

# Statement of Accounts 2008-2009



Devon & Cornwall  
Police Authority

# Devon and Cornwall Police Authority

## Statement of Accounts 2008/09

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## ***FOREWORD TO THE ACCOUNTS by JOHN GLASBY, TREASURER***

### Introduction

The Statement of Accounts sets out the overall financial position of the Devon & Cornwall Police Authority for the year ending 31 March 2009. The accounts are prepared in accordance with relevant accounting recommended practice. This foreword provides a brief explanation and overview of the financial performance of the Authority and highlights any significant features. For 2008/09 there have been some changes to the recommended practice; the main impact is on the valuation of pension fund assets. Further details are provided in the Statement of Accounting Policies on pages 28-34.

### The Accounting Statements

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

- Statement of Accounting Policies
- Annual Governance Statement and supporting Annual Assurance Statement
- Income and Expenditure Account
- Statement of the Movement on the General Fund Balance – provides a reconciliation between the Income and Expenditure Account and the movement on the General Fund Balance
- Statement of Total Recognised Gains and Losses – brings together all the gains and losses of the Authority for the year and shows the aggregate increase in net worth
- Balance Sheet as at 31 March 2009 – gives a snapshot of the Authority's assets and liabilities as at 31 March 2009
- Cash Flow Statement – shows the main inflow and outflow of cash during the year.

To assist the reader, notes give further information on some of the more complex or technical items in the accounts and provides supplementary information.

### Revenue Income and Expenditure

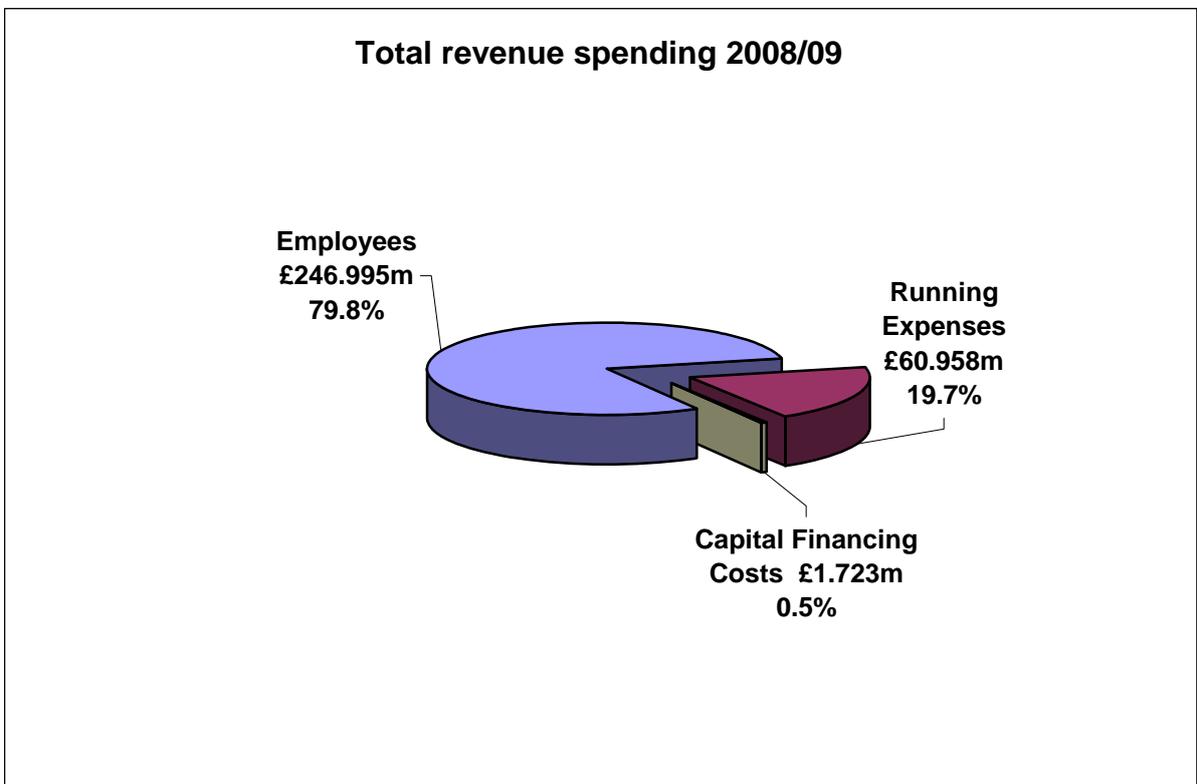
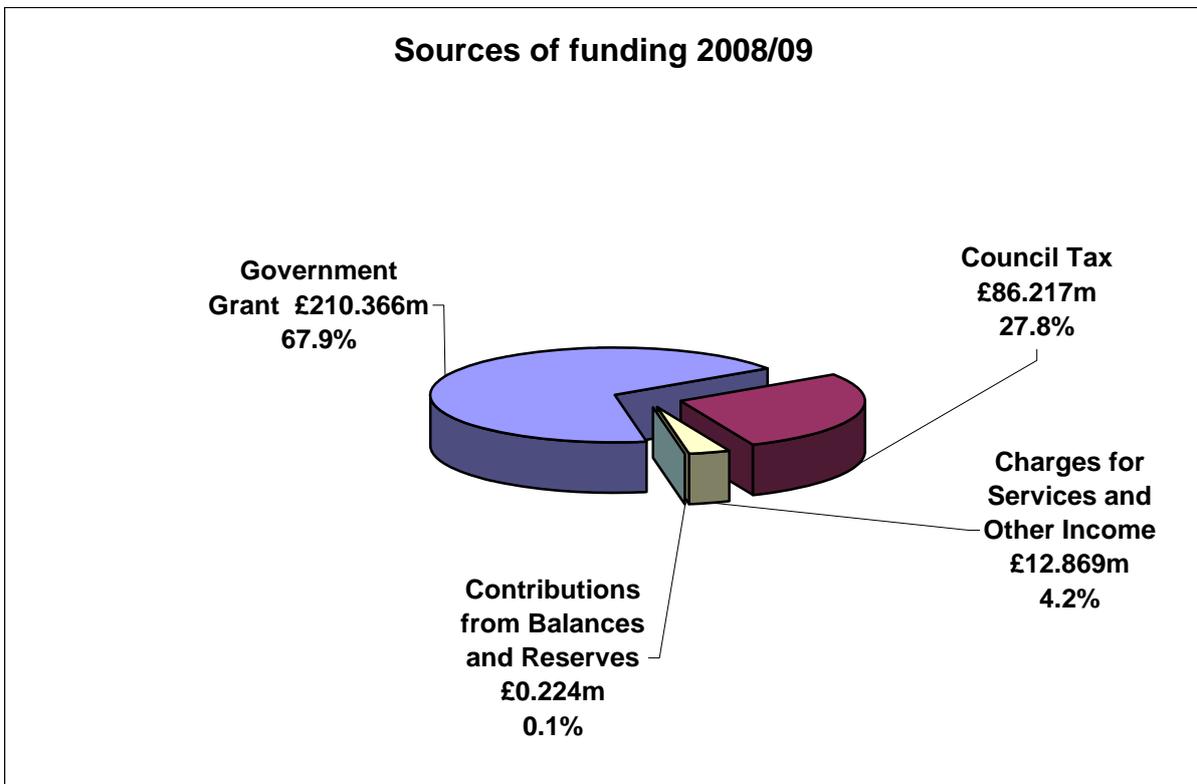
The Police Authority set a revenue budget for 2008/09 of £268.085m. Most of this came from central government funds. The 2008/09 council tax charge for a standard band D property was £142.19, the lowest in the South West region and well below the national average.

2008/09 was the first year of a three-year plan to improve performance and meet public demand for more visible policing. A key element of the plan was the transfer of 200 police officers to front-line duties. By 31 March 2009 the number of front-line officers had increased by 173. The remaining 27 are now in place. Significant efficiency savings were made on police staff costs and in other areas to support the transfer.

Spending for 2008/09 was £0.120m below the approved estimate. Given the raft of changes necessary to implement the three-year plan – particularly the loss of 147 Police Staff posts - this is a remarkable achievement. This balance has been transferred to the Revenue Smoothing Reserve to help future years. This means that there is no movement on the General Fund Balance in 2008/09.

The Income and Expenditure Account shows the Authority's financial performance for the year according to accounting practice. This statement shows a theoretical deficit of £99.540m. However, there are certain elements (largely future pension costs) included within this figure which do not impact on the council tax.

The diagrams show in percentage terms, where the Authority's money came from and how it was spent. Page 39 of the accounts gives a detailed breakdown of expenditure and income.



The diagrams show the total income and expenditure of £309.676m, including specific grants and charges for services. When these are excluded, the Police Authority's budget requirement for 2008/09 was £268.085m of which 32% was raised from council tax.

### Capital Expenditure and Financing

As well as day to day expenditure on running costs, Police Authority money is spent on assets such as buildings, vehicles, communications equipment and information technology. During 2008/09 capital spending was £9.953m. The tables below show how the money was spent and where it came from.

Capital Spending	2008/09	
	<u>£000</u>	%
Computers and other ICT	1,159	12
Vehicles	1,871	19
Helicopter Replacement	545	5
Airwave communications equipment	163	2
Bodmin Operational Policing Hub	5,603	56
Other Building Schemes	612	6
	<u>9,953</u>	<u>100</u>

Capital Financing	2008/09	
	<u>£000</u>	%
Capital Grants	1,830	18
External Contributions	123	1
Capital Receipts	80	1
Contribution from Earmarked Reserves	1,828	19
Minimum Revenue Provision	791	8
Borrowing – External	4,500	45
Borrowing – Internal	801	8
	<u>9,953</u>	<u>100</u>

### The Balance Sheet

Land and buildings are the highest value assets on the Police Authority Balance Sheet. These are revalued once every five years and the next valuation is due in 2009/10. As a result of the economic downturn, the Authority has undertaken a review of the value of its property assets. This has established that, while the value of some assets has fallen in the last two years, the overall value of the assets has not changed materially since the last valuation as at 31 March 2005. For this reason no adjustments have been made to the valuation of assets to reflect the recent downward movement in prices.

The Police Authority's Treasury Management Strategy places greater emphasis on security than on yield and there has been no loss of financial assets during the year. In addition, interest earned during the year has exceeded market averages.

On 31 March 2009, long-term borrowing including accruals for interest due was £24.637m.

The Authority has total revenue balances and reserves of £28.4m. Within this total, earmarked reserves are £22.1m and General Balances are £6.3m. These reserves and balances provide the Authority with some flexibility to deal with budgetary and economic uncertainty. However, earmarked reserves are planned to decline by £13m over the period April 2009 to March 2011.

Contingent liabilities and assets are set out in note 26 and note 27.

The Police Authority will be required to change its basis of accounting for some items with the introduction of International Financial Reporting Standards in 2010/11. This may have an impact on the Police Authority's funds and reserves.

### Pensions Liabilities/ Assets

Valuation of pension funds, shown under "long term liabilities", is a complex national problem. Generally accepted accounting practice (FRS 17) requires the full cost of providing future retirement benefits to be shown in current balance sheets. Specialist actuaries estimate these costs for both the police officer and police staff schemes. However, the liabilities shown in the balance sheet should not impact upon the ability of the Police Authority to provide services in the short to medium-term.

### Cash Flow

There was a small decrease in the overall cash at bank and investments during the year reflecting the movements in the Authority's Balance Sheet. New external borrowing for the year was £4.5m, which was less than originally planned. This was because capital expenditure was less than originally forecast and long-term interest rates were not favourable to new borrowing.

### Performance

In 2008/09, Devon and Cornwall was the second highest performing police force in the UK in terms of local confidence, as measured by the British Crime Survey.

Working together, the Police Authority and the Force set a number of ambitious performance targets for 2008/09. The achievement against key targets is set out below:

	Target	Achieved
Number of victims who are satisfied with the ease of contacting someone who could assist	94%	94%
Number of victims who are satisfied with the overall service provided by the police	86%	84%
Number of uniformed officers' time spent on visible policing activity	65%	65%
Number of people who agree that 'the local police are dealing with antisocial behaviour and crime that matters in this area'	40%	80%

In addition, there was a 7% drop in all recorded crime, with an overall sanction detection rate of 30% (achieving the Force target).

Comprehensive information on performance against targets is provided in the Annual Report.

The Authority and the Force are looking to achieve further increases in performance in 2009/10 and future years.

### Efficiency

The Police Authority has set a plan to achieve £25m in efficiency savings over the three-year period 1 April 2008 to 31 March 2011. The original target for 2008/09 was £8.3m and this was exceeded by £1.7m. The Force has recently undertaken a Quest review with the objective of improving operational processes. This review will make a major contribution to increasing efficiency and achieving the planned savings.

During 2008/09, the Audit Commission evaluated the Police Authority's use of resources across five themes and the Authority was judged to be performing well in all areas.

### Sustainability

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

### 2009/10

Looking ahead, the Authority plans to spend £277.348m in 2009/10 on revenue expenditure. This represents a 3.46% increase over the 2008/09 budget. Inflation and other cost increases for existing policies amount to £10.8m. £3.6m has been allocated for service improvements and to fund the cost of improving front-line policing. All developments are linked to the Force's 2012 programme that is designed to deliver the overall aim of becoming a top performing force by 2012. Savings of £4.2m will be required to operate within budget and these will come largely from a business transformation programme that will reduce staffing levels in back-office functions, streamline processes and ensure that the delivery of policing is more efficient. There will also be an additional draw down from reserves of £1.0m to balance the budget.

In 2008/09 the Authority has undertaken additional work to strengthen its capital expenditure and asset management planning processes. This includes linking the capital programme more closely with the Force's 2012 development programme.

The Authority approved a capital programme of £22.648m for 2009/10 of which £12m is to be financed from borrowing (including minimum revenue provision).

### Conclusion

For 2008/09, the year end expenditure is very close to the target. Given the level of change required to implement the improvements in front-line policing whilst containing the cost, this is a considerable achievement.

The plan for 2009/10 is to sustain and enhance front-line policing in a very difficult financial environment. A significant loss of investment income, due to national economic difficulties, has meant that tough but realistic savings targets are necessary to balance the budget. In addition, reserves have been used to support the budget in a prudent way over time. Over the longer

term, achieving the 2012 vision and delivering on targets is forecast to become more challenging as the constraints on resources increase.

John Glasby, Treasurer  
June 2009

### **Further Information**

This publication provides a review of the financial performance of the Authority for 2008/09. It may be read in conjunction with the Police Authority's annual report and the annual policing plan that shows a wide range of measures of performance.

Further information on those publications or the Annual Statement of Accounts can be obtained from the Force website at <http://www.devon-cornwall.police.uk/v3/homepage/index.htm> and the Authority website at <http://www.dcpa.police.uk/home.htm>, or by writing to the Chief Executive or Treasurer at the Police Authority Offices, PO Box 229, Exeter, Devon. EX2 5YT.

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

### **Opinion on the financial statements**

I have audited the accounting statements, the police pension fund accounting statements and related notes of Devon and Cornwall Police Authority for the year ended 31 March 2009 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, Statement of Movement on the General Fund Balance, Balance Sheet, Statement of Total Recognised Gains and Losses, Cash Flow Statement, and the related notes. The Police Pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial statements and police pension fund accounting statements have been prepared under the accounting policies set out within them.

This report is made solely to the members of Devon and Cornwall Police Authority in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

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

The Treasurer's responsibilities for preparing the financial statements, including the police pension fund accounting statements, in accordance with applicable laws and regulations and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities.

My responsibility is to audit the accounting statements in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

I report to you my opinion as to whether the accounting statements, the police pension fund accounting statements and related notes present fairly, in accordance with applicable laws and regulations and the Code of Practice on Local Authority Accounting in the United Kingdom 2008:

- the financial position of the Police Authority and its income and expenditure for the year; and
- the financial transactions of its police pension fund during the year and the amount and disposition of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.

I review whether the governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion

on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

I read other information published with the accounting statements, the police pension fund accounting statements and related notes and consider whether it is consistent with the audited accounting statements, the police pension fund accounting statements and related notes. This other information comprises the Explanatory Foreword. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the accounting statements, the police pension fund accounting statements and related notes. My responsibilities do not extend to any other information.

### **Basis of audit opinion**

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounting statements, the police pension fund accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the accounting statements, the police pension fund accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

I planned and performed my audit so as to obtain all the information and explanations which I considered necessary in order to provide me with sufficient evidence to give reasonable assurance that the accounting statements, the police pension fund accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming my opinion I also evaluated the overall adequacy of the presentation of information in the accounting statements, the police pension fund accounting statements and related notes.

### **Opinion**

In my opinion:

- the accounting statements and related notes present fairly, in accordance with applicable laws and regulations and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Authority as at 31 March 2009 and its income and expenditure for the year then ended; and
- the police pension fund accounting statements present fairly, in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial transactions of the police pension fund during the year ended 31 March 2009 and the amount and disposition of the fund's assets and liabilities as at 31 March 2009, other than liabilities to pay pensions and other benefits after the end of the scheme year.

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

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

### **Auditor's Responsibilities**

I am required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires me to report to you my conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for police authorities. I report if significant matters have come to my attention which prevent me from concluding that the Authority has made such proper arrangements. I am not required to consider, nor have I considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

### **Conclusion**

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for police authorities specified by the Audit Commission and published in May 2008 and updated in February 2009, and the supporting guidance, I am satisfied that, in all significant respects, Devon and Cornwall Police Authority made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009.

### **Certificate**

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

*A Williams*

Alun Williams  
District Auditor  
Audit Commission  
3-4 Blenheim Court  
Lustleigh Close  
Matford Business Park  
Exeter  
Devon, EX2 8PW

25 September 2009

## **STATEMENT OF RESPONSIBILITIES FOR THE FINANCIAL ACCOUNTS**

### **The Police Authority is responsible for:**

- making arrangements for the proper administration of its financial affairs and naming one of its officers who is responsible for this. (For this Authority, that officer is the Treasurer.)
- managing its affairs to secure economic, efficient and effective use of resources and safeguard its assets
- approving the statement of accounts.

### **The Treasurer is responsible for:**

- the preparation of the Authority's Annual Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC "Code of Practice on Local Authority Accounting in the United Kingdom" (the Code of Practice)
- selecting suitable accounting policies and applying them consistently
- making reasonable and prudent judgements and estimates
- complying in all material aspects with the Code of Practice
- ensuring that proper and up to date accounting records have been kept
- taking reasonable steps for the prevention and detection of fraud and other irregularities.

### ***Treasurer's Certificate***

These accounts have been audited by the Audit Commission, whose independent Audit report is shown on pages 7 - 10. I hereby certify that this Statement of Accounts for the year ended 31 March 2009 has been prepared in accordance with the Accounts and Audit Regulations 2003 and subsequent amendment regulations. I further certify that, to the best of my knowledge, the Statement of Accounts present fairly the financial position of the Devon & Cornwall Police Authority as at 31 March 2009 and its income and expenditure for the year ended 31 March 2009

Signed.....J Glasby.....Dated...18/09/2009.....  
Treasurer to the Authority

### ***Approval of the Accounts and Authorisation for Issue***

I confirm that these accounts were approved by the Authority as minute reference P/2350 dated 26 June 2009 and that the Accounts were authorised for issue by the Authority as minute reference xxxx dated 18 September 2009

Signed.....Mike Bull..... Dated.....18/09/2009.....  
Chair of Police Authority

## **ANNUAL GOVERNANCE STATEMENT 2008/09**

This Annual Governance Statement has been prepared in accordance with the CIPFA/SOLACE revised Framework – Delivering Good Governance in Local Government. The Department for Communities and Local Government Circular 03/2006 makes clear that an Annual Governance Statement prepared according to the framework meets the requirement set out in the Accounts and Audit regulations 2003 to prepare a Statement of Internal Control.

The Constabulary have prepared an Annual Assurance Statement which supports the Annual Governance Statement this is included at page 19 to 27.

### **1. Scope of Responsibilities**

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

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

The Authority has approved and adopted a Code of Corporate Governance, which is consistent with the principles of the CIPFA/APA/ACPO Framework: *Delivering Good Governance in Local Government*. The Code of Corporate Governance is included within the Authority's constitution and is available on the Authority's website at [www.dcpa.police.uk](http://www.dcpa.police.uk) or can be obtained by contacting the Police Authority office. This Annual Governance statement explains how the Authority has complied with the Code of Corporate Governance. It also meets the requirements of regulation 4(2) of the Accounts and Audit Regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of a statement on internal control.

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

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

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

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable and foreseeable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of

effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Authority's policies, aims and objectives. It evaluates the likelihood of those risks being realised and the impact should they be realised, to manage them effectively, efficiently and economically.

The governance framework has been in place at the Authority for the year ended 31 March 2009 and up to the date of approval of the Annual Report and Statement of Accounts.

### **3. The Governance Framework**

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

- The Police Authority's vision is to 'Ensure that the community's expectation for an excellent standard of policing in Devon and Cornwall is delivered'. The vision is delivered through focusing on six strategic objectives and is supported by an effective Authority structure and working arrangements. This is embedded in the joint Police Authority/ Constabulary Policing Plan for 2008/11 which has at its heart the aim for the Constabulary to be a top performing Force by 2012. The Authority's vision and objectives have been communicated to the public through the Local Policing Summary delivered to every household during the summer of 2008, the council tax leaflet, the Authority's Website, Citizen Panel meetings, publicly held meetings and promotional events/ literature.
- The Corporate Governance Committee continuously reviews and challenges the governance arrangements of the Authority through:
  - consideration of the Authority's Risk Register
  - monitoring the effectiveness of existing governance controls
  - targeted risk-based audit activity
  - consideration of external audit reports; reports on the effectiveness of the Constabulary provided by Her Majesty's Inspector of Constabulary
  - professional opinions and assurance from the Authority's management.
- The aim is to promote service quality by ensuring delivery in accordance with the Authority's objectives and best use of resources. This is done by various means including the public survey (questionnaires), victim satisfaction surveys (undertaken by the Force), Police Authority Liaison Meetings, Citizen Panels and the Police Use of Resources (PURE) assessment and attendance at various public events throughout Devon and Cornwall e.g. Exeter Respect, Cornwall Pride.
- The roles and responsibilities of the Authority and Force, and for the senior officers within each and for the members of the Authority, are set out in clear delegation arrangements contained within the Police Authority's Constitution. This includes the Committees' terms of reference, standing orders and financial regulations and protocols for effective communication including a Member/ BCU Commander meeting protocol.
- The arrangement for challenging and scrutinising Force activity is inherent in the work of the full Police Authority and its committees. Members are free to challenge service delivery by asking questions of a senior representative of the Chief Constable at committee and the Chief Constable can be questioned by members at Police Authority meetings or at one to one meetings.

- Codes of Conduct have been adopted defining the standards of behaviour for Members and Officers. The Police Authority adopted the Members' Code of Conduct (incorporated into the Police Authority's Constitution) on 27 June 2008. The Chairs' Committee approved the Officers' Code of Conduct on 3 July 2008.
- Standing Orders, Financial Standing Orders, the scheme of delegation, contract/procurement regulations, and supporting procedure notes/ manuals, are reviewed and updated as required, and at least annually to ensure clear information is available on how decisions are taken. Reports recommending changes are available and all decisions taken are minuted.
- The Authority's Risk Register is reviewed and updated regularly with at least quarterly management meetings to review the current risk environment. During 2008, the design of the Register was revised to provide information in a clearer, more straightforward format. A closer examination of the Risk Register and the processes for its preparation is now being undertaken by a Working Group of members from the Corporate Governance Committee.
- The Corporate Governance Committee as part of its responsibilities undertakes the core functions of an audit committee, as identified in CIPFA's Audit Committee – Practical Guidance for Local Authorities checklist. These responsibilities are built into the Committee's terms of reference and Authority's Code of Corporate Governance.
- The Corporate Governance Committee has been briefed on the new International Financial Reporting Standards that will become the requirement for public sector organisations by 2010.
- The Police Authority has in place a Monitoring Officer and a Section 151 Officer who ensure compliance with relevant laws and regulations, internal policies and procedures, and that expenditure is lawful.
- A joint Constabulary and Authority anti-fraud and anti-corruption strategy is in place and has been supported by fraud risk training, provided to members of the Corporate Governance Committee. A memorandum of understanding between the Head of Internal Audit and the Head of Professional Standards has been in place since September 2007.
- There are procedures for receiving and investigating complaints from the public against senior Constabulary officers and staff, and members or officers of the Police Authority. Details of these procedures can be found on the Police Authority's website [www.dcpa.police.uk](http://www.dcpa.police.uk).
- A system is being developed to identify the development needs of members. A member has been appointed to lead this work. A PDR (Personal Development Review) for members has been developed in collaboration with an external training and development advisor. One-to-one interviews with members took place during March and April 2009 resulting in individual development plans being agreed for each member. Work on an organisation-wide training and development plan is in progress.
- Clear channels of communication have been established with all sections of the community and other stakeholders. All Police Authority and Committee meetings are WebCast (with the exception of the Chairs' Committee). Committee agendas, reports and minutes are available on the Police Authority's website [www.dcpa.police.uk](http://www.dcpa.police.uk).

- The Corporate Governance Committee approved a Partnership Strategy on 11 December 2008. A project took place to better understand the inputs, risks and benefits associated with strategic partnerships reporting to the Community Engagement Committee on 30 January 2009. An Internal Audit of partnerships commenced on 5 January 2009, which contained a review of the role of the Police Authority in supporting the Constabulary to achieve effective partnership working.

#### 4. Review of Effectiveness

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

- the system of internal audit
- the system of internal control as declared in the Chief Constable's Annual Assurance Statement.

These reviews have been informed by the work of internal audit, the Audit Commission, other review agencies and officers within the Authority and Force. Much of the review work is ongoing throughout the year and is incorporated into the work of committees and Authority staff.

The work includes

- The adoption of a formal Constitution for the Authority on 27 June 2008.
- Working with the Association of Police Authorities to develop guidance for all police authorities in undertaking the self-assessment process. This will assist in the preparatory work for the forthcoming HMIC inspection of the Police Authority scheduled for 2009/10.
- The Force Annual Assurance Statement signed by the Chief Constable.
- The Performance Management Committee reviewing and challenging Force performance. The Committee's agendas, reports and are available on the Police Authority's website [www.dcpa.police.uk](http://www.dcpa.police.uk).
- The Corporate Governance Committee receiving reports from internal audit, Audit Commission, Her Majesty's Inspectorate of Constabulary and having a co-ordinating role for the reports and actions emanating from other inspection bodies.
- The Corporate Governance Committee having oversight and scrutiny of the Authority's Risk Register
- The Standards Committee reviewing, at each meeting, the best practice toolkit to ensure compliance and a pro-active approach to ethical standards issues
- The 2008/09 workplan from the 2007/08 Annual Governance Statement
- An annual review of the effectiveness of internal audit is undertaken
- The effectiveness of Police Authority / BCU Commander meetings has been reviewed and an operating protocol agreed with the Chief Constable.
- The format of the Authority's Risk Register has been reviewed and updated to provide information in a more straightforward way. An audit trail of decisions taken and closed risks is stored in the background of the Register.
- A Working Group drawn from the Corporate Governance Committee is exploring the way risk management principles and practices can be better integrated into the work of all the Authority's committees.

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

## 5. Significant Governance Issues

### A) Update from the Annual Governance Statement workplan for 2008/09 and beyond

The 2008/09 Annual Governance Statement contained a development plan to assist with continuous improvement in governance related matters. The list below provides a brief update on the work that has been undertaken.

- *Review and Monitoring of the Constitution; processes need to be developed and embedded for reviewing and making changes to the Authority's constitution*

The Authority has adopted a revised formal Constitution (Minute No P/2257 of the Authority meeting on 27 June 2008 refers). Responsibility for keeping the Constitution under review and making recommendations to the Authority regarding amendments has been included in the Corporate Governance Committee terms of reference.

- *Review of the Authority's Strategic Plan and the associated documents such as the Business Plan; the processes for reviewing, developing and monitoring progress for matters detailed in the Strategic Plan and the associated documents need to be considered and implemented*

In preparing the Police Authority element of the Local Policing Plan for 2009, the Police Authority's aims and objectives have been reviewed and reworded to reflect a more citizen-focused approach. Consultation carried out with the Police Authority's Citizens' Panel suggested that the public were unclear of what the aims and objectives meant. Members, officers and the Corporate Communications Unit have assisted in this process.

- *Partnership working; the role and the remit of Members regarding partnership working needs to be clarified, particularly with regard to Local Strategic Partnerships and Local Area Agreements*

A Strategic Partnerships Strategy has been prepared and approved by the Corporate Governance Committee on 25 November 2008.

An Internal Audit of Strategic Partnership work has been completed. In addition, an assessment has been undertaken to identify gaps in the Authority's contribution to partnerships, establish clarity of the members' roles and identify any necessary training needs.

- *Business Continuity Planning; A business continuity plan for the Authority needs to be developed*

A Business Continuity Plan has been started for the Police Authority. This will predict the risks to the staff, office environment and services and looks to mitigate these to an acceptable level. This includes the establishment of a responsibility/ decision-making ladder should key individuals become unavailable.

- *Developing a process to monitor and review the actions the Force is taking to address the issues and areas of weakness identified in the Force Annual Assurance Statement*

A Working Group of members from the Corporate Governance Committee has been established to develop a process to sample check and verify any areas of weakness identified in the Force Annual Assurance Statement. The group will also consider a wider role for members in the preparation of the Annual Governance Statement.

## **Other areas of work and issues relevant to the Authority's Corporate Governance**

- Following the Icelandic banking collapse and the wider economic issues, the Authority's treasury management strategy was reviewed. The use of the Police Authority's counter-party list was restricted with the objective of increasing the security of deposits. Foreign banks, with the exception of banks based in the Republic of Ireland, were initially suspended from the list to reduce the risk against similar situations. A new strategy has now been adopted.
- The south west Chiefs and Chairs Group has agreed a governance structure for progressing collaboration arrangements across the south west region.
- The Police Authority has taken steps to clearly define the relationship and interactions between members and operational functions of the Force through the development of a communication protocol. This puts in place an informal agreement on how the Authority can stay informed and updated on operational policing without infringing accountability lines.
- The Police Authority has supported the Constabulary's vision to be a top performing force by 2012. The key to this strategy is the Development Programme, a major investment/change programme to drive the service forward. The Chairs' Committee oversees this. In February, the Police Authority, recognising the significance and specialist nature of the work agreed to appoint an independent assessor to advise the Authority on the Plan's progress. This expert is accredited to undertake gateway reviews by the Office of Government Commerce. The assessor is working with a Task and Finish Group of members to scrutinise the progress of the Development Programme and advise the Chair's Committee.
- The joint Constabulary and Authority anti-fraud and anti-corruption strategy has been revised and was approved by the Corporate Governance Committee on 12 March 2009 (minute CG213).
- The Police Authority has closely monitored the Force's 196/200 project. This involves the return of 200 uniformed officers to community-based roles, and reducing 196 police staff posts. The plan is critical to the Authority's financial strategy and shared vision to be a top performing Force by 2012.
- The Police Authority has established a Task and Finish Group for the Job and Grading Review to identify and recommend the most appropriate option to undertake a process in the light of final Counsel's opinion. This group comprises two members supported by the Chief Executive and the Authority's HR advisor.
- The Authority has established Task and Finish Groups to enhance the Authority's scrutiny of the following areas of Forces business:
  - Sexual offences, domestic abuse and children and young people.
  - Forensics management
  - Protective Services
  - Job and Grading Review
  - ICT science & technology
  - Diversity and Equality

In addition a working group of the Performance Management Committee has been formed to look into areas of performance that require further examination. This group played a key role in the development of the Force performance targets for 2009 and beyond.

- Following the Chief Executive's suspension an Acting Chief Executive and Monitoring Officer was immediately appointed by the Authority's Chairman and the decision was ratified by the Chairs' committee.
- The Treasurer has undertaken an assessment of the risk that the financial statements may be materially mis-stated due to fraud and has concluded that the risk is low.

## **B) 2009/10 and Beyond Workplan**

As a result of the reviews undertaken during 2008/09 the following areas have been identified as requiring attention:

- Reviewing the Police Authority's Strategic Plan to ensure it appropriately directs the role of the Authority.
- Completing the Authority's Business Plan and Business Continuity Plan.
- Reviewing risk management to better engage the wider Authority in identifying, owning and managing risk.
- Ensuring the Authority's corporate planning and risk management processes are better aligned.
- Ensuring member involvement in all statutory partnerships.
- Commencing regular feedback/evaluation for member involvement in partnerships.
- Further developing relationships with significant partners.
- Completing preparations for police authority inspection, ensuring member engagement and implementing identified improvements.
- Enhancing member development and training.
- Testing and verifying elements of the Force Annual Assurance Statement and defining a wider role for members in the Annual Governance Statement.

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

### **Signed**

Mike Bull

Chair of Devon and Cornwall Police Authority

J Norton

Chair of the Corporate Governance Committee

R Martin

Acting Chief Executive of Devon and Cornwall Police Authority

On behalf of the members and senior officers of the Devon and Cornwall Police Authority

## **ANNUAL ASSURANCE STATEMENT 2008/09**

This statement sets out the position as at 31 March 2009 including improvement plans for the financial year 2009/10:

### **1 Scope of Responsibilities**

- 1.1 The Chief Constable of Devon and Cornwall Constabulary is responsible for the direction and control of the Force. In discharging these functions, the Chief Constable shall have regard to the local policing plan issued by Devon and Cornwall Police Authority. In addition, the Chief Constable will have responsibility in respect of delivering an efficient and effective police force. In this regard, the Chief Constable is responsible for ensuring that police 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. The Chief Constable is responsible for putting in place proper arrangements for the governance of the Force and facilitating the exercise of its role, ensuring that arrangements are in place for the management of risk.

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

- 2.1 The governance framework comprises the systems and processes, and culture and values through which the Force manages its activities. The framework enables the Chief Constable to monitor the achievement of Force objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services, including achieving value for money. The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable and foreseeable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives; it can, therefore, only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Force's policies, aims and objectives. Internal control arrangements will evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them effectively, efficiently and economically. The governance framework has been in place at the Force for the year ended 31 March 2009 and up to the date of approval of the 2008/09 Statement of Accounts.

### **3 The Governance Framework**

- 3.1 The key elements of the systems and processes that comprise the governance arrangements that have been put in place for the Force are described below.

*(a) The process for setting objectives and targets.*

The Force has a well-developed process for setting objectives and targets. A new Force Vision was developed during 2007/08. The Force has worked closely with the Police Authority to develop its Mission, Vision and Values and a performance agreement has been established with the Police Authority that underpins the plans for the next 2 years.

Improving community safety is best achieved when a wide variety of organisations and agencies work together to contribute to multi-agency agreements. Devon & Cornwall Constabulary is committed to strengthening existing inter-agency working with public, private, community and voluntary groups and coming to a shared agreement over objectives and targets.

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

The Force has clear decision making structures. In addition to the Chief Officer Group that is the principal corporate decision making body for the Force, a Programme Board has been established to manage the core business transformation programme. There is also 'The 2012 Strategy Board' which provides oversight to all the transformational activity taking place, both the programme and the cultural change activity. The Organisational Development Group provides a wider forum for considering strategic issues. In addition, the Performance Improvement and Tasking Group has delegated responsibility to deal with performance matters and to make informed resource allocation decisions against the priorities of the Force. Reviewing intelligence, prevention and enforcement plans discharges this responsibility. All Strategic Groups have clear terms of reference, together with clear reporting lines, and a strategic meetings protocol sets out executive decision making authority.

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

The Chief Officer Group receives a quarterly Strategic Report that covers the following areas:

- Operational performance
- Environmental scanning
- Force Risk Register
- Absence monitoring
- Complaints
- Projects
- Audits and inspections
- Organisational Learning

The Chief Officer Group also receives specific monthly updates on Health & Safety.

The Chief Executive and Treasurer of the Police Authority also attend this meeting.

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

Responsibility for improvements to Force performance lies with the Performance Improvement and Tasking Group. This group reviews, monitors and directs Force performance on a fortnightly basis. The Deputy Chief Constable who chairs the group holds relevant Chief Officers and Commanders to account for performance.

Financial performance is reported monthly to the Chief Officers Group. Robust monthly monitoring processes are in place.

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

The Force Risk Management Strategy was updated in 2008/09 as part of the ongoing annual review process. The strategy is comprehensive and underpinned by detailed policies and procedures. In addition to maintaining risk registers at Unit/ Department & BCU level, the Force undertakes environmental scanning and produces a Strategic Assessment every six months. This includes reconciling the threats identified through the strategic assessment with those in the corporate risk register by using a common valuation model. This will help assess business risks against operational threats.

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

The Force has a well-established Professional Standards function. This Department has been restructured and combined with the Force Vetting Unit to support the delivery of the new Police Discipline Regulations, which came into being on 1 December 2008. Training has been delivered to any line manager with responsibility for Police Officers. A wide-ranging amount of marketing material has been circulated. A memorandum of understanding exists between the Professional Standards Department and the Police Authority relating to internal fraud investigations. Existing Fraud and anti corruption policies are being consolidated into one clear Professional Standards Policy to underpin the new legislation.

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

Financial Regulations and a comprehensive set of Force policies relating to internal control are in place. This includes updated Financial Regulations, which were approved in June 2008 and new Standing Orders for Tenders and Contracts that were approved in September 2008, together with a new Scheme of Delegation.

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

Environmental scanning takes place to assess and determine the Force response to legislative and other changes. Where appropriate, action plans are put in place to meet new requirements. The Force has access to the Police National Legal Database to aid the tracking of legislative changes.

The Force has clearly defined processes for ensuring compliance with relevant laws and regulations. There is a programme for reviewing Force policies that is centrally managed and regulated. An Organisational Learning Database is used to track the implementation of improvement and action plans relating to any form of organisational learning irrespective of its source.

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

Stewardship of assets is covered in Financial Regulations and Force policies. In addition the Force maintains asset registers for all major assets. The Force has information security and data protection policies, both of which support continuous accreditation to the Association of Chief Police Officers Community Safety Policy. There is a commitment to enhance that level of security by applying the standards of the International Information Security Management Standard BS/ISO 27001. This ensures that adequate security measures are in place to protect subject and sensitive internal information for the long term.

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

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

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

Human Resources policies are in place to ensure that the conditions of employment and remuneration of officers and staff are within appropriate national frameworks. This position has been enhanced by the implementation of the Police Staff Handbook, which governs allowances paid to police staff. As part of the Force Vision the Force will establish an appropriate performance, recognition and reward strategy.

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

The Force Learning and Development Department co-ordinates learning and development for the Force. Training panels manage the priorities, risks, resources and delivery of training programmes at a local level, in order to reconcile the organisation's and individual's requirements. Individual learning is managed via the PDR process and is additionally supported by the provisions of the Sponsored Learning Panel.

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

Each year, the Force and the Police Authority jointly publish a Local Policing Plan.

The Force has well developed channels for consultation and engagement. These include:

Consultation with the public and external stakeholders:

- QSR Victim survey and the Anti Social Behaviour survey;
- The Police Authority Public Survey (a random annual survey of 30,000 local residents);
- Partners and Communities Together (PACT) initiatives, where local Police Officers, local council officers and councillors, community representatives, education, faith groups, health and fire service meet to identify and solve problems;
- A Strategic Independent Advisory Group (IAG) – representing all areas of diversity works with the Force to facilitate interaction with minority groups across the Force area and to scrutinise equality and diversity.

Consultation also takes place through partnership arrangements:

- By working through Crime and Disorder Reduction Partnerships (CDRPs) to establish community concerns through wide consultation;
- Working within Local Strategic Partnerships (LSPs) to agree which improvement targets will be put forward as part of the Local Area Agreements that commenced in June 2008

In addition, the Force benefits from the role of the Police Authority members who consult widely with local people about the policing of their area and provide feedback to the Force via Police Authority Liaison Meetings.

Consultation within the Force:

- Outputs from quarterly staff surveys;
- Use of action learning sets to gather information and learning from staff;
- COG on the Road Programme; a quarterly exercise where the Chief Officer Group conducts its monthly business meeting at a location away from Headquarters. This includes the provision of various Focus Groups and staff meetings within the selected local area prior to the business meeting taking place.

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

Policies and procedures are in place in relation to equal opportunities and diversity, these include:

- Race Equality Scheme 2005-08
- Gender Equality Action Plan 2007-10
- Disability Action Plan 2006-09
- All supplemented by a Combined Equality Scheme launched in 2009.

The Force has a specific objective to improve the retention of minority officers and staff in the Force. This is designed to directly contribute to our aim of making our workforce representative of our diverse communities. Objectives are:

- The delivery of positive interventions to improve retention of women and BME officers and staff;
- Reduction of the percentage of resignations by women and BME officers and staff.

The Force works together with the Police Authority to audit its compliance with diversity and equalities legislation and ensure that it has a clear picture of the equalities impact of its activities.

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

The Force is committed to reducing its carbon footprint and considering the full environmental impact of its policies. It is working in conjunction with the Authority on a defined Environmental Management Policy, which will form the bedrock of future activity. An Environmental Working Group has been established under the leadership of an Assistant Chief Constable to drive forward the Environmental agenda, including any Action Plan required to improve performance. It has also appointed specific members of staff to manage the impact of its activities on the environment, ensuring it is as environmentally sustainable as possible.

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

In 2008/09 the Authority undertook an audit of partnership work, and especially partnership governance. Initial results are due in March 2009. The Authority agreed a Joint Partnership strategy in December 2008 and the audit will enable any gaps in this area to be addressed.

#### **4 Review of Effectiveness**

4.1 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 the effectiveness is informed by the work of:

- Director of Finance and Resources;
- Chief Officer Portfolio Holders, Department Heads and Commanders;
- Those managers within the Force who have responsibility for the development and maintenance of the governance environment, for example, the Force's Organisational Learning and Risk Manager;
- The Police Authority internal audit manager.

4.2 A continuous and ongoing review of certain elements of the governance framework takes place throughout the year:

- The Chief Officer Group considers the operation of a number of the key governance processes (as covered by a monthly Strategic Report) and recommends areas for improvement;
  - A Corporate Risk Register covering major risks is compiled and reviewed by the Chief Officer Group quarterly. Chief Officers have a quarterly face to face meeting with the Risk Manager to discuss specific areas of strategic risk;
  - The Performance Improvement and Tasking Group is responsible for a continuous review of the Force's Performance and its ability to respond to current and emerging issues;
  - The Professional Standards Department undertakes a continuous review of complaints and matters arising from confidential reporting and produce monthly reports;
  - The Police Authority Treasurer is responsible for establishing an internal audit plan that is prioritised according to risk assessment;
  - The Police Authority Performance Management Committee undertakes scrutiny of the Force performance throughout the year and the Police Authority Complaints Monitoring Group reviews complaints;
  - The Police Authority Corporate Governance Committee scrutinises the ongoing development of the governance framework and individual governance issues as it sees fit.
- 4.3 The Force is subject to a number of external audits and inspections during the year. Reports are considered by the appropriate strategic group:
- The Annual Audit letter from the Audit Commission is considered by the Chief Officer Group
  - The Police Use of Resources report is considered by the Chief Officer Group
  - The Performance Improvement and Tasking Group consider HMIC thematic reviews, HMIC inspections and other reviews and inspections.
- 4.4 In addition senior officers of the Force undertake an annual review of governance arrangements. For 2008/09, the main components of this review include:
- Completion of an Assurance Statement by Department Heads and Commanders and indicating the effectiveness of key controls during 2008/09 and any plans for improvement to the control framework
  - Completion of a governance checklist to determine the adequacy of governance arrangements in place in the Force. This checklist draws on the core principles as laid out in the CIPFA/SOLACE guidance "Delivering Good Governance in Local Government".
  - Completion of a key controls checklist that draws on CIPFA guidance on internal control statements.

## **5. Outcome of the Review of Effectiveness**

- 5.1 The Annual Audit letter (dated November 2008) contained the Auditors unqualified audit opinion for the year 2007/08. It also identified the fact that:

"The quality of the working papers supporting the statements continues to improve year on year"

Furthermore, in assessing the way Value for Money was delivered and resources were utilised, the auditor concluded that he had:

"Assessed the arrangements of the Authority as adequate in all twelve areas and consequently I have concluded that the Authority has proper arrangements in place to secure economy, efficiency and effectiveness in the use of resources."

- 5.2 The outcome of the Police Use of Resources review was an overall score of 3 indicating good use of resources. The Audit Commission commented:
- “Devon and Cornwall Police Authority has demonstrated that arrangements to secure effective use of resources were embedded during 2007/08 and it has continued to perform well across the five themes tested.”
- A number of detailed recommendations were made and the Force is working to improve its processes in these areas.
- 5.3 Performance indicators for the Force show a sustained improvement in the level of performance, with the level of user satisfaction with the service consistently achieving in excess of 80%.
- 5.4 The establishment of the Information Management Strategic Group is providing the Force with a solid platform from which it can accredit its information management practices to the International Information Security Management Standard BS ISO 27001. The Group also provides sufficient governance on information management to minimise future data loss and any subsequent embarrassment to the organisation.
- 5.5 Throughout 2008/09 the Force continued to implement the actions arising from the Health & Safety Executive’s 2007/08 inspection. Progress has been maintained against all the areas identified for improvement. These have been consolidated into two main action plans; one for the general improvements required and one for action against asbestos. To date the respective action plans are both 86% complete. The Force has a commitment to complete these plans by the end of June 2009, and it is expected that this deadline will be achieved. Areas of improvement have included:
- The publication of a Health and Safety Policy Statement signed by Chief Constable and Chairman of Police Authority;
  - The re-development of the Health and Safety intranet site;
  - The ongoing provision of Health and Safety training to a significant number of officers and staff;
  - The publication of a Health and Safety Management Policy.
- 5.6 The Force has also reviewed the way it delivers major change. Throughout 2008/09 it reviewed the structure and content of its major change programme and further developed the financial management capability of the programme staff. General programme structure and governance has been tightened along with the provision of more effective support to the organisation especially in respect of change management and the preparation of business cases. A new strategic board has been established to provide oversight of all the activities taking place to make the Force a “Top Performing Force”.
- 5.7 The annual review of governance arrangements undertaken by senior officers of the Force indicated that there are no fundamental weaknesses in the governance framework or the system of internal control. Internal Audit reviews into Firearms assets and Property (Drugs and Property) management have taken place and action plans are in place to address issues identified. An increasing demand on the Scientific Support function has been identified through risk management. Further details on these areas are given in section 6.
- 5.8 The review also recognises that some of the challenges reported last year still have activity ongoing and, where this is the case, comments are made in section 6. In some cases the review recognises that the work that started last year is nearly complete, while in others significant work is still underway.

- 5.9 Finally some of the areas which were highlighted as problematic last year have seen significant work completed over the course of the last twelve months to the degree that those problems have been completely resolved and the activity concluded.

## **6. Governance Issues and Development Programme for 2009/10 and Beyond**

### **6.1 The Force Vision and 2012 Workforce Modernisation Programme**

The strategic aim of the Force is to be a top performing Force. Many aspects of the 2012 Workforce Modernisation Programme will have a positive impact on the governance arrangements of the Force, however it must be recognised that a significant change programme brings risks in terms of governance and internal control. The Force has put in place both a Strategy Board and a Programme Board, together with an appropriate organisational structure to manage the change and minimise those risks. The size and scope of the ICT projects that make up the core programme require meticulous project management skills and governance if they are to provide the Force with the long-term benefits they envisage. Reports on the 2012 Strategy are provided to the Police Authority's Chairs Committee.

As part of the 2012 Programme a range of defined strategies are being produced that will define the Force's position on a whole range of core principles, which will then help underpin the delivery of the Programme.

In addition the Force will maintain an awareness of changes in the national policing environment, these include:

- New public service agreements for 2008-11
- The new Policing and Crime Bill.
- The implications of Comprehensive Area Assessments, which will bring a new inspection process into being for local partnerships, including the policing element.

### **6.2 Human Resources Issues**

The Force continues to be challenged by human resources issues not only arising from the 2012 Change Programme but also as a result of the current economic climate. To address these, the Force has continued with the People Gold Group as described last year. Among the areas that this group continues to address are:

- Development of a fair and equitable pay structure and introduction of a formal reward strategy
- Development of a learning culture across the organisation
- Development of excellence in our leadership
- Enhancing equality and diversity practice.

### **6.3 Resource Management**

Work is underway to consider a business case for Duty Management software, while a revised process for the allocation of resources is also being reviewed. These two approaches will assist in the delivery of an effective resource management structure.

### **6.4 Management of Assets**

A new property management database is fully operational. All information relating to the property portfolio, including environmental information is now effectively stored and managed. Measures to effectively manage and allocate the number of vehicles necessary to police such a large area have been strengthened and are kept under constant review through the auspices of the Vehicle User Group. In addition, the Force

is preparing an Asset Management Plan that will consolidate and update existing data, policies and procedures on assets, thereby improving their overall management.

#### 6.5 Business Continuity

The Operational Planning Unit has been restructured to assist better business continuity planning. Building on the need to develop a specific Middlemoor Continuity Plan the organisation is moving away from a silo based approach towards a more geographical approach. The ICT Department has established a viable Disaster Recovery Facility and identified the priority services, which would require restoration in an emergency. Both of these measures will be completed by Autumn 2009.

#### 6.6 Anti-Fraud and Anti-Corruption Strategy

The Anti-Fraud and Corruption Strategy was approved in 2002 and refreshed in 2009. Following the introduction of the new Police Discipline Regulations a major revision of the strategy is being undertaken to amalgamate the many existing policies into a single Professional Standards Policy that will be applicable to Police Officers and Police Staff.

#### 6.7 Partnerships

The audit of partnership activity and governance, in support of the Joint Partnership Strategy, was reported on in March 2009 allowing improvement plans to be created to address any identified gaps. Regional collaboration between Police forces remains strong, both in terms of searching for more efficient ways of working and of providing improved operational services.

#### 6.8 Results of Internal Audit Reviews

Following reviews by the Police Authority's Internal Audit Manager progress continues in procuring a suitable ICT based assets tracking system for the Force's firearms. Other reviews have raised similar concerns around items of Property seized by the Force, namely drugs and firearms. These areas are also being addressed by appropriate action plans, including consideration of similar ICT based tracking systems.

#### 6.9 Increasing demands on Scientific Support

There is an increasing demand on the provision of technical and scientific support for investigating crimes, including the increasing use of computers for criminal activity. These demands extend to all levels and types of crime. Although defined performance management software has been introduced the level of increased demands still causes concerns when allocating resources efficiently and effectively.

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

*Stephen Otter*

Signed  
Stephen Otter  
Chief Constable of Devon and Cornwall Constabulary

## **STATEMENT OF ACCOUNTING POLICIES**

These accounts are prepared following the latest “Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice” (SORP), using the guidance notes published in December 2008. The Code defines proper accounting practices for local authorities. It is based upon generally accepted accounting principles, Statements of Standard Accounting Practices (SSAPs) and Financial Reporting Standards (FRSs) that all aim to make local authority accounts clear, helpful and informative. Any minor modifications from the SORP are shown in the notes below. The accounting convention is historical cost modified by revaluation for fixed assets as described at 4. below. There is a glossary of accounting terms on page 68 to 72.

### **1. Accruals of Income and Expenditure**

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

- fees and charges due from customers are accounted for at the date the Authority provides the relevant goods or services
- supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption they are carried as stocks on the balance sheet
- works are charged as expenditure when they are completed before which they are carried as work in progress on the balance sheet
- interest payable and receivable is accounted for on the basis of the effective interest rate for the relevant financial instrument
- where income and expenditure have been recognised but cash has not been received or paid a debtor or creditor for the relevant amount is recorded in the balance sheet.

### **2. Employee Costs**

The full cost of employees is charged to the accounting period in which the employees worked, including an adjustment for overtime claims at the financial year-end.

### **3. Stocks and Stores**

All stocks appear in the Balance Sheet at purchase price (“historical cost”).

### **4. Fixed Assets**

#### **(a) Recognition**

Fixed Assets are land, buildings, vehicles and equipment that the Authority owns and can use for a period of more than one year.

(b) Measurement

Assets are initially measured at cost, comprising all expenditure that is directly attributable to bringing the asset into working condition. Assets are then carried in the Balance Sheet using the following measurement bases:

- investment properties and assets surplus to requirements – market value
- specialised operational properties – depreciated replacement cost
- vehicles, plant and equipment current value (cost less depreciation)

Land and buildings are re-valued by a qualified external valuer every five years and this was last done as at 31 March 2005. Properties that have undergone significant enhancement by way of capital expenditure during the year are revalued in the year in which the enhancement project is completed. Values are based on the provisions of FRS 15 “Tangible Fixed Assets” and may not be the same as market values at any particular time.

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

(c) Disposals

When an asset is disposed of or decommissioned, the value of the asset in the balance sheet is written off to the Income and Expenditure Account as part of the gain or loss on disposal. Receipts from disposals are credited to the Income and Expenditure account as part of the gain or loss on disposal (i.e. netted off against the carrying value of the asset at the time of disposal). Any revaluation gains in the Revaluation Reserve are transferred to the Capital Adjustment Account. Amounts in excess of £10,000 are categorised as capital receipts. Receipts are credited to the Useable Capital Receipts Reserve. Receipts are appropriated to the Reserve from the Statement of Movement on General Fund Balance.

(d) Depreciation

Depreciation spreads the cost of assets over their useful working life (usually in equal annual instalments).

The depreciation policy for assets is as follows:

**Land and buildings** – The useful life of each building is assessed and buildings are depreciated individually; the land value is not depreciated. Depreciation is charged in the year of acquisition. Police houses are not depreciated. Revaluation gains are also depreciated.

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

**Information and Communications Technology** - The depreciation policy for plant, equipment and ICT infrastructure has been revised in 2008/09. Previously it was depreciated over five years, for 2008/09, the asset life of individual groups of asset have been assessed and each group is depreciated individually.

**Force Helicopter** – The Helicopter is depreciated over ten years.

(e) Impairment

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

- where attributable to a clear consumption of economic benefit – the loss is charged to the Income and Expenditure account
- otherwise – written off against any revaluation gains attributable to the relevant assets in the Revaluation Reserve for that asset with any excess charged to the Income and Expenditure Account.

## **5. Charges to Revenue for Fixed Assets**

The Income and Expenditure account is debited with the following amounts to record the real cost of holding fixed assets during the year:

- depreciation attributable to the assets used by the relevant service
- impairment losses and other losses where there are no accumulated gains in the Revaluation Reserve against which they can be written off
- amortisation of intangible fixed assets attributable to the service.

The Authority is not required to raise council tax to cover depreciation, impairment losses or amortisations. However, it is required to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement (equal to either an amount calculated on a prudent basis determined by the Authority in accordance with statutory guidance, or loan fund principal charges). Depreciation, impairment losses and amortisations are therefore replaced by revenue provision in the Statement of Movement on the General Fund Balance. This is done by way of an adjusting transaction within the Capital Adjustment Account.

## **6. Government Grants**

Government grants are included on an accruals basis (see note 1). Revenue grants are matched with the expenditure they pay for, and credited to the Income and Expenditure account for the period. Grants are only recognised when the authority has complied with the grant conditions.

Capital grants (usually from the Home Office) are first credited to the Government Grant Deferred Account when they are received. They are then released to the Income and Expenditure Account over the useful life of the asset to match the depreciation on those assets.

## **7. Reserves and Funds**

As part of its prudent financial management policy, the Authority has some revenue reserves from general surpluses or through specific charges in the Income and Expenditure Account. These can then be used to support future spending.

The Authority also has a small number of capital reserves holding specific government grants and unapplied capital receipts. Those reserves can only be used to fund capital spending. Details of the levels of revenue and capital reserves are shown in note 24 on pages 55-56.

## **8. Provisions for Expenses**

The Authority will recognise a provision when there is a present obligation in respect of a post event and a reasonable estimate can be made. The notes to the Balance Sheet show the level of provisions and changes during the year.

## **9. Provisions for Bad and Doubtful Debts**

The amount shown for debtors includes an estimate of amounts over six months old and so unlikely to be paid in full.

## **10. Leases**

In some circumstances it is operationally effective for the Authority to rent or lease property. All of the Authority's rental agreements for property are operating leases. The rental costs of property leases are charged to the Income and Expenditure Account. The Authority has no finance leases.

## **11. VAT**

VAT is included in the accounts of the Authority only when it is not recoverable.

## **12. Prior Year Adjustments and Exceptional Items**

Exceptional items are material costs in any year that are not expected to recur frequently or regularly. They are explained in notes to the Income and Expenditure Account and there were none in 2008/09.

## **13. Financial Liabilities (Borrowing)**

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Income and Expenditure Account for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. For the borrowings that the Authority has, this means that the amount presented in the Balance Sheet is the outstanding principal repayable and the interest charged to the Income and Expenditure Account is the amount payable for the year in the loan agreement.

## **14. Financial Assets (Investments)**

### Loans and Receivables

Loans and receivables are initially measured at fair value and carried at their amortised cost. Annual credits to the Income and Expenditure Account for interest receivable are based on the carrying amount of the asset multiplied by the effective rate of interest for the instrument. For the loans that the Authority has made, this means that the amount presented in the Balance Sheet is the outstanding principal receivable and the interest credited to the Income and Expenditure is the amount receivable for the year in the loan agreement.

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

Where assets are identified as impaired because of a likelihood arising from a past event that payments due under the contract will not be made, the asset would be written down and a charge made to the Income and Expenditure account. Any gains or losses that arise once the contract is complete or is terminated are credited/debited to the Income and Expenditure Account.

## Financial Instruments at Fair Value through the Profit and Loss

The instruments will be recognised at fair value and carried in the balance sheet at fair value. Movements in fair value recorded in the balance sheet will be balanced by posting gains and losses to the Income and Expenditure Account as they arise. Any residual gains and losses arising at the settlement date will be cleared through the Income and Expenditure Account. Instruments will be valued at mid price as supplied by reputable sources.

### **15. Contingent Assets and Liabilities**

Contingent assets and liabilities are things that may arise but are very uncertain. They are not shown in the main Statement of Accounts, but would be included in a note to the Balance Sheet.

### **16. Post Balance Sheet Events**

Post Balance Sheet events are material events that happen after the Balance Sheet date and may have a significant impact on the Authority.

### **17. Treatment of Retirement Benefits**

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

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

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

#### Police Officers' Pension Scheme

The Police Officers' Pension Scheme is accounted for as a defined benefits scheme:

- the liabilities of the Police Officers Pension Scheme are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, etc, and projections of projected earnings for current employees
- liabilities are discounted to their value at current prices, using a discount rate of 6.6% (based on the indicative rate of return on high quality (AA) corporate bond)
- the change in the net pensions liability is analysed into five components:
  - current service cost – the increase in liabilities as a result of service earned this year – allocated to the cost of Police Services in the Income and Expenditure Account
  - past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – charged to the Net Cost of Services in the Income and Expenditure Account as part of Non Distributed Costs
  - interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – charged to Net Operating Expenditure in the Income and Expenditure Account
  - actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last

- actuarial valuation or because the actuaries have updated their assumptions – charged to the Statement of Total Recognised Gains and Losses
- benefits to pensioners – cash paid to pensioners including injury pension payments

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund in the year, not the amount calculated according to the relevant accounting standards. In the Statement of Movement on the General Fund Balance this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and any amounts payable to the fund but unpaid at the year end.

### Police Officer Injury Benefits

The Police Authority makes payment under the Police Injury Benefits Regulations. These payments are also covered by FRS17 and the figures are included in the financial statements and have been estimated by the independent actuary.

### The Local Government Pension Scheme

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

- the liabilities of the Devon County Council Pension Scheme attributable to the Authority are included in the Balance Sheet on an actuarial basis using the projected unit method – i.e an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, etc, and projections of projected earnings for current employees
- liabilities are discounted to their value at current prices, using a discount rate of 6.6% (based on the indicative rate of return on high quality (AA) corporate bond)
- the assets of the Devon County Council pension fund are attributable to the Authority are included in the Balance Sheet at their fair value:
  - quoted securities – current bid price
  - unquoted securities – professional estimate
  - unitised securities – current bid price
  - property securities – current bid price
  - property – market value
 (This is a change in accounting policy as assets were previously valued at mid-market value).
- the change in the net pensions liability is analysed into six components:
  - current service cost – the increase in liabilities as a result of service earned this year – allocated to the cost of Police Services in the Income and Expenditure Account to the revenue accounts of services which the employees worked
  - past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – charged to the Net Cost of Services in the Income and Expenditure Account as part of Non Distributed Costs
  - interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid – charged to Net Operating Expenditure in the Income and Expenditure Account
  - expected return on assets – the annual investment return on the fund assets

attributable to the Authority, based on an average of the expected long-term return – credited to Net Operating Expenditure in the Income and Expenditure Account

- actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – charged to the Statement of Total Recognised Gains and Losses
- contributions paid to the Devon County Council Pension Fund – cash paid as employer's contributions to the pension fund

In relation to retirement benefits, statutory provisions require the General Fund balance to be charged with the amount payable by the Authority to the pension fund in the year, not the amount calculated according to the relevant accounting standards. In the Statement of Movement on the General Fund Balance this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and any amounts payable to the fund but unpaid at the year end.

#### Discretionary Benefits

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

## **INCOME AND EXPENDITURE ACCOUNT FOR YEAR ENDED 31 MARCH 2009**

Line	2007/08		2008/09			
	Net Expenditure £000		Gross Expenditure £000	Gross Income £000	Net Expenditure £000	Note Ref
1	265,848	Police Services	300,523	(38,338)	262,185	
2	1,368	Corporate and Democratic Core	1,405	0	1,405	6
3	32,020	Non Distributed Costs	2,295	0	2,295	
4	<u>299,236</u>	<b>Net Cost of Services</b>	<u>304,223</u>	<u>(38,338)</u>	<u>265,885</u>	
5	0	Seconded Officers	1,986	(1,986)	0	
6	732	Interest payable			932	
7	(3,133)	Interest and Investment Income			(3,029)	
		Pensions Interest Costs and Expected Return on Pensions Assets				
8	270	- Police Staff Scheme (Funded)			2,380	28
9	<u>87,370</u>	- Police Officer Scheme (Unfunded)			<u>101,457</u>	28
10	384,475	<b>Net Operating Expenditure *</b>			367,625	1
11	(101,940)	Police Grant			(104,461)	
12	(10,862)	Revenue Support Grant			(9,459)	
13	(64,726)	Non-Domestic Rates			(67,948)	
14	(79,276)	Precepts on District and Unitary Authorities			(86,217)	7b
15	<u>127,671</u>	<b>Deficit for the Year</b>			<u>99,540</u>	

\* Note 1 on page 39 provides a subjective analysis of the total net operating expenditure.

## **STATEMENT OF MOVEMENT ON THE GENERAL FUND BALANCE**

	2007/08		2008/09	
	Net Expenditure £000		Net Expenditure £000	Note Ref
1	127,671	Deficit for the year, from Income and Expenditure Account	99,540	
2	(127,718)	Net amount required by statute and non-statutory proper practices to be credited to the general fund balance for the year	(99,540)	11
3	<u>(47)</u>	<b>Increase in General Fund Balance for the Year</b>	<u>0</u>	
4	(6,251)	General Fund Balance brought forward	(6,298)	
5	<u>(6,298)</u>	General Fund Balance carried forward	<u>(6,298)</u>	

## ***Commentary on the Income and Expenditure Account and The Statement of Movement on the General Fund Balance***

In 2008/09, there is a decline of approximately £28.0m in the deficit for the year. This is largely explained by the £29.7m reduction in non-distributed costs in 2008/09. The non-distributed costs are all pensions past service costs and the reduction is due to a change in commutation factors for police officer pensions. Accounting standards required the full impact of this change to be accounted for by a one off adjustment in 2007/08.

The Income and Expenditure Account shows the Authority's performance for the year, according to accounting standards and measured in terms of resources consumed and generated over the last twelve months. However, the Authority is required to raise council tax on a different accounting basis, the main differences being:

- Capital investment is accounted for as it is financed rather than when fixed assets are consumed
- Retirement benefits are charged to the accounts as amounts become payable to pension funds and pensioners rather than as future benefits are earned.

There is no increase in the Fund Balance (shown at line 3 of the Statement of Movement on the General Fund Balance on page 35). This is because spending is exactly matched to income raised from council tax and other sources after taking into account transfers to and from earmarked reserves.

The Statement of Movement on the General Fund Balance summarises the difference between the outturn on the Income and Expenditure Account and the General Fund Balance. Note 11 provides further details of net amount required by statute and non-statutory proper practices to be credited to the general fund balance for the year.

### **STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES**

2007/08		2008/09
£000		£000
127,671	Deficit for the year on the Income and Expenditure Account	99,540
(1,870)	(Gains)/ losses on Revaluation of Assets	0
(300,360)	Actuarial (gains)/losses on pension fund liabilities	(21,371)
<hr/>		<hr/>
(174,559)	Total Recognised (gains)/losses for the year	78,169
<hr/> <hr/>		<hr/> <hr/>

This statement brings together all the gains and losses of the Authority for the year and shows the aggregate increase in its net worth. In addition to the surplus generated on the Income and Expenditure Account, it includes gains and losses relating to the revaluation of fixed assets and re-measurement of the net liability to cover the cost of retirement.

**BALANCE SHEET AS AT 31 MARCH 2009**

2007/08 £000		£000	2008/09 £000	Note Ref
	<b>Fixed Assets</b>			
	Land & Buildings			
128,415	Operational	125,685		13
3,703	Non-Operational	<u>9,811</u>		13
<u>132,118</u>			135,496	
<u>11,821</u>	Vehicles, Plant & Equipment		<u>9,940</u>	13
143,939	<b>Total Fixed Term Assets</b>		145,436	
7,617	Long Term Investments	<u>2,500</u>		16
<u>151,556</u>	<b>Total Long Term Assets</b>		147,936	
	<b>Current Assets</b>			
966	Stocks	879		20
10,689	Debtors	11,977		21
39,380	Investments	43,176		16
<u>253</u>	Staff Car and Cycle Loans	<u>314</u>		
51,288	<b>Total Current Assets</b>		56,346	
<u>202,844</u>	<b>Total Assets</b>		<u>204,282</u>	
	<b>Current Liabilities</b>			
(20,569)	Creditors	(21,837)		22
<u>(1,614)</u>	Cash & Bank	<u>(962)</u>		
(22,183)	<b>Total Current Liabilities</b>		(22,799)	
	<b>Long Term Liabilities</b>			
(20,087)	Borrowing repayable in excess of 12 months		(24,637)	16
(1,675)	Provisions		(1,394)	23
(12,084)	Government Grant Deferred		(11,039)	
(2,462)	Capital Grants Unapplied		(4,952)	
(34,600)	Pensions Liability - Staff		(84,630)	28
<u>(1,480,500)</u>	Pensions Liability - Officers		<u>(1,503,747)</u>	28
<u><b>(1,370,747)</b></u>	<b>Total Assets less Liabilities</b>		<u><b>(1,448,916)</b></u>	
	<b>Represented By</b>			
94	Revaluation Reserve		94	24
111,984	Capital Adjustment Account		109,224	24
(34,600)	Pension Reserve - Staff		(84,630)	24
(1,480,500)	Pension Reserve - Officers		(1,503,747)	24
1,839	Useable Capital Receipts Reserve		1,759	24
24,138	Earmarked Reserves		22,086	24
6,298	General Balances		6,298	24
<u><b>(1,370,747)</b></u>			<u><b>(1,448,916)</b></u>	

**JOHN GLASBY  
POLICE AUTHORITY TREASURER**

**CASH FLOW STATEMENT FOR THE YEAR ENDED 31 MARCH 2009**

2007/08 £000		2008/09 £000	£000	Note Ref
	<b>Revenue Activities</b>			
578	Net Revenue Activities Cash Flow		1,352	29 a
	Return on Investments and Servicing of Finance			
	<u>Cash Outflows</u>			
682	Interest Paid	882		
	<u>Cash Inflows</u>			
(1,113)	Interest Received	(1,480)		
(431)			(598)	
	<b>Capital Activities</b>			
	<u>Cash Outflows</u>			
13,170	Purchase of Fixed Assets	10,291		
	<u>Cash Inflows</u>			
(4,240)	Government Grants	(4,320)		29 e
(2,446)	Sale of Fixed Assets	(0)		
(6,686)		(4,320)		
6,484	Capital Activities Net Cash Flow		5,971	
6,631	<b>Net Cash Outflow / (Inflow) Before Financing</b>		6,725	
	<b>Management of Liquid Resources</b>			
(921)	Net increase/ (decrease) in Investments		(2,877)	29 c
	<b>Financing</b>			
(4,750)	New Loans Raised		(4,500)	29 c
960	Net Decrease/(Increase) in Cash		(652)	29 c

## NOTES TO THE ACCOUNTS

### 1. Subjective Analysis of Net Operating Expenditure

2007/08		2008/09
£000		£000
<b>EXPENDITURE</b>		
158,085	Police Officer Pay & Overtime	163,219
68,689	Police Staff Pay & Overtime	70,463
<u>12,422</u>	Allowances & Other Expenses	<u>13,313</u>
239,196	<b>Total Employee Costs</b>	246,995
4,294	Police Pension Fund Temporary Contribution *	5,505
10,815	Premises	11,206
12,149	Supplies & Services	14,730
13,665	Communications & Information Management	14,986
7,310	Transport & Travel Costs	7,732
4,981	Regional & National Services	4,343
3,018	Other Costs	2,456
1,334	Interest payable and other Capital Financing Costs	1,723
<u>296,762</u>	<b>Total Expenditure</b>	<u>309,676</u>
<b>INCOME</b>		
(11,818)	Sales, Fees, Charges & Other Income	(9,840)
(26,865)	Additional Police Grants	(28,498)
(2,899)	Interest Received	(3,029)
(234)	Exchange Rate Gain	0
<u>(41,816)</u>	<b>Total Income</b>	<u>(41,367)</u>
<u>254,946</u>	<b>Net Expenditure</b>	<u>268,309</u>
1,858	Contribution to/(from) balances and earmarked reserves	(224)
<u>256,804</u>	<b>Total amount raised from government grants and local taxation</b>	<u>268,085</u>
5,440	Adjustment to account for cost of capital as it is consumed	4,668
127,210	Adjustment to account for future retirement benefits as they are earned rather than as they become payable to pension funds and pensioners	94,648
(3,121)	Reversal of contribution to Airwave Provision	0
(1,858)	Deduct contributions (to)/from balances and earmarked reserves	224
<u><u>384,475</u></u>	<b>Net Operating Expenditure</b>	<u><u>367,625</u></u>

\*This is a temporary contribution awaiting reimbursement by Top Up Grant from the Home Office.

## 2. **Exceptional Items**

There were no exceptional items during 2008/09.

## 3. **Date of Authorisation of the Accounts**

These accounts were presented to the Police Authority on 26 June 2009 and authorised for issue on the 18 September 2009. All events after the balance sheet date have been considered for their impact. On the 30 May 2008, the Home Office issued revised regulations with regard to commutation of pension payments for retiring Police Officers. The revised regulations were initially back dated to 1 October 2007, however, following a judicial review, a High Court judgement was made to back date the commutations to the 1 December 2006. The Home Office instructed Administrators on the 1 May 2009 to make the additional payments. The cost of the additional commutation payments due as at 31 March 2009 has been calculated at £2.132m. This has been included in the Income and Expenditure Statement and will be funded by a top up grant from the Home Office. The related additional debtors and creditors of £2.132m and the pension liabilities as calculated under FRS17 are recognised within the accounts.

## 4. **Memorandum Publicity Account**

Section 5 of the Local Government Act 1986 requires authorities to keep a separate record of any costs of publicity. The figures below are included in the Income and Expenditure Account:

2007/08 <u>£000</u>		2008/09 <u>£000</u>
462	Press and Publicity	516
91	Recruitment Advertising	81
<u>4</u>	Other Advertising	<u>8</u>
557		605

## 5. **Employees' Remuneration**

Regulation 7(2) of the Accounts and Audit Regulations 2003 requires the Authority to report (in multiples of £10,000) the numbers of staff with salary payments and allowances above £50,000 during the financial year. Allowances include relocation expenses when officers are required to move to a different part of the Force area. The figures in the table include staff starting or leaving during the year, and also officers seconded to other Forces.

<u>No.</u> <u>2007/08</u>	<u>Total salary and allowance bands</u>	<u>No.</u> <u>2008/09</u>
188	£50,000 to £59,999	205
18	£60,000 to £69,999	26
15	£70,000 to £79,999	16
8	£80,000 to £89,999	7
7	£90,000 to £99,999	10
1	£100,000 to £109,999	2
1	£110,000 to £119,999	0
0	£120,000 to £129,999	1
1	£130,000 to £139,999	0
1	£140,000 to £149,999	1
0	£150,000 to £159,999	0
0	£160,000 to £169,999	0
0	£170,000 to £179,999	1
<u>240</u>		<u>269</u>

## 6. Police Authority Costs

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

2007/08		2008/09
<u>£000</u>		<u>£000</u>
966	Statutory Officers and associated costs	1,019
285	Members' Allowances & Expenses	271
<u>117</u>	Other Costs (e.g. custody visitors, subscriptions etc)	<u>115</u>
1,368	Total Police Authority Costs	1,405

## 7. Related Party Transactions and Partnerships

Under FRS8 police authorities must report details of material transactions with related parties, including central government, other local authorities, and member and senior officers and their close families. The Chief Executive of the Authority has written to all members and senior officers explaining the need for disclosure. No relevant transactions have been reported. Members' interests are also publicly reported on the Police Authority website. The Authority purchases some services from Devon County Council; mainly internal audit and the pension administration services described in note 28 on page 58. Government grants and precepts from District Councils and Unitary Authorities are set out below. Transactions within the pension fund are shown in note 28.

### a. Additional Police Grants

As well as the general grants, the Police Authority has received these specific government grants that can only be spent on the services named:

2007/08		2008/09
<u>£000</u>		<u>£000</u>
6,661	Crime Fighting Fund	6,661
3,122	Rural Policing Grant	3,122
856	DNA Expansion Programme	856
4,294	Police Pension top-up (balance)	5,505
0	BCU Commanders Fund *	94
1,592	Special Priority Payments	1,592
6,971	PCSO's / Neighbourhood Policing	7,139
1,667	Counter-Terrorism	1,968
226	New Deal Officers	194
0	Heritage & Learning	11
362	Targeted Policing Plymouth	458
0	Targeted Policing Cornwall	221
0	Local Criminal Justice Board	30
339	Probationer Training	177
260	Plymouth After Dark	0
215	Plymouth Young Runaways Project	0
250	Proceeds of Crime	250
27	Impact	0
0	Automatic Number Plate Recognition	85
<u>23</u>	Other Minor Grants	<u>135</u>
26,865	Total	28,498

\* Additional information with regard to the BCU Commanders Fund is provided in note 7c(xii).

**b. Precepts**

Most of the cost of policing comes from government grants and business rates co-ordinated nationally. District councils, borough councils and unitary authorities collect the balance by charging their council tax payers a police precept. The amounts collected (adjusted for surpluses or shortfalls collected for previous years) are shown below.

2007/08 £000	<u>Billing Authority:</u>	2008/09 £000
7,388	East Devon	8,060
4,884	Exeter	5,345
3,657	Mid Devon	4,008
4,494	North Devon	4,910
10,125	Plymouth	10,895
4,948	South Hams	5,353
6,404	Teignbridge	6,951
6,413	Torbay	6,929
3,028	Torrige	3,330
2,649	West Devon	2,858
4,078	Caradon	4,388
4,626	Carrick	5,069
4,292	Kerrier	4,733
4,297	North Cornwall	4,752
3,252	Penwith	3,495
4,570	Restormel	4,953
171	Isles of Scilly	188
<u>79,276</u>		<u>86,217</u>

**c. Partnerships**

There are a number of partnerships in which the Constabulary participates. These are arrangements where the Authority carries out activities relevant to its own functions jointly with others. For a number of the partnerships a formal partnership agreement is in place. The most significant partnerships are shown in the table below.

Expenditure 2007/08 £000	Income 2007/08 £000	Note Activity	Expenditure 2008/09 £000	Income 2008/09 £000
202	0	(i) Drug Arrest Referral	198	0
1,412	(17)	(ii) Youth Offending Teams	1,028	(24)
118	(113)	(iii) Sexual Assault Referral Centres	72	(15)
36	0	(iv) Children's Safeguarding Board	44	0
35	(12)	(v) Domestic Violence	59	0
114	0	(vi) Safer Partnerships	171	0
575	(575)	(vii) Local Criminal Justice Board	343	(343)
133	(10)	(viii) Diversity Partnerships	61	0
1,608	(1,559)	(ix) Devon and Cornwall Safety Camera Partnership	1,393	(1,393)
3	0	(x) Adult Protection	2	0
0	0	(xi) Devon Children's Trust	4	0
134	(139)	(xii) BCU Commanders Fund – Devon BCU	348	(337)
<u>4,370</u>	<u>(2,425)</u>	Total	<u>3,723</u>	<u>(2,112)</u>

There are no significant jointly controlled assets as at 31 March 2009.

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

- i) The Drug Arrest Referral Scheme is a partnership between the Police Authority, the local authorities and primary care trusts operating in Devon and Cornwall, the probation service and the prison service. Further assistance is provided by the Home Office and the National Treatment Agency. The team jointly commissions services related to substance misuse, education, access to information and development of services for vulnerable people.
- ii) The Youth Offending Team is funded by a combination of government grants, and contributions from the Police Authority, Local Authorities, Primary Care Trusts and the National Probation Service. The initiative provides programmes for young people with the intention of preventing re-offending.
- iii) The Sexual Assault Referral Centres are funded by a combination of government grants and contributions from the Police Authority. The centres are set up in safe locations, where victims of sexual assault can receive medical care and counselling. Referral centres bring together all agencies and departments in one place, which helps both the victims and those investigating the crimes.
- iv) The Children's Safeguarding Board Partnership includes the Police Authority, Local Authorities, Devon and Cornwall Probation, Primary Care Trusts, NHS Trust, Strategic Health Authority, Connexions, Children and Family Court Advisory Support Service (CAFCASS), Action for Children, National Society for the Prevention of Cruelty to Children (NSPCC), Plymouth City College, Naval Personal and Family Welfare and Royal Marines Welfare, Devon and Somerset Fire and Rescue, Church of England Diocesan Board and Roman Catholic Diocese of Plymouth. The partners aim to safeguard and promote the welfare of children, and for ensuring the effectiveness of what they do.
- v) The Domestic Violence Partnership includes the Police Authority, Local Authorities, the National Probation Service, Primary Care Trusts and the Department of Communities and Local Government. Additional funding is allocated from the Safer Partnerships (see (vi) below).
- vi) The Safer Partnerships includes the Police Authority, Local Authorities, Devon & Somerset Fire and Rescue Authority, the National Probation Service and Primary Care Trusts. Funding is received from the Department for Communities and Local Government via the Safer and Stronger Communities strand of the Local Area Agreement, and contributions from all partners involved. Funding is allocated to projects to deal with local and county-wide crime and disorder issues.
- vii) The Local Criminal Justice Board is funded by the Police Authority, Local Authorities and Cornwall Strategic Partnership. The Local Criminal Justice Board was formed in response to a need to locally manage the Criminal Justice System and ensure that all criminal justice agencies work together to tackle crime.
- viii) The Diversity Department works in partnership with minority groups to prevent crime and to build a relationship of trust with all sections of the community.
- ix) The Safety Camera Partnership membership includes the Police Authority, Highways Authorities in Devon and Cornwall and the Highways Agency. Its purpose is to reduce road casualties by deterring and detecting speeding and traffic light offences. Funding is drawn from a Road Safety Grant.
- x) Adult Protection Partnership includes the Police Authority, Local Authorities, Crown Prosecution Service, Probation, Primary and Other NHS Care Trusts, Hospital Trusts, Commission for Social Care Inspection, Health Care Commission, Strategic Health Authority, Housing Trusts and Supporting People Board Department of Work and Pensions. The Police and other agencies have a duty to act to protect vulnerable adults from abuse, and where abuse is suspected, to investigate.

- xi) The Devon Children's Trust includes the Police Authority, Devon County Council, Cornwall and Devon Connexions, Devon and Cornwall Learning and Skills Council, Devon and Cornwall Probation Area, Devon Primary Care Trust, Devon and Somerset Fire and Rescue Service and Health Care Bodies and District Councils within Devon and Cornwall. The organisations work together to meet the needs of children, families and young people.
- xii) The BCU Commanders Fund is funded directly by a Home Office grant. The funding for Cornwall and the Isles of Scilly and Plymouth does not pass through the Force Accounts.

**8. Audit Commission Fees**

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

2007/08 <u>£000</u>		2008/09 <u>£000</u>
83	External audit services	85

**9. Seconded Officers**

Some officers from the Force support the work of other government agencies, either on regular secondments or as they are needed. The expenditure and associated income is included in the Income and Expenditure Account. The Authority can recover the full cost of these officers. During the year this amounted to:

2007/08 <u>£000</u>		2008/09 <u>£000</u>
<u>1,891</u>	Other Government Agencies	<u>1,986</u>
<u>1,891</u>		<u>1,986</u>

**10. Minimum Revenue Provision**

The Authority is required to set aside an amount from revenue for the repayment of external loans. In 2008/09 this amounted to £791,000 (2007/08 £601,000). Although this amount is a statutory charge against the council tax and other funding, it is not included in the Income and Expenditure Account.

## 11. Reconciling items for the Statement of Movement on the General Fund Balance

2007/08 £000		2008/09 £000	Note Ref
<b>Amounts to be included in the Income and Expenditure Account but required by Statute to be excluded when determining the Movement on the General Fund Balance</b>			
(9,896)	Depreciation and impairment of fixed assets	(8,456)	13
3,855	Government grants deferred amortisation	2,997	
(172,710)	Net charges for retirement benefits in accordance with FRS 17	(144,924)	28
<u>(178,751)</u>		<u>(150,383)</u>	
<b>Amounts not to be included in the Income and Expenditure Account but required by Statute to be included when determining the Movement on the General Fund Balance</b>			
601	Minimum revenue provision for capital financing	791	
2,479	Capital expenditure charged in year to the General Fund Balance	1,828	24c
Employers contribution to pension fund and retirement benefits payable direct to pensioners			
6,960	Police Staff	7,440	28
28,890	Police Officers	28,540	28
5,356	Pension top up grant	8,791	28
4,294	Transfer from General Fund pending receipt of pension top up grant*	5,505	28
<u>48,580</u>		<u>52,895</u>	
<b>Transfers to or from the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year</b>			
4,932	Transfer to/(from) earmarked reserves	(224)	24c
<u>(2,479)</u>	Capital Expenditure funded from earmarked reserves	<u>(1,828)</u>	24c
<u>2,453</u>		<u>(2,052)</u>	
<u>(127,718)</u>		<u>(99,540)</u>	

\*Further information on police pensions top up grant is provided on page 67

## 12. Capital Expenditure and Financing

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

2007/08 £000		2008/09 £000	£000
	<b>Capital Investment:</b>		
440	Operational land and buildings	107	
4,379	Non-operational land and buildings	6,108	
1,919	Vehicles & transport	1,871	
1,301	Helicopter	545	
135	Airwave	163	
<u>3,598</u>	Equipment & ICT related	<u>1,159</u>	
11,772			9,953
	<b>Less Sources of Finance:</b>		
(3,235)	Government grants	(1,830)	
(100)	External Contributions	(123)	
(607)	Capital receipts	(80)	
<u>(3,080)</u>	Reserves, provisions and MRP	<u>(2,619)</u>	
(7,022)			(4,652)
<u>4,750</u>	Increase in capital financing requirement for the year		<u>5,301</u>
15,028	Opening capital financing requirement		19,778
<u>19,778</u>	Closing capital financing requirement for the year		<u>25,079</u>
	<b>Represented by:</b>		
19,778	External Borrowing (cumulative) excluding accruals for interest due		24,278
<u>0</u>	Internal Borrowing		<u>801</u>
<u>19,778</u>			<u>25,079</u>
	<b>Borrowing During the Year:</b>		
4,750	External Borrowing		4,500
<u>0</u>	Internal Borrowing		<u>801</u>
<u>4,750</u>			<u>5,301</u>
1,891	Supported by government financial assistance		1,891
2,859	Unsupported by government financial assistance		3,410
<u>4,750</u>			<u>5,301</u>

### 13. Movement of Fixed Assets 2008/09 and Valuation Disclosure

#### a. Movement of Fixed Assets

	<b>Land &amp; Buildings</b>		<b>Vehicles, Plant etc</b>		<b>Total</b>	
	Operational	Non-Operational	Operational	Non-Operational		
		<i>Under construction</i>	<i>Other</i>	<i>Awaiting Commissioning</i>		
	£000	£000	£000	£000	£000	
<b>Cost or Valuation</b>						
At 31 March 2008	143,751	711	3,289	26,127	1,554	175,432
Additions	0	6,216	0	2,617	1,120	9,953
Disposals	0	0	0	(1,909)	0	(1,909)
Reclassifications	107	(107)	0	254	(254)	0
At 31 March 2009	143,858	6,820	3,289	27,089	2,420	183,476
<b>Depreciation and Impairments</b>						
At 31 March 2008	(15,336)	0	(297)	(15,860)	0	(31,493)
Charge for 2008-09	(2,837)	0	(1)	(5,618)	0	(8,456)
Disposals	0	0	0	1,909	0	1,909
At 31 March 2009	(18,173)	0	(298)	(19,569)	0	(38,040)
Balance Sheet at 31/03/09	125,685	6,820	2,991	7,520	2,420	145,436
Balance Sheet at 31/03/08	128,415	711	2,992	10,267	1,554	143,939
<b>Nature of Asset Holding</b>						
Owned	122,548	6,677	2,991	7,520	2,420	142,156
Capital Improvements to Leased Buildings	3,137	143	0	0	0	3,280
PFI	0	0	0	0	0	0
Balance Sheet at 31/03/09	125,685	6,820	2,991	7,520	2,420	145,436

*Vehicles, Plant etc – this heading includes Vehicles, ICT equipment and infrastructure and Communications equipment.*

New assets that are still being built are shown as under construction in “non-operational” and may be reassigned to “operational” when they are finished. Refurbishments of operational assets that are still in use are included in additions to operational assets. Refurbishments of operational assets taken out of use during the refurbishment are shown as non-operational under construction, and will be reassigned to “operational” when the refurbishment project is finished. Depreciation charges are explained in Accounting Policies note 4(d) on page 29.

## **b. Valuation Disclosure**

As explained in note 4 on page 29 of the Accounting Policies, the Authority's land and buildings were re-valued during 2005 by an independent company, Capita Symonds. The valuers were RICS qualified. The Police Authority's in-house valuer has undertaken an impairment review following the recent nation-wide decline in property values. This has indicated that there have been no material changes in the overall value of the property portfolio since the last valuation as at April 2005.

### **14. Significant Capital Commitments**

Note 12 summarises the amount of capital expenditure incurred in 2008/09 totalling £9.953m. Three capital contracts are not yet complete and have costs, which fall in 2009/10. The significant commitments from these projects are as follows:

	2009/10 <u>£000</u>
Bodmin Operational Policing Hub	5,158
Pool Public Protection Unit	999
Force Helicopter	<u>4,984</u>
	<u>11,141</u>

The major part of the cost of the Force helicopter will be paid in euros. For this reason, the cost may vary from the budgeted amount shown above.

### **15. Operating Leases**

The Authority leases some properties used to provide operational services. The costs below are included in the Income and Expenditure Account and shown here for further information:

2007/08 <u>£000</u>		2008/09 <u>£000</u>
<u>1,175</u>	Costs of leases during year	<u>1,291</u>

At 31 March 2009, the Authority was committed to payments of £1.319m in 2009/10 for operating leases on land and buildings, over the following periods:

	<u>£000</u>
Leases expiring in 2009/10	203
Leases expiring in 2010/11 to 2013/14	195
Leases expiring in 2014/15 onwards	921

## 16. *Financial Instruments Balances*

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

	Long Term		Current		Note
	31/03/08	31/03/09	31/03/08	31/03/09	
	£000	£000	£000	£000	
Borrowing at amortised cost	20,087	24,637			a)
Creditors			20,569	21,837	
<b>Total Borrowings</b>	<b>20,087</b>	<b>24,637</b>	<b>20,569</b>	<b>21,837</b>	
Loans and receivables	7,617	2,500	17,781	21,916	b)
Financial Instruments at fair value through Profit and Loss			21,599	21,260	c)
Debtors			5,303	5,215	
<b>Total Investments</b>	<b>7,617</b>	<b>2,500</b>	<b>44,683</b>	<b>48,391</b>	

- a) All long-term borrowing was from the Public Works Loan Board, an executive agency of HM Treasury. Annual repayments are for interest only and the principal is repayable at the date of loan maturity.
- b) Loans and receivables consist of fixed interest deposits held both within the Devon and Cornwall Police Investment Fund (£20.691m as at 31 March 2009) and short-term deposits held for daily cash management (£3.725m as at 31 March 2009).
- c) Financial Investments at fair value through Profit and Loss consist of deposits with external fund managers.

## 17. *Financial Instruments - Gains and Losses*

The gains and losses recognised in the Income and Expenditure Account are made up as follows:

	<u>Financial Liabilities</u>	<u>Financial Assets</u>	<u>Financial Assets</u>	Total
	Liabilities measured at Amortised Cost	Loans and Receivables	Valued at Fair value through Profit and Loss	
	£000	£000	£000	£000
Interest Expense	932			932
Interest Income		(1,741)	(1,288)	(3,029)

## 18. *Fair Value of Assets and Liabilities Carried at Amortised Cost*

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

## Financial Assets

The fair value balances for financial assets as at 31 March 2009 have been calculated using interest rates in Force as at 31 March 2008 and 2009.

	31/03/08		31/03/09	
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
Loans & Receivables	24,975	24,973	24,416	24,082
Debtors	5,303	5,303	5,215	5,215
	<u>30,278</u>	<u>30,276</u>	<u>29,631</u>	<u>29,297</u>

## Financial Liabilities

The balances as at 31 March 2008 and 31 March 2009 have been calculated by reference to the premature repayment set of rates in force as at the respective dates

	31/03/08		31/03/09	
	Carrying Amount £000	Fair Value £000	Carrying Amount £000	Fair Value £000
Long Term Borrowing	20,087	20,235	24,637	25,780
Creditors	20,569	20,569	21,837	21,837
	<u>40,656</u>	<u>40,804</u>	<u>46,474</u>	<u>47,617</u>

### **19. *Nature and Extent of Risks Arising from Financial Instruments and how the Authority manages those Risks***

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

- credit risk – the possibility that other parties might fail to pay amounts due to the Authority
- liquidity risk – the possibility that the Authority might not have funds available to meet its commitments to make payments
- re-financing risk – the possibility that the Authority might be requiring to renew a financial instrument on maturity at disadvantageous interest rates or terms
- market risk – the possibility that financial loss might arise for the Authority as a result of changes in such measures as interest rates and stock market movements.

### Overall Procedures for Managing Risk

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

- by formally adopting the requirements of the Code of Practice
- by approving annually in advance prudential indicators for the following three years

- by approving an investment strategy for the forthcoming year setting out its criteria for both investing and selecting investment counter-parties in compliance with the government guidance

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

The Treasurer of the Authority (supported by Force finance staff and advice from Devon Investment Services) implements these policies.

### Credit Risk

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

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

The credit criteria (as at 31 March 2009) in respect of financial assets held by the Authority are provided in the table below. It should be noted that these are the credit ratings that apply when the loan is first entered into.

<b>Financial asset category</b>	<b>Criteria</b>	<b>Maximum Investment per Individual Institution</b>
Deposits managed by external fund managers	Long Term: AA- and above	15% of Fund
Deposits with UK banks	Short Term: F1 and above Long Term: AA- and above	£3.0m
Deposits with foreign banks	Short Term: F1+ Long Term: AA- and above	£3.0m
Deposits with building societies with a credit rating	Short Term: A- and above	£1.0m
Deposits with unrated building societies with assets over £50bn		£3.0m
Deposits with unrated building societies with assets between £1.0bn and £50bn		£1.0m

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

The following analysis summarises the Authority's potential maximum exposure to credit risk, based on experience of default and uncollectability over the last financial year, adjusted to reflect current market conditions.

	31/03/09 £000	Historical experience of default %	Historical Experience adjusted for market conditions at 31/03/09 %	Estimated maximum exposure to default and uncollectability £000
	A	B	C	(A X C)
Deposits with banks and financial institutions	45,676	0.0%	0.05%	23
Customers	1,450	2.0%	2.00%	29
Other Debtors	5,215	0.0%	0.00%	0
	<u>52,341</u>			<u>52</u>

No credit limits were exceeded during the reporting period. Whilst the current credit crisis in international markets has raised the overall possibility of default, the Authority maintains strict credit criteria for investment counter-parties. For this reason the Authority does not expect any losses from non-performance by any of its counter-parties in relation to deposits.

The Authority does not generally allow more than 28 days credit for customers, such that £0.704m of the £1.450m balance is past its due date for payment. The past due amount can be analysed by age as follows:

	31/03/09 £000
Less than 30 days	371
31- 40 days	15
41 – 50 days	35
51 days and more	283
Total	<u>704</u>

### Liquidity risk

The Authority has a comprehensive cash flow management system that seeks to ensure that cash is available as needed. If unexpected movements happen, the authority has ready access to borrowings from the money markets and the Public Works Loan Board. There is no significant risk that it will be unable to raise finance to meet its commitments under financial instruments. Instead, the risk is that the Authority will be bound to replenish a significant proportion of its borrowing at a time of unfavourable rates.

### Re-financing Risk

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

	31/03/09 £000
Less than one year	0
Between one and ten years	4,505
More than ten years	20,132
Total	<u>24,637</u>

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

### Interest Rate Risk

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

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

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

### Foreign Exchange Risk

The Authority has no financial assets or liabilities denominated in foreign currencies and thus has no exposure to loss on financial instruments arising from movements in exchange rates. The Authority has a contractual commitment to make capital payments for the purchase of a new force helicopter (see note 14). A substantial portion of the payment is in euros and a smaller portion is in US dollars. This commitment exposes the Authority to additional costs arising from exchange rate variations.

## **20. Stocks**

Stock balances at the year-end were:

31/03/08 <u>£000</u>		31/03/09 <u>£000</u>
73	Vehicle Parts	85
105	Vehicle Fuel	61
771	HQ Stores	722
17	Helicopter fuel	11
<u>966</u>	Total Stock	<u>879</u>

HQ stores include clothing, uniform, ICT equipment and stationery.

## **21. Debtors**

Sundry debtors arise from invoices raised by the Authority before 31 March 2009 but not actually paid until the new financial year.

31/03/08 <u>£000</u>		31/03/09 <u>£000</u>
5,303	Sundry Debtors	5,215
1,092	VAT	1,257
4,294	Home Office Top Up Grant	5,505
<u>10,689</u>	Total Debtors	<u>11,977</u>

## 22. Creditors

These are amounts owed by the Authority as at 31 March 2009 but not actually paid until after that date. Like debtors, the figure in the balance sheet depends very much on the timing of regular monthly payments to suppliers and for PAYE etc. The total is made up as follows:

31/03/08 <u>£000</u>		31/03/09 <u>£000</u>
871	Compensatory Grant	723
5,318	Inland Revenue	4,658
<u>14,380</u>	Sundry Creditors	<u>16,456</u>
<u>20,569</u>	Total Creditors	<u>21,837</u>

## 23. Provisions

The Authority's accounting policy on provisions is explained on page 31. During 2008/09, the changes to provisions were:

	Balance at 31/03/08 <u>£000</u>	Charge to Provision <u>£000</u>	Balance at 31/03/09 <u>£000</u>
Insurance	1,675	(281)	1,394

The Police Authority is uninsured for the first £0.1m of each public liability claim up to a total stop loss of £1m for claims. The provision above is to cover any claims from this and previous years. The majority of payments from the provision are expected to be made over the next five years. An assessment of liabilities as at 31 March 2009 has been undertaken and the provision is estimated to be sufficient to meet all the forecast obligations.

## 24. Movement on Reserves

The Authority keeps a number of reserves on the Balance Sheet. Some are needed to comply with recommended accounting practice and others have been set-aside to earmark resources for future spending plans.

	Balance 31/03/08 <u>£000</u>	Net Movement In Year <u>£000</u>	Balance 31/03/09 <u>£000</u>	Purpose	Note Ref
Revaluation Reserve	94	0	94	Store of gains on revaluation of fixed assets not yet realised through sales	
Capital Adjustment Account	111,984	(2,760)	109,224	Store of capital resources set-aside to meet past expenditure	(a)
Usable Capital Receipts	1,839	(80)	1,759	Proceeds of fixed asset sales available to meet future capital investment	(b)
Pensions Reserve - Funded Scheme	(34,600)	(50,030)	(84,630)	Balancing account to allow inclusion of pensions liability in the Balance Sheet	note 28 page 60
Pensions Reserve - Unfunded Scheme	(1,480,500)	(23,247)	(1,503,747)	Balancing account to allow inclusion of pensions liability in the Balance Sheet	note 28 page 63
General Fund	6,298	0	6,298	Resources held to meet unforeseen circumstances	page 35
Earmarked Reserves	24,138	(2,052)	22,086		(c)

### (a) Capital Adjustment Account

	<u>£000</u>
Capital receipts applied	80
Capital expenditure financed from earmarked reserves and provisions	1,828
Depreciation	(8,456)
Government grant written down	2,997
Minimum revenue provision	791
	<u>(2,760)</u>

This account cannot be called upon to support spending

**(b) Useable Capital Receipts**

	<u>£000</u>
Capital receipts received	0
Capital receipts applied	(80)
	<u>(80)</u>

**(c) Earmarked Reserves**

	Opening Balance 31/03/08	Transfer to General Fund to Finance Capital Expenditure	Net Contribution (to)/from Revenue Resources	Transfers between Reserves	Closing Balance 31/03/09
	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>	<u>£000</u>
Desktop Replacement	636	(243)	0	0	393
Helicopter Replacement Fund	1,804	(545)	700	(857)	1,102
Police Officer Ill Health	1,000	0	(500)	0	500
Budget Management Fund	1,801	0	215	(904)	1,112
Major Operations	1,392	0	(250)	0	1,142
Programmes & Projects	2,053	0	(116)	0	1,937
Workforce Modernisation	4,000	0	1,000	0	5,000
Service Commitments Fund	441	(441)	0	0	0
Force Development	2,861	0	(1,000)	0	1,861
Invest to Save	1,000	0	0	(750)	250
Capital Financing	1,141	(436)	0	857	1,562
Police Staff Pensions	3,000	0	(500)	(2,000)	500
Airwave	2,259	(163)	(201)	0	1,895
Estates Development	750	0	(92)	0	658
Revenue Smoothing Fund	0	0	120	3,654	3,774
Employment Tribunal/Legal Fees	0	0	150	0	150
Firearms Asset Management	0	0	250	0	250
	<u>24,138</u>	<u>(1,828)</u>	<u>(224)</u>	<u>0</u>	<u>22,086</u>

**25. Third Party Funds**

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

	Income <u>£000</u>	Expenditure <u>£000</u>	Assets <u>£000</u>	Liabilities <u>£000</u>
Seized Funds	1,119	1,046	1,017	1,017

**26. Contingent Liabilities**

The Authority has received a number of equal pay claims from members of staff. The nature of such claims, if substantiated, would have a significant financial impact on the Authority. The Authority is currently taking legal advice on the claims to determine if they are likely to be substantiated. The complicated process of dealing with this issue is ongoing and if the claims are substantiated, they present a major financial risk to the Authority.

## **27. Contingent Assets**

The Police Authority has a number of legal claims pending against it for personal injury. Provision has been made in the accounts to cover these claims (see note 23). It may be possible to recover a portion of the costs. The amounts concerned are not material in relation to the Police Authority's overall accounts.

## **28. Pensions**

### **(a) General**

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

The Statement of Recommended Practice (SORP) requires a local authority to follow FRS 17 (see Statement of Accounting Policies for more information). FRS17 recognises the cost of retirement benefits in the "Net Cost of Service" when employees earn them, rather than when the benefits are eventually paid as pensions. However, the charge to council-tax payers has to be based on the cash payable each year, so the non-cash cost of retirement benefits is credited to the General Fund Balance for the year so that the Movement on the General Fund reflects only the cash cost.

The FRS17 terms used have very specific meanings:

Current service cost	The increase in the benefits earned by employees in the current period based on their pay and length of service. This is charged to the net cost of services.
Past Service Cost	The increase in the benefits earned by employees from their service in previous years arising because of improved retirement benefits. These costs are paid directly by the employer and are charged to the net cost of services.
Interest cost	The expected increase during the period in the present value of the scheme liabilities because members of the scheme are one year closer to retirement. This is charged to net operating expenditure.
Expected return on assets	The average rate of return expected over the remaining life of the pension scheme from the actual investments held by the scheme. Fees charged by investment managers are taken out. The net income is credited to net operating expenditure.
Actuarial gains and losses	Changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions.

The Authority operates two pension schemes, one for police staff and one for police officers. Both are defined benefits schemes, providing members with benefits based on their final pensionable pay and length of service.

**(b) Police Staff (funded scheme)**

Police staff can join the Local Government Pension Scheme (LGPS) managed by Devon County Council. This is a funded defined benefit final salary scheme, which means that employees and the Authority pay contributions into a fund to buy investment assets, calculated at a level intended over the long term to balance the pensions liabilities with investment assets. Occasionally payments (e.g. compensatory added years and gratuities) are awarded which are funded by the Force and not paid out of the investment assets. These payments are called unfunded benefits.

Devon County Council employs an independent actuary to value the assets and liabilities of the Fund every three years and set the future employer's contribution rates to pay for the pension benefits of current and past employees. The employer contribution rate has been set at 15% for 2009/10.

**Change in Accounting Policies**

Under the 2008 SORP the Authority has adopted the amendment to FRS17. For the Local Government Pension Scheme, asset values were previously measured at mid-market value for periods ending 2008 and 2007. These have been re-measured at bid price. Asset values for periods ending 2006 and 2005 are shown at mid-market value and have not been re-measured as permitted by FRS17 (revised).

As this is a significant change in accounting policy, the opening and closing balances in 2007/08 for the long term pension liabilities and pension reserve have been amended as follows:

Impact on Statement of Total Recognised Gains and Losses	Before Adjustment	Adjustment for Bid Price Valuation	After Adjustment
	£000	£000	£000
<u>Pensions liability</u>			
Pensions net liabilities – 31 March 2007	(42,520)	(430)	(42,950)
Change in net liabilities	8,320	30	8,350
Pensions net liabilities – 31 March 2008	<u>(34,200)</u>	<u>(400)</u>	<u>(34,600)</u>
<u>Pensions reserve</u>			
Pensions net liabilities – 31 March 2007	42,520	430	42,950
Change in net liabilities	(8,320)	(30)	(8,350)
Pensions net liabilities – 31 March 2008	<u>34,200</u>	<u>400</u>	<u>34,600</u>

## Transactions relating to Retirement Benefits

Under FRS 17 requirements, the charges made to the Income and Expenditure Account and the Statement of Movement in the General Fund Balance for this scheme are:

2007/08 Funded Benefits £000	2007/08 Unfunded Benefits £000		2008/09 Funded Benefits £000	2008/09 Unfunded Benefits £000
		<b>Income and Expenditure Account</b>		
		<b>Charged to Net Cost of Services</b>		
9,100	0	Current service cost	5,980	0
1,820	0	Past service cost	160	0
		<b>Charged to Net Operating Expenditure</b>		
8,980	130	Interest cost	11,210	160
(8,810)	0	Expected return on assets	(8,990)	0
		<b>Net charge</b>		
<u>11,090</u>	<u>130</u>	<b>to the Income and Expenditure Account</b>	<u>8,360</u>	<u>160</u>

### Statement of Movement in the General Fund Balance

(11,090)	(130)	Reversal of charges made for retirement benefits in accordance with FRS17	(8,360)	(160)
		Actual amount charged against the General Fund Balance for pensions in the year (from FRS17 report)		
6,820	140		7,290	150

## Changes to the present value of liabilities

The changes to the present value of liabilities during the accounting period:

2007/08 Funded Benefits £000	2007/08 Unfunded Benefits £000		2008/09 Funded Benefits £000	2008/09 Unfunded Benefits £000
<b>(165,160)</b>	<b>(2,610)</b>	<b>Opening present value of liabilities</b>	<b>(162,090)</b>	<b>(2,470)</b>
(9,100)	0	Current service cost	(5,980)	0
(8,980)	(130)	Interest cost	(11,210)	(160)
(3,000)	0	Contributions by participants	(3,340)	0
22,280	130	Actuarial gains/(losses) on liabilities	(12,840)	(110)
3,690	140	Net benefits paid out	3,830	150
(1,820)	0	Past service cost	(160)	0
<b>(162,090)</b>	<b>(2,470)</b>	<b>Closing present value of liabilities</b>	<b>(191,790)</b>	<b>(2,590)</b>

## Changes to the present value of assets

The changes to the fair value of assets during the accounting period:

2007/08 Funded Benefits £000	2007/08 Unfunded Benefits £000		2008/09 Funded Benefits £000	2008/09 Unfunded Benefits £000
<b>124,820</b>	<b>0</b>	<b>Opening fair value of assets</b>	<b>129,960</b>	<b>0</b>
8,810	0	Expected return on assets	8,990	0
(9,800)	0	Actuarial gains/(losses) on assets	(36,000)	0
6,820	0	Contributions by employer	7,290	0
3,000	0	Contributions by participants	3,340	0
(3,690)	0	Net benefits paid out	(3,830)	0
<b>129,960</b>	<b>0</b>	<b>Closing fair value of assets</b>	<b>109,750</b>	<b>0</b>

Devon and Cornwall Police Authority employs a building block approach in determining the rate of return on fund assets. Historical markets are studied and assets with higher volatility are assumed to generate higher returns consistent with widely accepted capital market principles. The overall expected rate of return on assets is then derived by aggregating the expected return for each asset class over the actual asset allocation for the Fund at 31 March 2009.

The actual return on scheme assets in the year was (£27.01m).

## Scheme History

The history of asset values, present value of liabilities and surplus/deficit to 31 March 2009:

History of asset values, present value of liabilities and surplus/deficit	31/03/05 £000*	31/03/06 £000*	31/03/07 £000	31/03/08 £000	31/03/09 £000
<u>Funded Benefits</u>					
Fair value of assets	86,000	111,560	124,820	129,960	109,750
Present value of liabilities	(128,960)	(149,010)	(165,160)	(162,090)	(191,790)
Surplus/(deficit)	(42,960)	(37,450)	(40,340)	(32,130)	(82,040)
<u>Unfunded Benefits</u>					
Fair value of assets	0	0	0	0	0
Present value of liabilities	(2,250)	(4,010)	(2,610)	(2,470)	(2,590)
Surplus/(deficit)	(2,250)	(4,010)	(2,610)	(2,470)	(2,590)
Total surplus/(deficit)	(45,210)	(41,460)	(42,950)	(34,600)	(84,630)

\* For periods ending 2005 and 2006 as permitted by FRS17 (revised). The fair value of assets have not been restated.

The liabilities show the underlying commitment that the Authority has in the long run to pay retirement benefits. The total liability of £84.630m has a substantial impact on the net worth of the Authority as recorded in the balance sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Authority remains healthy:

- the deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary

## Estimated Contributions 2009/10

The employer's regular contributions to the fund for the accounting period 31 March 2010 are estimated to be £7.92m.

## Basis for Estimating Assets and Liabilities

The actuaries have used the 'projected unit method of valuation' and so the 'current service cost' will increase as the members of the scheme approach retirement. Many things, such as market investment returns and the number of people retiring in any particular year, are very uncertain, so the figures given here are "best estimates" and can change from year to year.

The independent actuaries have made the following assumptions to calculate the valuations:

Financial Assumptions	31/03/08	31/03/09
	(% pa)	(% pa)
Discount rate for scheme liabilities	6.8	6.6
Rate of general long term increase in salaries	4.7	5.1
Rate of increase to pensions in payment	3.7	3.6
Rate of inflation	3.7	3.6
Mortality Assumptions	31/03/08	31/03/09
	Females Males	Females Males
Future lifetime from age 65 (currently aged 65)	24.1 22.1	25.0 23.1
Future lifetime from age 65 (currently aged 45)	25.3 24.0	27.3 25.4
Expected Rate of Return on Assets Assumptions	31/03/08	31/03/09
	(% pa)	(% pa)
Weighted average of expected rate of return on fund assets	6.9	5.3

## History of Experience Gains and Losses

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

	31/03/05	31/03/06	31/03/07	31/03/08	31/03/09
	£000	£000	£000	£000	£000
<u>Experience gains and losses – funded scheme</u>					
Experience gains/(losses) on assets	4,240	15,270	1,480	(9,800)	(36,000)
Percentage	4.9%	13.7%	1.2%	(7.5%)	(32.8%)
Experience gains/(losses) on liabilities	(3,750)	(110)	870	(3,330)	(500)
Percentage	(2.9%)	(0.1%)	0.5%	(2.1%)	(0.3%)
<u>Experience gains and losses – unfunded scheme</u>					
Differences between actuarial assumptions on liabilities and actual experiences	*	*	*	(10)	20
	0%	0%	0%	(0.4%)	0.8%

In accordance with FRS17 (as revised), unfunded liabilities are disclosed separately for periods beginning on or after 6 April 2007. This disclosure note presents the history of liabilities, and experience gain/(loss) on liabilities, for periods ending 2008 and 2009. For periods ending 2007 and earlier unfunded liabilities are included in the disclosure note for funded benefits.\*

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

**(c) Police Officers (unfunded scheme)**

In 2006/07 the arrangements for Police Officer pensions changed. Up until 2006/07 police authorities paid for current pensions benefits out of operating income. From 1 April 2006 the Police Officers' pension scheme was replaced by a "new Police Pension Scheme". The new scheme is open to all new recruits. For both the new and old schemes employers now pay a fixed annual percentage contribution. The employer contribution rate was set at 24.2% for 2008/09. Pensions are financed from the employee contributions and the new employer contribution. Any deficit is met by the Home Office in the form of a top up grant. Employee and employer contributions are paid into a separate Police Officers' Pension Fund Account. The details of this account are provided on page 67.

The Police Officer Pension Scheme is an unfunded defined benefit final salary scheme administered by the Devon and Cornwall Police Authority, meaning that there are no investment assets built up to meet the pensions liabilities, and cash has to be generated to meet actual pensions payments as they eventually fall due. Police Pension Fund Regulations require police authorities to transfer a sum not exceeding the amount that the Police Pensions Fund is in deficit at 31 March from the Devon and Cornwall Police General Fund in to the Police Pensions Fund. Subject to parliamentary scrutiny and approval, up to 100% of this cost is met by central government pension top-up-grant. If however the pension fund is in surplus for the year, the surplus is required to be transferred from the pension fund to the Police Authority, which then must repay the amount to central government. The Police Authority makes payments under the Police Injury Benefits Regulations. These payments are also covered by FRS17 and the independent actuary has estimated the costs and they are included within Police Officers scheme disclosure.

**Transactions relating to Retirement Benefits**

Under FRS 17 requirements, the following charges for this scheme were included in the Income and Expenditure Account and the Statement of Movement in the General Fund Balance for this scheme. (As the scheme has no assets, there are no expected returns to offset against interest).

2007/08 Old Scheme £000	2007/08 New Scheme £000		2008/09 Old Scheme £000	2008/09 New Scheme £000
		<b>Income and Expenditure Account</b>		
		<b>Charged to Net Cost of Services</b>		
42,950	1,000	Current service cost	31,488	1,324
30,200	0	Past service cost	2,135	0
		<b>Charged to Net Operating Expenditure</b>		
87,260	110	Interest cost	101,214	243
<hr/>	<hr/>	<b>Net charge to the Income and Expenditure Account</b>	<hr/>	<hr/>
160,410	1,110		134,837	1,567
		<b>Statement of Movement in the General Fund Balance</b>		
(160,410)	(1,110)	Reversal of charges made for retirement benefits in accordance with FRS17	(134,837)	(1,567)
39,400	(860)	Actual amount charged against the General Fund Balance for pensions in the year	44,314	(1,478)

## Liabilities in relation to Retirement Benefits

The changes of the present value of the defined benefit obligation during the accounting period.

2007/08 Old Scheme £000	2007/08 New Scheme £000		2008/09 Old Scheme £000	2008/09 New Scheme £000
		<b>Defined Benefit Obligation Reconciliation</b>		
<b>(1,644,110)</b>	<b>(1,190)</b>	<b>Opening defined benefit obligation</b>	<b>(1,478,230)</b>	<b>(2,270)</b>
(42,950)	(1,000)	Current service cost	(31,488)	(1,324)
(87,260)	(110)	Interest cost	(101,214)	(243)
286,890	890	Actuarial (gains)/losses	69,952	369
50,763	(534)	Net benefits paid	55,793	(871)
(30,200)	0	Past service cost	(2,135)	0
(12,082)	(326)	Contributions by participants	(12,279)	(607)
719	0	Injury Pension Payments	800	0
<b>(1,478,230)</b>	<b>(2,270)</b>	<b>Closing defined benefit obligation</b>	<b>(1,498,801)</b>	<b>(4,946)</b>

## Scheme History

The history of the present value of liabilities and deficit to 31 March 2009:

History of the present value of liabilities and deficit	31/03/05 £000	31/03/06 £000	31/03/07 £000	31/03/08 £000	31/03/09 £000
<u>Present value of liabilities</u>					
Old Scheme	(1,430,300)	(1,578,920)	(1,644,110)	(1,478,230)	(1,498,801)
New Scheme	0	0	(1,190)	(2,270)	(4,946)
(Deficit)	<u>(1,430,300)</u>	<u>(1,578,920)</u>	<u>(1,645,300)</u>	<u>(1,480,500)</u>	<u>(1,503,747)</u>

The liabilities show the underlying commitments that the Authority has in the long run to pay retirement benefits. The total liability of £1,503.747m has a substantial impact on the net worth of the Authority as recorded in the balance sheet. However, statutory arrangements for funding the deficit mean that the financial position of the Authority remains healthy:

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

## Estimated Contributions 2009/10

The estimates of the projected revenue account costs for the year ending 31 March 2010:

Projected Pension Expense for the Year to 31 March 2010	2009/10	2009/10	2009/10
	Old Scheme £000	New Scheme £000	Total £000
Service cost	30,293	1,269	31,562
Interest cost	100,023	424	100,447
<b>Total</b>	<u>130,316</u>	<u>1,693</u>	<u>132,009</u>
Employer contributions	28,390	1,631	30,021

Note that these figures exclude the capitalised cost of any early retirements or augmentations, which may occur after 31 March 2009.

## Basis for Estimating Assets and Liabilities

The actuaries have used the 'projected unit method of valuation' and so the 'current service cost' will increase as the members of the scheme approach retirement. Many things, inflation rates, investment returns and the number of people retiring in any particular year, are very uncertain, so the figures given here are "best estimates" and can change from year to year.

The independent actuaries have made the following assumptions to calculate the valuations:

Financial Assumptions	31/03/08	31/03/09
	(% pa)	(% pa)
Discount rate for scheme liabilities	6.8	6.7
Rate of general long term increase in salaries	4.7	4.5
Rate of increase to pensions in payment	3.7	3.0
Rate of inflation	3.7	3.0
Mortality Assumptions	31/03/09	
	Females	Males
Life Expectancy from age 65 (retiring today)	23.79	20.98
Life Expectancy from age 65 (retiring in 20 years)	24.44	21.65

It is assumed that 50% of retiring members will opt to increase their lump sums to the maximum allowed.

## History of Experience Gains and Losses

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

	31/03/05	31/03/06	31/03/07	31/03/08	31/03/09
	£000	£000	£000	£000	£000
<u>Old Scheme</u>					
Experience gains and losses on scheme liabilities	12,900	65,000	(4,800)	(4,630)	(14,411)
Percentage		4.2%	(0.3%)	(0.3%)	(1.0%)
	£000	£000	£000	£000	£000
<u>New Scheme</u>					
Experience gains and losses on scheme liabilities	0	0	0	(40)	69
Percentage	0%	0%	0%	(1.8%)	1.4%

## 29. Notes to the Cash Flow Statement

### a. Reconciliation of the Net Movement on General Fund Balance to the Net Revenue Cash Movement

2007/08		2008/09	
£000		£000	£000
127,671	<b>Deficit of the Income and Expenditure Account</b>	99,540	
	<b>Non Cash Transactions</b>		
3,224	(Increase) / decrease in Provisions	281	
(127,210)	Pensions Liability	(94,648)	
(9,896)	Depreciation	(8,456)	
3,855	Government grants deferred amortisation	2,997	
<u>(2,356)</u>			(286)
	<b>Movement in Relevant Assets / Liabilities</b>		
3,062	Increase / (decrease) in Revenue Debtors	1,165	
(2,037)	(Increase)/ decrease in Revenue Creditors	(1,606)	
(216)	Increase / (decrease) in Stock	(88)	
2,041	Accrued Short term Deposits	1,557	
(309)	Accrued Borrowing	(50)	
(38)	Increase / (decrease) in Car and Cycle Loans	62	
<u>2,503</u>			1,040
	<b>Adjust for Items Shown later in the Cashflow Statement</b>		
431	Net Interest Payments		598
<u>578</u>	Net (Increase)/ Decrease in Revenue Cash		<u>1,352</u>

### b. Reconciliation of the Movement in Cash to the Movement in Borrowing

2007/08		2008/09	
£000		£000	
(960)	Increase/(decrease) in Cash	652	
(921)	Increase/(decrease) in investments	(2,877)	
6,631	Other movements	6,725	
<u>4,750</u>	Movement in Net debt	<u>4,500</u>	
15,028	Net debt at beginning of year*	19,778	
19,778	Net debt at end of year*	24,278	
<u>4,750</u>		<u>4,500</u>	

\* excluding accruals

**c. Movement in Cash, Liquid Resources and Long Term Borrowing**

	1 April 2008 £000	Cashflows £000	Non Cash Changes £000	31 March 2009 £000
Cash and Cash Equivalents	(1,614)	652		(962)
Term Deposits	46,997	(2,877)	1,556	45,676
Long Term Borrowing	(20,087)	(4,500)	(50)	(24,637)
	<u>25,296</u>	<u>(6,725)</u>	<u>1,506</u>	<u>20,077</u>

**d. Explanation of the Authority's Liquid Resources and any Policy Changes**

Liquid resources are cash balances placed on short-term deposit with financial institutions. These funds are invested for periods of up to 5 years in international banks and building societies, which meet very strict criteria.

The Authority has adopted and fully complies with the CIPFA Code of Practice on Treasury Management in Local Authorities. In doing so it has approved a Treasury Policy Statement which sets the parameters within which the Treasurer can operate under delegated powers.

**e. Analysis of Government Grants**

Government grants are made to the Police Authority to support both revenue and capital spending. Note 7a on page 41 provide full details of specific grants, this note shows grants at the full value due in 2008/09, the note below shows the cash received in respect of grants.

2007/08 £000		2008/09 £000	Movement £000
	<u>Revenue Grant</u>		
101,940	General Police Grant (approx. 50% of Formula Spending Share)	104,462	2,522
23,950	Specific additional police grants (after adjusting for opening and closing debtors/creditors)	28,338	4,388
5,356	Pensions Top Up Grant paid to Police Officers Pension account	8,791	3,435
<u>131,246</u>	<u>Total</u>	<u>141,591</u>	<u>10,345</u>
	<u>Capital Grant</u>		
3,390	General Police Grant	4,320	930
850	Specific additional Police Grants	0	(850)
<u>4,240</u>	<u>Total</u>	<u>4,320</u>	<u>80</u>

**POLICE OFFICERS' PENSION FUND ACCOUNTING STATEMENTS**

2007/08 £000		2008/09 £000
	<b>FUND ACCOUNT</b>	
	<b>Contributions Receivable</b>	
(27,959)	Employers (normal)	(28,729)
(12,408)	Employees (normal)	(12,886)
(206)	Ill Health capital charge	(1,143)
	<b>Transfers In</b>	
(995)	Individual transfers from other schemes	(1,141)
	<b>Other Income</b>	
(5,356)	Top up grant received from the Home Office	(8,791)
	<b>Benefits payable</b>	
40,160	Pensions	43,763
10,510	Commutations	13,427
	<b>Payment to and on account of leavers</b>	
548	Individual transfers from other schemes	1,005
<hr/> 4,294	<b>Net amount paid during the year</b>	<hr/> 5,505
(4,294)	<b>Transfer from Devon and Cornwall Police General Fund</b>	(5,505) *
<hr/> 0	<b>Net amount payable / receivable for the year</b>	<hr/> 0
	<b>NET ASSETS STATEMENT</b>	
(1,000)	Unpaid pensions due	(2,132)
0	Recoverable overpayments of pensions	0
1,000	Amount owing from General Fund	2,132
<hr/> 0		<hr/> 0 *

\* A sum of £5.505m was receivable from the Home Office as at 31 March 2009. Police Pension Fund Regulations require that police authorities should transfer a sum not exceeding the amount that the Police Pensions Fund is in deficit at 31 March from the Devon and Cornwall Police General Fund into the Police Pensions Fund. A debtor of £5.505m has been established in the Devon and Cornwall Police General Fund.

The Police Officers' Pension Fund account was established under the Police Pension Fund Regulations 2007 and is administered by the Police Authority. The main benefits payable are police officer pensions, lump sums that represent the commutation of pensions and other lump sum payments. The Police Authority paid a contribution equal to 24.2% of police officer pay for 2008/09. As this contribution was insufficient to meet the net costs of benefits after employees contributions, the account was balanced to nil at the year end by the Home Office top up grant. As the scheme is unfunded there are no investment assets.

This Financial Statement does not take account of liabilities to pay pensions and other benefits after the 31 March 2009. For further information on the Police Officers' Pension Scheme see note 28.

## **GLOSSARY OF FINANCIAL TERMS**

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

<b>Accounting period</b>	The period of time covered by the accounts, usually a full year, which for this Authority runs from 1 April to 31 March.
<b>Accrual</b>	Amounts included in the final accounts to cover income and expenditure due in the accounting period but neither paid nor received by 31 March. (For example, goods delivered in March but not invoiced by suppliers until April.)
<b>Actuarial valuation</b>	An independent report on the financial status of a Pension Fund, which shows the estimated cost today of providing benefits in the future.
<b>Agency services</b>	Services provided by one body (the agent) on behalf of, and generally with payment from, the responsible body.
<b>Amortised Cost</b>	This method applies to both financial assets and liabilities. It is a method of determining the Balance Sheet carrying amount and periodic charges or credits to the Income and Expenditure Account of a financial instrument from the expected cash flows. This approach sees through the contractual terms (for example discounts and premiums) to measure the real cost that an Authority bears each year from entering into a financial liability. The Police Authority does not currently have any complex financial instruments where the contractual terms vary significantly from the real cost. For this reason the amortised cost of financial instruments is close to contractual cost.
<b>Appropriation</b>	Charges to the revenue account that build up funds and reserves in the balance sheet.
<b>Asset</b>	Something of practical use that can be measured in cash terms, e.g. land and buildings, or computer and radio equipment.
<b>Bid price</b>	A valuation of financial assets based on the highest price a buyer is willing to offer.
<b>Budget</b>	The Authority's plan for providing resources to meet its service obligations. Devon and Cornwall Police Authority sets an annual budget within a three-year financial strategy.
<b>Capital expenditure</b>	The cost of buying or building significant assets (e.g. land and buildings) which have a long-term value to the Authority. <i>(Also referred to as capital spending or capital payments).</i>
<b>Capital grants</b>	Grants received by the Authority that can only be used to pay for capital projects.
<b>Capital receipts</b>	Income from the sale of capital assets (land, buildings, etc.). In the public sector, there are generally strict rules on what the receipts can be spent on.

## **GLOSSARY OF FINANCIAL TERMS**

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

<b>Carrying amount</b>	This is the amount of a financial asset or liability that should be recorded in the Balance Sheet for a given date based upon the correct measurement approach for the financial asset or liability
<b>Cash flow Statement</b>	This statement summarises the inflows and outflows of cash.
<b>CIPFA</b>	The Chartered Institute of Public Finance and Accountancy, the professional body that sets accounting standards for the public sector.
<b>Collection fund</b>	District and unitary councils pay all receipts from local taxpayers into a "collection fund". They then pay county, police, fire, district, unitary and parish council precepts from the fund.
<b>Commutation of Pension</b>	Commutation is where part of the entitlement to a pension for life is exchanged for a lump sum payable on retirement. This requires a calculation of the current value of the entitlement given up. The calculation is done using actuarial advice. The advice is set out in tables containing 'factors'. The level of the factors depends on age and life expectancy.
<b>Contingency</b>	A reserve set aside to meet unexpected costs. For example, the Force always has major operations every year, but can never tell how many will happen or how much each will cost.
<b>Contingent liability</b>	A possible cost of past events where the amount to be paid is not certain, or when the payment may not actually be made. (For example, where a court case is still undecided.)
<b>Corporate &amp; democratic core</b>	The costs of actually running the Police Authority.
<b>Council tax</b>	A tax based on the value of property, which is administered by District and Unitary authorities.
<b>Creditors</b>	Amounts owed by the Authority for work done, goods received or services received, but for which payment has not been made by the end of the accounting period.
<b>Current Assets &amp; Liabilities</b>	Current assets are items that can be readily converted into cash. Current liabilities are items that are due immediately or in the short-term.
<b>Debtors</b>	Amounts due to the Authority but unpaid by the end of the accounting period.
<b>Deferred charges</b>	Costs build up preparing for a capital project that does not eventually create or buy a fixed asset. Deferred charges are written out of the accounts in the year they are incurred.
<b>Defined Benefit Scheme</b>	A pension scheme which defines the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme.

## **GLOSSARY OF FINANCIAL TERMS**

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

<b>Depreciation</b>	The accounting principle that spreads the cost of a fixed asset over its useful working life.
<b>Discretionary Benefits</b>	Retirement benefits which the employer has no legal, contractual or constructive obligation to award and which are awarded under the authority's discretionary powers.
<b>Earmarked Reserves</b>	These reserves represent monies set aside to be used for a specific purpose.
<b>Experience gains &amp; losses (FRS17 Pensions disclosure)</b>	This shows the impact of actual experience differing from the accounting assumptions, such as pensions increases differing from those assumed and unexpected membership movements.
<b>Fair value</b>	This is defined as the amount for which an asset could be exchanged or a liability settled, assuming that the transaction was negotiated between parties knowledgeable about the market in which they are dealing and willing to buy/sell at an appropriate price, with no other motive in their negotiations other than to secure a fair price. In most cases, this amount will be the transaction price, e.g. the amount of a loan made.
<b>Fixed assets</b>	Assets that the Authority can use for a period of more than one year.
<b>Financial Reporting Standards (FRS)</b>	Accounting standards issued by the Accounting Standards Board of the Financial Reporting Council (FRC), the UK's independent regulator for corporate reporting and governance.
<b>Home Office grant</b>	A central government grant paid by the Home Office to Police Authorities in support of their day to day expenditure.
<b>Impairment</b>	A loss in the value of a fixed asset, caused by physical damage (such as a major fire) or a significant reduction in market value.
<b>LAAP</b>	Local Authority Accounting Panel – which sets accounting rules for the public sector.
<b>Loans and Receivables</b>	These occur when money, goods or services are provided to a debtor and payment or repayment will be by fixed determinable payments. Such arrangements are not normally tradable.
<b>Mid price</b>	A valuation of financial assets based on the mid point between bid and offered prices
<b>Minimum Revenue Provision</b>	The minimum amount of the Authority's outstanding debt that must be charged to the General Fund each year.
<b>National non-domestic rates (NNDR)</b>	Rates set nationally and paid by local businesses to the Government, then shared by local and police authorities in proportion to their resident population.
<b>Non distributed costs (NDC)</b>	For the Police Authority these are principally past service costs relating to pensions benefits earned in prior periods

## **GLOSSARY OF FINANCIAL TERMS**

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

<b>Non-operational assets</b>	Fixed assets that are not used to deliver direct services. For example, police houses, or assets that are still being built or are no longer used and about to be sold.
<b>Pension scheme (defined benefit)</b>	A pension scheme that pays benefits to members based on the rules of the scheme and not on the value of the pension fund. Benefits are usually based on pay and length of service.
<b>Pension scheme (funded)</b>	Each year both employers and members pay standard contributions that are invested in a separate pension fund. Benefits to contributors and their dependants are paid out of investments held in the fund.
<b>Pension scheme (unfunded)</b>	Members pay a standard contribution each year. The employer then pays the cash difference between members' annual contributions and the annual cost of benefits to contributors and their dependants.
<b>Precept</b>	A levy collected by District and Unitary Councils from council taxpayers on behalf of the Authority.
<b>Present value ( or Net Present Value)</b>	The amount of money that must be put aside today to pay for a cost in the future, allowing for inflation and interest rates.
<b>Principal</b>	The amount of a loan that was actually borrowed, before interest is added.
<b>Provisions</b>	Amounts set aside to meet costs that are likely to be incurred, but where the actual amount and timing are uncertain.
<b>Related parties</b>	Individuals or other bodies who have significant control and influence over the financial and operating policies of an entity.
<b>Reserves</b>	Amounts set aside to meet the cost of specific future expenditure. The Authority plans its reserves as part of a three-year strategy.
<b>Revaluation Reserve</b>	The Reserve records the accumulated gains on the fixed assets held by the Authority arising from increases in value. It is debited with the part of the depreciation charge for the asset relating to the revaluation. Any balance on this account is written back to the Capital Adjustment Account upon disposal of the asset.
<b>Revenue support grant (RSG)</b>	A general central government grant paid to the Authority, as well as the Home Office Grant, to support its day to day expenditure.
<b>Running costs</b>	Costs from the use of premises, transport and equipment, and other general expenditure needed to provide a service.
<b>Specific grants</b>	Grants (usually from the Home Office) that can only be spent on named services and projects.

## **GLOSSARY OF FINANCIAL TERMS**

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

<b>Statement of Standard Accounting Practice</b>	Guidance issued by the FRC on how to use and apply accounting standards.
<b>Third party payments</b>	Payments made to outside contractors and other bodies who provide specialist or support services for the Authority.