

CHESHIRE POLICE AUTHORITY



2006-07 STATEMENT OF ACCOUNTS

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THE EXPLANATORY FOREWORD

Introduction

The financial statements, which are set out on the following pages, demonstrate the financial performance for the year and the financial position at the end of the year in respect of Cheshire Police Authority. The pages that follow include:

- The Statement of Responsibilities – this sets out the responsibilities of the Authority and of the Treasurer as regards the Statement of Accounts.
- Statement on Internal Control – sets out the responsibilities and framework to ensure that public funds are safeguarded, used and accounted for properly.
- Statement of Accounting Policies – used in calculating the figures in the accounts.
- Income and Expenditure Account – this summarises the income and expenditure for the financial year 2006-07.
- Statement of Movement on General Fund Balance – reconciles the balance on the Income and Expenditure Account to the amount of movement in the General Revenue Reserve.
- Statement of Total Recognised Gains and Losses – this summarises all gains and losses for the financial year reconciling the balance on the Income and Expenditure Account to the movement in the net worth on the Balance Sheet.
- Balance Sheet – shows the assets and liabilities of the Authority as at 31 March 2007.
- Cash Flow Statement – this summarises the inflows and outflows of cash for both capital and revenue transactions.

In addition to the above statements, notes are also provided giving additional information and explanations.

The Statement of Accounts meets the requirements of the Statement of Recommended Practice (SORP) and the Code of Practice on Local Authority Accounting published by the Chartered Institute of Public Finance and Accountancy (CIPFA). The SORP specifies the principles and practices of accounting required to prepare a Statement of Accounts which 'presents fairly' the financial position and transactions of a local authority including police authorities.

Major changes have been made this year to the SORP covering the layout of the accounts and the following key areas which have impacted on these accounts:

- The removal of the requirement to make a capital financing change and the associated reports including the new Revaluation Reserve and Capital Adjustment Account.
- Replacement of the Consolidated Revenue Account and Statement of Total Movement on Reserves with an Income and Expenditure Account, Statement of Movement on the General Fund Balance and a Statement of Total Recognised Gains and Losses.
- The SORP has also been updated to accord with the changes in funding arrangements for police pensions and the statutory requirement to maintain Pension Fund Accounts – see note below.

Note - The Government introduced new arrangements for the funding of Police Officer Pensions with effect from 1 April 2006, although at the time of the preparation of the Statement of Accounts these arrangements were still subject to approval by Parliament. Under these new arrangements income and expenditure on Police Pensions is taken to a separate Holding Account. The overall net cost of the Pension Scheme is met by a specific Grant from central Government.

As a result of the changes required under the SORP, the comparative figures for last year have been re-stated in the new format. This is purely a presentational change to allow comparison with this year's accounts. Details of these changes are shown in the Statement of Accounting Policies - 13. Explanation of Prior Year Adjustments.

Balance Sheet / Police Pensions Liability

Within the Balance Sheet there is a liability of £1,005.4m shown representing the future liabilities of police officer and staff pensions under the requirements of FRS17. FRS17 – Accounting for Retirement Benefits is based on the principle that costs of retirement benefits should be accounted for at the time they were committed by the Authority even if the actual payments may be many years into the future. The implementation of FRS17 has a NIL impact on the council tax and the only charge levied is the actual contributions payable in year.

As a result of the above technical accounting entry the Balance Sheet on page 19 shows a deficit net worth of £950.277m. To calculate the actual net worth of the Authority this technical accounting entry should be deducted to show the Authority's actual net worth of £55.123m.

Revenue Expenditure in 2006-07

In 2006-07 the Authority received revenue funding and income of £181.672m. The table below shows where this funding came from:

<u>Source of Funding:</u>	<u>£000</u>	<u>%</u>
Police Grant	62,054	34.2
Revenue Support Grant & Amending Grant	8,344	4.6
Non Domestic Rates	40,850	22.5
Council Tax	39,515	21.7
Interest and Investment Income	1,264	0.7
Specific Grants	20,087	11.0
Fees, Charges and other Income	9,558	5.3
	<u>181,672</u>	

As shown in the Income and Expenditure Account the gross cost of the Authority in 2006-07 was £243.407m. The table below analyses what this was spent on:

<u>Service:</u>	<u>£000</u>	<u>%</u>
Reducing Crime	18,029	7.4
Investigating Crime	54,391	22.4
Promoting Public Safety	68,017	28.0
Assistance to the Public	52,179	21.4
Pensions	48,750	20.0
Other expenditure *	2,041	0.8
	<u>243,407</u>	

* Other expenditure includes corporate and democratic core, interest payable etc.

The difference between the funding and service expenditure of £61.735m represents the net deficit for the year before accounting for the appropriations to/from reserves and other adjustments required by statute. This deficit is reported in the Income and Expenditure Account.

Comparison of accounts with revenue outturn for 2006-07

Although the Income and Expenditure Account shows a deficit of £61.735m, it does not reflect the amount required to be financed from Council Tax. This is due to the fact that statute requires a number of adjustments to be made to the surplus or deficit on the Income and Expenditure Account in order to show the true movement of general fund balances. These adjustments are made in the Statement of Movement on the General Fund Balance and amount to £61.336m.

The deficit is largely due to a number of accounting entries that have been introduced in 2006-07 as part of the convergence of accounting practices. In particular it includes charges for the use of capital assets and the 'true' cost of pension liabilities facing the Authority at the end of the year. For the purposes of the calculation of the Council Tax, these accounting entries are excluded. Instead the Authority is required to provide for the cost of financing capital assets (i.e. borrowing and contributions from revenue etc) and the actual contributions made to pension schemes in the year. When these accounting adjustments have been made, the movement on the General Revenue Reserve amounts to £0.399m. This figure is shown in the Statement of Movement on General Revenue Reserve along with the necessary reconciling items that are required to arrive at the deficit figure of £61.7m.

The Authority set a net budget requirement of £150.3m for 2006-07 and a Band D Council Tax of £108.49. This represented an increase of 4.13% and 5.74% respectively compared to the previous year. The Authority also agreed to utilise reserves amounting to £2.713m to balance the budget for 2006-07.

Taking into account the funding and expenditure set out above, the outturn position shows that the Authority's general reserves have reduced by £0.399m compared to the budget position of £2.713m, an improvement of £2.314m.

Capital Expenditure in 2006-07

Capital projects are monitored throughout the year and as issues arise, the overall capital programme is adjusted and presented to Members for approval. The final approved budget for the capital programme was £9.89m. Expenditure on capital projects in 2006-07 was £7.964m, £1.926m less than anticipated.

There are 66 projects in the capital programme of which 34 were either completed in year or cancelled. The remaining 32 were re-phased to take place in 2007-08 or beyond.

A summary of capital expenditure in 2006-07 and its associated financing can be found in the Notes to the Primary Statement. .

Revenue Budget for 2007-08

The Authority has set a net budget requirement of £157.4m for 2007-08 and a Band D council tax of £116.03. This represents increases of 4.72% and 6.95% in net budget requirement and council tax respectively compared to 2006-07. In order to balance the budget, the Authority has utilised reserves amounting to £0.4m.

Future Developments

On 27 March 2007, the Prime Minister published the Government's police review on security, crime and justice – "Building on Progress". On the same day, an independent review of policing was announced under the direction of Sir Ronnie Flanagan, Her Majesty's Chief Inspector of Constabulary. The aim of this review is to assess:

- How we can reduce bureaucracy and promote better business processes?
- How we can sustain and mainstream excellent progress that has been made on neighbourhood policing?
- How can we ensure that the public help to drive local policing priorities and how can we improve local involvement and accountability?
- How can the police service manage its resources effectively to deliver on the challenges of the coming years?

There will be an interim report on the review in August with the final report being presented by the end of the calendar year. The impact of this review will then be assessed by the Authority.

In June, the Constabulary produced a document entitled "Our Ambition". This report acknowledged the rapid development in policing over the past five years both locally and nationally. In addition, it recognised that the next few years will also be challenging not only in policing but in funding through tighter government spending. Significant investment has been made in supporting these demands (including new custody suites and IT systems) together with efficiency savings.

It is in this context that the Constabulary have presented its strategy for the next three years which aims to:

- Release the capability and innovation of all our people within the constabulary
- Raise the aspirations of the public and out staff
- Focus increasingly on reducing crime and anti-social behaviour
- Strengthen the confidence of local people in policing
- Work with other agencies for increased well-being in Cheshire, Halton and Warrington

In response to this strategy and the forecast financial scenario, the Police Authority is seeking support from its stakeholders to increase its funding. Extensive consultation will be undertaken throughout the year to inform and direct the budget setting process for 2008-09 onwards.

Further Information

Every effort has been made to ensure that the information provided in this Statement of Accounts is clear and informative. Should you require any further information or if you have any comments, please contact the Treasurer, Ms Liz Lunn on telephone [01244] 602035 or Head of Finance and Procurement, Allan Rainford on telephone [01244] 612070.

LIZ LUNN

Treasurer

STATEMENT OF ACCOUNTING POLICIES

1. General Principles

The Statement of Accounts summarises the Authority's transactions for the 2006-07 financial year and its position at the year end of 31 March 2007. It has been prepared in accordance with the *Code of Practice on Local Authority Accounting in the UK – A Statement of Recommended Practice 2006* (the SORP). The accounting convention adopted is historic cost, modified by the revaluation of certain categories of tangible fixed assets.

2. 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

- Fees, charges and rents due from customers are accounted for as income 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 works in progress on the balance sheet
- Interest payable on borrowings and receivable on investments is accounted for in the year to which it relates, on a basis that reflects the overall effect of the loan or investment
- Where income and expenditure has been recognised but cash has not been received or paid, a debtor or creditor for the relevant year is recorded in the balance sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
- Income and expenditure are credited and debited to the income and expenditure account, unless they properly represent capital receipts or capital expenditure.

3. Provisions

Provisions are made where an event has taken place that gives the Authority an obligation that probably requires settlement by a transfer of economic benefits but where the timing of the transfer is uncertain. For instance, the Authority may be involved in a court case that could eventually result in the making of a settlement or the payment of compensation.

Provisions are charged to the income and expenditure account in the year that the Authority 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 – where it becomes more likely than not that a transfer of economic benefits will not now be required (or a lower settlement than anticipated is made), the provision is reversed and credited back to the Income and Expenditure Account.

Where some or all of the payment required to settle a provision is expected to be met by another party (e.g. from an insurance claim), this is only recognised as income in the Income and Expenditure Account if it is virtually certain that reimbursement will be received if the obligation is settled.

4. Reserves

The Authority sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts in the Statement of Movements in the General Revenue Reserve. When expenditure to be financed from a reserve is incurred, it is charged to the Income and Expenditure Account in that year to score against the Net Cost of Services. The reserve is then appropriated back into the General Revenue Reserve statement so that there is no net charge against Council Tax for the expenditure.

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

5. Government Grants and Contributions (Revenue)

Whether paid on account, by instalments or in arrears, government grants and third party contributions and donations are recognised as income at the date that the Authority satisfies the conditions of entitlement to the grant/contribution, there is reasonable assurance that monies will be received and the expenditure for which the grant is given has been incurred. Revenue grants are matched in the Income and Expenditure Account with the service expenditure to which they relate. Grants to cover general expenditure (e.g. Revenue Support Grant) are credited to the foot of the Income and Expenditure Account after Net Operating Expenditure.

6. Retirement Benefits

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

- The Local Government Pension Scheme administered by Cheshire County Council.
- The Police Pension Scheme for Police Officers. This is an unfunded scheme, meaning 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.

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

The impact of these two pension schemes is identified separately in the Income and Expenditure Account and balance sheet and in the notes to the Primary Statements. The Authority has implemented the following accounting policies:

- Net assets/net liabilities are identified for both funded and unfunded pension schemes; The attributable assets of the scheme (local government) are measured at fair value;
- The attributable liabilities of both schemes are measured on an actuarial basis, using the projected unit method;
- Liabilities are discounted at a rate that reflects the time value of money and the characteristics of the liability;
- The surplus/deficit in each scheme is the excess/shortfall of the value of assets in the scheme over/below the present value of the scheme's liabilities.

The change in the net pensions liability is analysed into the following components:

- The current service cost – the increase in liabilities as a result of years of service earned this year. This is charged to the Income and Expenditure Account and is apportioned across service headings according to numbers of employees.
- Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in previous years. These are debited to the net cost of service 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. This is based on the discount rate and the present value of the scheme liabilities at the beginning of the period. The cost is debited to Net Operating Expenditure.
- Expected return on assets – the annual investment return on assets based on an average of the expected long term return. This 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. These are not charged to revenue.
- Gains/losses arising from settlements or curtailments – the result of actions to relieve the Authority of liabilities or events that reduce the expected future service or accrual of benefits of

employees. This is debited to the net cost of services as part of non distributed costs.

Statutory provisions limit the Authority to raising Council Tax to cover the amounts payable in accordance with the employers' rate of contribution. In the Statement of Movement on the General Revenue Reserve 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.

7. Overheads and support services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA *Best Value Accounting Code of Practice 2006*. The total absorption costing principle is used – the full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the Authority's status as a multi functional democratic organisation
- Non distributed costs – the costs of discretionary benefits awarded to employees retiring early

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

8. Intangible Fixed Assets

Expenditure on assets that do not have physical substance but are identifiable and controlled by the Authority (e.g. software licenses) is capitalised when it will bring benefits to the Authority for more than one financial year. The balance is amortised to the Income and Expenditure Account over the economic life of the investment to reflect the pattern of consumption of benefits.

9. Tangible Fixed Assets

Tangible Fixed Assets are assets that have physical substance and are held for use in the provision of services or for administrative purposes on a continuing basis.

Recognition: expenditure on the acquisition, creation or enhancement of tangible fixed assets is capitalised on an accruals basis in the accounts of the Authority, provided that it yields benefits to the Authority of more than one year. Expenditure that secures but does not extend the previously assessed standards of performance of assets (e.g. repairs and maintenance) is charged to revenue as it is incurred. Assets acquired under finance leases are also included within fixed assets.

Measurement: Assets are initially measured at cost, comprising all expenditure that is directly attributable to bringing the asset into working condition for its intended use. Operational properties have been included as assets in the Balance Sheet on the basis of the open market value where the property is surplus or held as an investment; existing use value where the property is not of a specialist nature; and depreciated replacement cost where the property is of a specialist nature. Residential properties are regarded as non-operational and are included in the balance sheet on the basis of open market value.

Properties under construction are included as non operational fixed assets on the basis of actual expenditure incurred. They will be valued when construction is complete.

Depreciation; is provided for on all assets with a determinable finite life by allocating the value of the asset in the balance sheet over the periods expected to benefit from their use.

10. Charges to Revenue for Fixed Assets

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

- Depreciation attributable to assets used
- Impairment losses attributable to the clear consumption of economic benefits on tangible assets

- used
- 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 at least 4% of the underlying amount measured by the adjusted Capital Financing Requirement). Depreciation, impairment losses and amortisations are therefore replaced by revenue provision in the Statement of Movement on the General Revenue Reserve, by way of an adjusting transaction with the Capital Financing Account for the difference between the two.

11. Capital Receipts

Receipts from the disposal of fixed assets are credited to the Capital Receipts Reserve. The Reserve can be used to finance new capital investments or can be set aside to reduce the Authority's underlying need to borrow.

12. Private Finance Initiative (PFI)

PFI Contracts are agreements to receive services, where the responsibility for making available the fixed assets needed to provide the services passes to the PFI contractor. Payments made by the Authority under a contract are charged to revenue to reflect the value of services received in each financial year.

The Authority has two PFI contracts: for the provision of Constabulary Headquarters and for the provision of custody facilities. In respect of the Constabulary HQ PFI contract, the Authority has made a capital contribution to be met from the sale proceeds of properties no longer required as a result of the initiative. This contribution has reduced the annual charge to the Authority under the PFI contract. As the contract will continue for 30 years, the contribution will be charged to revenue over the same period, and is recognised as a long term prepayment (formerly recognised as a deferred charge).

13. Leases

The Authority accounts for leases as finance leases when substantially all the risks and rewards relating to the leased property transfer to the Authority. The Authority holds Charles Stewart House in Warrington under a finance lease which has been capitalised and included in the balance sheet and is being written down in equal instalments over the period of the lease.

14. Interest on investments

Surplus cash is invested with a range of financial institutions in accordance with the Annual Treasury Management Strategy which is approved by the Authority. The Authority conducts its treasury management activities in accordance with the CIPFA Code of Practice on Treasury Management. Interest earned on the investment of surplus cash is credited to the Income and Expenditure Account in the year in which it is earned.

15. Stocks

Stocks are reflected in the balance sheet at historic cost. This is a departure from SSAP9 which requires stocks to be valued at the lower of cost or net realisable value. However, for many stock items, particularly uniforms, net realisable value would be minimal and would not accurately reflect the value to the Authority of holding these assets.

16. Explanation of Prior Year Adjustments

In the 2005-06 Statement of Accounts, the figures in respect of Police Grant, Revenue Support Grant and National Non Domestic Rate Income, reflected the allocations referred to in the Governments 2003-04 Amending Report. This had the effect of increasing the figure for Revenue Support Grant and reducing the figures for Police Grant and Non Domestic Rate Income, the net

increasing representing the amount received by way of Amending Grant. In the Income & Expenditure Account for 2006-07 the Amending Grant (amounting to £0.458m) has been added to the figure for Revenue Support Grant and the corresponding figures for 2005-06 have been adjusted to a comparable basis.

In the 2006-07 Statement of Accounts, the Authority has adopted two significant new accounting policies that impact on the comparative figures for 2005-06 in the Income and Expenditure Account.

- Capital Financing Charges for the use of fixed assets are no longer made to the service revenue accounts.
- Credits for government grants deferred are now posted to the service revenue accounts, rather than credited as a corporate income item.

These changes have had the following impact on the comparative figures for 2005-06 compared with those published in the 2005-06 Statement of Accounts (only figures that have changed are included in the table).

	Consolidated Revenue Account in 2005-06 Statement of Accounts	Removal of Capital Financing Charges	Relocation of Govt Grants Deferred Credits	Re-allocation of overheads	2005-06 Restated Comparative in Income & Expenditure Account
	£'000	£'000	£'000	£'000	£'000
Crime					
Reducing Crime	13,634	(191)	(174)	16	13,285
Investigating Crime	45,098	(617)	(842)	52	43,691
Policing in the Community					
Promoting Public Safety	55,195	(806)	(948)	52	53,493
Assistance to the Public	44,404	(740)	(749)	54	42,969
Corporate and Democratic Core	1,416	(7)	(11)	-	1,398
Non Distributed Cost - Past Service Pension Cost	424	-	-	(174)	250
Impact on Net Cost of Service	160,171	(2,361)	(2,724)	-	155,086
Depreciation on Finance Lease	141	(141)	-	-	0
Asset Management Revenue Account (Interest Payable and similar charges in 2006-07)	(4,721)	2,361	2,724	-	364
Pensions Interest Cost and expected return on pensions asset	46,790	-	-	-	46,790
Interest & Investment Income	(660)	-	-	-	(660)
Impact on Net Operating Expenditure	201,721	(141)	-	-	201,580

STATEMENT OF RESPONSIBILITIES

Responsibilities of the Cheshire Police Authority

The Authority is required:

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

Chairman of Police Authority Certificate

I certify that the Statement of Accounts has received the full approval of Members.

Chairman of Audit Committee
27 June 2007

Responsibilities of the Treasurer

The Treasurer is responsible for ensuring that the financial affairs of the Authority and the Constabulary are properly administered. The Treasurer is also required to provide financial advice to the Authority and an effective internal audit service and prepare the Authority's Statement of Accounts. In terms of the CIPFA *Code of Practice on Local Authority Accounting in the UK*, the statement is required to present fairly the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31 March 2007. The CIPFA *Best Value Accounting Code of Practice* requires the net cost of service shown in the Income and Expenditure account to be analysed over the mandatory divisions of service prescribed by the code. In order to fulfil these obligations the Treasurer has made the following arrangements:

In preparing this Statement of Accounts;

- that accounting policies have been applied consistently, and the accounting concepts of materiality, going concern, matching, consistency and prudence have been observed;
- that reasonable judgements and prudent estimates have been made where appropriate;
- that there has been compliance with the Code of Practice on Local Authority Accounting in Great Britain and the Best Value Accounting Code of Practice.

In addition;

- that up to date and proper accounting records have been kept;
- that reasonable steps have been taken for the prevention and detection of fraud and other irregularities.
- accurate representations have been made to the Authority's Auditor, all relevant records made available and any matters that could have a material effect on the financial statements have been disclosed

Treasurer's Certificate

I certify that the Statement of Accounts presents fairly the financial position of the Authority as at 31 March 2007 and authorise the financial statement for issue.

Liz Lunn, Treasurer
27 June 2007

INDEPENDENT AUDITOR'S REPORT TO THE MEMBERS OF CHESHIRE POLICE AUTHORITY

Opinion on the financial statements

I have audited the financial statements and the Police pension fund accounting statements of Cheshire Police Authority for the year ended 31 March 2007 under the Audit Commission Act 1998. The financial statements comprise the Explanatory Foreword, Income and Expenditure Account, Statement of Movement on General Fund Balances, 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 Cheshire Police Authority in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Chief Finance Officer and the auditor

The Chief Finance Officer's responsibilities for preparing the financial statements, including the Police pension fund accounting statements, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006 are set out in the Statement of Responsibilities.

My responsibility is to audit the financial 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 financial statements and the Police pension fund accounting statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006:

- the financial position of the 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 statement on internal control reflects compliance with CIPFA's guidance 'The statement on internal control in local government: meeting the requirements of the Accounts and Audit Regulations 2003' issued in April 2004. I report if it does not comply with proper practices specified by CIPFA 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 statement on internal control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures

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 financial statements. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the financial statements, 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 financial statements 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 financial statements.

Opinion

In my opinion:

The financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006, the financial position of the Authority as at 31 March 2007 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 2006, the financial transactions of the Police pension fund during the year ended 31 March 2007 and the amount and disposition of the fund's assets and liabilities as at 31 March 2007, other than liabilities to pay pensions and other benefits after the end of the scheme year.

Julian Farmer
The Heath Business Park,
Runcorn, WA7 4ZX
September 2007

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 to regularly review the adequacy and effectiveness of these arrangements.

Under the Local Government Act 1999, the Authority is required to prepare and publish a best value performance plan summarising the authority's assessment of its performance and position in relation to its statutory duty to make arrangements to ensure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

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 principal local 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.

I am required by section 7 of the Local Government Act 1999 to carry out an audit of the Authority's best value performance plan and issue a report: certifying that I have done so; stating whether I believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Local Government Act 1999 and statutory guidance; and where relevant, making any recommendations under section 7 of the Local Government Act 1999.

Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in December 2006, I am satisfied that, in all significant respects, Cheshire Police Authority made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2007.

Best Value Performance Plan

I issued my statutory report on the audit of the Authority's best value performance plan for the financial year 2006/07 in December 2006. I did not identify any matters to be reported to the Authority and did not make any recommendations on procedures in relation to the plan.

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.

Julian Farmer
The Heath Business Park,
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September 2007

INCOME AND EXPENDITURE ACCOUNT

This account summarises the resources that have been generated and consumed in providing services and managing the authority during the last year. It includes all day to day expenses and related income on an accruals basis, as well as transactions measuring the value of fixed assets actually consumed and the real value of retirement benefits earned by employees in the year.

Restated Net Expenditure 2005-06		Gross Expenditure	Gross Income	Net Expenditure 2006-07
£'000		£'000	£'000	£'000
	Crime			
13,285	Reducing Crime	18,029	(1,458)	16,571
43,691	Investigating Crime	54,391	(8,427)	45,964
	Policing in the Community			
53,493	Promoting Public Safety	68,017	(12,231)	55,786
42,969	Assistance to the Public	52,179	(7,400)	44,779
1,398	Corporate and Democratic Core	1,604	(129)	1,475
250	Non Distributed Cost	30	0	30
155,086	Net Cost of Service	194,250	(29,645)	164,605
364	Interest Payable and Similar Charges			407
(660)	Interest and Investment Income			(1,264)
46,790	Pensions interest cost and expected return on pensions assets			48,750
201,580	Net Operating Expenditure			212,498
(68,771)	Police Grant			(62,054)
(26,626)	Revenue Support Grant & Amending Grant			(8,344)
(16,090)	Non Domestic Rates Income			(40,850)
(37,118)	Precept on Council Tax Collection Funds			(39,515)
52,975	Deficit for the year			61,735

STATEMENT OF MOVEMENT ON GENERAL REVENUE RESERVE

The Income and Expenditure Account shows the authority's actual financial performance for the year, measured in terms of resources consumed and generated over the past 12 months. However, the authority is required to raise council tax on a different basis, the main differences being:

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

The General Revenue Reserve compares the authority's spending against the council tax that it raised for the year, taking into account the use of reserves built up in the past and contributions to reserves earmarked for future expenditure.

The reconciliation statement summarises the differences between the outturn on the Income and Expenditure account and the General Revenue Reserve.

2005-06		2006-07
£'000		£'000
52,975	Deficit for the Year on Income and Expenditure Account	61,735
(56,870)	Net additional amount required by statute and non statutory proper practices to be credited to the General Revenue Reserve for the year.	(61,336)
(3,895)	(Increase)/decrease in General Revenue Reserve for the year.	399
(6,242)	General Revenue Reserve - balance brought forward	(10,137)
(10,137)	General Revenue Reserve - balance carried forward	(9,738)

Notes of reconciling items for the Statement of Movement on the General Revenue Reserve			
2005-06		2006-07	Notes
£'000		£'000	£'000
Amounts included in the Income & Expenditure Account, but required by statute to be excluded when determining the movement on the General Revenue Reserve for the year			
(810)	Amortisation of intangible fixed assets	(1,155)	12
(5,015)	Depreciation and Impairment of fixed Assets	(5,165)	
2,724	Government Grants Deferred amortisation	4,443	5
(79,410)	Net Charges for retirement benefits in accordance with FRS 17	(88,020)	27
(82,511)		(89,897)	

Amounts not included in the Income & Expenditure Account, but required by statute to be included when determining the movement on the General Revenue Reserve for the year.

352	Minimum Revenue Provision for Capital Financing	382	5
66	Capital Expenditure charged in year to the General Revenue Reserve	0	18
29,230	Employers Contributions payable to the Cheshire Pension Fund	26,230	27
<u>29,648</u>		<u>26,612</u>	
	Transfers to or from the General Revenue Reserve that are required to be taken into account when determining the movement on the Reserves balance for the year		
<u>(4,007)</u>	Net Transfer to/(from) earmarked reserves	1,949	
<u>(56,870)</u>	Net additional amount required to be credited to the General Revenue Reserve	<u>(61,336)</u>	

STATEMENT OF TOTAL RECOGNISED GAINS AND LOSSES

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 benefits.

2005-06		2006-07	Notes
£'000		£'000	
(52,975)	Deficit for the year on the Income and Expenditure Account	(61,735)	
(1,072)	Deficit arising on revaluation of Fixed Assets	(124)	
(87,020)	Actuarial (losses)/Gains on pension fund assets and liabilities	74,590	27
<u>(141,067)</u>	Total Recognised (Loss)/Gain for the Year	<u>12,731</u>	

BALANCE SHEET AS AT 31 MARCH 2007

31 March 2006		£'000	31 March 2007	£'000	Note
1,096	Intangible Assets		1,402		12
	Tangible Fixed Assets				
	Operational Assets				
46,084	Property		37,582		13
2,538	Vehicles		2,680		13
5,112	Equipment		4,777		13
	Non Operational Assets				
2,657	Police Houses		2,246		13
0	Assets Under Construction		462		13
57,487	Total Fixed Assets		49,149		
9,907	Long Term Prepayments		9,553		20
67,394	Total Long Term Assets		58,702		
	Current Assets				
181	Stocks		261		21
7,790	Debtors and Prepayments		9,909		22
6,700	Short Term Investments		9,685		
9,030	Cash in Hand		10,065		
			29,920		
91,095	Total Assets		88,622		
	Current Liabilities				
(15,209)	Creditors		(13,349)		23
(86)	Deposits		(442)		24
(156)	Borrowing repayable within 12 months		(156)		
(117)	Bank Overdraft		(166)		
			(14,113)		
75,527	Total Assets Less Current Liabilities		74,509		
	Long Term Liabilities				
(2,249)	Long Term Creditors		(2,109)		15
(7,840)	Long Term Borrowing		(8,543)		25
(524)	Provisions		(591)		26
(9,722)	Govt Grants Deferred Account		(8,143)		30
(1,018,200)	Liability related to defined benefit Pension Scheme		(1,005,400)		4
(963,008)	Total Assets Less Liabilities		(950,277)		
	Reserves:				
27,669	Fixed Asset Restatement Account		17,829		29
8,463	Capital Financing Account		10,967		29
3,000	Capital Receipts Reserve		7,361		29
0	Deferred Capital Receipts		1,556		29
(1,018,200)	Pensions Reserve		(1,005,400)		27
10,137	General Revenue Reserve		9,738		28
2,008	Unapplied Capital Grants Reserve		2,029		29
2,707	Revenue Reserve for Capital		2,907		28
200	Insurance Reserve		200		28
0	Neighbourhood Policing / Workforce		1,624		28
1,008	Modernisation Reserve				
1,008	Other Reserves		912		28
(963,008)	Total Net Worth		(950,277)		

CASHFLOW STATEMENT

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

	2006-07			2005-06	
	£'000	£'000	NOTES	£'000	£'000
REVENUE ACTIVITIES					
Cash Outflows					
Cash paid to and on behalf of employees	127,479			120,164	
Other operating cash payments	52,863			48,421	
Cash Inflows					
Revenue Support Grant & Amending Grant	(8,344)		31	(26,626)	
Other Government Grants	(82,625)		31	(82,981)	
Precepts	(39,432)			(37,015)	
Surplus on Collection Funds	(83)			(103)	
National non domestic rate receipts	(40,850)			(16,089)	
Cash received for goods and services	<u>(9,630)</u>	(622)	31	<u>(7,019)</u>	(1,248)
RETURNS ON INVESTMENTS & SERVICING OF FINANCE					
Cash Outflows					
Interest paid	406			364	
Cash Inflows					
Interest received	<u>(866)</u>	(460)		<u>(845)</u>	(481)
CAPITAL ACTIVITIES					
Cash Outflows					
Purchase of Fixed Assets	6,491			3,412	
Contributions to Assets Under Construction	462			3,436	
Other capital cash payments	1,619			2,035	
Cash Inflows					
Sale of fixed assets	(5,917)			(4,798)	
Capital grants received	(4,782)			(1,902)	
Other capital cash receipts	<u>(59)</u>	(2,186)		<u>(175)</u>	2,008
NET CASH (INFLOW)/OUTFLOW BEFORE FINANCING		<u>(3,268)</u>			<u>279</u>
MANAGEMENT OF LIQUID RESOURCES					
Net increase/(decrease) in short term deposits		2,985			(6,005)
FINANCING					
Cash Outflows					
Repayments of amounts borrowed	156			1,656	
Cash Inflows					
New long term loans raised	(859)			(905)	
New short term loans raised	<u>-</u>	(703)	31	<u>(1,500)</u>	(749)
NET (INCREASE)/DECREASE IN CASH		<u><u>(986)</u></u>			<u><u>(6,475)</u></u>

POLICE PENSION FUND

The Government introduced new arrangements for the funding of Police Officer Pensions with effect from 1 April 2006. Under these new arrangements income and expenditure on Police Pensions is taken to a separate Fund Account. The overall net cost of the Pension Fund is met by a specific Grant from Government.

The figures relating to the Pension Fund are shown below. There are no comparative figures for 2005-06.

Fund Account

	2006-07
	£'000
Contributions receivable	
From Employer - normal retirements	(17,098)
- early retirements	(495)
From Police Officers	(7,708)
Transfers in	
Transfers in from other schemes	(493)
Other contributions	(524)
Benefits payable	
Pensions	23,996
Commutations and lump sum retirement benefits	5,322
Lump sum death benefits	64
Payments to and on account of leavers	
Refunds of contributions	42
Transfers out to other schemes	718
Net amount payable for the year before top up grant	<u>3,824</u>
Top up Grant receivable	(3,824)
Net Amount for year	<u>Nil</u>

Net Asset Statement

There are no balances at the year end

Notes to the Pension Fund Accounts

1. The Employer makes a contribution of 24.6% in the Fund Account and together with contributions from members and transfers in to the scheme this is used to offset the cost of benefits payable to existing pensioners and lump sum payments to retiring Officers.
2. There are no investment assets and the account is balanced to nil each year by receipt of top up grant from the Government or by paying any surplus on the account over to the Government. The Government pay 80% of this grant in advance, with the balance being paid after the end of the financial year.
3. The financial statements above do not take account of liabilities to pay pensions and other benefits after the end of the financial year.

NOTES TO THE PRIMARY STATEMENTS

1. BEST VALUE CODE OF PRACTICE

The Service Expenditure headings in the Income and Expenditure Account reflect the requirements of the CIPFA Best Value Accounting Code of Practice. The Code establishes 'proper practices' with regard to financial reporting and seeks to ensure that information is consistent and provides comparability. To facilitate this, costs of Police activities are grouped into standard divisions of service which are described below.

Reducing Crime

This includes the cost of intelligence and surveillance teams as well as some local community services.

Investigating Crime

This includes all Criminal Investigation Departments and Specialist Crime Units e.g. Scenes of Crime, Major Incident Units and Operational Units (e.g. Firearms, Underwater Search Unit).

Promoting Public Safety

This includes all operational support units, information centres, operational planning units, control rooms and other incident response units.

Assistance to the Public

This includes "reassurance" policing units such as Police Community Support Officers and specials, as well as visitor handling, press and public relations.

Corporate and Democratic Core

This includes the cost of the corporate infrastructure (e.g. the Clerk & Chief Executives office and external audit fees) and the cost of democratic representation (e.g. members' allowances).

Non Distributed Cost

These are costs that have arisen because of decisions taken to improve the retirement benefits of employees. They relate mostly to discretionary benefits awarded to employees on early retirement and include the cost of added years and unreduced pension benefits awarded before a serving Officer's normal retirement age.

2. SUBJECTIVE ANALYSIS

This note shows the figures contained in the Income and Expenditure Account in terms of their subjective nature.

	2006-07	2005-06
	£'000	£'000
Employees - Police Pay and Allowances	87,531	84,414
- Civilian Pay and Allowances	35,280	31,805
- Other Pay and Allowances	4,908	4,043
Police Pensions	18,368	22,660
Premises	9,601	9,343
Transport	3,985	3,630
Supplies and Services	15,567	13,267
Third Party payments	3,352	3,183
Contracted Out Services	741	568
Pensions - current Service Net Cost	13,010	3,140
Pensions – Non Distributed Past Service Cost	30	250
Depreciation and Amortisation of Fixed Assets	6,320	5,825
Release of Government Grants Deferred	(4,443)	(2,724)
TOTAL SERVICE EXPENDITURE	194,250	179,404
Service Income	(29,645)	(24,318)
NET COST OF SERVICE	164,605	155,086
Interest Payable and Similar Charges	407	364
Interest and Investment Income	(1,264)	(660)
Pensions Interest Cost and Return on Pensions Assets	48,750	46,790
NET OPERATING EXPENDITURE	212,498	201,580
Revenue Support Grant and Amending Grant	(8,344)	(26,626)
National Non-Domestic Income	(40,850)	(16,090)
Police Grant	(62,054)	(68,771)
Precept Demand on Council Tax Collection Funds	(39,515)	(37,118)
NET (SURPLUS) / DEFICIT FOR YEAR	61,735	52,975

3. SERVICE INCOME

	2006-07 £'000	2005-06 £'000
Fees & Charges	1,935	1,476
Sales	110	137
Reimbursements		
- Cheshire Casualty Reduction P'ship, Hypothecated Fines	966	1,023
- Central Services	1,610	1,210
- Regional Services	420	396
- National Crime Squad	6	1,061
- PFI Reimbursements	136	374
- Home Office Operations	145	362
- Reimbursements from Other Forces (Quadrant)	184	212
- Reimbursements - Asset Recovery - POCA 2002	252	83
- Other Reimbursements	824	1,060
Total	6,588	7,394
Analysis of Grants		
- HQ Private Finance Initiative	7,230	4,955
- Crime Fighting Fund	4,227	4,119
- Community Support Officers	3,393	646
- Police Pension Top-Up Grant	3,824	-
- Contribution to Police Pension Fund	(3,824)	-
- Special Formula Grant	2,563	-
- DNA	-	1,106
- Special Priority Payments	-	1,266
- DNA Phase 2 Expansion	-	262
- Rural Policing	26	286
- Basic Command Unit Grant	545	604
- IDLP	315	105
- No Witness No Justice	158	169
- IMPACT	130	-
- Police Restructuring	100	-
- Specials Co-ordination	97	80
- National Intelligence Model	34	34
- Alcohol Misuse	30	53
- Specials Conference	25	-
- Knife Amnesty	16	-
- Airwave	-	665
- HR - Strategy for a healthy Police Force	-	48
- Citizen Focus Policing	5	32
- ACPO Safer Homes	40	30
- HR Employee Support	5	5
- Counter Terrorism	995	-
- Bikesafe	16	-
- NPU Discretionary Payments	10	-
- Citizen Focus Improvement	40	-
- Other Grants	87	76
Total Grants	20,087	14,541
Mutual Aid	1,175	762
External Agency Funding	1,790	1,602
VAT Recovered	5	19
Sub Total	2,970	2,383
Total Service Income	29,645	24,318

4. PENSIONS INFORMATION

Participation in Pensions Schemes

As part of the terms and conditions of employment of its Officers and Staff, 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 that need to be disclosed at the time that employees earn their future entitlement.

The Authority participates in two pension schemes:

- The Local Government Pension Scheme (LGPS) for Police Staff, administered by Cheshire County Council. This is a funded scheme, meaning that the scheme's liabilities are backed by investment assets. The Authority and its employees pay contributions into the fund, calculated at a level intended to balance the pensions liabilities with investment assets.
- The Police Pension Scheme for Police Officers. This is an unfunded scheme, meaning 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.

Transactions relating to retirement benefits

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

	Local Government Pension Scheme		Police Pension Scheme	
	2006-07	2005-06	2006-07	2005-06
	£'000	£'000	£'000	£'000
<u>Income and Expenditure Account</u>				
Net Cost of Services				
• Current service costs	5,540	3,970	33,700	28,400
• Past service cost	30	150	0	100
Net Operating Expenditure				
• Interest cost	4,870	4,180	48,800	46,400
• Expected return on assets in the scheme	(4,920)	(3,790)	0	0
Net charge to the Income and Expenditure Account	5,520	4,510	82,500	74,900
<u>Statement of Movement in the General Revenue Reserve</u>				
Amounts to be met from Government Grants and Local Taxation:				
• Movement on pensions reserve	(1,490)	(780)	(60,300)	(49,400)
Actual amount charged against General Revenue Reserve for pensions in the year:				
• Employers contributions payable to the scheme	(4,030)	(3,730)		-
• Retirement benefits payable to pensioners			(22,200)	(25,500)

Assets and Liabilities in relation to Retirement Benefits

The underlying assets and liabilities for retirement benefits attributable to the Authority at 31 March are as follows:

	Local Govt. Pension Scheme		Police Pension Scheme		Total	
	31.3.07 £000	31.3.06 £000	31.3.07 £000	31.3.06 £000	31.3.07 £000	31.3.06 £000
Estimated Liabilities in the scheme	(99,500)	(96,600)	(984,600)	(991,500)	(1,084,100)	(1,088,100)
Estimated Assets in the scheme	78,700	69,900	-	-	78,700	69,900
Net Liability	(20,800)	(26,700)	(984,600)	(991,500)	(1,005,400)	(1,018,200)

The Liabilities show the underlying commitments that the Authority has in the long run to pay retirement benefits. The total liability of £1,005m has a substantial impact on the net worth of the Authority as recorded in the Balance Sheet, resulting in a negative overall balance of £952m.

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 increasing contributions over the remaining working life of employees, as assessed by the scheme actuary.
- Finance is only required to be raised to cover police pensions when the pensions are actually paid.

Basis for Estimating Assets and Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependant on assumptions about mortality rates, salary levels etc. Both the Police Scheme and the Cheshire Pension Fund liabilities have been assessed by Hymans Robertson and Co, an independent firm of actuaries, estimates for the Cheshire Pension Fund being based on the latest full valuation of the scheme as at 31 March 2004. The main assumptions used in their calculations have been as follows:

	Local Government Pension Scheme		Police Pension Scheme	
	2006/07 %	2005/06 %	2006/07 %	2005/06 %
Rate of Inflation	3.2	3.1	3.2	3.1
Rate of increase in salaries	4.7	4.6	4.7	4.6
Rate of increase in pensions	3.2	3.1	3.2	3.1
Proportion of employees opting to take a commuted lump sum	0	0	n/a	n/a
Rate for discounting scheme liabilities	5.4	4.9	5.4	4.9

	Long Term Returns	Estimated Fund Value at 31 March 2007	Proportion of the Fund 31 March 2007	Proportion of the Fund 31 March 2006
	%	£000	%	%
Equities	7.4	1,781,500	76.0	77.8
Bonds	4.6	289,700	12.0	11.0
Property	5.5	247,500	11.0	8.6
Cash	4.6	38,100	1.0	2.6
Total		2,356,800	100.0	100.0

Actuarial Gains and Losses

The actuarial gains identified as movements on the Pensions Reserve in 2006/07 can be analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities as 31 March 2007:

a) Local Government Pension Scheme

	2002/03		2003/04		2004/05		2005/06		2006/07	
	£000	% *	£000	% *	£000	% *	£000	% *	£000	% *
Differences between the expected and actual return on assets	(10,529)	(32.7)	5,193	12.2	1,630	3.2	10,960	15.7	10	0.0
Difference between actuarial assumptions about liabilities and actual experience	(191)	(0.4)	(219)	(0.4)	(39)	(0.1)	80	0.1	(10)	0.0
Changes in the demographic and financial assumptions used to estimate liabilities	0	0	8	0	(14,260)	(18.9)	(13,160)	(13.6)	7,390	7.4
Actuarial gain/(loss) in pension plan	<u>(10,720)</u>	<u>(22.1)</u>	<u>4,974</u>	<u>9.3</u>	<u>(12,669)</u>	<u>(16.8)</u>	<u>(2,120)</u>	<u>(2.2)</u>	<u>7,390</u>	<u>7.4</u>

b) Police Pension Scheme

	2002/03		2003/04		2004/05		2005/06		2006/07	
	£000	%	£000	%	£000	%	£000	%	£000	%
Difference between actuarial assumptions about liabilities and actual experience	(32,972)	(5.7)	(702)	(0.1)	(27,500)	(3.2)	7,700	0.8	7,200	0.7
Changes in the demographic and financial assumptions used to estimate liabilities	(44,300)	(7.5)	0	0	(161,414)	(18.8)	(92,600)	(9.4)	60,000	6.1
Actuarial gain/(loss) in pension plan	<u>(77,272)</u>	<u>(13.2)</u>	<u>(702)</u>	<u>(0.1)</u>	<u>(188,914)</u>	<u>(22.0)</u>	<u>(84,900)</u>	<u>(8.6)</u>	<u>67,200</u>	<u>6.8</u>

5. MINIMUM REVENUE PROVISION

The Authority is required by statute to set aside a minimum revenue provision for the redemption of external debt. This amounted to £382,000 in 2006-07 compared to £352,000 in 2005-06. The provision has been charged to services as a depreciation charge for fixed assets used. The balance has been transferred to the Capital Financing Account.

	2006-07 £'000	2005-06 £'000
Amount charged as depreciation	6,320	5,966
Government Grants released	(4,443)	(2,724)
Excess transferred to Capital Financing Account	(1,495)	(2,890)
Minimum revenue provision	<u>382</u>	<u>352</u>

6. RECRUITMENT AND PUBLICITY

In accordance with the requirements of section 5(1) of the Local Government Act 1986, the Authority's expenditure on publicity was as follows:

	2006-07	2005-06
	£'000	£'000
Recruitment advertising	202	182
Other advertising	181	67
Other publicity	2	2
Total	385	251

7. OFFICERS' EMOLUMENTS

In accordance with the Accounts and Audit Regulations 2003, the number of employees whose remuneration, excluding pension contributions, was £50,000 or more in bands of £10,000 were as follows:

Remuneration Band	Number of Employees	
	2006-07	2005-06
£000		
50 - 60	39	27
60 – 70	15	15
70 – 80	3	5
80 – 90	2	0
90 – 100	1	1
Over 100	2	2
Total	62	50

8. MEMBERS ALLOWANCES

The cost of allowances paid to Members of the Police Authority were as follows:

	2006-07	2005-06
	£000	£000
Basic Allowances	48	46
Special Responsibility Allowances	103	100
TOTAL	151	146

9. LONG TERM CONTRACTS

The Authority is committed to making annual payments estimated at £5.5m per annum under a PFI contract for Police Authority Headquarters premises and £5.1m per annum under a PFI contract for the provision of custody facilities. The contracts expire in 2033 and 2034 for HQ premises and custody facilities respectively.

		£m
Custody	Annual Contract Charge 2006-07	5.50
HQ PFI	Annual Contract Charge 2006-07	5.60
Contract Expiry Dates	Yr	
	HQ	2033
	Custody	2034

10. RELATED PARTY TRANSACTIONS

The Authority is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Authority or be controlled or influenced by the Authority. Disclosure of these transactions allows readers to assess the extent to which the Authority might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Authority.

Central Government exercises some control over the general operations of the Authority – it is responsible for providing the statutory framework within which the Authority operates and provides the majority of its funding in the form of grants. Details of transactions with government departments are set out in other Notes to the Primary Statements. .

Material transactions with other public bodies (i.e. Cheshire County Council and the district councils of Cheshire) and the Cheshire Pension Fund have been disclosed within the Income and Expenditure Account and the Cashflow statement. Separate specific disclosures have also been made in other notes to the Primary Statements.

There is one material related party transaction to report. The Authority has a contract with Cheshire County Council for the provision of Internal Audit (£68,000 in 2006-07 and £66,000 in 2005-06) and Treasurership services (£114,000 in 2006-07 and £111,000 in 2005-06). These amounts were fully paid at the year end. The amount for Treasurership services includes the cost of the work undertaken by Cheshire County Council's Performance Improvement Officer in her specific role as Treasurer to the Police Authority. There are no material transactions to disclose in respect of employees and members of the Authority or in respect of partnership arrangements with organisations in the voluntary or independent sector.

11. EXTERNAL AUDIT COSTS

In 2006-07 the Authority incurred fees relating to external audit and inspection. The 2006-07 fees as shown do not include fees in respect of works associated with the Whole of Government Accounts and the Use of Resources assessment.

	2006-07	2005-06
	£000	£000
Fees payable to the Audit Commission with regard to external audit services carried out by the appointed auditor	63	82

12. INTANGIBLE FIXED ASSETS

The Authority has purchased software licences which have been regarded as an intangible asset. The cost of purchases has been amortised over 3 years. During 2006-07 £1.461m was incurred on software licences.

	2006-07	2005-06
	£000	£000
Gross Book Value on 1 April	2,005	1,145
Additions	1,461	1,284
Disposals	(721)	(424)
Gross Book Value on 31 March	<u>2,745</u>	<u>2,005</u>
Depreciation at 1 April	(909)	(523)
Charge for the Year	(1,155)	(810)
Disposals	721	424
Depreciation as at 31 March	<u>(1,343)</u>	<u>(909)</u>
Net Book Value at 31 March	<u><u>1,402</u></u>	<u><u>1,096</u></u>

13. TANGIBLE FIXED ASSETS

The figures below provide information on the movement of fixed assets held by the Authority during 2006-07.

	Operational Assets			Non	Assets	TOTAL
	Property	Vehicles	Equipment	Operational	Under	
	£000	£000	£000	Assets	Constrn	£000
				£000	£000	
Gross Book Value on 1 April	47,990	7,647	9,899	2,798	-	68,334
Additions	1,026	1,475	3,539	-	462	6,502
Disposals	(9,486)	(923)	(2,329)	(540)	-	(13,278)
Expenditure w/o – no increase in value	(1,026)	-	(593)	-	-	(1,619)
Revaluations/Restatements	1,339	16	-	140	-	1,495
Gross Book Value on 31 March	39,843	8,215	10,516	2,398	462	61,434
Depreciation at 1 April	(1,906)	(5,109)	(4,787)	(141)	-	(11,943)
Charge for the Year	(675)	(1,317)	(3,281)	(32)	-	(5,305)
Disposals	320	891	2,329	21	-	3,561
Revaluations/Restatements	-	-	-	-	-	-
Depreciation at 31 March	(2,261)	(5,535)	(5,739)	(152)	-	(13,687)
Net Book Value at 31 March	37,582	2,680	4,777	2,246	462	47,747

VALUATION

Land and buildings are required to be revalued at least every 5 years in accordance with valuation guidance notes provided by the Royal Institute of Chartered Surveyors. In order to comply with Financial Reporting Standard 15 and exclude depreciation on the land element of each property, the whole estate was revalued during 2003-04, with an effective date of 1 April 2003 for accounting purposes. The valuation was undertaken by consultants under the direction of Cheshire Police Authority, Head of Estates and Property Services, Michael Harris, FRICS.

During 2006-07, no revaluations were deemed necessary as no significant schemes were completed that added value to any of the building stock. Revaluations are undertaken by Louise Risk, MRICS, under the direction of Cheshire Police Authority Estates and Property Services Manager, Roy Davies, MICE. The basis adopted for each property was selected to accord with the Royal Institute of Chartered Surveyors Appraisal and Valuation Standards Manual and Financial Reporting Standard 15. All properties were valued so as to identify land and buildings separately, as follows:

Operational Properties

For operational properties one of the following three approaches was adopted in determining the replacement cost of the asset:

- OMV - Open Market Value – adopted where the property is surplus or is held as an investment.
- EUV - Existing Use Value – adopted where the property is not of a specialist nature.
- DRC - Depreciated Replacement Cost – has been adopted where the property is of a specialist nature. The specialist nature is either due to use and/or location. The obsolescence factor applied in each case was determined with a view on age, condition and usability in terms of layout and location.

The majority of assets were valued adopting the DRC basis.

Residential Properties

The houses were all identified as being surplus to the operational requirements of the Constabulary. All houses were valued at Open Market Value. A review of each individual residential property was made to assess its land value, using a factor of between 20% and 50% of the OMV, depending upon its location and style.

DEPRECIATION

Depreciation has been provided on all fixed assets that have been deemed to have a useful finite life and a full year's depreciation is charged in the year of acquisition or revaluation. In accordance with Financial Reporting Standard 15, the land element of the property valuation should not be depreciated and the accounts for 2006-07 reflect this position. Depreciation is calculated on a straight line basis using the following asset lives:

Property	50 years
Vehicles	3 to 10 years
Equipment	3 to 10 years

14. ASSETS UNDER CONSTRUCTION

In 2006-07 there were a number of capital schemes involving land purchases and construction works which were not complete at 31 March and which were recorded as Assets under Construction in the Balance Sheet. These schemes amounted to £0.462m at 31 March 2007. The schemes were the Firearms Operational Training Facility at Winsford (£0.420m) and the Replacement Dogs Unit at Lane End Farm Winsford (£0.042m).

15. ASSETS ACQUIRED UNDER A FINANCE LEASE

The Authority has a 25 year lease on Charles Stuart House in Warrington which has been accounted for as a finance lease. The rentals payable in 2006-07 and 2005-06 were £265,000 per annum.

The following values of assets are held under finance leases by the Authority and accounted for as part of Tangible Fixed Assets:

	Other Land & Buildings £000
Value at 1 April 2006	2,249
Depreciation	(140)
Value at 31 March 2007	<u>2,109</u>

Outstanding obligations to make payments under these finance leases at 31 March 2007 accounted for as part of long term liabilities are as follows:

	Other Land & Buildings £000
Obligations payable in 2007/08	265
Obligations payable between 2008/09 and 2011/12	1,060
Obligations payable after 2011/12	2,650
Total	<u>3,975</u>

16. OPERATING LEASES

The Authority rents a number of properties mostly on short term leases which are accounted for as operating leases. The rentals payable in 2006-07 and 2005-06 were £243,000 and £262,000 respectively. The Authority was committed at 31 March 2007 to making payments of £219,000 under operating leases in 2007-08 comprising the following elements:

	Other Land & Buildings £000
Leases expiring in 2007/08	144
Leases expiring between 2008/09 and 2011/12	57
Leases expiring after 2011/12	18
Total	<u>219</u>

17. INFORMATION ON ASSETS HELD

Fixed Assets owned by the Authority at 31 March 2007 include the following:

	31 March 2007	31 March 2006
	Number	Number
Land at Winsford, Runcorn & Middlewich	4 plots	4 plots
Police Stations	32	36
Police Houses	15	18
Vehicles	588	564

18. CAPITAL EXPENDITURE AND FINANCING

	2006-07 £000	2005-06 £000
Capital Expenditure in year		
• Land and Buildings	1,488	2,584
• Vehicles	1,475	1,620
• Equipment	5,001	5,391
Total Expenditure	<u>7,964</u>	<u>9,595</u>
Financed as follows:		
• Capital Grants	2,806	3,160
• Borrowing	1,100	1,100
• Capital Receipts	3,778	1,318
• Contribution from revenue reserve	0	3,712
• Contribution from other earmarked reserve	221	65
• Revenue contribution	0	66
• Other contributions	59	174
Total Financing	<u>7,964</u>	<u>9,595</u>

19. SIGNIFICANT COMMITMENT UNDER CAPITAL CONTRACTS

A number of significant capital expenditure commitments have been identified from information supplied by capital project managers. These commitments include the following:

	£'000
Mobile Data Equipment	1,015
Estates Investment	722
Automatic Number Plate Recognition Collaboration	513
Data/Voice Network Refresh	361
Operational Firearms Training Facility	352
Ongoing development – existing systems	300
Widnes Police Station Refurbishment	197
Aircraft refit	148

20. LONG TERM PREPAYMENTS & COMMITMENTS UNDER PFI CONTRACTS

The Authority has two Private Finance Initiative (PFI) contracts: for the provision of the Constabulary headquarters and the provision of three custody units. The Authority has made initial capital contributions in order to reduce the annual service charges over the life of the contract. These contributions were funded from the sale proceeds of properties no longer required. The contribution will be charged annually in equal amounts over the life of the contract. The written down value of the contribution is shown in the Consolidated Balance Sheet as a long term prepayment. The value of long term prepayments is shown in the table below.

	Initial Capital contribution £000	Contract Period Years	Written down value at 31 March 2007 £000	Written down value at 31 March 2006 £000
Constabulary Headquarters	6,490	30	5,746	5,963
Custody suites	4,000	30	3,807	3,944
Total			9,553	9,907

Annual payments over the life of the contracts are made for the provision of services and facilities. The gross amounts paid in 2006-07 total £5.8m and £4.3m for headquarters and the custody suites respectively. These amounts are charged to the Income and Expenditure Account. Annual payments are linked to movements in the underlying rate of inflation (RPI) and with deductions for non-availability or poor performance and additional payments for increases in the level of services. The Authority receives specific government grant as a contribution to the cost of financing the scheme.

The SORP requires authority's to establish a residual interest asset account and that this be built up over a period of time so that by the end of the PFI contract the amount recorded equals the value of the asset. However there are a number of complex issues which may need to be resolved before this accounting treatment can be agreed. Once these issues have been resolved the necessary accounting adjustments, if required, will be made in the Statement of Accounts for 2007-08.

21. STOCKS

The value of stocks held at 31 March 2007 is as follows:

	31 March 2007 £000	31 March 2006 £000
Central Stores – Uniforms	169	108
Other Items	92	73
TOTAL	261	181

22. DEBTORS & PREPAYMENTS

The level of debtors and prepayments are shown below. The Deferred Capital Receipt relates to the sale of Neston Police Station for which proceeds were outstanding at 31 March 2007. The Pensions top up Grant Debtor relates to the 20% of the grant withheld by the Home Office pending audit of the Pensions Fund Account.

	31 March 2007 £000	31 March 2006 £000
Short Term Debtors – Car Loans (0-1 years)	3	5
Long Term Debtors – Car Loans (1-5 years)	3	8
HQ Relocation Prepayments	-	318
Capital Debtors/Deferred Capital Receipt	1,556	-
Pensions Prepayment	2,124	1,996
Pensions Top Up Grant	553	-
General Debtors Capital	48	1
General Debtors Revenue	5,630	5,644
LESS Provision for Bad Debts	(8)	(182)
TOTAL	9,909	7,790

23. CREDITORS

The level of creditors at 31 March 2007 is shown in the table below. Included in the figure for revenue creditors is £0.092m in respect of donations to charity from money held by the Authority in accordance with the Police Property Act Fund.

	31 March 2007	31 March 2006
	£000	£000
Government Departments	3,262	2,953
Grant received in advance	327	1,117
Other revenue creditors	9,534	10,164
Capital creditors	226	975
TOTAL	13,349	15,209

24. DEPOSITS

The Police seize money, mainly as a result of anti-drugs activities and activities in accordance with the Proceeds of Crime Act. This money will sometimes be refunded to the individuals/organisations concerned. Other money, particularly in respect of the Proceeds of Crime Act, is paid to the Home Office and is redistributed to Police Authorities. The amounts held by the Police Authority at 31 March 2007 are shown below:

	31 March 2007	31 March 2006
	£000	£000
Seizures from anti-drug activities	54	30
Seizures under Proceeds of Crime Act activities	388	56
TOTAL	442	86

25. ANALYSIS OF BORROWING

The following table shows the borrowing outstanding at 31 March 2007.

	31 March 2007	31 March 2006
	£000	£000
Analysis of loans by type		
• Public Works Loans Board	8,361	7,642
• Local Authority (Cheshire County Council)	182	198
Total Outstanding	8,543	7,840
Analysis of loans by maturity		
• Between 1 and 2 years	520	156
• Between 2 and 5 years	359	758
• Between 5 and 10 years	776	879
• More than 10 years	6,888	6,047
Total Outstanding	8,543	7,840

26. PROVISION - INSURANCE

The Authority has an insurance provision to meet the cost of known quantifiable liabilities arising from claims in respect of fire and consequential loss, public and employer liability and vehicle losses not covered by external insurance. When claims are settled the cost is met from the provision. The Authority also has an insurance reserve which exists to meet the cost of unforeseen insurance liabilities which may arise in the future.

	2006-07 £000	2005-06 £000
Balance at 1 April	524	561
Use of provision in the year	(110)	(269)
Increase in provision charged to Income & Expenditure account	177	232
Balance at 31 March	591	524

27. MOVEMENT ON PENSION RESERVE

The Pension Reserve is a notional reserve that records the various transactions that make up the overall movement on the pensions assets and liabilities in the Balance Sheet. The closing balance on the Reserve represents the Authority's net pension asset/liability at 31 March 2007.

	Local Govt. Pension Scheme		Police Pension Scheme		Total	
	31.3.07 £000	31.3.06 £000	31.3.07 £000	31.3.06 £000	31.3.07 £000	31.3.06 £000
Opening Balance	26,700	23,800	991,500	857,200	1,018,200	881,000
Actuarial Losses	-	2,120	-	84,900	-	87,020
Actuarial Gains	(7,390)		(67,200)	-	(74,590)	-
Appropriation to Income & Expenditure Account	5,520	4,510	82,500	74,900	88,020	79,410
Appropriation from Income & Expenditure Account	(4,030)	(3,730)	(22,200)	(25,500)	(26,230)	(29,230)
Closing Balance	20,800	26,700	984,600	991,500	1,005,400	1,018,200

28. MOVEMENT ON OTHER REVENUE RESERVES

The Authority has a General Revenue Reserve which is available to support general revenue expenditure. In addition, the Authority has a number of earmarked revenue reserves:

- Resource Centre Reserve: under-spending on resource centres can be carried forward to the following financial year. The balance on this reserve at 31 March 2007 is £452,000 (£493,000 at 31 March 2006)
- HQ IT Reserve: the Authority agreed to the creation of this reserve in 2005-06. It holds resources which can be used for the replacement of IT equipment and has a balance of £285,000 at 31 March 2007 (£355,000 at 31 March 2006).
- Underwater Search Unit Reserve: the Authority acts as the lead authority for the regional underwater search unit. The Unit has unutilised resources amounting to £175,000 at 31 March 2007 (£160,000 at 31 March 2006) which it can use to support its operations.
- Insurance Reserve: this is used to meet the cost of future losses which may arise as a result of public and employers liability claims and vehicle losses and any other such future claims which are presently unknown and which cannot be met from insurance premiums. The balance on the reserve at 31 March 2007 is £200,000 (unchanged since 31 March 2006)
- Revenue reserve for capital expenditure: this is used to finance capital expenditure in future

years, predominantly slippage and commitments approved in previous years. The balance on the reserve at 31 March 2007 is £2.907m (£2.707m at 31 March 2006).

- f) Neighbourhood Policing / Workforce Modernisation Reserve – The creation of this reserve was agreed in July 2006, following the identification of surplus grant caused by timing differences in the receipt of grant compared to the recruitment dates of Officers. The balance on the reserve at 31 March 2007 is £1.624m (nil at 31 March 2006).

	General Revenue Reserve	Earmarked Revenue Reserves
	£000	£000
Balance at 1 April 2006	10,137	3,915
(Decrease)/increase in reserves in year	(399)	1,728
Balance at 31 March 2007	9,738	5,643

29. MOVEMENT ON CAPITAL RESERVES

The Authority has a number of Capital Reserves some of which can be used to finance capital expenditure whereas others comprise the balance of resources that have been applied to capital financing and which are not available to support new investment. The reserves are as follows:

- Capital Receipts Reserve: this contains the proceeds of asset sales and can be used to finance new investment. The balance on this reserve at 31 March 2007 is £7.361m (£3m at 31 March 2006)
- Deferred Capital Receipts Reserve: this relates to capital receipts which have not yet been received. This reserve cannot be used to finance expenditure. The balance on the reserve at 31 March 2007 is £1.556m (nil at 31 March 2006).
- Unapplied Capital Grants Reserve: this represents specific grants received but not yet used to finance capital expenditure. The balance on the reserve at 31 March 2007 is £2.029m (£2.008m at 31 March 2006).
- Fixed Asset Restatement Account: this Account represents the difference between the current valuations of fixed assets and the historic costs of those assets. It is not available to finance new capital expenditure. Additions are made to the Account as gains are made on the revaluation of assets and the Account is written down as losses are made on the revaluation of assets or on disposal. The balance on the Account at 31 March 2007 is £17.829m (£27.669m at 31 March 2006)
- Capital Financing Account: this comprises amounts set aside from the Income and Expenditure Account (e.g. the minimum revenue provision) or from capital receipts, to meet past expenditure on fixed assets. The balance on this account is not available to support new investment. Additions are made to the Account for the provisions that are made for the repayment of debt and for the amount of capital expenditure financed from reserves. Reductions are made to the Account representing the depreciation charge on fixed assets. The balance on the Account at 31 March 2007 is £10.967m (£8.463m at 31 March 2006).

	Capital Receipts Reserve	Deferred Capital Receipts Reserve	Unapplied Capital Grants Reserve	Fixed Asset Restatement Account	Capital Financing Account
	£'000	£'000	£'000	£'000	£'000
Balance at 1 April 2006	3,000	0	2,008	27,669	8,463
Additions to Reserve	8,139	1,556	2,828	1,494	4,966
Financing of capital expenditure	(3,778)	-	(2,807)	-	3,999
Reductions in Reserve	-	-	-	(11,334)	(6,461)
Balance at 31 March 2007	<u>7,361</u>	<u>1,556</u>	<u>2,029</u>	<u>17,829</u>	<u>10,967</u>

30. GOVERNMENT GRANTS & CONTRIBUTIONS DEFERRED ACCOUNT

Where the acquisition of a fixed asset is financed either wholly or in part by a government grant or other contribution, the amount of the grant or contribution is initially included in the Government Grants Deferred Account. Amounts are then released to the Capital Financing account over the useful life of the asset to match the depreciation charge on the asset to which it related. The account does not represent cash received, but the balance of un-discharged credit.

	2006-07 £000	2005-06 £000
Balance at 1 April	9,722	9,111
Financing of capital expenditure	2,865	3,334
Grants/contributions released to Capital Financing Account	(4,444)	(2,723)
Balance at 31 March	<u>8,143</u>	<u>9,722</u>

31. NOTES RELATING TO THE CASH FLOW STATEMENT

The following notes apply to the Cash Flow Statement:

- reconciliation of net surplus/deficit on the Income and Expenditure Account to the revenue activities net cash flow in the Cash Flow Statement
- reconciliation of the movement in cash to the movement in net debt
- reconciliation of items shown within the financing and management of liquid resources sections of Cash Flow Statement to the related items in Balance Sheet
- an explanation of what the Authority includes in liquid resources
- analysis of Government grants

a) Reconciliation of deficit on Income and Expenditure Account to revenue cash flow

	2006-07		2005-06	
	£000	£000	£000	£000
Deficit for year (as shown in Income & Expenditure Account)		61,735		52,975
Interest Received		460		481
Adjustments for non-cash Notional Pension charges				
Current service net cost and past service cost	(13,040)		(3,390)	
FRS17 Notional Interest cost less return on assets	(48,750)		(46,790)	
		(61,790)		(50,180)
Adjustments for non-cash Capital Charges				
Depreciation of fixed assets	(6,320)		(5,825)	
Amortisation of Government grants Deferred	4,443		2,724	(3,101)
		(1,877)		
Add other non-cash transactions:				
Contribution (to) from insurance provision	(65)		37	
contribution (to) from Deposits	(356)		283	
		(421)		320
Adjustment for items on an accruals basis:				
Increase/(Decrease) in stocks and work in progress	80		4	
Increase (Decrease) in non capital debtors	515		(308)	
Increase /(Decrease) in LT Prepayments	(355)		3,728	
Increase/(Decrease) in Relocation Prepayment	(318)		(518)	
(Increase)/ Decrease in non capital creditors	1,349		(4,649)	
		1,271		(1,743)
Revenue Activities Net Cash Flow		<u>(622)</u>		<u>(1,248)</u>

b) Reconciliation of the movement in cash to the movement in net debt

	2006-07		2005-06	
	£000	£000	£000	£000
Opening Balances - borrowing				
Long Term Borrowing	7,840		7,091	
Short Term Borrowing	156		156	
		7,996		7,247
LESS Closing Balances – borrowing				
Long Term Borrowing	8,543		7,840	
Short Term Borrowing	156		156	
		8,699		7,996
Net Increase in Borrowing		<u>703</u>		<u>749</u>
Movement in Cash				
New loans taken out during the year		859		905
Repayment of loans during the year		(156)		(156)
Net Movement in Cash		<u>703</u>		<u>749</u>

c) Reconciliation of the items shown within the financing and management of liquid resources section of Cash Flow Statement to the related items in the Balance Sheet

	As at 31 Mar 07 £000	As at 31 Mar 06 £000	Movement during year £000	As at 31 Mar 06 £000	As at 31 Mar 05 £000	Movement during year £000
Movement in the Financing and Management of Liquid Resources						
As Shown in Cash Flow Statement			2,282			(6,754)
Balance Sheet Items						
Short Term Investments	9,685	6,700	2,985	6,700	12,705	(6,005)
Long Term borrowing	(8,699)	(7,996)	(703)	(7,996)	(7,247)	(749)
Movement on Balance Sheet items			2,282			(6,754)

d) Definition of liquid resources

The amounts shown in the Cash Flow Statement as liquid resources are amounts held in instant access bank accounts that are capable of being "called in" at short notice and could be credited to the Authority's Bank Account overnight.

e) Analysis of Government Grants

The figures relating to Government Grants are summarised as follows:

	2006-07 £000	2005-06 £000
Revenue Support Grant & Amending Grant	8,344	26,626
Other Government Grants		
Police Grant	62,054	68,400
Specific Grants	20,571	14,581
Total as per Cash Flow Statement	<u>90,969</u>	<u>109,607</u>

32. CONTINGENT LIABILITIES

1. A subcontractor involved in the construction of custody facilities has lodged a claim against the Authority. It is uncertain as to the level of the claim. In any event, the Authority disputes the validity of this claim and has made no provision in the accounts.

2. A claim for damages has been made against the Authority by solicitors acting for an individual whose conviction by the courts of 29 years ago was recently overturned by the Court of Appeal. Proceedings have not yet been served and the amount of any potential liability is unclear. The Authority disputes the validity of this claim and has made no provision in the accounts.

33. AUTHORISATION OF THE ACCOUNTS FOR ISSUE

The Statement of Accounts was approved at a meeting of the Police Authority Audit Committee on 27 June 2007 and this is the date up to which events after the balance sheet date have been considered.

STATEMENT ON INTERNAL CONTROL 2006-07

SCOPE OF RESPONSIBILITY

Cheshire Police Authority is responsible for ensuring that its business is conducted in accordance with the law and proper standards and that public money is safeguarded and properly accounted for and used economically, efficiently and effectively. The Authority also has a duty to make arrangements to secure continuous improvements in the way in which its functions are exercised.

In discharging this overall responsibility, the Authority is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of its functions and which includes arrangements for the management of risk.

CODE OF CORPORATE GOVERNANCE

The Authority adopted a Code of Corporate Governance in 2003-04 based on the joint guidance issued by CIPFA and SOLACE. The Code reflects the Authority's commitment to comply with the underlying principles of Openness and Inclusivity and Integrity and Accountability which are framed around five dimensions:

- Community Focus
- Service Delivery Arrangements
- Structure and Processes
- Risk Management and Internal Control
- Standards of Conduct

The effectiveness of corporate governance arrangements were reviewed by Internal Audit and External Audit during the year and were generally satisfied with the current arrangements. Some actions for improvement were identified through the External Auditors' Police Use of Resources Assessment and these are being taken forward.

Guidance on an updated Code of Corporate Governance which is specific to Police Authorities is due to be approved by the APA and signed off by ACPO in July 2007. This will be based on the revised CIPFA/SOLACE model. Internal Audit will review the Authority and Constabulary's corporate governance arrangements against the revised framework during 2007-08. The auditors will assist the Authority to update its code and prepare an action plan to address any areas for improvement.

THE PURPOSE OF THE SYSTEM OF INTERNAL CONTROL

The system of internal control is designed to manage risk to a reasonable level rather than to 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, to evaluate the likelihood of those risks being realised and the impact should they be realised and to manage them efficiently, effectively and economically.

A system of internal control has been in place at the Authority for the year ended 31 March 2007 and up to the publication of the accounts. Except for the details of significant internal control issues reported later, the system of internal control accords with proper practice.

THE INTERNAL CONTROL ENVIRONMENT

Establishing and monitoring the achievement of the Authority's objectives

The Authority's key priorities have been developed following public consultations and consideration of national priorities.

The Annual Report of the Police Authority and Chief Constable is approved by the Authority and published in a newspaper format as a single document. This document reports on the extent to which the objectives outlined in the annual Policing Plan have been carried out and includes a suite of performance indicators to measure achievement.

Performance scrutiny takes place via regular reporting to the Performance Review Panel which reports to the full Authority. In addition, Area Commanders monitor performance on a daily basis using the Performance Management System. Internally, senior officers of the Constabulary receive regular update reports on performance issues.

Regular meetings are held by Officers and Members to cover Performance Improvement (PIM Meetings). The meetings review the performance of areas, support and protective services.

Monitoring and scrutiny is also conducted by the Authority through Audit and Staff Committees and Finance Panel.

Facilitate policy and decision making

The Authority has an established structure of Member committees and panels which enable Members to determine policy and make decisions in accordance with the Authority's Standing Orders.

Responsibility is delegated by the Authority to the Chief Constable and then to the Constabulary through an approved scheme of delegation.

The Constabulary Chief Officer Group meets every week to facilitate internal management decisions.

Ensure compliance with established policies, procedures, laws and regulations

The business of the Authority is conducted in accordance with defined processes and responsibilities as set out in the Standing Orders and Financial Regulations.

Authority and Constabulary officers use their professional knowledge to ensure that decisions taken by the Authority are within their powers and in accordance with relevant laws, standards and regulations. Key officers include the Authority's Chief Executive, the Treasurer (Section 151 Officer), the Chief Constable and the Constabulary's Assistant Chief Officer.

Internal Audit conduct an agreed programme of reviews to assess compliance with established policies, procedures, laws and regulations and this is reinforced by Her Majesty's Inspectorate of Constabulary (HMIC), external audit and several other inspection agencies.

The Constabulary regularly reports to Members of the Police Authority including the Audit and Standards Committees and Finance Panel as means of ensuring compliance.

During the year the Constabulary has developed its approach to Risk Management. Both operational and business risk assessments have been undertaken at corporate and operational levels during the year. The resulting risk matrix has been reviewed, challenged and prioritised with action owners identified by the Strategic Risk Management Group. This comprises senior Constabulary managers and a Member of the Police Authority who is also the Chair of the Audit Committee. Progress is regularly reported to the Audit Committee.

Ensure the economical, effective and efficient use of resources and secure continuous improvement in the way in which the Authority's functions are exercised

The Authority has an Audit Committee which meets on a quarterly basis and receives reports from the Constabulary and both internal and external audit. The Constabulary has a number of Project Boards which oversee development projects and reviews and have Authority Members and Officers as members. Details from these Boards are reported to the Service Improvement Panel and onwards to the Authority – for example the Case Management Board covering the review of the case process and the implementation of an IT system to support the process and make it more efficient.

The combination of internal and external audit annual plans again included a number of risk assessed reviews that looked at value for money and suggested areas where best practice could be adopted to improve existing processes and systems.

The Audit Commission undertook a Police Use of Resources (PURE) assessment in 2005/06 based on information for 2004/05 and concluded that overall Cheshire provided adequate value for money, internal control and financial management while performing well in terms of financial reporting and financial standing. The report focuses on continuous improvement and therefore contained recommendations for improvement in all areas examined. From this an action plan was created and specific actions allocated to named individuals. A PURE Improvement Team was subsequently created and chaired by the Assistant Chief Officer to progress the action plan. The Audit Commission have completed their review of 2005/06 and acknowledge the progress made since the 2004/05 report but as yet have not confirmed their opinion.

Provide appropriate financial management and the reporting thereof

The Financial Regulations and Standing Orders define the respective roles and responsibilities of the Authority, its Members and officers on financial matters. Collectively they provide a framework of rules and procedures within which the Authority will conduct all its financial affairs. Both have been prepared with regard to national standards of best practice in public authority financial management.

Budgets are monitored continuously by the Constabulary and Members receive reports at key stages of the year which are relevant, understandable and consistent. The Treasurer continually monitors the financial position and works closely with Constabulary officers.

The Authority buys-in an internal audit function which reports regularly to the Audit Committee. Internal Audit produce a risk based audit plan that is approved by the Treasurer and Audit Committee. The work carried out together with the results, is reported to the Audit Committee and will include an annual report summarising recommendations and management responses.

Accounts are prepared in accordance with professional guidance and the statutory timetable for publication and are cleared by the external auditors and Members prior to publication.

Ensure adequate performance management and reporting thereof

A performance management framework has been put in place for operational policing and this is monitored on a daily basis by Area Commanders using the newly designed performance system on the intranet. Monthly meetings with all senior staff are held to check performance against national and local targets. The achievement of targets in line with the specified national and local policing objectives of the Authority are monitored and reported upon regularly to the Authority.

A performance management framework with service standards for support departments has been implemented with measures to assess performance against these standards. Further work is in hand to refine this and develop the process of monitoring further.

In addition, the Police Standards Unit measures the performance of the Constabulary against a set of statutory performance indicators on a continual basis.

REVIEW OF EFFECTIVENESS

The Authority has the responsibility of conducting, at least annually, a review of the effectiveness of the system of internal control. This review is informed by the work of Internal Audit and by managers within the Authority who have the responsibility for the development and maintenance of the internal control environment and also by External Audit and other review agencies and inspectorates including HMIC.

The Accounts and Audit regulations 2006 introduced a new statutory requirement for local authorities to review the effectiveness of their internal audit systems and to report the findings alongside the annual opinion on the system of internal control. This review was carried out by the Audit Commission and concluded:

“the Authority’s (Council’s) Internal Audit team are meeting most of the detailed requirements in the CIPFA Standard. There are no significant areas of non compliance”.

A multi-disciplinary group agreed a process by which evidence could be gathered and evaluated to assist in the production of this Statement of Internal Control. Independent Member scrutiny was provided by the Chairman of the Audit Committee and by the Members of the Authority who approved the final statement.

We have been advised on the implications of the result of the review of effectiveness of the system of internal control by the Authority, the Audit Committee and Statement of Internal Control Management Group and a plan to address weaknesses and ensure continuous improvement of the system is in place.

SIGNIFICANT INTERNAL CONTROL ISSUES

The system of internal control within the Authority is considered on the whole to be satisfactory and effective with the following areas identified as key issues in relation to internal control.

[1] Public satisfaction – In 2005/06 comparison with its Most Similar Forces and nationally on levels of public satisfaction achieved fell well below the targets set. As a result a Customer Satisfaction Scrutiny Group was formed to review reasons for current performance and recommend improvements.

A number of changes to processes have been introduced and results since December 2006 have shown a very significant improvement that is consistent with other Forces (69% satisfied at start of 2006-07 increased to 81% in January 2007). Chief Officers have adopted recommendations to reorganise resources to underpin the improvement in customer satisfaction.

Action to address this are:

- Continue to work with local residents and other stakeholders to identify ways in which levels of satisfaction can be improved.

[2] Sickness levels – this was raised as a key issue in 2005-06, since then there have been mixed results. Overall officer sickness has fallen from 9.14 days to 7.27 days and is the 5th best overall performance. This improvement amounted to an equivalent additional 16 officers being available over the year. However police staff absence remains a significant concern with deterioration from 10.76 days to 11.81 days per year (equivalent to six fewer police staff).

Action to address this are:

- This is being led by Assistant Chief Constable Baines in conjunction with the Director of Human Resources who has reviewed and is re-enforcing absence management across the Force and undertaking a further absence management interview with prioritised staff.

[3] Review of Policing – The risk of increasing pressure on resources coupled with further demand for services has been identified nationally by the Home Office. Cheshire implemented a fundamental change to the policing model in 2005 by creating Neighbourhood Policing Units, reducing to three operational command units and reorganised Headquarters to deliver Force Major Incident Teams and Operational Support Groups. Policing priorities are having to change to address a changing environment.

Actions to address this are:

- A review of policing strategy to address new priorities while continuing to meet the fundamental aspects of neighbourhood policing and policing principles established in the Taking Control review. Chief Officer Group has commenced this work and a report will be presented to Members.
- Operational and business support processes will be reviewed to deliver more effective and efficient services and also ensuring both the significant investment already made and where further investment may be required in technology, to support the delivery of optimum efficiency and effectiveness. Plans for taking this significant work forward are currently being developed for Chief Officer Group approval and will be managed by the current Resources, Offender

Management and Reassurance Boards. Reports from these Boards will be presented to Members.

[4] Major Contracts – Contract Management arrangements

The Constabulary has developed and is participating in, a number of significant contracts for the provision of facilities and critical operational services that require effective contract management to ensure operational continuity and identification of potential risks.

Actions to address this are:

- Review of contract management arrangements to be undertaken in conjunction with Internal Audit and report to Members.

Cllr Peter Nurse
Chairman, Cheshire Police Authority

Peter Fahy
Chief Constable

Liz Lunn
Treasurer, Cheshire Police Authority

GLOSSARY OF TERMS

Accruals

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

Appropriations

Amounts transferred to or from revenue or capital reserves.

Budget

A statement of the Authority's expected level of service and spending over a set period, usually one year.

Capital Expenditure

Expenditure on the acquisition of a fixed asset or expenditure which adds value to the life or value of an existing fixed asset.

Capital Financing Account

This account (formerly reserve) contains the amounts which are required by statute to be set aside from capital receipts for the repayment of external loans, and the amount of capital expenditure financed from revenue and capital receipts. It also contains the difference between the amounts provided for depreciation and that required to be charged to revenue to repay the principal elements of external loans. The balance on this account cannot be used to finance future capital expenditure.

Capital Receipts

These are proceeds from the sale of capital assets.

Capital Reserve

Created to provide an alternative source of financing for capital expenditure, and to ensure some stability in the level of capital programmes that can be financed.

Contribution to Capital Expenditure

The financing of capital expenditure by a direct contribution from revenue account, rather than by means of a loan or other forms of finance. Sometimes referred to as revenue contribution to capital outlay.

Council Tax

The means of raising money locally to pay for Police Authority services. This is a property based tax where the amount levied depends on the valuation of each dwelling.

Creditors

Amounts owed by the Authority for goods and services received by 31 March, but for which payment has not yet been made.

Current Assets and Liabilities

Current assets are items which can be readily converted into cash. Current liabilities are items which are due immediately or in the short-term. By convention these items are ordered by reference to the ease that assets can be converted into cash, and the timescale in which the liability falls due.

Debtors

Amounts owed to the Authority for goods and services provided by 31 March, but for which payments have not yet been received.

Deferred Capital Receipts

Amounts representing capital receipts still to be received when disposals have taken place and deferred payments have been agreed.

District Council Collection Fund

A collection fund is maintained by each district council to receive all income raised through the Council Tax. The funds then pay precepts to the Authority, County, district and parish councils to meet the cost of services. Central government support (Revenue Support Grant and National Non-domestic Rate) is no longer distributed via the collection fund, but is received by each authority direct from central government.

Earmarked Reserves

These reserves represent monies set aside that can only be used for a specific usage or purpose.

Fixed Assets

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

Fixed Asset Restatement Account

The system of capital accounting requires the establishment of this account (formerly reserve). The balance represents the difference in the valuation of assets under the previous accounting rules and the current method of capital asset accounting. The account is written down as assets are disposed of, and charged or reimbursed with deficits or surpluses arising on future revaluations and capital expenditure which does not increase asset values, e.g. maintenance. The balance on this account cannot be used to finance future capital expenditure.

General Reserves

This is the Authority's main revenue reserve to which all revenue receipts are credited and from which all revenue liabilities are discharged. The movement shown in the fund represents the excess of expenditure over revenue within the 2005-06 revenue account.

Government Grants and other Contributions

Revenue grants and contributions are credited to the revenue account.

Where the acquisition of a fixed asset is financed either wholly or in part by a government grant or other contribution, the amount of the grant or contribution is credited to the government grants - deferred account. Amounts are then released to the asset management revenue account over the useful life of the asset to match the depreciation of the asset to which it relates. This account does not represent cash received, but the balance of undischarged credit.

Income

Amounts which the Authority receives, or expects to receive, from any source. Income includes fees, charges, sales, capital receipts, government grants, the precept on Council Tax collection funds, Revenue Support Grant and National Non-Domestic Rate.

Long-Term Borrowing

Long-term borrowing relates to outstanding debt transferred from Cheshire County Council on 1 April 1995 and loans taken out subsequently from the Public Works Loan Board.

National Non-Domestic Rate

The replacement for non-domestic rates which previously were set by individual local authorities. The government levies a standard rate on all properties and cannot increase it by more than the Retail Price Index. The rates are collected on behalf of the government by district councils and are then redistributed nationally on the basis of resident population.

Net Debt

This comprises cash in hand, cash overdrawn, short term investments and long term borrowing.

Pension – Defined Benefit Scheme

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

Pension Assets – Expected Rate of Return

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

Pension – Interest Costs

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

Pension – Past Service Costs

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

Precept

The amount of money the Authority has to raise from Council Tax payers (via district collection funds) to pay for police services. Each collection fund pays a standard amount per Band D equivalent property.

Provisions

Provisions represent sums set aside for liabilities or losses which are certain to arise but owing to their inherent nature cannot be quantified with any certainty. The Authority's main provisions relate to insurances and pensions.

Public Works Loan Board (PWLB)

A government agency which provides longer term loans to Local Authorities at interest rates only slightly higher than those at which the government itself can borrow.

Reserves

There are two types of reserve; those which are available to meet revenue or, in some cases, capital expenditure and those which are not available to finance revenue or capital expenditure. Most revenue reserves are capable of being used to finance revenue or capital expenditure.

Revenue Expenditure

Amounts which the Authority pays or expects to pay to any source - includes the cost of employees, premises, transport, supplies and services.

Revenue Support Grant

General government grant support towards police authority expenditure.

Temporary Investments

This comprises of cash in hand, cash overdrawn and short-term investments which are readily convertible into known amounts of cash. These are deposited with banks or similar institutions.

Unapplied Capital Grants

Capital Grants received, but not yet used to finance capital expenditure.