	<b>(1,126.6)</b>

### Capital Adjustment Account

The Account accumulates the write down of the historical cost of non-current assets as they are consumed by depreciation and impairments or written off on disposal. The written down historical cost is offset by the resources that have been set aside to finance capital expenditure. The Account balance will reflect the timing difference between the cost of non-current assets consumed and the capital financing set aside to pay for them.

	<b>2010/11 £m</b>	<b>2011/12 £m</b>
<b>Opening Balance at 1 April</b>	<b>101.3</b>	<b>97.3</b>
Cost of Disposed/Decommissioned Assets	(3.9)	0.0
Gains or Losses on revaluations of non-current assets	0.1	1.3
Usable receipts applied	5.9	3.1
Capital grants and contributions applied	3.2	1.4
Revenue resources applied	1.0	0.3
Write down long term debt	(0.3)	(0.2)
Asset Disposals	(4.0)	(1.6)
Depreciation/MRP	(6.0)	(6.9)
<b>Closing Balance at 31 March</b>	<b>97.3</b>	<b>94.7</b>

### Revaluation Reserve

This reserve records the accumulated gains on the non-current assets held by the Authority arising from increases in value, as a result of inflation or other factors. Whilst the gains arising from asset revaluations increase the net worth of the Authority, they would only result in an increase in spending power if the relevant assets were sold and capital receipts generated.

	<b>2010/11 £m</b>	<b>2011/12 £m</b>
<b>Opening Balance at 1 April</b>	<b>5.6</b>	<b>5.5</b>
Upward revaluation of assets	0.0	3.5
Depreciation	(0.1)	(0.1)
<b>Closing Balance at 31 March</b>	<b>5.5</b>	<b>8.9</b>

## Pension Reserve

The pension reserve is an accounting reserve that equals the total pension liability (Police Officers and Police staff).

Where the pension payments made for the year in accordance with the scheme requirements do not match the change in the Authority's recognised liability for the same period, the recognised cost of pensions will not match the amount to be raised in taxation. This is represented by an appropriation to or from the pension reserve, which equals the net change in the pension liability recognised in the Comprehensive Income and Expenditure Statement.

Actuarial gains and losses are also recognised as movements on reserve:

	Police Pension Scheme					Local Government Pension Scheme		Total	
	Combined	Old	New	Old	New	2010/11 £m	2011/12 £m	2010/11 £m	2011/12 £m
	2010/11 £m	2010/11 £m	£m	2011/12 £m	£m				
Opening Balance		(1,156.5)	(15.1)	(1,070.1)	(9.1)	(79.3)	(33.9)	(1,250.9)	(1,113.1)
Actuarial (Losses)/ Gains		29.6	0.4	(40.1)	(3.0)	29.5	(12.5)	59.5	(55.6)
Appropriation from Revenue Account to offset IAS19 composite items	(99.6)	21.9	5.6	(88.3)	(9.6)	7.8	(10.1)	35.3	(108.0)
Prior Year Adjustment	127.1 27.5								
Appropriation to Revenue Account to reconcile back to taxation requirement	162.0	34.9	0.0	38.0	0.0	8.1	7.9	43.0	45.9
Prior Year Adjustment	(127.1) 34.9								
<b>Closing Balance</b>		<b>(1,070.1)</b>	<b>(9.1)</b>	<b>(1,160.5)</b>	<b>(21.7)</b>	<b>(33.9)</b>	<b>(48.6)</b>	<b>(1,113.1)</b>	<b>(1,230.8)</b>

### Collection Fund Adjustment Account

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

	2010/11 £m	2011/12 £m
<b>Opening Balance at 1 April</b>	<b>0.4</b>	<b>0.7</b>
Amount by which Council Tax income credited to the Comprehensive Income and Expenditure Statement is different from Council Tax calculated for the year in accordance with statutory requirements	0.3	0.6
<b>Closing Balance at 31 March</b>	<b>0.7</b>	<b>1.3</b>

### Accumulated Absences Account

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

	2010/11 £m	2011/12 £m
<b>Opening Balance at 1 April</b>	<b>(1.9)</b>	<b>(1.4)</b>
Settlement or cancellation of accrual made at the end of the preceding year	1.9	1.4
Amounts accrued at the end of the current year	(1.4)	(0.7)
<b>Sub Total</b>	<b>(1.4)</b>	<b>(0.7)</b>
Amount by which officer remuneration charged to the Comprehensive Income and Expenditure Account on an accruals basis is different from remuneration chargeable in year in accordance with statutory requirements	0.0	0.0
<b>Closing Balance at 31 March</b>	<b>(1.4)</b>	<b>(0.7)</b>

## 23. Amounts Reported For Resource Allocation Decisions

### Segmental Reporting 2010/11

	Response £m	Neighbourhoods £m	Investigation £m	Tasking & Co-ordination £m	Support Services £m	Corporate £m	Other £m	Total £m
Fees, charges & other service income	(1.6)	(1.2)	(1.3)	(2.3)	(6.2)	(3.4)	(0.1)	£m (16.1)
Government grants	(0.1)	(0.4)	0.0	(0.1)	0.0	(10.6)	0.0	(11.2)
<b>Total Income</b>	<b>(1.7)</b>	<b>(1.6)</b>	<b>(1.3)</b>	<b>(2.4)</b>	<b>(6.2)</b>	<b>(14.0)</b>	<b>(0.1)</b>	<b>(27.3)</b>
Employee expenses	50.1	24.6	52.6	17.7	26.8	15.3	10.3	197.4
Other operating expenses	4.8	2.5	6.3	3.9	19.4	2.3	3.8	43.0
<b>Total operating expenses</b>	<b>54.9</b>	<b>27.1</b>	<b>58.9</b>	<b>21.6</b>	<b>46.2</b>	<b>17.6</b>	<b>14.1</b>	<b>240.4</b>
<b>Net Cost of Services</b>	<b>53.2</b>	<b>25.5</b>	<b>57.6</b>	<b>19.2</b>	<b>40.0</b>	<b>3.6</b>	<b>14.0</b>	<b>213.1</b>

#### Reconciliation to Net Cost of Services in Comprehensive Income and Expenditure Statement £000s

Cost of Services in Service Analysis	213.1
Add net expenditure of services & support services not included in main analysis	0.0
Add amounts in the CI & E Statement not included in management accounts e.g. IAS19 pension costs	(143.1)
Remove amounts reported to management not included in Comprehensive Income and Expenditure Statement e.g. pension contributions payable to the pension fund, capital financing charges	8.3

<b>Net Cost of Services in Comprehensive Income and Expenditure Statement</b>	<b>78.3</b>
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#### Reconciliation to Subjective Analysis

	Service Analysis £m	Services not in Analysis £m	Not Included in Management Accounts £m	Not included in I&E £m	Allocation of Recharges £m	Net Cost of Services £m	Corporate Amounts £m	Total £m
Fees, charges & other service income	(16.1)	0.0	(147.0)	5.1	0.0	(158.0)	(8.8)	(166.8)
Surplus or deficit on associates and joint ventures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gain on Disposal of Fixed Assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest and investment income	0.0	0.0	0.0	0.2	0.0	0.2	(0.2)	0.0
Income from council tax	0.0	0.0	0.0	0.0	0.0	0.0	(98.6)	(98.6)
Government grants and contributions	(11.2)	0.0	(11.7)	9.1	0.0	(13.8)	(116.2)	(130.0)
<b>Total Income</b>	<b>(27.3)</b>	<b>0.0</b>	<b>(158.7)</b>	<b>14.4</b>	<b>0.0</b>	<b>(171.6)</b>	<b>(223.8)</b>	<b>(395.4)</b>
Employee expenses	197.5	0.0	4.2	(1.5)	0.0	200.2	72.0	272.2
Other service expenses	42.9	0.0	0.1	(4.0)	0.0	39.0	0.0	39.0
Support Service recharges	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Depreciation, amortisation and impairment	0.0	0.0	11.3	(0.6)	0.0	10.7	0.0	10.7
Interest Payments	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Precepts & Levies	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Payments to Housing Capital Receipts Pool	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loss on Disposal of Fixed Assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total operating expenses</b>	<b>240.4</b>	<b>0.0</b>	<b>15.6</b>	<b>(6.1)</b>	<b>0.0</b>	<b>249.9</b>	<b>72.0</b>	<b>321.9</b>
<b>Surplus or deficit on the provision of services</b>	<b>213.1</b>	<b>0.0</b>	<b>(143.1)</b>	<b>8.3</b>	<b>0.0</b>	<b>78.3</b>	<b>(151.8)</b>	<b>(73.5)</b>

## Segmental Reporting 2011/12

	Response	Neighbourhoods	Investigation	Tasking & Co-ordination	Joint Command	Support Services	Corporate	Other	Total
	£m	£m	£m	£m	£m	£m	£m	£m	£m
Fees, charges & other service income	(1.5)	(0.6)	(2.1)	(2.9)	(0.5)	(6.1)	(3.1)	(0.1)	£m (16.9)
Government grants	(0.6)	0.0	(0.3)	0.0	0.0	0.0	(18.3)	0.0	(19.2)
<b>Total Income</b>	<b>(2.1)</b>	<b>(0.6)</b>	<b>(2.4)</b>	<b>(2.9)</b>	<b>(0.5)</b>	<b>(6.1)</b>	<b>(21.4)</b>	<b>(0.1)</b>	<b>(36.1)</b>
Employee expenses	47.0	26.0	50.1	18.1	6.3	25.5	21.9	7.0	201.9
Other operating expenses	4.6	1.7	6.2	3.0	2.5	20.2	3.2	3.7	45.1
<b>Total operating expenses</b>	<b>51.6</b>	<b>27.7</b>	<b>56.3</b>	<b>21.1</b>	<b>8.8</b>	<b>45.7</b>	<b>25.1</b>	<b>10.7</b>	<b>247.0</b>
<b>Net Cost of Services</b>	<b>49.5</b>	<b>27.1</b>	<b>53.9</b>	<b>18.2</b>	<b>8.3</b>	<b>39.6</b>	<b>3.7</b>	<b>10.6</b>	<b>210.9</b>

### Reconciliation to Net Cost of Services in Comprehensive Income and Expenditure Statement £000s

Cost of Services in Service Analysis	<b>210.9</b>
Add net expenditure of services & support services not included in main analysis	(3.6)
Add amounts in the CI & E Statement not included in management accounts e.g. IAS19 pension costs	
Remove amounts reported to management not included in Comprehensive Income and Expenditure Statement e.g. pension contributions payable to the pension fund, capital financing charges	10.7

<b>Net Cost of Services in Comprehensive Income and Expenditure Statement</b>	<b>218.0</b>
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### Reconciliation to Subjective Analysis

	Service Analysis	Services not in Analysis	Not Included in Management Accounts	Not included in I&E	Allocation of Recharges	Net Cost of Services	Corporate Amounts	Total
	£m	£m	£m	£m	£m	£m	£m	£m
Fees, charges & other service income	(16.9)	0.0	3.3	0.0	0.0	(13.6)	(1.3)	(14.9)
Surplus or deficit on associates and joint ventures	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Gain on Disposal of Fixed Assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest and investment income	0.0	0.0	0.0	0.2	0.0	0.2	(0.2)	0.0
Income from council tax	0.0	0.0	0.0	0.0	0.0	0.0	(99.5)	(99.5)
Government grants and contributions	(19.2)	0.0	(6.9)	11.5	0.0	(14.6)	(118.4)	(133.0)
<b>Total Income</b>	<b>(36.1)</b>	<b>0.0</b>	<b>(3.6)</b>	<b>11.7</b>	<b>0.0</b>	<b>(28.0)</b>	<b>(219.4)</b>	<b>(247.4)</b>
Employee expenses	201.8	0.0	0.0	0.0	0.0	201.8	61.7	263.5
Other service expenses	45.2	0.0	0.0	0.0	0.0	45.2	0.0	45.2
Support Service recharges	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Depreciation, amortisation and impairment	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Interest Payments	0.0	0.0	(0.5)	0.0	0.0	(0.5)	0.0	(0.5)
Precepts & Levies	0.0	0.0	(0.5)	0.0	0.0	(0.5)	0.5	0.0
Payments to Housing Capital Receipts Pool	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Loss on Disposal of Fixed Assets	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
<b>Total operating expenses</b>	<b>247.0</b>	<b>0.0</b>	<b>(1.0)</b>	<b>0.0</b>	<b>0.0</b>	<b>246.0</b>	<b>62.2</b>	<b>308.2</b>
<b>Surplus or deficit on the provision of services</b>	<b>210.9</b>	<b>0.0</b>	<b>(4.6)</b>	<b>11.7</b>	<b>0.0</b>	<b>218.0</b>	<b>(157.2)</b>	<b>60.8</b>

Comprehensive Income & Expenditure Account by Cost Type

	2010/2011 £m	2011/2012 £m
<b>EXPENDITURE</b>		
Police Pay, NI and Allowances	80.9	83.3
Police Staff Pay, NI, Superannuation & Allowances	62.4	76.7
Other Employee Expenditure	7.5	5.8
<b>Total Employee Expenditure</b>	<b>150.8</b>	<b>165.8</b>
Net Cost Police Pensions Scheme	(97.9)	21.5
Premises	8.3	9.1
Supplies and Services	26.2	25.3
Transport	4.4	4.9
Depreciation	11.0	6.0
<b>Gross Operating Expenditure</b>	<b>102.8</b>	<b>232.6</b>
<b>INCOME</b>		
Grants and Contributions	(21.0)	(11.5)
Sales	0.0	0.0
Fees and Charges	(3.4)	(2.8)
Rents	(0.1)	(0.3)
<b>Total Income</b>	<b>(24.5)</b>	<b>(14.6)</b>
<b>Net Cost of Services</b>	<b>78.3</b>	<b>218.0</b>
Gain or loss on disposal of non current assets	(0.9)	(1.3)
Levies	0.0	0.5
Home Office grant payable to the cost of retirement benefits	(9.1)	(11.5)
External Interest Payable	0.0	0.0
Interest and Investment Income	(0.2)	(0.2)
Pension interest costs and expected return on pension assets	64.1	61.7
<b>Net Operating Expenditure</b>	<b>132.2</b>	<b>267.2</b>
Capital Grants and Contributions	(2.7)	(1.6)
Police Grants	(68.0)	(70.0)
Revenue Support Grant	(4.6)	(8.4)
National Non Domestic Rates	(31.8)	(26.9)
Precept	(98.6)	(99.5)
<b>(SURPLUS) OR DEFICIT FOR THE YEAR</b>	<b>(73.5)</b>	<b>60.8</b>

## 24. Collaborations

The Force continued to work together with neighbouring forces on Air Support, Covert Operations, Technical Surveillance, Witness Protection and Serious Crime Investigation. As part of the Air Support collaboration, the participating forces committed to fund the replacement of the airframe.

During 2011/12, bilateral collaborations with Sussex Police in the areas of Firearms, Major Crime and Forensics, went live, for the purpose of achieving significant cash savings and maintaining, or wherever possible, improving levels of service and public confidence in the agreed areas.

## 25. Members' Allowances

The following amounts were paid to members of the Surrey Police Authority during the year.

	<b>As At 31 March 2011 £m</b>	<b>As At 31 March 2012 £m</b>
Salaries	0.2	0.2
Allowances	0.1	0.1
Expenses	0.0	0.0
<b>Total paid</b>	<b>0.3</b>	<b>0.3</b>

The Surrey Police Authority, under the powers conferred by the Police Act 1996 as amended by the Criminal Justice and Police Act 2001 and section 94 of the Police Reform Act 2002, adopted the following scheme of allowances.

In 2011/2012 the basic allowance remained at £10,622. Since 1 April 2010 the following positions are entitled to the rates shown below which are inclusive of the basic allowance in addition to allowances for additional responsibilities (with the exception of the Independent Standards Committee Chairman who is not eligible to claim a basic allowance):

- Chairman £25,000
- Vice Chairman £17,500
- Panel Chairmen £14,891
- Committee Chairmen £13,742
- Independent Standards Committee Chairman £3,120

## 26. Officers' Remuneration

The number of employees (including Police Officers) whose remuneration was £50,000 or more is as follows:

Amounts exclude employers' pension costs, but include all payments, taxable allowances and the monetary value of other employee benefits.

Employees included as seconded were on secondment to other agencies as at 31 March 2012. The costs of seconded employees are fully recovered.

Also included for the first time this year, are total figures for redundancy/severance payments.

Salary Band £	2010/11			2011/12		
	Number of Employees	Seconded Employee	Total	Number of Employees	Seconded Employees	Total
50,000 - 54,999	146	5	151	129	5	134
55,000 - 59,999	91	5	96	88	3	91
60,000 - 64,999	21	7	28	26	5	31
65,000 - 69,999	6	1	7	6	1	7
70,000 - 74,999	4	0	4	0	0	0
75,000 - 79,999	3	4	7	12	3	15
80,000 - 84,999	6	1	7	8	1	9
85,000 - 89,999	11	2	13	2	0	2
90,000 - 94,999	1	0	1	0	0	0
95,000 - 99,999	3	1	4	0	0	0
100,000 - 104,999	0	0	0	0	0	0
105,000 - 109,999	0	1	1	1	0	1
110,000 - 114,999	0	0	0	1	0	1
115,000 - 119,999	0	0	0	0	0	0
120,000 - 124,999	1	0	1	0	0	0
125,000 - 129,999	1	0	1	1	0	1
130,000 - 134,999	0	0	0	0	0	0
135,000 - 139,999	0	1	1	0	1	1
140,000 - 144,999	0	0	0	0	0	0
145,000 - 149,999	0	0	0	0	0	0
150,000 - 154,999	1	0	1	0	0	0
155,000 - 159,999	0	0	0	0	0	0
<b>Total</b>	<b>295</b>	<b>28</b>	<b>323</b>	<b>274</b>	<b>19</b>	<b>293</b>

**Remuneration for Senior Officers with a salary between £50,000 and £150,000 with responsibility for the management of Surrey Police were:**

Position	Position Start Date	Position End Date	2010/11	2011/12			
			Salary, Fees & Allowances	Salary, Fees & Allowances	Employers Pension Contribution	Any other emoluments	Total Remuneration
			£	£	£	£	£
Chief Constable - Mark Rowley	12/03/2009	04/12/2011	150,550	106,597	22,310	-	<b>128,907</b>
Chief Constable - Lynne Owens (1)	01/02/2012	n/a	-	24,836	5,489	-	<b>30,325</b>
Deputy Chief Constable - C Denholm	15/06/2009	n/a	122,923	128,545	28,070	7,613	<b>164,228</b>
Assistant Chief Constable (Citizen Focus)	14/06/2009	12/09/2010	48,586	-	-	-	-
Assistant Chief Constable (Special Operations)	22/09/2004	n/a	117,031	116,877	25,790	4,613	<b>147,280</b>
Assistant Chief Constable (1)	11/03/2012	n/a	-	85,020	19,306	4,359	<b>108,685</b>
Chief Superintendent - Investigations	01/04/2010	n/a	84,623	83,065	19,029	3,602	<b>105,696</b>
Chief Superintendent - Response	01/04/2010	n/a	77,442	84,503	19,872	5,622	<b>109,997</b>
Chief Superintendent - Neighbourhoods	01/04/2010	n/a	88,828	84,871	19,029	3,828	<b>107,728</b>
Chief Superintendent - Tasking & Co-ordination	01/04/2010	n/a	87,165	86,963	19,029	4,284	<b>110,276</b>
Chief Superintendent - Operational Development	01/04/2010	n/a	81,926	84,893	18,722	4,449	<b>108,064</b>
Assistant Chief Officer (Support Services)	25/01/2010	n/a	90,157	99,337	11,600	1,130	<b>112,067</b>
Head of Corporate Communications (5)	04/01/2000	25/02/2011	74,701	-	-	-	-
Head of Human Resources	01/08/2009	n/a	77,753	77,753	-	-	<b>77,753</b>
Interim Head of Finance & Services (3)	04/11/2009	31/08/2010	30,006	-	-	-	-
Head of Finance & Services (3)	01/09/2010	n/a	42,009	73,210	8,785	1,036	<b>83,031</b>
Head of ICT (1)	24/10/2011	n/a	-	31,555	3,787	-	<b>35,342</b>
Police Authority Interim Chief Executive - Alison Bolton (4)	09/11/2009	26/09/2010	47,918	-	-	-	-
Police Authority Chief Executive - Alison Bolton (4)	27/09/2010	n/a	42,421	77,000	11,396	-	<b>88,396</b>
Police Authority Treasurer	09/05/2005	n/a	46,851	44,800	5,365	-	<b>50,165</b>
			<b>1,310,892</b>	<b>1,289,826</b>	<b>237,578</b>	<b>40,536</b>	<b>1,567,940</b>

(1) New post holder for 2011/12

(2) New position for 2011/12

(3) Positions covered by same employee

(4) Positions covered by same employee

(5) Role repositioned from 2011/12

## 27. Number of exit packages agreed

The numbers and total amounts of exit packages paid to employees (including Police Officers) were as shown in the table below. Although the Code suggests that the reporting of Exit Packages should be analysed between compulsory and other redundancies, Surrey Police's systems are unable to provide such an analysis, however, this will be rectified for 2012/13 reporting:

Exit Package cost band £	2010/11	2010/11	2011/12	2011/12
	Number	Total Cost of Exit Packages	Number	Total Cost of Exit Packages
0 - 20,000	34	307,270	57	519,048
20,000 - 40,000	4	100,677	22	601,294
40,000 - 60,000	4	275,719	1	46,965
60,000 - 80,000	0	0	0	0
80,000 - 100,000	0	0	0	0
100,000 - 150,000	0	0	0	0
150,000 - 200,000	0	0	0	0
<b>Total</b>	<b>42</b>	<b>683,666</b>	<b>80</b>	<b>1,167,307</b>

## 28. External Audit Costs

External Audit Costs	As At 31 March 2011 £m	As At 31 March 2012 £m
Fees payable to the Audit Commission with regard to external audit services carried out by the appointed auditor for the year	0.102	0.086
Fees payable to the Audit Commission in respect of statutory inspections	0.000	0.000
Fees payable in respect of other services provided by the Audit Commission during the year	0.000	0.000
<b>Total</b>	<b>0.102</b>	<b>0.086</b>

## 29. Grant Income

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

	2010/2011 £m	2011/2012 £m
<b>Income credited to Policing Services</b>		
Police Community Support Officers	4.5	4.5
Crime Fighting Fund	4.1	0.0
Counter Terrorism	1.3	1.1
Regional Allowance	0.9	0.0
Special Priority Payments	0.6	0.0
DNA	0.4	0.0
BCU Fund	0.4	0.0
IPLDP Training	0.3	0.0
Proceeds of Crime Act	0.3	0.3
LPSA	0.1	0.0
Council Tax Freeze	0.0	2.5
Olympics	0.1	0.3
Sexual Assault Referral Centre	0.0	0.1
Other Smaller Grants	0.0	0.3
<b>Total credited to policing services</b>	<b>12.9</b>	<b>9.1</b>
<b>Other Operating Expenditure</b>		
Home Office grant payable to the cost of retirement benefits	9.1	11.5
<b>Total credited to other operating expenditure</b>	<b>9.1</b>	<b>11.5</b>
<b>Taxation and Non Specific Income</b>		
Capital Grants and Contributions	2.7	1.6
Revenue Support Grant	4.6	8.3
Precept Income	98.6	99.5
NNDR	31.8	26.9
Police Grant	68.0	70.0
<b>Total credited to taxation and non specific income</b>	<b>205.7</b>	<b>206.3</b>

### Police Community Support Officers

A Home Office grant towards the cost of Police Community Support Officers who provide a visible presence in the community with powers sufficient to deal with minor issues.

### Counter Terrorism

A Home Office grant to cover the costs of specific counter terrorist and royalty protection posts.

### Proceeds of Crime Act

A Home Office allocation of pooled resources generated from assets forfeited under the Proceeds of Crime Act.

### Olympics

A Home Office grant to reimburse forces awarded primary force status for expenditure incurred in planning for, and delivering, policing for the London 2012 Olympics.

### Multi Agency Risk Assessment Conference

A Home Office Grant for employment of Coordinators to help handle high risk domestic abuse cases.

#### Sexual Assault Referral Centre

A Home Office Grant to fund the provision of centres to increase support for victims of sexual assault and their respective families.

#### Council Tax Freeze

Government funding to compensate for reduced Council Tax Revenue.

#### Home Office grant payable to the cost of retirement benefits

A Home Office grant to cover the projected shortfall on the cost of police pensions under the new pensions financing arrangements which came into effect on 1<sup>st</sup> April 2006.

### **30. Related Parties**

During the 2011/12 year, transactions with related parties, not disclosed elsewhere within the Statement of Accounts were as follows:-

#### Surrey County Council Pension Fund

Employer's pension contributions paid by the Authority to the Surrey County Council Pension Fund totalled £7.8m during 2011/2012 (£8.1m in 2010/11).

#### Surrey Police Authority Members

No members of the Police Authority or members of their immediate family or household declared any positions of influence

#### Surrey Police Senior Officers

Five Senior Officers (ACPO ranks, Superintendents, Directors of Departments and Senior Managers) within Surrey Police or members of their immediate family or household made the following related party declarations:

1. Wife (an employee of Surrey Police but currently on career break) is providing administrative support to DB Associates Ltd
2. Wife is a PA at Kilmartin Property Group Ltd
3. DAAT Partnership Manager – working on behalf of Surrey Police
4. Director of 'Keep Out' – the Crime Diversion Scheme
5. Mother is the Product Manager within Education sector at Capita – her product is software for school admissions.

Central government has some control as it is responsible for providing the statutory framework and provides the majority of the funding. The value of grants received is shown in the Income and Expenditure Account and further details of specific additional grants received are given in note 28.

No unusual financial transactions occurred between any of the above and Surrey Police in 2011/12.

### **31. Capital Expenditure and Capital Financing**

This table shows details of expenditure on capital items as defined within the Accounting Policies, together with the resources that have been used to finance it. Capital expenditure increases the asset worth of the Authority, as shown in the Balance Sheet and associated Property, Plant and Equipment (note 11).

In addition, capital expenditure is also incurred on rental payments due under the finance leases which reduces the long term liability of the Authority as shown in note 32 (Leases).

Where capital expenditure is to be financed in future years by charges to revenue as assets are used by the Authority, this results in an increase in the Capital Financing Requirement, a measure of capital expenditure incurred historically by the Authority that has yet to be financed.

	<b>2010/11 £m</b>	<b>2011/12 £m</b>
<b>Opening Capital Financing Requirement</b>	8.8	9.3
<b>Capital Investment</b>		
Property - Land and Buildings	0.6	2.5
Vehicles, Plant & Equipment	6.4	5.0
Intangible assets	3.3	2.7
<b>Sources of Finance</b>		
Capital Receipts	(5.9)	(3.1)
Government Grants & other contributions	(3.4)	(1.4)
Direct Revenue contributions	(0.5)	(0.3)
<b>Closing Capital Financing Requirement</b>	<b>9.3</b>	<b>14.7</b>
<b>Explanation of movements in year</b>		
Increase in underlying need to borrow (unsupported by government financial assistance)	0.5	5.4
<b>Increase/(decrease) in Capital Financing Requirement</b>	<b>0.5</b>	<b>5.4</b>

## Capital Commitments

### Outstanding Contracts & Commitments

Surrey Police had a contractual obligation relating to the development and implementation of Enterprise (CIS Development) totalling £0.5m at 31<sup>st</sup> March.

## 32. Leases

As at the 31<sup>st</sup> March 2012, the Authority had the following future obligations in respect of operating leases:

### Vehicles, Plant, Furniture and Equipment

The Authority leases photocopiers and pagers under the terms of an operating lease. The amounts paid under these arrangements in 2011/12 was £0.06m (2010/11 £0.1m).

### Land and Buildings

The Authority entered into 9 new operating leases for land and buildings during 2011/12. For these and existing arrangements held under operating leases during 2011/12 rental payments were £0.7m (10/11 £0.6m).

### Commitments Under Operating Leases

The Authority was committed at 31<sup>st</sup> March 2012 to making payments of £0.9m under operating leases in 2012/13 comprising the following elements:

	<b>Leases expiring in 2012/13</b>	<b>Leases expiring between 2013/14 to 2016/17</b>	<b>Leases expiring from 2017/18 Onwards</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
Land and Buildings	0.9	3.8	6.2
Vehicles, Plant and Equipment	0.0	0.0	0.0
<b>Total</b>	<b>0.9</b>	<b>3.8</b>	<b>6.2</b>

### Long Term Liabilities

#### Finance Leases

**Equipment** - The Authority had 2 leases for ICT equipment (Equipment Lease 1 and Equipment lease 2) under finance lease arrangements during 2011/12, ending in November 2011. The rentals payable under these and existing arrangements was £0.09m during 2011/12, of which finance costs of £0.006m were charged to the Comprehensive Income and Expenditure Statement as interest payable.

**Land and Buildings** – Non-current assets stated in the Balance Sheet include operational assets acquired under a finance lease as follows:

	<b>31 March 2011</b>	<b>31 March 2012</b>
	<b>NBV</b>	<b>NBV</b>
Other Land & Buildings	1.6	1.5
Vehicles, Plant & Equipment	0.7	0.3
<b>Total</b>	<b>2.3</b>	<b>1.8</b>

As at 31<sup>st</sup> March 2012, the Authority was committed to making the following payments in respect of finance leases in the following years:

	<b>Obligations payable in 2012/13</b>	<b>Obligations payable between 2013/14 to 2016/17</b>	<b>Obligations payable from 2017/18 Onwards</b>	<b>Obligations payable for all years</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Land and Buildings	1.8	0.0	0.0	1.8
Vehicles, Plant and Equipment	0.0	0.0	0.0	0.0
<b>Total</b>	<b>1.8</b>	<b>0.0</b>	<b>0.0</b>	<b>1.8</b>

### **33. Private Finance Initiatives and Similar Contracts**

The Authority has no assets recognised under a PFI arrangement and therefore has no outstanding contractual commitment with external organisations.

Airwave is a national PFI scheme for a replacement radio communication system. The Authority has contracted with an external telecommunications provider to develop the necessary infrastructure, in return for an annual rental payable over a 15-year contract period. The contract, signed in 2000, is based on a framework or core agreement, which has been drafted following negotiations between PITO (Home Office Police and Information Technology Organisation), police authorities in Great Britain and a consortium of external telecommunications providers.

### **34. Contingent Liabilities**

Although the accounts include (through the establishment of provisions and creditors) known liabilities faced by the Police Authority at 31<sup>st</sup> March 2012, they exclude potential costs where the liability is not yet established and the amounts are uncertain. There were no contingent liabilities identified for 2011/12.

### **35. Contingent Assets**

There were no contingent assets identified for 2011/12.

### **36. Defined Benefit Pension Schemes**

#### **Pension Arrangements**

As part of the terms and conditions of employment of its officers and other employees, the Police Authority offers retirement benefits. Although these benefits will not actually be payable until employees retire, the Authority has a commitment to make the payments that need to be disclosed at the time that employees earn their future entitlement.

The Authority participates in two pension schemes:

- The Local Government Pension Scheme (LGPS) for police staff employees, administered locally by Surrey County Council – this is a funded defined benefit final salary scheme, meaning that the Authority and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets.
- The Police Pension Scheme for police officers – this is an unfunded defined benefit final salary scheme, the funding arrangements of which are contained in the Police Pension Fund Regulations 2007 (SI 2007/1932). The Authority and employees pay contributions into the fund during the year, but there are no investment assets built up to meet the pension liabilities and payments as they fall due. The regulations require that if the pension fund does not have enough funds to meet the cost of pensions in any year, the amount required to meet the deficit must be transferred from the Police Authority to the pension fund. Subject to Parliamentary scrutiny and approval, up to 100% of this amount is then recouped by the Police Authority in the form of a top-up grant paid by central Government. Conversely, if the police pension fund is in surplus for the year, the surplus is required to be transferred from the pension fund to the Police Authority, which in turn is required to pay the amount to central Government.

### 36.1 Transactions relating to Retirement Benefits

The costs of retirement benefits are recognised in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge we are required to make against Council Tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out in the Statement of Movement in the General Fund Balance. The following transactions have been made in the Comprehensive Income and Expenditure Statement and the Movement in Reserves Statement during the year.

	Police Pension Scheme				Local Government Pension Scheme		Total	
	Old	New	Old	New				
	2010/11	2011/12	2010/11	2011/12	2010/11	2011/12	2010/11	2011/12
	£m	£m	£m	£m	£m	£m	£m	£m
<b>Income and Expenditure Account</b>								
<b>Net Cost of Services:</b>								
Current Service Cost	30.9	6.3	28.2	7.9	10.1	9.2	47.3	45.3
Past Service Cost	(125.3)	(1.8)	0.1	0.3	(19.9)	0.0	(147.0)	0.4
Curtailment and Settlements	0.0	0.0	0.0	0.0	0.3	0.6	0.3	0.6
<b>Net Operating Expenditure:</b>								
Interest Cost	61.4	1.0	60.0	1.5	9.7	8.7	72.1	70.2
Expected return on assets in the scheme	0.0	0.0	0.0	0.0	(8.0)	(8.5)	(8.0)	(8.5)
<b>Net charge to the Income and Expenditure Account</b>	<b>(33.0)</b>	<b>5.5</b>	<b>88.3</b>	<b>9.7</b>	<b>(7.8)</b>	<b>10.1</b>	<b>(35.3)</b>	<b>108.0</b>
<b>Statement of Movement on the General Fund Balance</b>								
Reversal of net charges made for retirement benefits in accordance with IAS19	21.9	5.6	(88.3)	(9.7)	7.8	(10.1)	35.3	(108.0)
<b>Actual amount charged against the General Fund Balance for pensions in the year:</b>								
Employers' contributions payable to scheme	0.0	0.0	0.0	0.0	8.1	7.9	8.1	7.9
Retirement benefits payable to pensioners	34.9	0.0	38.1	0.0	0.0	0.0	34.9	38.1

### 36.2 Assets and liabilities in relation to retirement benefits

Reconciliation of present value of the scheme liabilities:

	Unfunded Liabilities: Police Pension Scheme				Funded Liabilities: Local Government Pension Scheme		Total	
	Old 2010/11 £m	New 2011/12 £m	Old 2011/12 £m	New 2011/12 £m	2010/11 £m	2011/12 £m	2010/11 £m	2011/12 £m
1st April balance b/fwd	(1,156.5)	(15.1)	(1,059.0)	(20.2)	(185.9)	(153.8)	(1,357.5)	(1,233.0)
Current service cost	(30.9)	(6.3)	(28.2)	(7.9)	(10.1)	(9.2)	(47.3)	(45.3)
Interest cost	(61.4)	(1.0)	(60.0)	(1.5)	(9.7)	(8.7)	(72.1)	(70.2)
Contributions by scheme participants	0.0	0.0	0.0	0.0	(3.7)	(3.5)	(3.7)	(3.5)
Actuarial (losses) / gains	29.6	0.4	(40.1)	(3.0)	32.6	(6.3)	62.6	(49.4)
Estimated Unfunded benefits paid	0.0	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Estimated Benefits paid	34.9	0.0	38.1	0.0	3.4	3.5	38.3	41.6
Past service costs	125.3	1.8	(0.1)	(0.3)	19.9	0.0	147.0	(0.4)
Curtailment and settlements	0.0	0.0	0.0	0.0	(0.3)	(0.6)	(0.3)	(0.6)
<b>31st March balance c/f</b>	<b>(1,059.0)</b>	<b>(20.2)</b>	<b>(1,149.3)</b>	<b>(32.9)</b>	<b>(153.8)</b>	<b>(178.6)</b>	<b>(1,233.0)</b>	<b>(1,360.8)</b>

Reconciliation of fair value of the scheme assets:

	Local Government Pension Scheme	
	2010/11 £m	2011/12 £m
1st April balance b/fwd	106.6	119.9
Expected return on assets	8.0	8.5
Actuarial gains / (losses)	(3.1)	(6.3)
Employer contributions	8.1	7.8
Contributions in respect of Unfunded Benefits	0.0	0.0
Contributions by scheme participants	3.7	3.5
Unfunded benefits paid	0.0	0.0
Benefits paid	(3.4)	(3.4)
<b>31st March balance c/fwd</b>	<b>119.9</b>	<b>130.0</b>

The expected return on scheme assets is determined by considering the expected returns available on the assets underlying the current investment policy. Expected yields on fixed interest investments are based on gross redemption yields as at the Balance Sheet date. Expected returns on equity investments reflect long-term real rates of return experienced in the respective markets. The actual return on scheme assets in the year was £2.3m, (2010/11 £9.9m).

Scheme history:

	2007/08 £m	2008/09 £m	2009/10 £m	2010/11 £m	2011/12 £m
Present value of liabilities:					
Local Government Pension Scheme	(94.5)	(97.2)	(185.9)	(153.8)	(178.6)
Police Pension Scheme:					
Old Scheme	(806.4)	(776.4)	(1,156.5)	(1,059.0)	(1,149.3)
New Scheme	(2.9)	(4.8)	(15.1)	(20.2)	(32.9)
Fair value of assets:					
Local Government Pension Scheme	78.8	67.2	106.6	119.9	130.0
Surplus / (deficit) in the scheme:					
Local Government Pension Scheme	(15.7)	(30.0)	(79.3)	(33.9)	(48.6)
Police Pension Scheme:					
Old Scheme	(806.4)	(776.4)	(1,156.5)	(1,059.0)	(1,149.3)
New Scheme	(2.9)	(4.8)	(15.1)	(20.2)	(32.9)
<b>Total</b>	<b>(825.0)</b>	<b>(811.2)</b>	<b>(1,250.9)</b>	<b>(1,113.1)</b>	<b>(1,230.8)</b>

The liabilities show the underlying commitments that the Authority has in the long run to pay retirement benefits. The total liability of £1,230.8m has a substantial impact on the net worth of the Authority as recorded in the Balance Sheet, resulting in a negative overall balance of £1,110.8m. However, statutory arrangements for funding the deficit mean that the financial position of the Authority remains healthy.

The deficit on the Local Government Pension Scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the Scheme actuary.

Finance is only required to be raised to cover police pensions when the pensions are actually paid and is restricted to the level of employers' contribution payable by the Authority.

### **36.3. Expected Future Contributions**

The total contributions expected to be made to the Local Government Pension Scheme by the Police Authority in the year to 31 March 2013 are £7.4m. Expected contributions for the Police Pension Scheme in the year to 31 March 2013 are £16.2m.

### **36.4. 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 assumptions about mortality rates, salary levels etc. The Police Pension Scheme is governed by the Police Pensions Regulations 1987 and related regulations. An actuarial valuation has not been carried out as at 31 March 2012. Surrey Police Authority has applied the pension disclosures from Government Actuary's Department (GAD) model in accordance with the requirements of CIPFA's Code of Practice for accounting periods commencing on or after 1 April 2010. The accuracy of the outcome can only be assessed against the results of a full actuarial valuation as at 31 March 2012, and may be materially different from those results.

The principal actuarial assumptions used have been:

	Local Government Pension Scheme		Police Pension Scheme	
	2010/11	2011/12	2010/11	2011/12
Long-term expected rate of return on assets in the scheme:				
Equity Investments	7.5%	6.3%	-	-
Bonds	4.9%	3.9%	-	-
Property	5.5%	4.4%	-	-
Cash	4.6%	3.5%	-	-
Rate of inflation	2.8%	2.5%	3.0%	2.5%
Rate of increase in salaries	5.1%	4.8%	5.3%	4.7%
Rate of increase in pensions	2.8%	2.5%	2.6%	2.5%
Rate for discounting scheme liabilities	5.5%	4.8%	5.7%	4.9%
Mortality assumptions:				
Longevity at 65 for current pensioners:				
Men	21.9 years		23.3 years	
Women	24.0 years		25.7 years	
Longevity at 65 for future pensioners:				
Men	23.9 years		25.6 years	
Women	25.9 years		27.8 years	

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

	Asset Distribution	Asset Distribution
	31 March 2011	31 March 2012
	%	%
Equity investments	76%	73%
Bonds	16%	18%
Property	5%	6%
Other	3%	3%
<b>Total</b>	<b>100%</b>	<b>100%</b>

Changes to the Local Government Pension Scheme permit employees retiring on or after 6 April 2006 to take an increase in their lump sum payment on retirement in exchange for a reduction in their future annual pension. The valuation of the Authority's retirement benefit liabilities as at 31 March 2012 includes an allowance for this change to the pension scheme. An allowance has also been made for life expectancy improvements.

Further information can be found in Surrey County Council's Pension Fund's Annual Report which is available on request from County Hall, Kingston Upon Thames, Surrey KT1 2DN.

### 36.5. History of experience Gains and Losses

The actuarial gains identified as movements on the Pensions reserve can be analysed into the following categories, measured as absolute amounts and as percentages of assets or liabilities as at 31<sup>st</sup> March each year:

	2007/08		2008/09		2009/10		2010/11		2011/12	
	£m	%	£m	%	£m	%	£m	%	£m	%
<b>Local Government Pension Scheme:</b>										
Difference between the expected and actual return on assets	(8.1)	(10.2)	(25.4)	(37.8)	25.5	24.0	1.9	1.6	(6.3)	(4.8)
Experience gains / (losses) on liabilities	4.4	(4.7)	0.0	0.0	0.0	0.0	(7.9)	5.1	(1.4)	(0.8)
<b>Police Pension Scheme:</b>										
Experience gains / (losses) on liabilities	9.4	(1.2)	1.1	(0.1)	20.5	(1.8)	20.8	(1.9)	(10.8)	(0.9)

### 36.6. Financing of Police Pensions

The service cost of employees is reflected in the Comprehensive Income & Expenditure Account, and the liabilities are shown in the Balance Sheet. The in-year cost of police pensions is financed with the contributions from police officers (old scheme 11% and new scheme 9.5%) and also a contribution from the employer at 24.2% of salary and operated through a pensions account. If there is a deficit on the Police Pensions Fund Account this is met by a transfer from the Income and Expenditure Account funded by the Home Office. Conversely, if there is a surplus this would be transferred to the Income and Expenditure Account for repayment to the Home Office.

The Pension Fund Account, shown below, shows a deficit of £11.5m, offset by a transfer from the Income and Expenditure Account, funded by a grant from the Home Office. The Fund's Financial Statements do not take account of liabilities to pay pensions and other benefits after the period end.

## SURREY POLICE PENSION FUND ACCOUNT

FUND ACCOUNT	2010/2011 £m	2011/2012 £m
<b>Contributions receivable</b>		
from employer		
normal	(15.9)	(16.3)
early retirements	(0.2)	(0.9)
other	0.0	0.0
from members	(7.0)	(7.1)
<b>Transfers in</b>		
individual transfers in from other schemes	(0.3)	(0.3)
other	0.0	0.0
<b>Benefits payable</b>		
pensions	24.8	26.8
commutations and lump sum retirement benefits	7.5	8.3
lump sum death benefits	0.1	0.0
lump sum ill-health benefits	0.0	0.0
<b>Payments to and on account of leavers</b>		
refund of contributions	0.0	0.0
individual transfers out to other schemes	0.1	1.0
other	0.0	0.0
<b>Sub-total for the year before transfer from the police authority of amount equal to the deficit</b>	<b>9.1</b>	<b>11.5</b>
<b>Additional funding payable by the police authority to fund the deficit for the year</b>	(9.1)	(11.5)
<b>Total</b>	<b>0.0</b>	<b>0.0</b>

  

NET ASSETS STATEMENT	2010/2011 £m	2011/2012 £m
<b>Net current assets and liabilities</b>		
contributions due from employer	0.0	0.0
unpaid pension benefits	0.0	0.0
amount due to sponsoring department	0.0	0.0
other current assets and liabilities	0.0	0.0
<b>Net assets and liabilities</b>	<b>0.0</b>	<b>0.0</b>

### 37. Official Funds

Surrey Police Authority operates an official fund called the Welfare Fund with non charitable status that operates two accounts; one of which does not form part of the main Authority accounts. The savings account is included in the cash balances and creditors.

Receipts to the Fund are as a result of donations. Payments from the Fund are made to police widows and charities. Grants and loans are also made to officers and police staff of

the Force where the cause is appropriate. The Authority's internal audit provider carries out the audit of this fund account.

## **GLOSSARY OF ACCOUNTING TERMS**

### **ACCRUALS**

Expenditure or income for goods or services that have been received or supplied, but are not invoiced until the following financial year.

### **ACTUARIAL GAINS AND LOSSES**

For a defined benefit pension scheme, the changes in actuarial deficits or surpluses that arise because, either events have not coincided with the actuarial assumptions made for the last valuation (experience gains and losses), or the actuarial assumptions have changed.

### **AMORTISATION**

An annual charge to the overall Authority budget, reducing the value of an asset to zero, over a period of time.

### **CAPITAL EXPENDITURE**

Expenditure on the acquisition of a non-current asset or expenditure which adds to, and not merely maintains, the value of an existing non-current asset.

### **CAPITAL PROGRAMME**

A statement of proposed capital projects for current and future years.

### **CAPITAL RECEIPTS**

Proceeds of not less than £10,000 from the disposal of buildings or other assets. They cannot be used to finance normal day to day revenue spending.

### **COMPREHENSIVE INCOME AND EXPENDITURE STATEMENT**

The main revenue fund of the Authority into which the precept, government grants and other income are paid, and from which the costs of providing services are met.

### **CREDITORS**

Individuals or organisations to which the Authority owes money at the end of the financial year.

### **CURRENT SERVICE COST (PENSIONS)**

The increase in the present value of a defined benefit scheme's liabilities expected to arise from employee service in the current period.

### **CURTAILMENT (PENSIONS)**

For a defined benefit scheme, an event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service. Curtailments include:-

- Termination of employees' services earlier than expected, and
- Termination of or amendment to the terms, of a defined benefit scheme so that some or all future service by current employees will no longer qualify for benefits or will qualify only for reduced benefits.

### **DEBTORS**

Individuals or organisations who owe the Authority money at the end of the financial year.

### **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.

**DEFINED CONTRIBUTION SCHEME**

A pension or other retirement benefit scheme into which an employer pays regular contributions fixed as an amount or as a percentage of pay and will have no legal or constructive obligation to pay further contributions if the scheme does not have sufficient assets to pay all employee benefits relating to employee service in the current and prior periods.

**DEPRECIATION**

The measure of the cost, or revalued amount of the benefit, of a non-current asset, that has been consumed during the period. Consumption includes the wearing out, using up or other reduction in the useful life of a non-current asset, whether arising from the use, passage of time or obsolescence through either changes in technology or demand for the goods and services produced by the asset.

**EXPECTED RATE OF RETURN ON PENSION ASSETS**

For a funded defined benefit scheme, the average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets held by the scheme.

**FAIR VALUE**

The fair value of an asset is the price at which it could be exchanged in an arm's length transaction less, where applicable, any grants receivable towards the purchase or use of the asset. For land and buildings, fair value is the amount that would be paid for the asset in its existing use.

**FINANCE LEASE**

A finance lease is one that transfers substantially all of the risks and rewards of ownership of a non-current asset to a lessee.

**NON-CURRENT ASSETS**

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

**GENERAL FUND BALANCES**

Accumulated surpluses which are maintained to meet expenditure, pending the receipt of income, and to provide a cushion against expenditure being higher, or income lower, than expected.

**GOING CONCERN**

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

**GOVERNMENT GRANTS**

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

**IMPAIRMENT**

A reduction in the value of a non-current asset below its carrying amount on the Balance Sheet due to a significant decline in its market value during the period, evidence of obsolescence or significant physical damage to the non-current asset or a significant adverse change in the statutory or regulatory environment in which the Authority operates.

**INTANGIBLE ASSETS**

Intangible assets occur when capital expenditure does not result in the acquisition of a non-current asset, for example software licenses and training for development purposes etc.

**INTEREST COSTS (PENSIONS)**

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

**INVESTMENTS (PENSION FUND)**

The investments of the pensions fund will be accounted for in the statement of that fund. However, authorities are also required to disclose, as part of the disclosures relating to retirement benefits, the attributable share of pension scheme assets associated with their underlying obligations.

**LIQUID RESOURCES**

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

**MINIMUM REVENUE PROVISION (MRP)**

The statutory minimum amount which the Authority is required to set aside on an annual basis, as a provision to redeem debt.

**NET BOOK VALUE**

The amount at which non-current assets are included in the Balance Sheet, i.e. their historic 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).

**OPERATING LEASE**

A lease other than a finance lease.

**PAST SERVICE COSTS**

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

**POLICE GRANT**

A specific grant paid to the Authority by the Home Office to support its revenue expenditure. It is a fixed sum calculated by the Government on an assumed needs basis.

**PRECEPT**

An amount determined by the Police Authority (the preceptor) which is collected on its behalf by the local District Councils (the billing authorities) as part of the Council Tax.

**PROJECTED UNIT METHOD**

An accrued benefits valuation method in which the scheme liabilities make allowance for 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 member in service on the valuation date.

**PROVISION**

An amount set aside to provide for a liability which is likely to be incurred but the exact amount and the date on which it will arise is uncertain.

**RELATED PARTIES**

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

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

**RELATED PARTY TRANSACTION**

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

**RESIDUAL VALUE**

The net realisable value of an asset at the end of its useful life. Residual values are based on prices prevailing at the date of acquisition (or revaluation) of the asset and do not take account of expected future price changes.

**REVENUE SUPPORT GRANT**

Central Government grant supporting the cost of public services.

**SCHEME LIABILITIES**

The liabilities of a defined benefit scheme for outgoings due after the valuation date. Scheme liabilities measured using the projected unit method reflects the benefits that the employer is committed to provide for service up to the valuation date.

**SETTLEMENT (PENSIONS)**

An irrevocable action that relieves the employer (or the defined benefit scheme) of the primary responsibility for a pension obligation and eliminates significant risks relating to the obligation and the assets used to effect the settlement. Settlements include:-

- a lump sum cash payment to scheme members in exchange for their rights to receive specified pension benefits
- the purchase of an irrevocable annuity contract sufficient to cover vested benefits, and
- the transfer of scheme assets and liabilities relating to a group of employees leaving the scheme.

**WORK IN PROGRESS**

The cost of work done on an incomplete project as at the end of the year.