

To: Cambridgeshire Police Authority

From: Treasurer and Chief Constable

Date: 29th June 2010

CAMBRIDGESHIRE POLICE AUTHORITY - STATEMENT OF ACCOUNTS 2009/10

1. Purpose

- 1.1 To provide a briefing and commentary on the Authority's accounts for 2009/10 to facilitate the approval of the Statement of Accounts (attached) for the financial year 2009/10.

2. Introduction

- 2.1 The Accounts and Audit Regulations 2003 require the Authority's accounts to be approved by the 30th June following the end of the year of account.
- 2.2 The Accounts presented today are subject to audit.
- 2.3 This timescale for the production of the accounts is very challenging and officers have looked at the arrangements for closing the accounts and the earlier completion of some tasks (e.g. the finalisation of accruals). This has helped in achieving the tight deadline.
- 2.5 The more familiar revenue and capital monitoring reports for the 2009/10 provisional outturn were considered by the Finance and Resources Committee on 16th June 2010. Those reports provided full details of the main areas of under and over spending in 2009/10.
- 2.6 The accounting statements are based upon those out-turn figures. However, because the Accounts are produced in accordance with various complex statutory and technical accounting regulations, it is very difficult to see the out-turn figures within the Income and Expenditure Account. A reconciliation between the outturn figures and the net operating expenditure on the Income and Expenditure Account is set out in the Table at paragraph 5.5.
- 2.7 The Statements presented are subject to the formal audit process, which must be completed by 30th September 2010. The external auditor will identify any material changes required to the Statements and will produce an ISA 260 Report (Communication with those Charged with Governance Report) which will detail any unadjusted misstatements found during the course of the audit. Both of these must be considered by 'those charged with governance', which in respect of the Statements, is the Governance and Audit Committee.

- 2.8 The Annual Governance Statement (approved by the Scrutiny and Audit Committee 25th May 2010) forms part of the Annual Statement of Accounts.
- 2.9 An explanatory foreword is included with the published Statement of Accounts. The purpose of this foreword is to provide additional interpretation and briefing on the accounts, highlighting key issues for the benefit of readers.

3. Code of Practice on Local Authority Accounting

- 3.1 The Statement of Accounts has been drawn up in the form prescribed by the Code of Practice on Local Authority Accounting in the United Kingdom 2009: Statement of Recommended Practice (SORP), which constitutes 'proper accounting practice' under the terms of Section 21 of the Local Government Act 2003. The Code is updated each year to take account of changes in accounting standards. The 2009 SORP applies to the production of the 2009/10 Accounts and has only substantive changes.
- 3.2 The main changes from the 2008 SORP are set out below.

4. Changes

Senior Officer Remuneration

- 4.1 An amendment to the Accounts and Audit Regulations introduced a legal requirement to increase transparency and accountability in Local Government for reporting remuneration of senior employees and senior police officers.
- 4.2 The new disclosure (Note 6) details individual remuneration for senior employees and relevant police officers. All Chief Officer Group members and the Chief Executive have been included; this is in line with the approach agreed at the Police Authority Treasurers Society.
- 4.3 The requirement to show the number of officers by remuneration band (Note 5) has also been amended; only employees and senior police officers (being any member of the force holding a rank above that of superintendent) are now included.

Accounting for Council Tax

- 4.4 Under SORP 2009 the Council Tax Income included in the Income and Expenditure Account needs to be the accrued income from the year, which means that it will not reconcile to the figure in the outturn report. The difference between the income included in the Income and Expenditure Account and the amount required by regulation to be credited to the General Fund is taken to a new Collection Fund Adjustment Account. This is a change in accounting policy and a prior year adjustment is necessary.

Service Expenditure Analysis

- 4.5 A revised Police Service Expenditure Analysis has been introduced in an amendment to the 2008 Best Value Accounting Code of Practice (BVACOP). The Police Services cost in the Income and Expenditure account is now split into nine categories.

5. The Statement of Accounts

Statement of Accounting Policies (Accounts pages 4 to 10)

- 5.1 This sets out the policies adopted by the Authority in preparing its accounts, which are largely determined by the Code of Practice. Other than to reflect the changes introduced in the 2009 version of the Code, set out in section 4 above, there are no significant changes this year.

Statement of responsibilities for the statement of accounts (Accounts page 11)

- 5.2 This statement records the responsibility:
- of the authority to appoint an officer with responsibility for the proper administration of its financial affairs i.e. the Treasurer to the Police Authority;
 - of the Treasurer to prepare the accounts in accordance with proper practices as set out in the Code of Practice, and to certify that the accounts present fairly the position of the Authority; and
 - of the Chairman of the Authority to confirm that the accounts have been considered and approved by the Authority.

Income and Expenditure Account (Accounts page 12)

- 5.3 This statement is fundamental to the understanding of the Authority's activities, in that it reports the net cost for the year of all functions for which the Authority is responsible, demonstrates how that cost has been financed from general government grants and income from local taxpayers, and the net deficit or surplus for the year. It is broadly equivalent to a company profit and loss account.
- 5.4 There are three distinct sections of the Income and Expenditure Account:
1. The first shows the costs split into the major service areas giving the "Net cost of services" of £124.6m for 2008/09 (compared to £126.4m for 2008/09).
 2. The second section covers items relating to the whole Authority to give "Net operating expenditure" of £164.3m (£166.1m 2008/09).
 3. The final section details income from local taxation (precept) and general government grants, leading to a 'deficit' on the Income and Expenditure account of £39.0m (£45.2m 2008/09).

- 5.5 The statutory accounts analyse the costs into a nationally specified format and include depreciation and support service costs within the net cost of services. This differs from the financial monitoring reports that are submitted to the Finance and Resources Committee during the year which focus only on direct costs and income for each service area. However, both sets of figures are taken from the prime accounting record of the Authority, the General Ledger, and reconcile in full:-

	£m	£m
Deficit on Statutory Income and Expenditure Account		39.0
Reversal of Statutory Items:		
Depreciation/Impairment of Fixed Assets	-12.5	
Government Grants Deferred amortisation	2.1	
Collection Tax Income	-0.3	
Net charges for retirement benefits under FRS17	-54	
		-64.7
Amounts required by Statute		
Capital financing	1.6	
Employer's contributions to Pension Fund and Direct Pensions Payments	24.0	
		25.6
Net over/underspending per revenue outturn		-0.1

- 5.6 The Income and Expenditure account format shows a net deficit of £39.0m. This apparent deficit is then reconciled in the Statement of Movement on the General Fund Balance to the statutory General Fund position.

Statement of Movement on the General Fund Balance (Accounts page 13)

- 5.7 The surplus or deficit on the income and expenditure account is subject to a number of changes in order to meet the statutory requirements set out in the SORP. These changes are made through the Statement of Movement on the General Fund Balance.
- 5.8 The net effect of the changes is to bring the accounting requirements into line with the regulations governing the setting of council tax. After making these adjustments the revised surplus for the year of £68k is applied to the General Fund Balance. The General Fund balance at 31st March 2010 stands at £4.667m (31st March 2009 £4.599m).

Statement of Total Recognised Gains and Losses (Accounts page 15)

- 5.9 Not all gains and losses experienced by the Authority are reflected in the Income and Expenditure Account. The Statement of total Recognised Gains and Losses brings other gains and losses, together with the net deficit or surplus on the Income and Expenditure Account to show the total movement in the Authority's net worth for the year.
- 5.10 For this Authority there are 2 main areas where gains and losses accrue, other than through the Income and Expenditure Account:
- (i) Revaluation and disposal of fixed assets – these are valued annually with any gains or losses transferred to capital reserves; and
 - (ii) Actuarial gains and losses relating to retirement benefits – an annual valuation of the assets and liabilities of the Pension Funds are made and any change is credited to or met from the relevant net Pension Asset/Liability.
- 5.11 The total movement on the Statement of total Recognised Gains and Losses matches the movement on the Balance Sheet for the year.

The Balance Sheet (Accounts page 16)

- 5.12 The Balance Sheet is fundamental to the understanding of the Authority's financial position at the year-end. It shows the Authority's balances and reserves and long-term indebtedness, and the fixed and net current assets employed in its operations.
- 5.13 The major components within the Balance Sheet are:
- Fixed assets: based on current net book value, the movement will take account of acquisitions, disposals, revaluations and impairments that have occurred since the previous balance sheet;
 - Long-term assets: investments and debtors that are not due to be repaid within 12 months of the balance sheet date;
 - Current assets and current liabilities: stocks, debtors, investments, short-term borrowing, creditors and bank balances, which will be realised within one year;
 - Long Term liabilities: Long-term borrowing that is required to service the Authority's Capital Financing Requirement, and the liability relating to the pension scheme and
 - Reserves and balances: these comprise the total net worth of the Authority.

Cash Flow Statement (Accounts page 17)

- 5.14 This statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes. For the purposes of this statement, cash is defined as cash in hand and deposits repayable on demand less overdrafts repayable on demand.

- 5.15 Management of the Authority's cash flows forms an important element of the Treasury Management Strategy. The Cash Flow Statement provides an indication of the underlying financial health of the Authority in the same way as it is applied to company accounts.

Pensions Account (Accounts pages 44 to 45)

- 5.16 Following a change in the arrangements for financing police officer pensions with effect from 1st April 2006, the Authority now maintains a Pensions Account. Note: the Police Pension Scheme and the New Police Pension Scheme are not 'funded' schemes - they remain 'pay as you go' schemes, with the Authority paying all retired police officers and collecting pension contributions from serving officers. The change from April 2006 is that the Authority makes an employers' pension contribution to the Pensions Account. All things being equal the Account will be balanced by the receipt of a top-up grant from the Home Office (or the payment to the Home Office of any surplus).
- 5.17 The Account has the legal status of a fund, for the purposes of the Local Government Finance Act 1988.

Annual Governance Statement (AGS) (Accounts pages 48 to 55)

- 5.18 On the 18th February 2008 the Authority approved a Code of Corporate Governance. The AGS (which now incorporates the Statement on Internal Control) is the annual assessment of compliance with the Code and has been prepared jointly by the Authority and the Constabulary. The Annual Governance Statement was approved by the Scrutiny and Audit Committee on 25th May 2010.

6. Publication and Audit of the Accounts

- 6.1 Following approval by the Authority the (unaudited) accounts will be published on the Authority's web site. Once the external audit opinion has been obtained and the accounts signed, the amended Statement of Accounts will be re-published. The audit will be carried out by PricewaterhouseCoopers LLP and is expected to commence at the end of July and be completed by mid September 2010. During the audit the accounts will be open for public inspection for a period of four weeks.

7. International Financial Reporting Standards

- 7.1 From 2010/11 local government will follow other government sectors in the introduction of International Financial Reporting Standards. Part of the delay in implementation for local government has been the need to review the Public Finance Initiative (PFI) accounting process whilst producing an IFRS SORP that deals with local government taxation accounting.

- 7.2 Introduction of IFRS will have wide implications for the production of the 2010/11 financial statements. Whilst it is difficult to know the full impact at this stage, CIPFA are committed to releasing draft chapters of the IFRS SORP as they are completed.
- 7.3 These releases are focussing at first on the areas that are seen as requiring more consideration. This will involve the main areas of asset valuations accounting, lease appraisal and whether currently defined operating leases (off balance sheet) should be reclassified as finance leases (on balance sheet assets) and accounting for employee benefits (e.g. leave, time off in lieu).
- 7.4 Some of these changes to the accounting standards do have the possibility of impacting on council tax if legislation is not implemented to negate their effect. It is considered highly unlikely that government will not introduce such legislation, which would have the same effect as that on capital charges. This would allow items to be reversed out in the statement of movement on general fund balances, much like depreciation and other capital charges.
- 7.5 Financial year 2009/10 is therefore going to be a key year for the review and implementation of accounting standards changes. Not only do 2009/10 SORP changes need review, but also the introduction of IFRS SORP requires a restatement of 2009/10 SORP figures, with a revised opening balance sheet produced as at 1st April 2009.
- 7.6 Some early analysis of the work required by this Authority to comply with IFRS has been done by PricewaterhouseCoopers. More work will be required after the 2009/10 accounts have been closed once more detailed information starts to become available. The Governance and Audit Committee will be presented with updates as the details emerge.

8. Recommendation

- 8.1 That the Statement of Accounts for 2009/10 (unaudited) be approved.

BIBLIOGRAPHY

Documents	Contacts	Location
<p>Budget Report Police Authority Agenda February 2009</p> <p>Provisional Outturn Report to Finance and Resources Committee June 2010.</p>	<p>John Hummersone Treasurer and Acting Chief Executive T. 077954 422740 E. john@hummersoneconsulting.co.uk</p> <p>Niki Howard Director of Finance and Resources T. (01480) 425049 E. niki.howard@cambs.pnn.police.uk</p>	<p>Cambridgeshire Constabulary Hinchingsbrooke Park, Huntingdon, Cambs, PE29 6NP.</p>

Originating Officer: John Hummersone, Treasurer

It is considered that this report contains 'exempt information' and should be considered in private? NO

If the answer is "YES", please state the nature of the exempt information and the relevant clause in Part 1 of revised Schedule 12A to the Local Government Act 1972.

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The attached report has been cleared with the undermentioned officers: (delete as appropriate)

Director of Finance

Submitted on: 19th June 2009

A report will not be sent to the Authority unless this box has been satisfactorily completed and all necessary consultation carried out - the responsibility for which rests with the originator (except for consultation with the Chairman and this will be undertaken by the Chief Executive's Office).