1. Accounting Policies

General Principles

The Statement of Accounts summarises the PCC's transactions for the 2012/13 financial year and its position at the year end of 31st March 2013. The Authority is required to prepare an annual Statement of Accounts by the Accounts and Audit (England) Regulations 2011 which require the statements to be prepared in accordance with proper accounting practices. These practices primarily comprise the Code of Practice on Local Authority Accounting in the United Kingdom 2012/13 and the Service Reporting Code of Authority Accounting 2012/13, supported by International Financial Reporting Standards.

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

All accounting policies that are material to the production of the accounts are described in this section.

Changes in Accounting Policies

Changes in accounting policy may arise through changes to the Code or changes instigated by the Authority. For changes brought in through the Code, the PCC will disclose the information required by the Code.

For other changes we will disclose:

- the nature of the change;
- the reasons why the change has been made;
- report the changes to the current period and each prior period presented and the amount of the adjustment relating to periods before those presented.

If retrospective application is impracticable for a particular prior period (or for periods before those presented), we will disclose the circumstances that led to the existence of that condition and a description of how and from when the change in accounting policy has been applied.

Prior Period Adjustments

The Code requires prior period adjustments to be made when material omissions or misstatements are identified. Such errors include the effects of arithmetical mistakes, mistakes in applying accounting policies, oversights or misinterpretations of facts, and fraud.

The following disclosures will be made for each prior period adjustment:

- the nature of the prior period error;
- for each prior period presented, to the extent practicable, the amount of the correction for each financial statement line item affected, and;
- the amount of the correction at the beginning of the earliest prior period presented.

Accruals of Income and Expenditure

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

- revenue from the sale of goods is recognised when the PCC transfers the significant risks and rewards of ownership to the purchaser and it is probable that economic benefits or service potential associated with the transaction will flow to the PCC;
- revenue from the provision of services is recognised when the PCC can measure reliably the percentage of completion of the transaction and it is probable that economic benefits or service potential associated with the transaction will flow to the PCC;
- supplies are recorded as expenditure when they are consumed – where there is a gap between the date supplies are received and their consumption, they are carried as inventories on the Balance Sheet;
- expenses in relation to services received (including services provided by employees) are recorded as expenditure when the services are received rather than when payments are made;
- interest receivable on investments and payable on borrowings is accounted for respectively as income and expenditure on the basis of the effective interest rate for the relevant financial instrument rather than the cash flows fixed or determined by the contract;
- where revenue and expenditure have been recognised but cash has not been received or paid, a debtor or creditor fo the relevant amount is recorded in the Balance Sheet. Where debts may not be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.

<u>Non-Current Assets – Property, Plant and Equipment</u>

Property, plant and equipment are tangible items that:

- are held for operational use, for rental to others, or for administrative purposes; and
- are expected to be used during more than one period.

<u>Classification</u>

Property, plant and equipment is classified under the following headings in the PCC's balance sheet:

Operational Assets:

- Land and Buildings;
- Vehicles, Plant, Furniture and Equipment;
- Non-Operational Assets:
- Surplus Assets; and
- Assets Under Construction.

a) Initial Recognition

To be recognised as an item of property, plant and equipment an asset must:

- yield benefits to the PCC for more than a year; and
- have a cost which can be measured reliably.

Assets are initially measured at cost on an accruals basis, comprising all expenditure that is directly attributable to bringing the asset into working condition for its intended use and costs incurred subsequently to enhance, replace part of, or service it as long as the above criteria are met. This excludes expenditure on training, routine repairs and maintenance, which are charged directly to the Comprehensive Income & Expenditure Statement.

Further details relating to capital expenditure are set out in the PCC's Capitalisation Policy.

De minimis level

The PCC has no de minimis level for recognising property, plant and equipment. This means that any item or scheme which meets the above criteria could be treated as capital. This relates to initial recognition and subsequent expenditure on assets.

Subsequent expenditure

Where subsequent expenditure enhances an asset beyond its original specification, the directly attributable cost is added to the asset's carrying value. Where subsequent expenditure is simply restoring the asset to the specification assumed by its economic useful life then the expenditure is charged to operating expenses. Where considered appropriate, the cost of the replacement is capitalised if it meets the criteria for recognition above.

Where material, the carrying value of the component replaced is de-recognised. Where the value is not known the value of the enhancement is used as a proxy. Indexation is used to deduce historic cost and a revaluation reserve. De-recognition costs are charged initially against any revaluation reserve for the asset and then to the Comprehensive Income & Expenditure Statement.

b) Measurement after Recognition – Valuation Approach

Property, Plant and Equipment assets are valued on the basis recommended by CIPFA and in accordance with the Practice Statements in the Appraisal and Valuation Standards published by The Royal Institution of Chartered Surveyors (RICS), in particular UK Practice Statement 1.1 – 1.3. Land and building valuations have been carried out by Lambert Smith Hampton, members of The Royal Institution of Chartered Surveyors. The PCC may rely on the advice of other relevant expert managers to value other assets.

Property, Plant and Equipment assets are classified into the groupings required by the Code of Practice on Local Authority Accounting. All operational and non-operational land and properties (including Investment Properties) were subjected to a full revaluation exercise at 1st April 2011. This valuation has been updated as at 31st March 2012 by way of a desktop revaluation of all assets, and again at 31st March 2013.

All valuations are in accordance with the capital accounting rules on the following basis:

Operational Assets

- Land and operational properties – where the assets are considered by valuers to be "specialist" in nature (for example custody suites in operational police stations) they are valued at depreciated replacement cost (DRC), reflecting their value to the PCC in their current use. Because of the specialist nature of these buildings, the DRC value is normally higher than open market value. Where the assets are not considered to be "specialist" in nature, they are valued at fair value. Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arms length transaction. For this section of the Code, fair value (for land and buildings) is to be interpreted as the amount that would be paid for the asset in its existing use. This requirement is met by providing a valuation on the basis of existing use value (EUV) in accordance with UKPS 1.3 of the RICS Valuation Standards. Also note that
- vehicles, plant and equipment are determined to have short asset lives and are measured at historic cost; and

- furniture and non-specialist equipment are valued as a proportion of the building and have also been revalued in accordance with the movement in value of the host building.

Non-Operational Assets

- Surplus assets (being assets which the PCC no longer operates/are no longer used for service delivery, but are not investment properties or meet the definition for held for sale) are valued, measured and depreciated in line with the operational asset class; and
- Assets Under Construction are held at historical cost. When these assets are operationally complete they will be reclassified into the appropriate asset class and valued under the adopted approach.

Valuation Programme

In years when there is a full revaluation (every 5 years) the steps to account for assets involve valuing assets at the start of the financial year, and then considering impairment issues at the end of the year.

In all other years (including the 2012/13 financial year) the year end valuation encompasses all changes in value, whether from additions, disposals, changes in market value, impairment or other consumption of economic benefits.

Component Accounting for Property, Plant and Equipment

The Code requires that assets included within property, plant and equipment are broken down into significant component parts. Where a large asset, for example a building, includes a number of components with significantly different asset lives then these components can be treated as separate assets and depreciated over their own useful economic lives. Only those components with material values and significantly different useful lives are classified as separate components in the asset register. Only assets with a value of at least £500k are reviewed for potential components.

Further details for component accounting are set out in the PCC's Componentisation Policy.

c) Revaluation Gains and Losses

Movements in value arising from revaluation of assets are reflected in the value of these assets held on the balance sheet.

Recognising a Revaluation Gain or Loss

Increases as a result of revaluations are debited to the appropriate asset account, with the opposite entry going to the Revaluation Reserve to recognise unrealised gains, except to the extent where it reverses a previous revaluation loss that was charged to a service revenue account within the Comprehensive Income & Expenditure Statement. In this case the revaluation gain will first be used to offset the previous loss and any further gain is then taken to the Revaluation Reserve. Revaluation gains charged to Surplus or Deficit on Provision of Services are transferred to the Capital Adjustment Account and reported in the Movement in Reserves Statement.

Decreases as a result of revaluation which are not specific to one asset but affect several are revaluations losses rather than impairments. The decrease is recognised in the Revaluation Reserve up to the balance in respect of each asset affected and then in Surplus or Deficit on Provision of Services. Any such charge taken to Surplus or Deficit on Provision of Services is then transferred to the Capital Adjustment Account and reported in the Movement in Reserves Statement.

The Revaluation Reserve contains revaluation gains recognised since 1 April 2007 only, the date of its formal implementation. Any movements on revaluation arising before this date have been consolidated into the Capital Adjustment Account.

d) Depreciation

Depreciation is charged on all assets with a finite useful life (which can be determined at the time of acquisition or revaluation). It is PCC policy that six months of depreciation is charged against assets in the year of acquisition and also in the year of disposal.

The policy on asset lives is as follows:

- Operational buildings (other than temporary buildings) are depreciated over their estimated useful life of between 20 and 50 years as estimated by the valuer.

- Furniture and non-specialist equipment is depreciated over 15 years.

- Vehicles, plant and specialist equipment (including computing equipment) are depreciated over their estimated useful lives, varying between 3 and 5 years.

Depreciation is calculated as the current cost of the asset divided by the useful existing life of the asset. Hence, revaluation gains are depreciated as well as the historic cost of the asset, with an amount equal to the difference between current value depreciation charged on assets and the depreciation that would have been chargeable based on the historic cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

For surplus assets awaiting disposal, depreciation is not charged to services. Rather, it is charged to non distributed costs in the Income & Expenditure Statement. No depreciation is charged on: land; asset under construction; and assets held for sale. Depreciation of an asset begins when the asset becomes available for use and ceases when the asset has been de-recognised.

e) Disposal of Property, Plant and Equipment

An item of property, plant and equipment shall be de-recognised on disposal; or when no future economic benefits are expected from its use or disposal.

The gain or loss arising from disposals is shown in the Comprehensive Income and Expenditure Statement (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 £10k are categorised as capital receipts and can then only be used for new capital investment or to repay the principal of any amounts borrowed. Sale proceeds below £10k are below the de-minimis and are credited to the Comprehensive Income and Expenditure Statement.

f) Impairment of Non-Current Assets

If an asset's carrying amount is more than its recoverable amount, the asset is described as impaired. Circumstances that might indicate that an impairment has occurred include:

- a significant decline in an asset's market value during the period that is specific to the asset;

- evidence of obsolescence or physical damage of an asset;
- a commitment by the PCC to undertake a significant reorganisation; or
- a significant change in the statutory environment in which the PCC operates.

Recognising an Impairment

Impairment losses are initially recognised against the revaluation reserve for that asset, up to the balance available. Any remaining loss is charged in the Surplus or Deficit on provision of services. This is then reversed through the Movement in Reserves Statement and charged to the Capital Adjustment Account.

Intangible Assets

Intangible assets are defined as an identifiable non-financial (monetary) asset without physical substance, but are under the control of the PCC, and expected to provide future economic or service benefits.

For the Police & Crime Commissioner for Lincolnshire, the most common classes of intangible assets are software licences. Software which is integral to the operation of hardware, e.g., an operating system, is capitalised as part of the relevant item of property, plant or equipment. Software which is not integral to the operation of hardware, e.g., application software, is capitalised as an intangible asset.

a) Recognition and Measurement

Recognition of assets that qualify as an intangible asset shall be measured at cost. Costs that are directly associated with the development of intangible assets for internal use by the PCC are recognised under this heading, including employee costs.

Intangible assets are determined to have short asset lives and will continue to be carried at depreciated historic cost in the balance sheet after initial recognition.

De minimis level

The Authority has no de minimis level for recognising intangible assets. This relates to initial recognition and subsequent expenditure on assets.

b) Subsequent Expenditure

Costs associated with maintaining intangible assets are recognised as an expense when incurred in the Comprehensive Income and Expenditure Statement.

c) Amortisation

The carrying value of intangible assets with a finite life is amortised on a straight line basis over its useful life. Amortisation begins when the asset is available for use and ceases at the date that the asset is derecognised. Amortisation is charged to the relevant service area.

Intangible assets are all depreciated over an estimated useful life of 5 years.

Investment Properties

An investment property is defined as a property that is solely held to earn rental income or for capital appreciation or both.

a) Initial Recognition

As with Property, Plant and Equipment, initial recognition includes the costs associated with the purchase.

b) Measurement after Recognition

Investment properties are measured at fair value. Fair value is the amount for which an asset could be exchanged between knowledgeable, willing parties in an arm's-length transaction.

c) Revaluation Gains and Losses

A gain or loss arising from a change in the fair value of investment property shall be recognised in Surplus or Deficit on provision of service.

d) Depreciation

Depreciation is not charged on investment properties.

e) Disposal of Investment Properties

Gains or losses arising from the disposal of an investment property shall be recognised in Surplus or Deficit on Provision of Services. As with all capital receipts, on de-recognition of an investment property the charge to the Surplus or Deficit on Provision of Services shall be reversed out of the General Fund.

Non-Current Assets Held for Sale

Non current assets are classified as held for sale if their carrying amount will be recovered through a sale transaction rather than through continuing use. This condition is regarded as met only when the following criteria are met as at the balance sheet date:

- the asset is available for immediate sale in its present condition subject to terms that are usual and customary for sales of such assets;
- the sale is highly probable (with management commitment to sell and active marketing of the asset initiated);
- it is actively marketed for a sale at a price that is reasonable in relation to its current fair value; and
- the sale should be expected to qualify for recognition as a completed sale within one year.

a) Measurement

Non-Current Assets Held for Sale are measured at the lower of carrying value and fair value less costs to sell (fair value here is the amount that would be paid for the asset in its highest and best use, i.e., market value).

b) Depreciation

Depreciation is not charged on non-current assets held for sale.

c) Disposal

Receipts from disposals are recognised in the Surplus or Deficit on provision of services.

Amounts in excess of £10k are categorised as capital receipts and can then only be used for new capital investment or to repay the principal of any amounts borrowed.

Charges to Revenue for the use of Non-Current Assets

Police services and central support services are charged with a capital charge for all non-current assets used in the provision of services to record the real cost of holding fixed assets during the year. The total charge covers:

- the annual provision for depreciation;
- impairment losses; and

- amortisation of intangible assets.

The PCC is not required to raise council tax to cover depreciation, impairment losses or amortisation. However, it is required to make a prudent annual provision from revenue to contribute towards the reduction in its overall borrowing requirement.

Minimum Revenue Provision

The PCC makes provision for the repayment of debt in accordance with the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008. This requires the PCC to set a Minimum Revenue Provision (MRP) which it considers to be prudent.

The accounts are charged with a capital charge for all fixed assets used in the provision of services. The total charge covers:

- the annual provision for depreciation;
- impairment losses attributable to the clear consumption of economic benefits on tangible fixed assets used by the PCC 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.

In accordance with the PCC's approved policy, the annual contribution towards the reduction in overall borrowing is equal to:

- 4% of the Capital Financing Requirement as at 31st March 2008, adjusted for repayments made since that date;
- 4% of any additional borrowing from 2008/09 onwards within our allocation of supported capital expenditure;
- for any other borrowing from 2008/09 onwards, a repayment based on the asset life method.

Depreciation, impairment losses and amortisations are therefore replaced by a revenue provision in the Movement in Reserves Statement, by way of an adjusting transaction with the Capital Adjustment Account for the difference between the two.

Revenue Expenditure Financed through Capital under Statute

Expenditure incurred during the year that may be capitalised under statutory provisions but does not result in the creation of a non-current asset in the balance sheet has been charged as expenditure to the relevant service revenue account in the year.

Statutory provision reverses these charges from the Surplus or Deficit on provision of services by debiting the Capital Adjustment Account and crediting the General Fund Balance through the Movement in Reserves Statement.

Borrowing Costs

The PCC recognises borrowing costs of qualifying assets in the Comprehensive Income & Expenditure Statement (disclosed within Interest Payable) in the year in which the payments are made.

Classification of Leases

Leases are classified as a finance lease or an operating lease depending on the extent to which risks and rewards of ownership (substance of the transaction over its legal form) of a leased asset lie with the lessor (landlord) or the lessee (tenant).

IAS 17 'Leases' includes indicators for the classification of leases as a finance lease. Within these indicators the PCC has set the following criteria: the 'major part' of the asset life is determined to be 75%; and 'substantially all' of the value is determined to be 75%.

Finance Lease

A lease is classified as a finance lease when the lease arrangement transfers substantially all the risks and rewards incidental to ownership of an asset to the lessee.

Operating Lease

All other leases are determined to be operating leases.

a) Finance Leases

i) Lessee – Vehicles, Plant & Equipment

Where a lease arrangement is identified as a finance lease and where the PCC is the lessee, the asset is recognised on the balance sheet at cost, and depreciated on a straight line basis over the term of the lease (in line with the PCCs capitalisation and depreciation policy for Vehicles, Plant and Equipment).

ii) Lessee – Property

Where a property lease arrangement is identified as a finance lease and where the PCC is the lessee, the asset is recognised on the balance sheet at an amount equal to the fair value of the property, or if lower, the present value of the minimum lease payments, determined at the inception of the lease.

In both cases above, a liability is also recognised at the asset value. This is reduced as lease payments are made.

Minimum lease payments are to be apportioned between the finance charge (interest) and the reduction of the deferred liability.

The finance charge (interest) will be charged to the surplus or deficit on the Provision of Services, and then transferred to the Capital Adjustment Account through the Movement In Reserves statement.

iii) Lessor – Property

Where a property lease arrangement is identified as a finance lease and where the PCC is the lessor, an asset is recognised on the balance sheet as a debtor at an amount equal to the net investment in the lease. The lease payment is treated as repayment of principal and finance income (interest).

Initial direct costs are included in the initial measurement of the debtor and recognised as an expense over the lease term on the same basis as the income.

Rental income from finance leases entered into after 1 April 2010 should be treated as a capital receipt.

b) Operating Leases

i) Lessee – Property, Vehicles, Plant & Equipment

Where a lease arrangement is identified as an operating lease and where the PCC is the lessee, the lease payments are treated as revenue expenditure on a straight line basis over the term of the lease.

ii) Lessor – Property, Vehicles, Plant & Equipment

Where a lease arrangement is identified as an operating lease and where the PCC is the lessor, an asset is shown within non-current assets according to the nature of the asset. (See above Property, Plant & Equipment policy.)

Lease income from operating leases shall be recognised as income on a straight line basis over the lease term.

Capital Government Grants and Contributions (for the acquisition of non-current assets)

Capital grants and contributions are used for the acquisition of non-current assets. The treatment of these grants is as follows:

a) Capital grants where there are no conditions attached to the grant. The income is recognised immediately in the Comprehensive Income & Expenditure Statement.

Capital grant income is not a proper charge to the General Fund. It is accounted for through the Capital Financing Requirement (set out in statue) so it does not have an effect on council tax. To reflect this, the income is credited to the Capital Adjustment Account through the Movement in Reserves Statement.

b) Capital grants where the conditions have not been met at the balance sheet date. At the balance sheet date the grant is recognised as a Capital Grant Receipt in Advance in the top part of the balance sheet. When the conditions have been met, the grant is recognised as income in the Comprehensive Income & Expenditure Statement and the appropriate statutory accounting requirements for capital grants are applied.

c) Capital grants where no conditions remain outstanding at the balance sheet date, but expenditure has not been incurred. The income is recognised immediately in the Comprehensive Income & Expenditure Statement. As the expenditure being financed from the grant has not been incurred at the balance sheet date, the grant is transferred to the Capital Grants Unapplied Account (within usable reserves in the balance sheet), reflecting its status as a capital resource available to finance expenditure, through the Movement in Reserves Statement. When the expenditure is incurred the grant is transferred from the Capital Grants Unapplied Account to the Capital Adjustment Account to reflect the application of capital resources to finance expenditure.

Debtors

Debtors are recognised in the accounts when the ordered goods or services have been delivered or rendered by the PCC by the 31st March but the income has not yet been received.

Debtors are recognised and measured at fair value in the accounts. There is no de-minimis for capital or revenue income accruals.

Creditors

Creditors are recorded where goods or services have been supplied to the PCC by 31st March but payment is not made until the following financial year.

Creditors are recognised and measured at fair value in the accounts. There is no de-minimis for capital or revenue accruals.

Debt impairment

The PCC makes a provision for debts which may go bad or not be paid in full. Where it is doubtful that debts will be settled, the fair value of that debt is written down accordingly and a charge made to the Comprehensive Income & Expenditure Statement for the income that might not be collected.

The PCC's policy is to review outstanding debts annually in order to allow for debt impairment.

Inventories

Inventory assets include materials or supplies to be consumed or distributed in the rendering of services. This includes fuel, uniforms and general stores. These are carried at the lower of cost (calculated as an average price) or current replacement cost (at the balance sheet date for an equivalent quantity).

A de minimis of £5k is set before a group of stock items would need to be accounted for at the year end.

Investments and Cash Equivalents

a) Investments

The PCC will classify these as follows:

- Short term deposits (due to be returned within any period from a day to a year after 31 March) held for investment purposes for the returns offered are classed as Short Term Investments.
- Deposits held for investment purposes for the returns offered which are due for return more than a year after 31 March are classed as Long Term Investments.

b) Cash and Cash Equivalents:

Cash Equivalents are held for the purpose of meeting short term cash commitments rather than for investment or other purposes. The PCC will classify these as follows:

- Other cash, on-call deposit accounts or banking facilities set up for the purpose of meeting short term liquidity requirements are classed as Cash and Cash Equivalents.

c) Bank Overdrafts:

Bank overdrafts are shown separately from Cash and Cash Equivalents. They are recorded as liabilities within Creditors

Provisions

The PCC sets aside provisions for future expenses where:

- an event has taken place on or before the balance sheet date that creates an obligation;
- it is probable that the obligation requires settlement by a transfer of economic benefits;
- the value of settlement can be reliably estimated; but
- the timing of the transfer is uncertain.

Provisions are charged to the Comprehensive Income & Expenditure Statement in the year that the PCC becomes aware of the obligation based on the best estimate of the likely settlement. When payments are eventually made they are charged to the provision set up in the Balance Sheet. Estimated settlements are reviewed at the end of each financial year. When it becomes more likely than not that a transfer of economic benefits will not now be required (or a lower settlement than anticipated is made) the provision is reversed and credited back to the Comprehensive Income & Expenditure Statement.

Where some or all of the payment required to settle a provision is expected to be met by another party (e.g. from an insurance claim) the income is only recognised in the Comprehensive Income &

Expenditure Statement if it is virtually certain that reimbursement will be received when the obligation is settled.

Provisions contained within the balance sheet are split between current liabilities (those which are estimated to be settled within the next 12 months) and non-current liabilities (those which are estimated to be settled in a period greater than 12 months).

Contingent Liabilities

A contingent liability is where there is a possible obligation to transfer economic benefits due to a past event, but the possible obligation will only be confirmed by the occurrence or non-occurrence of one or more events in the future. These events may not wholly be within the control of the PCC.

The PCC discloses these obligations in the narrative notes to the accounts if greater than £100k.

These amounts are not recorded in the PCC's accounts because:

- it is not probable that an outflow of economic benefits or service potential will be required to settle the obligation, or
- the amount of the obligation cannot be measured with sufficient reliability at the year end.

Contingent Assets

A contingent asset is where there is a possible transfer of economic benefit to the PCC from a past event, but the possible transfer will only be confirmed by the occurrence or non-occurrence of one or more events in the future. These events may not wholly be within the control of the PCC.

The PCC discloses these rights in the narrative notes to the accounts if greater than £100k.

Events after the Reporting Date

These are events that occur between the end of the reporting period and the date when the financial statements are authorised for issue. The PCC will report these in the following way if it is determined that the event has had a material effect on the PCC's financial position:

- events which provide evidence of conditions that existed at the end of the reporting period will be adjusted and included within the figures in the accounts; and
- events that are indicative of conditions that arose after the reporting will be reported in the narrative notes to the accounts.

Recognition of Revenue (Income and Expenditure)

Revenue shall be measured at the fair value of the consideration received or receivable.

Revenue is recognised only when it is probable that the economic benefits or service potential associated with the transaction will flow to the PCC.

Costs of Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Service Reporting Code of Practice for Local Authorities 2012/13. The full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the PCC's status as a multi-functional democratic organisation;

- Non Distributed Costs – the historic costs of retirement benefits and the costs of supporting non operational assets.

These two cost categories are accounted for as separate headings in the Comprehensive Income & Expenditure Statement as part of the Net Cost of Services.

Revenue Government Grants and Contributions

Government grants and other contributions are accounted for on an accruals basis and recognised in the accounts when it is expected that the conditions for their receipt will be complied with and there is reasonable assurance that the grant or contribution will be received.

Revenue grants are recognised in full in the year of their receipt. For grants not spent within the same financial year, the impact on the General Fund is negated by a transfer to Earmarked Reserves in the Movement in Reserves Statement.

Specific revenue grants are matched in the Net Cost of Services with the service expenditure to which they relate.

Grants which cover general expenditure (e.g. Revenue Support Grant) are credited to the foot of the Comprehensive Income & Expenditure Statement.

Value Added Tax (VAT)

The PCC's Comprehensive Income & Expenditure Statement excludes VAT. All VAT must be passed on (where output tax exceeds input tax) or repaid (where input tax exceeds output tax) to HM Revenue and Customs.

The net amount due to or from HM Revenue and Customs for VAT at the year end shall be included as part of creditors or debtors balance.

Council Tax Income

The collection of council tax is in substance an agency arrangement with the seven Lincolnshire district authorities (billing authorities) collecting council tax on behalf of the PCC. The assessment of whether the PCC is acting as principal or agent is in line with IAS 18 Revenue, IPSAS 9 Revenue from Exchange Transactions and IPSAS 23 Revenue from Non Exchange Transactions.

The council tax income is included in the Comprehensive Income & Expenditure Statement on an accruals basis and includes the precept for the year plus the PCC's share of Collection Fund surpluses and deficits from the billing authorities.

The difference between the income reported in the Comprehensive Income & Expenditure Statement and the amount required by regulation to be credited to the General Fund shall be taken to the Collection Fund Adjustment Account through the Movement in Reserves Statement.

The year end balance sheet includes the PCC's share of year end debtors (arrears and collection fund surpluses) and creditors (prepayments, overpayments and collection fund deficits).

Reserves

a) Usable Reserves

The PCC's general revenue balances are held in the General Fund. The PCC also maintains a number of specific 'earmarked' reserves for future expenditure on either target service areas or to cover contingencies. They are described in more detail in notes to the accounts.

b) Unusable Reserves

Certain reserves are kept to maintain the accounting processes for non-current assets, financial instruments and retirement benefits. These accounts do not represent usable resources for the PCC.

Employee Benefits – Benefits Payable during Employment

a) Short Term Benefits

These are amounts expected to be within 12 months of the balance sheet date. They include:

- salaries, wages and expenses accrued up to the balance sheet date;
- annual leave and flexi hours earned, but not yet taken at the balance sheet date, and;
- 'back rest days' allocated to police officers when scheduled rest days are cancelled.

These items will be accrued in the balance sheet at the year end and charged to the relevant service revenue account. Statutory provision reverses these charges from the Surplus or Deficit on provision of services by debiting the Capital Adjustment Account and crediting the General Fund Balance through the Movement in Reserves Statement.

b) Long Term Benefits

These are amounts which are payable beyond 12 months. The PCC does not have any material long term benefits to be declared within the financial statements.

Employee Benefits – Termination Benefits

Termination benefits arise from the PCC's obligation to pay redundancy costs to employees. These costs will be recognised in the PCC's financial statements when the obligation to pay these benefits arises. For example; when there is a formal plan for redundancies approved by the Commissioner (including the location, function and approximate number of employees affected; the termination benefits offered, and the time of implementation).

These items will be accrued in the Balance Sheet at the year end and charged to the relevant service revenue account. If payments are likely to be payable in more than 12 months from the year end then these costs will be discounted at the rate determined by reference to market yields.

Employee Benefits – Post Employment Benefits (Pensions)

In accordance with IAS19, the Balance Sheet includes recognition of the net asset/liability and a pensions reserve. The Comprehensive Income & Expenditure Statement shows movements in the asset/liability relating to defined benefit schemes (with reconciling entries back to contributions payable for council tax purposes in the Movement in Reserves Statement).

Accounting for retirement benefits is complex but has a simple principle:

"An organisation should account for retirement benefits when it is committed to give them, even if the actual giving will be many years into the future."

The important distinction for pension schemes is whether they are "defined contribution" or "defined benefit". As the police pension scheme and police staff superannuation scheme are both based on employees earning benefits from years of service they are both "defined benefit schemes".

IAS 19 relies on the recognition of pension assets and liabilities.

Liabilities - being the retirement benefits promised measured on an actuarial basis

Assets – being the PCC's share of investments (if any)

Movements on these assets and liabilities have been recorded in the Comprehensive Income & Expenditure Statement. The PCC has commissioned the actuaries Hymans Robertson LLP to determine the relevant figures. More explanatory notes on each scheme are given below.

The Local Government Pension Scheme

The Local Government Scheme is accounted for as a defined benefits scheme. The liabilities of the Lincolnshire County Council pension scheme attributable to the PCC are included in the Balance Sheet on an actuarial basis using the projected unit method. (This is an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates and projected earnings of future employees). Liabilities are discounted to their value at current prices, using a discount rate of 4.8%. This rate is based on market yields of high quality corporate bonds as at 31st March 2013, but is no longer equivalent to the iBoxx Index yield at the accounting date.

In assessing liabilities for retirement benefits at 31st March 2013 for the 2012/13 Statement of Accounts, the actuary made assumptions about inflation, salary increases, pension increases, expected return on assets and the discount rate. These are discussed further in Note 4.

The assets of the Lincolnshire County Council pension scheme attributable to the PCC are included in the Balance Sheet at their fair value as at 31st March 2013. The asset values are at bid value as required under IAS 19.

The Police Officer Pension Scheme

The police officer pension schemes (both the old and new schemes) are accounted for as defined benefits schemes. The liabilities of the police officer pension schemes are included in the Balance Sheet on an actuarial basis using the projected unit method. (This is an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates and projected earnings of future employees). Liabilities are discounted to their value at current prices, using a discount rate of 4.8%. This rate is based on market yields of high quality corporate bonds as at 31st March 2013, but is no longer equivalent to the iBoxx Index yield at the accounting date.

In assessing liabilities for retirement benefits at 31st March 2013 for the 2012/13 Statement of Accounts, the actuary made assumptions about inflation, salary increases, pension increases, and the discount rate. These are discussed further in Note 4.

Pension Scheme Policies

The changes in the net pensions liability is analysed into seven components:

- current service cost – the increase in liabilities as a result of years of service earned this year – allocated to the Cost of Services in the Comprehensive Income and Expenditure Statement;
- past service cost / gains or losses on curtailment - the increase in liabilities arising from current year decisions whose effect relates to years of service earned in earlier years – debited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of non distributed costs;
- interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid - debited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;
- expected return on assets – the annual investment return on the fund assets attributable to the PCC, based on an average of the expected long term return – credited to the Financing and Investment Income and Expenditure line in the Comprehensive Income and Expenditure Statement;

- gains/losses on settlements and curtailments – the result of actions to relieve the PCC of liabilities or events that reduce the expected future service or accrual of benefits of employees – debited or credited to the Surplus or Deficit on the Provision of Services in the Comprehensive Income and Expenditure Statement as part of non distributed costs;
- actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions – debited to the Pensions Reserve;
- contributions paid to the Lincolnshire County Council Pension Fund – cash paid as employer's contributions to the pension fund in settlement of liabilities; not accounted for as an expense.

In relation to retirement benefits, statutory provisions limit the PCC to raising council tax to cover the amounts payable by itself to the pension fund in the year, not the amount calculated according to the relevant accounting standards. In the Movement in Reserves Statement this means that there are adjustments to remove the notional debits and credits for retirement benefits and replace them with debits for the cash paid to the pension fund and pensioners and any such amounts payable to the fund but unpaid at the year end. The negative balance that arises on the Pensions Reserve thereby measures the beneficial impact to the General Fund of being required to account for retirement benefits on the basis of cash flows rather than as benefits are earned by employees.

Discretionary Benefits

The PCC also has some 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.

Police Officer Pensions - Home Office Memorandum Account

From 1st April 2006 the Home Office changed the method of financing police pensions. Effectively the PCC has continued to make payments but accounts for these outside of its own accounts in a separate memorandum account, which is reported as a supplementary statement in these accounts.

Group Relationships

The PCC assesses on an annual basis relationships with other bodies to identify the existence of any group relationships. A de-minimis level of £1million annual turnover has been set for considering bodies to be included within group accounts.

The PCC has not identified, and does not in aggregate have any a material interest in subsidiaries, associated companies or joint ventures and therefore is not required to prepare group accounts.

Financial Instruments

a) Financial Liabilities

Financial liabilities are initially measured at fair value and carried at their amortised cost. Annual charges to the Comprehensive Income and Expenditure Statement for interest payable are based on the carrying amount of the liability, multiplied by the effective rate of interest for the instrument. For all of the borrowings that the PCC has, this means that:

- the amount presented in the Balance Sheet is the outstanding principal repayable, and;

- interest charged to the Comprehensive Income and Expenditure Statement is the amount payable for the year in the loan agreement.

The PCC has not undertaken any repurchasing or early settlement of borrowing.

b) Financial Assets

Financial assets are classified into four types: loans and receivables – assets that have fixed or determinable payments but are not quoted in an active market; available-for-sale assets – assets that have a quoted market price and/or do not have fixed or determinable payments; fair value through profit and loss – assets that are held for trading and derivatives with a positive value; and held for maturity – assets that have fixed or determinable payments and a fixed maturity.

The PCC only has loans and receivables.

Loans and Receivables

Loans and receivables are included in current assets. The PCC's loans and receivables comprise: short term investments, trade debtors, accrued income and 'other receivables'.

Loans and receivables are recognised initially at fair value, net of transaction costs, and are measured subsequently at amortised cost using an effective interest method.