

INTRODUCTION

This publication contains the Cheshire Police Authority's Statement of Accounts for the year ended 31 March 2005 and includes an analysis of the Authority's financial position, a statement of the Treasurer's responsibilities, a statement on internal control, the Auditor's report, a statement of accounting policies and the statutory accounts. In addition, the Statement of Accounts includes a summary of the revenue account in the form recommended by the Chartered Institute of Public Finance and Accountancy in its Best Value Accounting Code of Practice.

Reporting the Accounts

Producing the published accounts is seen as a vital element in demonstrating the Authority's stewardship of public money in delivering police services to the Cheshire Community.

The key duty of the Police Authority is to provide an efficient and effective police service. The Authority sets its own budget and levies its own Council Tax precept in order to finance expenditure not met by grant. It is responsible for managing overall expenditure within the budget. However, responsibility for day to day financial management is delegated to the Chief Constable within the financial framework and annual budget set by the Authority.

This Statement of Accounts includes information about the 2004-2005 budget and expenditure, together with the comparable figures for 2003-2004.

Police Authority Funding

There are various sources of income which fund the Authority's expenditure, including fees and charges generated by the Constabulary and interest on cash flow and reserves. In 2004 -05 the Council Tax met 24% of the Authority's net spending, with the balance being funded by the Government via a cash limited Police Grant (46%), Revenue Support Grant (19%), National Non Domestic Rates (9%) and a contribution from general reserves (2%).

The Cheshire Police Authority's Framework of Accountability

The Authority operates a Resource Centre Management Scheme. Named managers each have an annual budget within which they are required to achieve clearly identified targets. Managers account for their actions to the Chief Constable who in turn is accountable to the Police Authority to ensure that expenditure incurred is within the approved budget and policies.

Sound Financial Systems

The Police Authority's objective is to ensure that the financial systems are underpinned by sound internal controls and a statement on internal control is provided on page 6 of this report. All systems are monitored by a contracted-out internal audit service. Later in this document there is also a detailed statement of the Police Authority's and Treasurer's responsibilities. Ensuring that the presentation of accounts is on a fair basis is part of that responsibility.

Analysis of 2004-2005 Financial Position

The 2004-05 revised gross budget was £153.3m. The final outturn for 2004-05 showed an overspend of £0.5m. There was an underspend on the Constabulary's operational budgets (£0.5m), a small overspend on other budgets managed by the Clerk and Treasurer on behalf of the Authority (£0.1m) and an overspend on police pensions (£0.9m). In view of the need to use £1.1m of general reserves to support the 2005-06 revenue budget, the Authority has decided that the underspend on operational budgets (£0.5m) will not be carried forward by the Constabulary.

At the end of 2004-05 general reserves totalled £6.242m. A contribution of around £0.6m will be required from general reserves in 2005-06 to finance deferred capital expenditure, together with a further £1.1m set aside to support the 2005-06 revenue budget. The remaining general reserves of £4.5m represent 3% of the Authority's 2005-06 net revenue budget requirement. These reserves and working capital will be required to help manage the Authority's cash flow during the capital investment programme.

In addition to general reserves, there are earmarked revenue reserves of £12.1m, which include £6.1m to meet approved but deferred capital payments from 2004-05 and previous year schemes, £1.3m in respect of the HQ Private Finance Initiative and £3.8m in respect of the estimated cost of pension commutation payments due to police officers who could have retired at 31 March 2005. There are no unused capital receipts as all available capital receipts of £4.6m were utilised in financing capital expenditure in 2004-05. However, there are unapplied capital grants of £3.3m and deferred capital receipts of £3m available to finance further capital expenditure.

As a result of the full implementation of Financial Reporting Standard 17 (FRS 17) – Accounting for Retirement Benefits - the Authority has included a 'notional' pensions reserve within its balance sheet. This reserve accounts for the difference between the actual cost of pensions and the accounting entries required by FRS 17 to reflect the Authority's net pension liability as at 31 March 2005. The reserve, which shows a net deficit position (£881m), matches the pensions liability.

As the notional pension reserve shows a net deficit (£881m), the Authority's net worth as shown in the balance sheet indicates a negative position (£811m). The majority of the pensions liability is in respect of the Police Officers' Unfunded Pension Scheme (£857m) and as the statutory arrangements for funding the deficit only require finance to be raised to cover the cost of police pensions when they are paid, the underlying financial position of the Authority is not affected by FRS 17 accounting requirements. The impact of the change in accounting policy is commented upon in more detail in the section on Accounting Policies (pages 15-17).

Capital Investment

The following significant capital schemes were progressed during 2004-05:

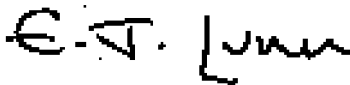
- | The Authority is in the process of a strategic review of its property holdings. Sales of surplus police houses continued during 2004-05. The sale of the Force Training Centre campus was agreed during 2004-05 and the sales of the remaining operational properties linked to the HQ PFI are anticipated to be completed in 2005-06.
- | The PFI scheme to provide new custody facilities continues to be progressed, with all three area custody suites expected to be operational during the second half of 2005-06.
- | Construction of the new Chester and Ellesmere Port divisional headquarters at Blacon, Chester was completed on time and to budget in September 2004.
- | During 2004-05 the Constabulary has continued to progress a major project to implement a new financial information system which became operational in February 2005. The Purchase Order Module will be implemented around September 2005.
- | During 2004-05 major adaptations to police stations in Northwich, Macclesfield and Widnes were progressed as a result of the government's Premises Improvement Fund (Round 1) initiative, supported by £0.5m grant.
- | The Constabulary also made a successful bid during 2003-04 of £1m on the Government's Premises Improvement Fund (Round 2), of which £0.5m will be supported by government grant. During 2004-05 work commenced on major improvements to a number of police stations and these will be completed in 2005/06.
- | An extension at Crewe Divisional Police Station to provide training facilities to compensate for the closure of the Force Training Centre in Crewe was completed in 2004-05.
- | Provision of local policing facilities in Neston will be provided by adaptations at Neston Town Hall, to be completed in 2005-06.
- | The Constabulary commenced a major programme of work to upgrade its network and IT infrastructure (£1.9m). The IT Infrastructure Refresh includes the upgrade of hardware (servers, desktop computers and laptops) and software (Windows Operating System and Microsoft Office). The overall refresh programme has progressed at a slower rate than anticipated, leaving a significant element to be completed in 2005-06.
- | The original capital scheme for the construction of an aircraft hangar was reviewed during 2004-05. It is now intended to lease a hangar and carry out a major role equipment refit of the aircraft during 2005-06.
- | The implementation of a new computer system to provide an integrated solution for the Constabulary's operational information management requirements commenced in 2004-05. The system will store information once and link that information to core entities (e.g. person, location, vehicle, event), and thus provide the bedrock for a significantly more effective means of providing information to operational officers. The project will not be fully integrated until 2006-07.

A summary of 2004-05 capital expenditure and its associated financing can be found in note 4 to the balance sheet (page 32).

CHESHIRE POLICE AUTHORITY STATEMENT OF ACCOUNTS 2004 - 2005

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) 602177 or the Head of Police Finance Department, Graham Hill, on telephone (01244) 612070.

A handwritten signature in black ink, appearing to read 'E. L. Lunn'.

LIZ LUNN
TREASURER

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 (Closure of Accounts Committee)
26 July 2005

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 Great Britain, 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 2005. The CIPFA Best Value Accounting Code of Practice requires the net cost of service shown in the revenue 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;

- | up to date and proper accounting records have been kept;
- | reasonable steps have been taken for the prevention and detection of fraud and other irregularities.

These accounts present fairly the financial position of the Authority as at 31 March 2005 and the income and expenditure for the year ended 31 March 2005.



Liz Lunn, Treasurer, 26 July 2005

STATEMENT ON INTERNAL CONTROL 2004-05

1. Scope of Responsibility

Cheshire Police Authority is responsible for ensuring that its business is conducted in accordance with the law and proper standards, 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 improvement in the way in which its functions are exercised.

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

2. 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

In the first quarter of 2004-05, Internal Audit reviewed progress against the Corporate Governance action plan agreed by the Best Value and Audit Committee in 2003-04 and were satisfied with progress. A follow-up review is scheduled for later in 2005-06.

3. 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 a 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 and impact of those risks being 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 2005 and up to the publication of accounts. Except for the details of significant internal control issues identified in section 6, the system of internal control accords with proper practice.

4. The Internal Control Framework

The Authority's internal control framework comprises the many systems, policies, procedures and operations in place to:

4.1 *Establish and monitor the achievement of the Authority's objectives*

The Annual Report of the Police Authority and the Chief Constable is approved by the Authority and published in 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. Internally, senior officers of the Constabulary receive regular update reports on performance issues.

4.2 *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.

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

4.3 *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 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 and regulations. Key officers include the Authority's Clerk and Chief Executive, Section 151 Officer (Treasurer), 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, external audit and several other inspection agencies.

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

The Authority has a Best Value and Audit Committee which meets on a quarterly basis and receives reports from the Constabulary and both Internal and External Audit.

The Constabulary has a Best Value team which undertake reviews alongside Authority Members and Officers. The results of these reviews are reported to Best Value and Audit Committee and onwards to the Authority.

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.

4.5 *Provide appropriate financial management and 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 Best Value and Audit Committee. Accounts are prepared in accordance with professional guidance and the statutory timetable for publication.

4.6 *Ensure adequate performance management and the 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 is being developed.

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

5. *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.

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

6. Significant Internal Control Issues

The Authority faces another challenging year in 2005-06 and the following have been identified as key issues in relation to internal control. Issues fall into two categories:

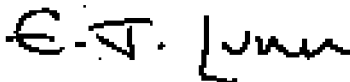
1. Those that have been identified as a result of the evidence gathering process for 2004-05 and it is considered will have an impact on 2005-06;
 - 1 The Constabulary is failing to meet its own call management target of answering 90% of calls for services within a specified time (2004-05 performance for 999 calls was 81.2%). In part this is a result of a significant increase in the volume of calls, but the process of identifying and implementing improvements which is already underway, should have an impact on performance.
 - 1 Sickness levels are above target and in the case of Police Staff rising (year on year). The Constabulary must put measures in place for 2005-06 which address these issues, particularly learning from good practice in specific areas of the Force. This area is one of those specifically identified as a Gershon related efficiency.
2. Issues in relation to internal control that have been identified through "horizon scanning" and experience to date for 2005-06.
 - 1 The restructuring of the Constabulary as a result of the Taking Control review took effect from 1 April 2005. Measures must be taken to ensure that the restructuring does not impact adversely on performance (other than in the very short-term "bedding-in" period).
 - 1 A challenging budget was set for 2005-06 requiring significant cash savings, whilst at the same time implementing a significant change programme across the Authority. Risks were assessed when the budget was set and these will need to be closely monitored during 2005-06 and considered during the 2006-07 budget setting process.



Cllr Peter Nurse
Chairman of Cheshire Police Authority



Peter Fahy
Chief Constable



Elizabeth Lunn
Treasurer to Cheshire Police Authority

AUDITOR'S REPORT TO CHESHIRE POLICE AUTHORITY

We have audited the Statement of Accounts on pages 18 to 45 (including the notes to those statements) which has been prepared in accordance with the accounting policies applicable to local authorities as set out in the Statement of Accounting Policies on pages 12 to 17.

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 54 of the Statement of Responsibilities of Auditors and of Audited Bodies, prepared by the Audit Commission.

Respective Responsibilities of the Treasurer and Auditors

As described in the Statement of Responsibilities on page 5, the Treasurer is responsible for the preparation of the Statement of Accounts in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2004. Our responsibilities, as auditors, are established by statute, the Code of Audit Practice issued by the Audit Commission and our profession's ethical guidance.

We report to you our opinion as to whether the Statement of Accounts presents fairly the financial position and results of operations of the Authority.

We review whether the Statement on Internal Control on pages 6-9 reflects compliance with CIPFA's guidance "The Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulations 2003" published on 2 April 2004. We report if it does not comply with proper practices specified by CIPFA or if the Statement is misleading or inconsistent with other information we are aware of from our audit of the Statement of Accounts. We are not required to consider, nor have we considered, whether the Statement on Internal Control covers all risks and controls. We are also not required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures. Our review was not performed for any purpose connected with any specific transaction and should not be relied upon for any such purpose.

We read the other information published with the Statement of Accounts and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Statement of Accounts. The other information comprises only the introduction to the Statement of Accounts.

Basis of audit opinion

We conducted our audit in accordance with the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission, which requires compliance with relevant auditing standards issued by the Auditing Practices Board.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Statement of Accounts. It also includes an assessment of the significant estimates and judgements made by the Authority in the preparation of the Statement of Accounts, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

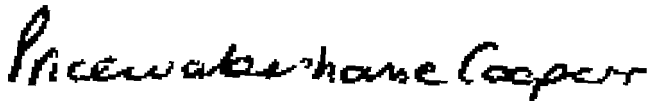
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Statement of Accounts is free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we evaluated the overall adequacy of the presentation of the information in the Statement of Accounts.

Opinion

In our opinion the Statement of Accounts presents fairly the financial position of Cheshire Police Authority as at 31 March 2005 and its income and expenditure for the year then ended.

Certificate

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

A handwritten signature in black ink that reads "PricewaterhouseCoopers". The signature is written in a cursive, flowing style.

Date: 28th July 2005

PricewaterhouseCoopers LLP – Appointed Auditors, Manchester

STATEMENT OF ACCOUNTING POLICIES

Introduction

The general principles adopted in preparing the accounts are those recommended by the Chartered Institute of Public Finance and Accountancy (CIPFA). They are in accordance with the Code of Practice on Local Authority Accounting and those Statements of Standard Accounting Practice for which the Institute has issued guidance notes, except where further information is given below.

Fixed Assests

Expenditure on the acquisition, creation or enhancement of fixed assets has been capitalised on an accruals basis in the accounts of the Authority, provided that the fixed asset will yield a benefit to the Authority of more than one year. Assets acquired under finance leases are also included within fixed assets.

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.

The values of properties used in the accounts are based on certificates issued by Cheshire Constabulary's Head of Estates and Property Services. An explanation of operational and non operational assets is set out in note 2 to the Balance Sheet.

Capital receipts from the disposal of fixed assets are accounted for on an accruals basis.

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.

Intangible Fixed Assets

The Statement of Recommended Practice (2004) requires purchased intangible assets to be capitalised at cost and amortised to revenue over their economic life. The Authority recognises the purchase of computer software licences as intangible assets and capitalises such licences, amortising them over 3 years.

Depreciation

Depreciation is provided for on all fixed assets with a finite useful 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 2004-05 reflect this position. Depreciation is calculated on the straight line method using the following asset lives:-

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

Depreciation on fixed assets is included in Note 6 to the Revenue Account and Notes 1-2 to the Balance Sheet

Asset Charges

Asset Charges are made to the revenue account and are sufficient to cover the sum of depreciation plus a notional interest charge based on the net book value of assets in the Balance Sheet as at 31 March 2004. A market rental is charged where this is greater than the sum of depreciation plus the notional interest charge.

The notional interest rate used is 3.5% for all categories of assets included in the Balance Sheet. Asset charges made are included in note 6 to the Revenue Account.

Long Term Prepayments

As part of the Private Finance Initiative contract to construct the new Constabulary Headquarters at Winsford, the Constabulary 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).

Capital Grants and Contributions

Government grants and contributions from other bodies are accounted for on an accruals basis. Capital grants and contributions are credited to the government grants-deferred account and released to the asset management revenue account over the life of the asset they were used to finance. The balance on this account cannot be used to finance future capital expenditure. Where capital grants have been received, but not yet used to finance capital expenditure, they are shown as unapplied capital grants in the balance sheet.

Revenue grants and contributions are credited to the revenue account.

Basis of Inclusion of Debtors and Creditors in the Accounts

Revenue and capital transactions (income and expenditure) are included in the accounts on an accruals basis.

Apart from minor cash income, which is not shown in the accounts until it is received, the figures in the accounts for income include all amounts due at 31 March 2005.

Reserves

Details of all reserves are provided in the notes to the Balance Sheet.

The Capital Accounting Regulations require the establishment of a fixed asset restatement reserve and a capital financing reserve. However, these are non-distributable reserves and with effect from the 1 April 2004 have been renamed as accounts rather than reserves. The original balance on the fixed asset restatement account represents the difference between the valuation of assets under the previous system of capital accounting and the current method of capital asset accounting.

The fixed asset restatement account is increased by the surplus arising on new property valuations and reduced by the net book value of assets disposed of and by capital expenditure that has not increased asset values.

The capital financing account contains amounts provided from revenue and capital receipts for the repayment of external loans and the amount of capital expenditure financed from revenue and capital receipts.

Capital reserves are held to finance future earmarked capital expenditure and deferred expenditure on capital schemes from 2004-05 and previous years.

The PFI reserve has been created to hold the surplus grant paid by the government in the early years of PFI schemes. Over the period of the PFI scheme government grant support will reduce, whereas the annual payments to the PFI service provider will remain stable, subject to inflation increases. The surplus grant received in the early years is credited to a PFI interest earning reserve which will accumulate, to be released when government grant support starts to reduce. However, following changes in the government grant payment mechanism effective 1 April 2005, there will no longer be a need for a PFI reserve (see note 27 to the Balance Sheet - post balance sheet events).

The Pensions Reserve has been created in accordance with Financial Reporting Standard 17 and is commented upon separately in the later section on Pensions Costs.

The implementation of FRS 17 did not allow for the continuation of a provision for police pension commutation payments for officers who could have retired by the end of the financial year covered by the annual accounts. The Authority has, therefore, set aside an equivalent amount in an earmarked Pensions Commutation Reserve.

Provisions

Financial Reporting Standard 12 "Provisions, contingent assets and contingent liabilities" identifies the specific circumstances under which an authority can include a provision within the cost of services. The Authority has reviewed its existing provisions in the light of FRS12 requirements and those required by FRS17 – Accounting for Pensions Costs.

The Authority now has only one major provision covering insurances. This covers insurance liability for those risks not covered externally, and also covers any excess on external insurance policies. However, under FRS12, a provision which includes an element which does not cover specific liabilities, has to be treated as an earmarked reserve. Part of the insurance provision is, therefore, reclassified as an earmarked reserve (see note 13 to the Balance Sheet).

Provision for the Redemption of Debt

The Authority is able to finance a proportion of its capital investment projects by raising loans. The revenue account is charged with an amount sufficient to redeem at least the statutory prescribed 4% of all outstanding debt and to meet accrued interest costs.

Basis of Valuation of Investments, Stocks and Work in Progress

All investments are shown at the original cost price unless there has been a permanent diminution in value.

Stocks of stationery etc. (apart from those held by Central Store) are not included in the Balance Sheet since such stocks are incidental and deemed not to be material to the accounts.

Leases

SSAP 21 identifies two types of lease transactions - operating leases and finance leases.

An operating lease involves the lessee paying a rental for the hire of an asset for a period of time which is substantially less than its useful economic life. The lessor retains most of the risks and the rewards of ownership in the case of an operating lease.

A finance lease normally involves payment by a lessee to a lessor of the full cost of the asset, together with a return on the finance provided by the lessor. The lessee has substantially all the risks and rewards associated with ownership of the asset, other than legal title.

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.

Pensions Costs

FRS 17 is a financial reporting standard concerned with accounting for pensions costs. The objectives of the new standard are to ensure that:-

- ┆ Financial statements reflect at fair value the assets and liabilities arising from the employer's retirement benefit obligations and any related funding;
- ┆ The operating costs of providing retirement benefits to employees are recognised in the accounting periods in which the benefits are earned by the employees and the related finance costs and any other changes in the value of the assets and liabilities are recognised in the accounting periods in which they arise; and
- ┆ The financial statements contain adequate disclosure of the cost of providing retirement benefits and the related gains, losses, assets and liabilities.

FRS 17 has been introduced on a phased basis, with the full standard being implemented from 1 April 2003. The Authority has prepared disclosures in respect of pension benefits for both police officers and police staff in accordance with the full standard. The Authority participates in two schemes:

- ┆ **The Local Government Pension Scheme for police staff –**
All police staff, subject to certain qualifying criteria, are eligible to join the Local Government Pension Scheme, operated through the Cheshire Pension Fund. The scheme, which is a funded, defined benefit scheme, is administered by Cheshire County Council in accordance with the Pension Regulations 1997. The Authority currently pays an employer's contribution of 15% of pensionable employees' pensionable pay into the Cheshire Pension Fund. All pension payments to police staff are met from this fund.

Employer contribution rates are reviewed every three years. The last review took place at 31 March 2001 and was effective from 1 April 2002. The next review is effective from 1 April 2005. Contributions are set at a level intended to ensure that over the longer term the pension liabilities will match the Authority's share of the Fund's investment assets.

1 The Police Pension Scheme for police officers -

This is an unfunded, defined benefit scheme which is regulated by the Police Pension Regulations 1987. The net cost of pensions and other benefits, after allowing for contributions made by police officers, is met from the revenue budget on a pay as you go basis.

The government recently issued a consultation document outlining proposals for the future financing of the police officer pension scheme. This included a proposal to establish a local pensions account and to move to a system of employers' contributions rather than direct revenue financing of pension costs. It is anticipated that these changes will take effect from 1 April 2006 and may impact on the future presentation of FRS17 accounting requirements, although this is still uncertain.

The impact of these two pension schemes is identified separately in the revenue account and balance sheet. In presenting the detailed information required in the Statement of Recommended Practice, the Authority has implemented the following accounting policies:

- 1 Net assets/net liabilities are identified for both funded and unfunded pension schemes;
- 1 The attributable assets of the scheme (local government) are measured at fair value;
- 1 The attributable liabilities of both schemes are measured on an actuarial basis, using the projected unit method;
- 1 Scheme liabilities are discounted at a rate that reflects the time value of money and the characteristics of the liability;
- 1 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;
- 1 The current service cost is based on the most recent actuarial valuation at the beginning of the period, with the financial assumptions updated to reflect conditions at that date;
- 1 The interest cost is based on the discount rate and the present value of the scheme liabilities at the beginning of the period;
- 1 The expected return on assets is based on long term expectations at the beginning of the period and is expected to be reasonably stable;
- 1 Recognition that actuarial gains and losses may arise from any new valuation and from updating the latest actuarial valuation to reflect conditions at the balance sheet date;
- 1 Past service costs are disclosed on a straight-line basis over the period in which the increase in benefits vest.
- 1 Losses arising from settlements or curtailments and allowed for in the actuarial assumptions are measured at the date on which the employer becomes committed to the transaction;
- 1 Gains arising from settlements or curtailments and not allowed for in the actuarial assumptions are measured at the date on which all parties whose consent is required are irrevocably committed to the transaction.

Pensions Reserve/Pensions Liability

The cost of providing pensions for employees is funded in accordance with the statutory requirements governing the particular schemes in which the Authority participates. However, accounting for pensions is in accordance with Generally Accepted Accounting Practice, subject to the interpretations provided in the Statement of Recommended Practice.

Where the payments made for the year in accordance with the scheme requirements do not match the change in the Authority's recognised asset or liability for the same period, the recognised cost of pensions will not match the amount required to be raised via taxation. This is represented by an appropriation to or from the notional pensions reserve, which equals the net change in the pensions liability recognised in the Revenue Account.

Impact of Change in Accounting Policy

The new accounting policy better reflects the Authority's commitment in the long term to increase contributions to make up any shortfall in attributable net assets in the police staff pension fund. As for the unfunded police pension scheme, the statutory arrangements for funding the deficit mean that finance is only required to be raised to cover police pensions when they are actually paid, and therefore the underlying financial position of the Authority is not affected by FRS 17 accounting requirements. However, the requirement to recognise the net pension liability in the balance sheet has changed the net worth of the Authority into a net liability.

Early Retirement Costs

Under Statement of Standard Accounting Practice (SSAP) 24 the future cost of early retirements should be recognised in the revenue account. As a minimum the Authority is required to charge the revenue account with the amounts payable in year to the Cheshire Pension Fund (i.e. one fifth of the total actuarial cost).

Material Estimation Techniques

FRS 18 'Accounting Policies' requires disclosure of any estimation techniques applied, which result in material variances depending on which technique is used. The only material estimation techniques used are as follows:

- 1 *Pension Disclosure Notes* – where the projected unit method of evaluation has been applied and which is consistent with FRS 17.
- 1 *Property Revaluation* – where buildings are revalued on a rolling 5 year programme, unless revaluation is required for specific reasons. The estimation techniques used are described in Note 2 to the Balance Sheet – Fixed Assets.

CHESHIRE POLICE AUTHORITY STATEMENT OF ACCOUNTS 2004 - 2005

REVENUE ACCOUNT FOR THE YEAR 2004-05

This statement shows the expenditure incurred and income received by the Authority and how the net expenditure is financed. It has been compiled in accordance with CIPFA's Best Value Accounting Code of Practice. There are variances between 2004-05 and 2003-04 and these are explained in the commentary at Note 1 on page 19. A subjective analysis of income and expenditure, excluding internal recharges and based on the previous format, is provided at Note 2 on page 21.

2003-04		Gross	Gross	2004-05
Net		Expd.	Income	Net
Expd.		£000	£000	Expd.
£000				£000
	Crime			
1,132	Reducing Crime	1,442	(302)	1,140
55,244	Investigating Crime	60,319	(2,176)	58,143
	Policing in the Community			
37,001	Promoting Public Safety	39,876	(1,287)	38,589
29,645	Assistance to the Public	32,986	(2,382)	30,604
15,553	Police Pensions	27,991	(8,441)	19,550
1,133	Corporate and Democratic Core	990	-	990
70	Unapportionable Central Overheads	138	-	138
2,564	Pensions – Current Service Net Cost	8,283	-	8,283
1,248	Pensions – Non Distributed Past Service Cost	673	-	673
<u>143,590</u>	Net Cost of Service	<u>172,698</u>	<u>(14,588)</u>	<u>158,110</u>
(3,239)	Asset Management Revenue Account			(4,032)
36,252	Pensions – Interest less Return on Assets			34,340
(1,052)	Interest and Investment Income			(805)
<u>175,551</u>	Net Operating Expenditure			<u>187,613</u>
(437)	Transfers to/(from) Other Earmarked Reserves			3,338
(40,731)	Transfer from Pensions Reserve			(43,296)
1,745	Capital Expenditure Financed from Revenue			801
(2,228)	Transfer from Capital Financing Reserve			(2,437)
<u>133,900</u>	Amount to be met from Government Grants and Local Taxation			<u>146,019</u>
24,059	Revenue Support Grant			27,249
14,041	Non-domestic Rates Income			13,430
65,769	Police Grant			66,567
<u>31,313</u>	Precept on Council Tax Collection Funds			<u>35,012</u>
<u>135,182</u>				<u>142,258</u>
1,282	Net Fund surplus/(deficit) for year			(3,761)
8,721	Balance at beginning of year			10,003
<u>10,003</u>	Balance at end of year carried forward			<u>6,242</u>

NOTES TO THE REVENUE ACCOUNT

1. BEST VALUE ANALYSIS

The Chartered Institute of Public Finance and Accountancy (CIPFA) has produced an authoritative guide to financial accounting for all local authorities within the best value environment (Best Value Accounting Code of Practice - BVACOP), to ensure consistent and comparable calculation of the total cost of services provided.

The BVACOP complements the existing Code of Practice on Local Authority Accounting in Great Britain by providing detailed requirements and guidance on the treatment of accounting transactions below the statement of accounts level. The Code establishes 'proper practices' with regard to consistent financial reporting.

The total cost of a service includes all costs which relate to the provision of the service either directly or bought in. The total cost is divided into:

- 1 Corporate and Democratic core - represents the corporate policy making unit, the general running of the Authority and all member activities; and
- 1 The Net Cost of Service.

The net cost of the police service is broken down into mandatory service divisions. Support services costs are separately recorded and then allocated to the service divisions. In order to identify the costs of particular functions a more sophisticated analysis of costs is necessary. As the Constabulary has developed its costing methodologies, the detailed analysis has gradually improved. During 2004-05 CIPFA reviewed the mandatory service divisions for the police service and amended the definitions to bring them more in line with the four domains used in the Activity Based Costing analysis provided annually to the Home Office. Cheshire has used the new definitions for 2004-05 and restated the 2003-04 analysis. A brief description of the main classifications of service required by the BVACOP is set out below, together with comments on changes in net expenditure compared with the previous financial year:

Reducing Crime

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

Limited growth in this area means there was little change in expenditure between years.

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).

Expenditure increased by 5% in this area due to growth in DNA profiling and support staff, as well as well as more resources for the Crime Management Unit and a second syndicate for the Dedicated Surveillance Unit.

Promoting Public Safety

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

A 3% increase in expenditure resulted from further investment in vetting officers and 24/7 Police National Computer access.

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.

The expenditure in this area has increased by 4% due to an increasing budget requirement for Police Community Support Officers as government grant is reduced and further resources for the press department as a result of a base budget review.

Police Pensions

Net cost of the unfunded Police Pensions scheme.

The expenditure on police pensions always fluctuates from year to year depending upon the number of retirements for which lump sum pension payments have to be reserved.

Corporate and Democratic Core

Comprises corporate management and democratic representation and management.

Expenditure decreased by 13%, reflecting the exclusion of Constabulary Command Team costs to realign the analysis with Activity Based Costing.

Unapportionable Central Overheads

The whole amount of any past service contributions to meet a pension fund deficit.

Other Pensions Costs

Following the implementation of FRS 17, it is necessary to include the following actuarial costs in establishing the net cost of service when reporting under the Best Value Accounting Code of Practice:

Current Service (net cost) - The increase in the present value of the scheme liabilities expected to arise from employee service in the current period (net of contributions actually made by the employer).

Non Distributed Past Service Cost – Discretionary benefits awarded on early retirement are treated as past service costs. This includes added years and unreduced pension benefits awarded before a serving officer’s normal retirement age.

National Police Services (undertaken locally)

Mainly diplomatic and royal protection – does not apply to Cheshire Police Authority.

Support Services

Includes Force Command, Professional Standards, Human Resource Management, Finance, IS/IT Management, Legal Services, Property, Professional Development and Training, Transport, Administration, Procurement, Stores and Catering. Support Services costs are re-charged to the main divisions of service, as detailed above, and not shown separately in the revenue account.

CHESHIRE POLICE AUTHORITY STATEMENT OF ACCOUNTS 2004 - 2005

2. REVENUE ACCOUNT FOR 2004-05 – SUBJECTIVE ANALYSIS

2003-04		2004-05
Actual	Notes	Actual
£000		£000
	SUMMARY SERVICE EXPENDITURE	
79,677	Employees - Police Pay and Allowances	81,616
26,295	- Police Staff Pay and Allowances	30,657
2,531	- Other Employee Expenses	3,123
15,569	Police Officer Pensions	19,483
5,998	Premises	8,827
3,769	Transport	3,560
12,371	Supplies and Services	12,069
3,133	Third Party and Agency Payments	3,797
769	Contracted Out Support Services	842
150,112	TOTAL SERVICE EXPENDITURE	163,974
6,044	Notional Capital Charges	7,121
(17,045)	Service Income	(21,941)
3,231	Pensions – Current Service Net Cost	8,283
1,248	Pensions – Non Distributed Past Service Cost	673
143,590	NET COST OF SERVICE	158,110
(1,052)	Interest and Investment Income	(805)
(3,239)	Asset Management Revenue Account	(4,032)
36,252	Pensions – Interest less Return on Assets	34,340
175,551	NET OPERATING EXPENDITURE	187,613
	APPROPRIATIONS	
	Contributions to/(from) Earmarked Reserves	
(787)	- Capital Reserve	2,190
(184)	- DNA Reserve	(13)
729	- PFI Reserve	594
1,078	- Pensions Commutation Reserve	348
(40,731)	- Pensions Reserve	(43,296)
-	- Regional Underwater Search Unit Reserve	227
(1,273)	- Resource Centre Carry Forward Reserve	(8)
1,745	Contribution to Capital Expenditure	801
(2,228)	Transfer from Capital Financing Reserve	(2,437)
(41,651)	TOTAL COST OF APPROPRIATIONS	(41,594)
133,900	AMOUNT TO BE MET FROM GOVERNMENT GRANTS AND LOCAL TAXPAYERS	146,019
	FINANCED BY:-	
24,059	Revenue Support Grant	27,249
14,041	National Non Domestic Rates	13,430
65,769	Police Grant	66,567
31,313	Precept on Council Tax Collection Funds	35,012
135,182		142,258
1,282	NET SURPLUS/(DEFICIT) FOR YEAR	(3,761)
	GENERAL RESERVES	
8,721	Balance at beginning of year	10,003
1,282	Surplus/(Deficit) for year	(3,761)
10,003	Balance at end of year carried forward	6,242

CHESHIRE POLICE AUTHORITY STATEMENT OF ACCOUNTS 2004 - 2005

3. THIRD PARTY AND AGENCY PAYMENTS

	2004-05	2003-04
	£000	£000
Regional Underwater Search Unit	92	85
Forensic Science	848	663
DNA Expenditure	2,105	1,503
Air Support	340	443
Police National Computer	317	311
Other	95	128
	3,797	3,133

4. SERVICE INCOME

	2004-05	2003-04
	£000	£000
Fees & Charges	1,355	1,413
Sales	112	126
Reimbursements		
- Hypothecated Road Safety Camera Fines	856	1,006
- Central Services	1,041	1,057
- Regional Services	333	348
- National Crime Squad	1,181	1,144
- DNA	1,130	898
Home Office Special Grants		
- Crime Fighting Fund	4,092	3,990
- Private Finance Initiative	5,452	2,544
- Basic Command Unit	658	580
- Special Priority Payments	822	519
- Airwave	474	246
- Community Safety Officers	330	205
- Rural Policing	206	245
- DNA Expansion	322	273
- Medical Assistance	103	97
- National Intelligence Model	91	92
- Operation Bracknell (Tsunami)	75	-
- Champion Specials Initiative	65	-
- National High-tech Crime Unit	56	48
- Warrington CDRP	55	-
- No Witness No Justice	54	-
- Citizen Focused Policing	53	16
- Other grants - individually under £50,000	174	241
Mutual Aid	208	448
Operation Paramount	153	-
VAT Recovered	26	6
External Agency Funding	1,331	1,018
Other	1,133	485
	21,941	17,045

5. PENSION COSTS

In addition to the following information, further disclosures required by FRS17 (Financial Reporting Standard - Accounting for Retirement Benefits) are shown in note 14 to the Balance Sheet and in the Statement of Total Movement in Reserves.

Police Staff Pension Costs

For Police Staff, the Authority participates in the Local Government Pension Scheme (LGPS), 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 fund the growth in pension liabilities over the longer term.

The rate of employer contributions due to the Fund is determined every three years based on a valuation by the Fund's Actuary. The valuation effective for 2004/05 was undertaken as at the 31 March 2001. The main actuarial assumptions were:

	Nominal % p.a.	Real % p.a.
Equities	7.2	3.8
Bonds	6.7	3.3
Earnings Growth	4.9	1.5
Price Inflation	3.4	-

In 2004-05 the Cheshire Police Authority paid employer contributions of £3.490m (2003-04 £2.983m) into the Cheshire Pension Fund. This represented 15% of Police Staff pensionable pay (also 15% in 2003-04). In addition, since 1 January 2000, the Authority has made additional payments to the Cheshire Pension Fund in respect of the cost of discretionary retirement benefits paid to employees who retire on the grounds of redundancy or in the efficiency of the service. The capitalised cost of all such retirements, which is charged to revenue over a five year period, is as follows:

	£000
Capitalised cost of Discretionary Retirements to 31 March 2001	295
Capitalised cost of Discretionary Retirements to 31 March 2002	0
Capitalised cost of Discretionary Retirements to 31 March 2003	27
Capitalised cost of Discretionary Retirements to 31 March 2004	44
Capitalised cost of Discretionary Retirements to 31 March 2005	314
TOTAL	680

These discretionary costs are excluded from the calculation of the FRS 17 liability.

CHESHIRE POLICE AUTHORITY STATEMENT OF ACCOUNTS 2004 - 2005

The Authority recognises the cost of retirement benefits in accordance with the requirements of FRS 17 - 'Accounting for Retirement Benefits'. This financial reporting standard is based on the simple principle that the operating costs of providing retirement benefits should be accounted for at the time the Authority is committed to give them even if the actual giving will be many years into the future. FRS 17 also requires that related finance costs be recognised in the period in which they arise. The charges to the revenue account as calculated on an FRS 17 basis in respect of Police Staff are set out in the table below:

	Local Govt.	
	Pension Scheme	
	2004-05	2003-04
	£000	£000
Net cost of service		
┆ Current service costs	3,560	2,316
┆ Employers contributions to scheme *	(3,490)	(2,983)
Pensions – current service net cost	70	(667)
┆ Past service costs	-	48
Net Operating Expenditure		
┆ Interest cost	3,040	3,018
┆ Expected return on assets in scheme	(3,200)	(2,466)
Amounts to be met from Government Grants and Local Taxation		
┆ Movement on pensions reserve	(90)	(67)

* Actual amount charged against Council Tax for pensions in the year.

In the above table the Authority recognise the cost of retirement benefits in the Net Cost of Service when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge the Authority is required to make against Council Tax is based on actual expenditure in the year, so the real cost of retirement benefits is reversed out of the revenue account after Net Operating Expenditure, via an appropriation to cover the net operating cost, calculated on an FRS 17 basis, from the notional Pension Reserve. This ensures that the implementation of FRS 17 has a nil impact on council tax.

Police Officer Pension Costs

The Police Pension Scheme is an unfunded scheme, meaning that there are no investment assets built up to meet the pensions liabilities, and cash has to be generated to meet actual pensions payments as they eventually fall due.

In 2004-05 the net cost of pensions and other benefits amounted to £ 29.3m representing 42 % of pensionable pay.

CHESHIRE POLICE AUTHORITY STATEMENT OF ACCOUNTS 2004 - 2005

FRS 17 'Accounting for Retirement Benefits' applies equally to Police Officers' pension benefits – i.e. the operating costs of providing retirement benefits are accounted for at the time the Authority is committed to make them even if the actual payment will be many years into the future. The charges to the revenue account as calculated on a FRS 17 basis are set out in the table below.

	Police Pension Scheme	
	2004-05 £000	2003-04 £000
Net cost of service		
┆ Current service costs	28,600	21,000
┆ Retirement benefits to pensioners *	(20,387)	(17,102)
Pensions – current service net cost	8,213	3,898
┆ Past service costs	673	1,200
┆ Pensions Provision adjustments	-	(1,078)
Net Operating Expenditure		
┆ Interest cost	34,500	35,700
Amounts to be met from Government Grants and Local Taxation		
┆ Movement on pensions reserve	43,386	39,720

* Actual amount charged against Council Tax for pensions in the year.

In the above table the Authority recognises the cost of retirement benefits in the Net Cost of Service when they are earned, rather than when eventually paid as pensions. In addition, a one off adjustment was necessary in 2003-04 to reflect the transfer of the police pensions provision into a pensions commutations reserve. However, as the charge the Authority is required to make against council tax is based upon actual expenditure in the year, so the real cost of retirement benefits is reversed out of the revenue account after Net Operating Expenditure. This ensures that the implementation of FRS 17 has a nil impact on council tax.

6. ASSET MANAGEMENT REVENUE ACCOUNT

Since 1 April 1994 Police Authorities have been required to calculate charges for the use of fixed assets. The Asset Management Revenue Account details the cost of depreciation and interest paid, offset by capital charges to revenue and Government grants.

	2004-05 £000	2003-04 £000
Asset Rentals Charged to Service	(7,121)	(6,044)
Depreciation Charges	4,988	4,230
Depreciation Offset By Release Of Deferred Grant	(2,231)	(1,719)
External Loan Interest Paid	332	294
Transfer to Revenue Account	(4,032)	(3,239)

CHESHIRE POLICE AUTHORITY STATEMENT OF ACCOUNTS 2004 - 2005

7. MINIMUM REVENUE PROVISION

The Authority is required by statute to set aside a minimum revenue provision for the repayment of external debt. This amounted to £320,000.

	2004-05	2003-04
	£000	£000
Amount charged as depreciation	4,988	4,230
Government Grants released	(2,231)	(1,719)
Excess transferred from Capital Financing Reserve	(2,437)	(2,228)
Minimum revenue provision	320	283

8. RECRUITMENT AND PUBLICITY

Expenditure on recruitment and publicity, as defined under the Local Government Act 1986, Section 5, totalled £229,020.

9. OFFICERS' EMOLUMENTS

In accordance with the Accounts and Audit Regulations 2003, the number of employees whose taxable emoluments for 2004-05 exceed £50,000 is detailed below:

	Number of Officers	
£000	2004-05	2003-04
50 - 60	33	22
60 - 70	13	8
70 - 80	-	-
80 - 90	1	3
90 - 100	2	1
Over 100	2	1
	51	35

10. RELATED PARTY TRANSACTIONS

Under the 1998 Accounting Code of Practice, information in respect of material transactions with related parties is required to be disclosed. A number of these transactions have already been disclosed within the financial statements, as follows:

- (1) Transactions with Central Government have been disclosed within both the revenue account and the cashflow statement, as well as in other notes to the accounts.
- (2) Transactions with other public bodies (i.e. Cheshire County Council and the district councils of Cheshire) have been disclosed within the revenue account and the cashflow statement, as well as in other notes to the accounts.
- (3) Transactions with the Cheshire Pension Fund have been disclosed within the statement of accounting policies and notes to the revenue account.

There are no material transactions to disclose in respect of:

- (1) Partnership arrangements with organisations in the voluntary or independent sectors.
- (2) Members, Chief Officers, (including their close family) and the Police Authority.

11. GOODS AND SERVICES PROVIDED BY OTHER PUBLIC BODIES

A number of services, particularly financial services, are provided to the Police Authority by another public body. In 2004-05 the value of services provided in this way was £508,370.

12. EXTERNAL AUDIT COSTS

In 2004-05 the Authority incurred the following fees relating to external audit and inspection:

	£000
- Fees for external audit service	74
- Fees for certification of grant claims and returns	7
TOTAL	<u>81</u>

CHESHIRE POLICE AUTHORITY STATEMENT OF ACCOUNTS 2004 - 2005

BALANCE SHEET AS AT 31 MARCH 2005

	NOTES		31.3.05 £000		31.3.04 £000
Fixed Assets					
<i>Intangible Fixed Assets</i>	1		622		413
<i>Tangible Fixed Assets</i>	2				
- <i>Operational Assets</i>					
- Property		43,407		43,761	
- Vehicles		2,489		2,423	
- Equipment		4,743		4,461	
- <i>Non-Operational Assets</i>					
- Police Houses		3,426		4,075	
- Assets under Construction	3	1,641		4,706	
Total Fixed Assets			55,706		59,426
Long Term Prepayments	7		6,180		6,132
Total Long-Term Assets			62,508		65,971
Current Assets					
- Stocks	8	177		144	
- Debtors and Prepayments	9	12,144		8,584	
- Investments (Short Term)		12,705		15,740	
- Cash in Hand		5,066	30,092	5,066	29,534
Total Assets			92,600		95,505
Current Liabilities					
- Creditors	10	(9,846)		(11,526)	
- Bank overdrawn		(2,628)	(12,474)	(2,955)	(14,481)
Total Assests Less Current Liabilities			80,126		81,024
Long Term Liabilities					
Long-term Creditors	2 & 11		(2,390)		(2,531)
Long-term Borrowing	12		(7,247)		(6,303)
Insurance Provision	13		(561)		(541)
Pensions Liability	14		(881,000)		(635,986)
Total Assests Less Liabilities			(811,072)		(564,337)
Financed by:-					
<i>Notional Capital Accounts</i>					
- Government Grants Deferred Account	15	9,111		7,826	
- Fixed Asset Restatement Account	16	30,140		38,716	
- Capital Financing Account	17	6,051	45,302	2,910	49,452
Earmarked Reserves					
<i>Notional</i>					
- Pension Reserve	18	(881,000)		(635,986)	
<i>Capital</i>					
- Capital Reserve - usable receipts	21	-		334	
- Deferred Capital Receipts	19	3,048		-	
- Unapplied Capital Grants	20	3,266		3,442	
<i>Revenue</i>					
- Capital Reserve	21	6,123		3,933	
- Pension Commutation Reserve	22	3,815		3,467	
- PFI Reserve	23	1,322		729	
- Insurance Reserve	13	200		200	
- Other Reserves	24	610	(862,616)	89	(623,792)
General Reserves	25		6,242		10,003
TOTAL NET WORTH			(811,072)		(564,337)

NOTES TO THE BALANCE SHEET

1. INTANGIBLE FIXED ASSETS

The Authority recognises the purchase of software licences as an intangible asset, amortising the asset over 3 years. During 2004-05 £0.721m was incurred on software licences. An assessment has been made of such expenditure over the past 3 years to calculate the net book value as at 31 March 2004. The Fixed Assets (Equipment) values in the table in Note 2 have been reduced accordingly.

	£000
Net Book Value at 1 April 2004	413
Gross Book Value at 1 April 2004	815
Additions	721
Disposals	(391)
Gross Book Value at 31 March 2005	1,145
Depreciation at 1 April 2004	(402)
Charge for Year	(512)
Disposals	391
Depreciation as at 31 March 2005	(523)
Net Book Value at 31 April 2005	622

2. TANGIBLE FIXED ASSETS

The figures below provide information on the movement of fixed assets held by the Authority during 2004-05. Following the introduction of capital asset accounting, the fixed assets are shown at their current value (see Statement of Accounting Policies).

	Operational Assets			Non Operational Assets	Assets Under Construction	Total
	Property £000	Vehicles £000	Equipment £000	£000	£000	
Net Book Value as at 1 April 2004	43,761	2,423	4,461	4,075	4,706	59,426
Gross Book Value as at 1 April 2004	44,588	7,096	8,158	4,183	4,706	68,731
Additions	579	1,499	2,674	-	4,580	9,332
Disposals	(7,265)	(937)	(837)	(620)	-	(9,659)
Transfers	7,087	-	558	-	(7,645)	-
Expenditure w/o – no increase in value	(579)	(185)	(493)	-	-	(1,257)
Revaluation & Restatements	374	-	-	-	-	374
Gross Book Value as at 31 March 2005	44,784	7,473	10,060	3,563	1,641	67,521
Depreciation as at 1 April 2004	(827)	(4,673)	(3,698)	(108)	-	(9,306)
Charge for Year	(761)	(1,213)	(2,456)	(46)	-	(4,476)
Disposals	83	902	837	17	-	1,839
Revaluations & Restatements	128	-	-	-	-	128
Depreciation as at 31 March 2005	(1,377)	(4,984)	(5,317)	(137)	-	(11,815)
Net Book Value as at 31 March 2005	43,407	2,489	4,743	3,426	1,641	55,706

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.

In addition, during 2004-05, revaluations were carried out in respect of four operational properties which were previously classed as work in progress. These revaluations were 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:

- a) OMV - Open Market Value – adopted where the property is surplus or is held as an investment.
- b) EUV - Existing Use Value – adopted where the property is not of a specialist nature.
- c) 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.

CHESHIRE POLICE AUTHORITY STATEMENT OF ACCOUNTS 2004 - 2005

Finance Lease

Also included within the operational property values is a finance lease in respect of Charles Stewart House in Warrington, valued on a market rental basis. This property is subject to regular rent reviews and the last revaluation took place at the due date for the first rent review – 9 December 2001. The valuation is reflected in the 2004-05 accounts as follows:

	£
Net Book Value as at 1 April 2004	2,530,557
Written down in 2004-05	(140,587)
Net Book Value as at 31 March 2005	2,389,970

Vehicles and Equipment

Vehicles and equipment are valued on the basis of gross cost less depreciation.

Fixed Assets

Fixed assets owned by the Authority at 31 March 2005 include the following:-

	As at 31.3.05 No.	As at 31.3.04 No.
Land (HQ Winsford)	1	2
Police Stations (including Headquarters & Force Training Centre)	36	44
Police Houses	23	28
Vehicles	529	517
Equipment (i.e. information technology, communications, etc.)	N/A	N/A

3. **ASSETS UNDER CONSTRUCTION**

The following capital schemes involve land purchases and construction works which are not yet complete and therefore not yet valued as an operational asset in the balance sheet;

	£000
- Macclesfield Police Station (Premises Improvement Fund - 1)	828
- Adaptations to Police Stations (Premises Improvement Fund - 2)	397
- Custody Land	328
- Winsford Land	88
TOTAL	1,641

4. CAPITAL EXPENDITURE AND FINANCING

Capital Expenditure:-

	2004-05	2003-04
	£000	£000
Land and Buildings	4,658	5,058
Vehicles	1,499	1,678
Equipment	3,896	4,503
	<hr/>	<hr/>
	10,053	11,239

Capital Expenditure was financed as follows:-

	2004-05	2003-04
	£000	£000
Capital Grants	3,422	5,985
Borrowing Approvals	1,100	1,175
Capital Receipts Applied	4,636	2,151
Insurance Proceeds Applied	-	34
Other Contributions Applied	94	149
Revenue Contribution	801	1,745
	<hr/>	<hr/>
	10,053	11,239

5. SIGNIFICANT COMMITMENT UNDER CAPITAL CONTRACTS

There are currently a number of capital projects where capital provision is available to meet future payments of £0.5m or more after 31 March 2005. These are Airwave (£1.5m), the Premises Improvement Fund - Round 2 (£0.6m), the Aircraft Role Equipment re-fit (£0.6m), Custody Land payments (£0.5m), the IT Infrastructure Refresh (£1.5m), the ATLAS Integrated Operating System (£1.4m) and Winsford Land (£0.6m).

6. COMMITMENTS UNDER PRIVATE FINANCE INITIATIVE CONTRACTS

The Authority relocated to the new headquarters in Winsford in November 2003. The capital value of the PFI scheme amounts to £33.6m, with an annual payment over 30 years averaging £5.4m in real terms, which meets the costs of capital and services provided. Payments commenced upon occupancy and amounted to £5.5m in 2004-05. Payments are linked to movements in the underlying rate of inflation (RPI) and will be subject to deductions for non-availability or poor performance. The Authority will receive specific government funding as a contribution to the cost of financing the scheme.

CHESHIRE POLICE AUTHORITY STATEMENT OF ACCOUNTS 2004 - 2005

7. LONG TERM PREPAYMENTS

As part of the Private Finance Initiative contract to construct the new Constabulary Headquarters at Winsford, the Constabulary has made a capital contribution of £6.5 million which is being funded from the sale proceeds of properties no longer required. This contribution has reduced the annual charge to the Authority under the PFI contract. As the contract will continue for 30 years, the £6.5 million contribution will be charged to the revenue account over the same period, and is recognised as a long term prepayment (formerly recognised as a deferred charge). The balance outstanding at 31 March 2005 is £6.180m.

8. STOCKS

	As at	As at
	31.3.05	31.3.04
	£000	£000
Central Stores - Uniforms	114	76
- Other items	63	68
	177	144

9. DEBTORS AND PREPAYMENTS

	As at	As at
	31.3.05	31.3.04
	£000	£000
Short-term Debtors - Car Loans to staff (0-1 years)	11	4
Long-term Debtors - Car Loans to staff (1-5 years)	16	41
Police Pension Prepayments	-	1,672
HQ Relocation Prepayments (See Note 1)	836	1,241
Capital Debtor - Deferred Capital Receipt	3,048	-
General Debtors - Capital	481	8
General Debtors - Revenue	7,752	5,643
<u>Less provision for Bad Debts</u>	-	(25)
	12,144	8,584

Note (1)

Relocation payments totalling £1.555m have been paid to staff relocating to Winsford, to offset the additional travel costs for a period of 3 years. The total cost is being charged to revenue over a 3 year period, commencing November 2003. The balance outstanding at 31 March 2005 of £0.836m is shown as a pre-payment in the balance sheet.

CHESHIRE POLICE AUTHORITY STATEMENT OF ACCOUNTS 2004 - 2005

10. CREDITORS

	As at 31.3.05 £000	As at 31.3.04 £000
General Revenue Creditors (see note 1)	5,932	7,159
Revenue Grant in Advance	743	1,007
Pay Deductions (Inland Revenue, DSS, Superannuation Fund)	2,910	3,177
Capital Creditors	261	183
	9,846	11,526

Note (1)

General Creditors include an amount of £74,230 which relates to moneys held by the Police Authority in the Police Property Act Fund. This cash is available for charitable purposes, as determined by the Chief Constable.

11. LEASES

The Authority holds Charles Stewart House in Warrington under a finance lease which has been capitalised and included in the balance sheet (see earlier note 2). Outstanding lease payments amounting to £4,427,038 will be due in equal quarterly instalments up to 8 December 2021.

12. LOANS OUTSTANDING – LONG TERM BORROWING

As at 31 March 2004, outstanding loan debt transferred from Cheshire County Council amounted to £243,000. This is repayable in equal instalments over a further 16 years. During 2004-05 a further instalment of £15,000 was repaid leaving a balance of £228,000 outstanding as at 31 March 2005. In addition, external loans from the Public Works Loans Board amounting to £1,100,000 have been taken out. Total outstanding debt at 31 March 2005 totals £7,247,000. The following table analyses long term borrowing by lender and debt maturity at 31 March 2005.

Debt Maturity	Cheshire County Council £000	Public Works Loan Board £000	2004-05 Total £000	2003-04 Total £000
Less than 1 year	15	141	156	156
1-5 years	61	890	951	588
6-10 years	76	909	985	389
Over 10 years	76	5,079	5,155	5,170
	228	7,019	7,247	6,303

CHESHIRE POLICE AUTHORITY STATEMENT OF ACCOUNTS 2004 - 2005

13. INSURANCE PROVISION AND RESERVE

This provision is held for potential claims in respect of fire and consequential loss, public and employer liability and vehicle losses not covered by external insurance.

	2004-05	2003-04
	£000	£000
Balance of provision as at 1 April	741	1,058
Claims made against the provision during the year	(134)	(161)
Transfer to/(from) provision to fund future claims	154	(156)
Balance of provision as at 31 March	761	741
Represented by:		
Insurance Provision	561	541
Insurance Reserve	200	200
	761	741

In accordance with FRS 12, part of the Insurance Provision is classified as a reserve. In 2004-05 the reserve element has been reviewed, but no change is deemed necessary to the previous estimate of £200,000.

14. NET PENSION LIABILITY

Note 5 to the revenue account contains details of how the Authority's participation in the Local Government Pensions Scheme (administered by Cheshire County Council) and the Police Pension Scheme in providing police staff and police officers with retirement benefits, impacts upon the revenue account on an FRS 17 basis. The following information reflects, on an FRS 17 basis, the Authority's position as at 31 March 2005 in respect of both the Local Government Pension Scheme and the Police Pension Scheme.

Assets

Assets in the Cheshire Pension Fund are valued at fair value, principally market value for investments, and consist of the following categories by proportion of the total assets held by the Fund. The table below also includes the expected long term return from each of the asset categories.

	Long Term Returns	Asset Distribution	
	%	31 March 2005 (estimated)	31 March 2004
	%	%	%
Equity Investments	7.7	77	79
Bonds	4.8	11	9
Property	5.7	9	10
Cash	4.8	3	2
Total	7.1	100	100

The Police Pension Scheme has no assets to cover its liabilities.

CHESHIRE POLICE AUTHORITY STATEMENT OF ACCOUNTS 2004 - 2005

Liabilities

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels etc. Both the Police Scheme and the Cheshire Pension Fund liabilities have been assessed by Hymans Robertson and Co, an independent firm of actuaries. The main assumption used in their calculations are shown in the following table.

	Local Govt.		Police	
	Pension Scheme		Pension Scheme	
	As at	As at	As at	As at
	31.3.2005	31.3.2004	31.3.2005	31.3.2004
	%	%	%	%
Rate of inflation	2.9	2.9	2.9	2.9
Rate of increase in salaries	4.4	4.4	4.4	4.4
Rate of increase in pensions	2.9	2.9	2.9	2.9
Rate for discounting scheme	5.4	6.5	5.4	6.5

Net Pension Liability

The Net Pension Liability for the Authority, as shown in the balance sheet, is summarised in the following table.

	Local Govt.		Police Pension		Total	
	Pension Scheme		Scheme			
	31.3.05	31.3.04	31.3.05	31.3.04	31.3.05	31.3.04
	£000	£000	£000	£000	£000	£000
Estimated Liabilities in the scheme	(75,500)	(53,593)	(857,200)	(624,900)	(932,700)	(678,493)
Estimated Assets in the scheme	51,700	42,507	-	-	51,700	42,507
Net Liability	(23,800)	(11,086)	(857,200)	(624,900)	(881,000)	(635,986)

The liabilities show the underlying commitment that the Authority has in the long run to pay retirement benefits. The total liability of £881 million has a substantial impact on the net worth of the Authority as shown in the Balance Sheet, resulting in a negative overall balance of £811 million at 31 March 2005. However, statutory arrangements for funding the deficit means that the financial position of the Authority remains healthy:

- 1 The deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme's actuary.
- 1 Finance is only required to be raised to cover police pensions when the pensions are actually paid.

CHESHIRE POLICE AUTHORITY STATEMENT OF ACCOUNTS 2004 - 2005

Movement on Net Pension Liability

The movement in the net pension liability for the year to 31 March 2005 is as follows:

	Local Government Pension Scheme		Police Pension Scheme	
	2004-05 £000	2003-04 £000	2004-05 £000	2003-04 £000
Net pension liability at 1 April	(11,086)	(16,262)	(624,900)	(583,400)
Current Service Cost	(3,560)	(2,316)	(28,600)	(21,000)
Employer contributions	3,490	2,983	20,800	17,900
Past service cost	-	(48)	(673)	(1,200)
Transfer In from Other Authorities	-	-	(531)	(924)
Transfer Out to Other Authorities	-	-	118	126
Net return on assets	160	(552)	-	-
Interest cost on liabilities	-	-	(34,500)	(35,700)
Actuarial gains/(losses)	(12,804)	5,109	(188,914)	(702)
Net pension liability at 31 March	(23,800)	(11,086)	(857,200)	(624,900)

Impact of Net Pension Liability on Reserves

The net pension liability identified in the FRS17 disclosures set out above does not represent an immediate call on the Authority's reserves. Rather this is the notional amount, using the prescribed FRS17 calculation basis, by which the Authority's pension liabilities exceed its share of the Fund's assets.

15. GOVERNMENT GRANTS AND OTHER 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 asset management revenue 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 undischarged credit.

	2004-05 £000	2003-04 £000
Balance as at 1 April	7,826	3,412
Capital Grants/Contributions Received	3,516	6,133
Grants/Contributions Released	(2,231)	(1,719)
Balance as at 31 March	9,111	7,826

CHESHIRE POLICE AUTHORITY STATEMENT OF ACCOUNTS 2004 - 2005

16. FIXED ASSET RESTATEMENT ACCOUNT

The balance on this account (formerly reserve) represents the difference in the valuation of assets under the previous accounting rules and the current method of capital asset accounting. During the year the account has been written down by the net book value of fixed assets that have been revalued or disposed of, and capital expenditure that does not increase asset values. The balance on this account cannot be used to finance future capital expenditure.

	2004-05	2003-04
	£000	£000
Balance as at 1 April	38,716	46,704
Revaluation of assets	502	(6,401)
Written-off capital expenditure not increasing asset valuation	(1,258)	(1,083)
Disposals of fixed assets	(7,820)	(504)
Balance as at 31 March	30,140	38,716

17. CAPITAL FINANCING ACCOUNT

The Capital Financing Account (formerly reserve) contains the amounts which are required by statute to be set aside from capital receipts and revenue for the repayment of external debt, 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 element of external loans. The balance on the account cannot be used to finance future capital expenditure.

	2004-05	2003-04
	£000	£000
Balance as at 1 April	2,910	1,067
Capital financing -		
Capital Receipts Applied	4,636	2,151
Insurance Proceeds Applied	-	34
Revenue Contribution Applied	801	1,745
Revenue provision for repayment of debt	320	283
Transfer from Government grants deferred account	2,231	1,719
Write down of Charles Stewart House Lease – creditor	141	141
Depreciation charged to fixed assets	(4,988)	(4,230)
Balance as at 31 March	6,051	2,910

18. PENSIONS RESERVE - NOTIONAL

The Statement of Recommended Practice states that, “Where the pension payments made for the year in accordance with the scheme requirements do not match the change in the Authority’s recognised asset or liability for the same period, the recognised cost of pensions will not match the amount required to be raised through council tax. This is represented by an appropriation to or from the notional Pensions Reserve, which equals the net change in the pensions liability recognised in the revenue account.” In 2004-05 the net pensions liability increased by £245m and the notional Pensions Reserve has therefore increased by a similar amount.

The notional Pensions Reserve accounts for the difference between the actual cost of pensions and the accounting entries required by Financial Reporting Standard (FRS) 17 – Accounting for Retirement Benefits. In practice there are two movements between the revenue account and the pension reserve – one to reverse out FRS 17 accounting entries and another to charge back the actual pension cost payable to the Pension Fund (i.e. the amount chargeable to taxation).

Notional Pensions Reserve	Local Government Pension Scheme		Police Pension Scheme	
	2004-05 £000	2003-04 £000	2004-05 £000	2003-04 £000
Balance as at 1 April	11,086	16,262	624,900	583,400
Actuarial Losses	12,804	-	188,914	702
Actuarial Gains	-	(5,109)	-	-
Appropriation to Revenue A/C.	3,400	2,916	63,773	57,900
Appropriation from Revenue A/C.	(3,490)	(2,983)	(20,387)	(17,102)
Balance as at 31 March	23,800	11,086	857,200	624,900

19. DEFERRED CAPITAL RECEIPTS

Deferred Capital Receipts represent money still to be received where property disposals have taken place, but some/all of the proceeds have been deferred. The Force Training Centre, Vehicle Maintenance Unit and police houses in Salisbury Close have all been sold for development and part of the sale proceeds was received in 2004/05. The balance (£3.048m) is due in March 2006.

CHESHIRE POLICE AUTHORITY STATEMENT OF ACCOUNTS 2004 - 2005

20. UNAPPLIED CAPITAL GRANTS

Unapplied Capital Grants represent specific grants received but not yet used to finance capital expenditure

	2004-05	2003-04
	£000	£000
Balance as at 1 April	3,442	2,974
Grants received	3,246	6,453
Grants used to finance capital expenditure	(3,422)	(5,985)
Balance as at 31 March	3,266	3,442

21. CAPITAL RESERVE

The Capital Reserve exists to finance future capital schemes and to meet deferred capital expenditure and known commitments. All capital receipts are available to finance capital expenditure and are credited to the capital reserve.

	2004-05	2003-04
	£000	£000
Balance as at 1 April	4,267	6,127
Usable capital receipts	4,302	1,078
Appropriation to revenue account	(3,933)	(4,720)
Appropriation from revenue account	6,123	3,933
Capital receipts used to finance capital expenditure	(4,636)	(2,151)
Balance as at 31 March	6,123	4,267

The balance on the Capital Reserve of £6.1m represents capital expenditure deferred into 2005-06 in respect of 2004-05 and prior year capital schemes. There are no unused capital receipts.

22. PENSION COMMUTATION RESERVE

The Pension Commutation Reserve has been set aside to fund future payments of police pension commutations which have been deferred as a result of delayed retirements. The current reserve stands at £3.815m and represents outstanding commutation payments for 43 police officers who could have retired by 31 March 2005.

	2004-05	2003-04
	£000	£000
Balance as at 1 April	3,467	2,389
Appropriation from Revenue Account	348	1,078
Balance as at 31 March	3,815	3,467

23. PFI RESERVE

The PFI reserve has been created to hold surplus grant paid by the government in the early years of PFI funded schemes. The surplus grant will be accumulated, with interest, in order to provide funding in the later years when government grant reduces. At 31 March 2005 £1.322m has been set aside in the PFI reserve. However, following changes in the government grant payment mechanism effective 1 April 2005, there will no longer be a need for a PFI reserve (see note 27 to the Balance Sheet - post balance sheet events).

24. OTHER REVENUE RESERVES

The Authority also holds a number of other revenue reserves as follows:

	2004-05	2003-04
	£000	£000
a) DNA	-	13
b) Resource Centre Management Scheme	14	22
c) Drugs Fund	30	41
d) Proceeds of Crime Fund	339	13
e) Regional Underwater Search Unit	227	-
	610	89

- a) A DNA reserve of £0.294m was established when closing the 2000-01 accounts to provide resources to meet additional costs resulting from the expansion of DNA activity. During 2002-03 and 2003-2004 £281,000 was made available to increase forensic investigation staffing levels and the balance of £13,000 was utilised in 2004-05.
- b) Under the Authority's Resource Centre Management Scheme, underspendings on resource centres can be carried forward to the following year, as approved by the Police Authority. In 2004-05 the Constabulary incurred a small underspend of £0.5m on its operational budgets, but the Authority has decided not to allow carry forward because of the reduced level of general reserves. However, the underspend on the Authority's "Safer Communities Budget" (£14,000) will be carried forward to 2005-06.
- c) Monies awarded to the Constabulary following court cases involving drugs confiscations are held in a separate reserve which can only be used for drug related activities. There is a balance of £30,000 on this account at 31 March 2005.
- d) Cash seized under the Proceeds of Crime Act 2002 is held pending a decision by the Courts on how the proceeds should be used. The cash attracts interest pending the Court's decision. There is a balance of £0.339m on this account at 31 March 2005.
- e) Cheshire acts as lead Authority to the North West Regional Underwater Search Unit. With effect from 2004-05 annual revenue surpluses are to be set aside in an earmarked reserve to meet future exceptional revenue and capital expenditure requirements.

25. GENERAL RESERVES

All revenue receipts are credited to General Reserves, from which all revenue liabilities are discharged. All such transactions are recorded in the Authority's Revenue Account. The movement shown in General Reserves represents the excess of expenditure over income (£3.761m) within the 2004-05 revenue accounts, resulting in a balance of £6.242m at 31 March 2005.

26. CONTINGENT LIABILITIES

The Authority has identified a potential contingent liability in relation to traffic usage of the Airwave System. The system suppliers do not yet have the infrastructure to measure the level of traffic and therefore cannot calculate the actual charge due to be paid by the Authority. It is thought that the charge could range from zero (if the cost cannot be calculated) up to £200,000, although a figure of around £125,000 seems more reasonable. Due to the lack of certainty, there has been no charge in the revenue accounts and the issue is being recognised as a contingent liability.

27. POST BALANCE SHEET EVENTS

Following the relocation to Winsford, the sales of the properties vacated are proceeding. Substantial capital receipts are expected in 2005-06 in respect of the sale of Chester Headquarters. The proceeds of these sales will be used to support new capital proposals, to be developed as part of the Authority's medium term financial strategy.

With effect from 1 April 2005, the Authority will be receiving HQ PFI grant on an annuity basis rather than the existing reducing balance basis. As a result there will no longer be a need to maintain a HQ PFI reserve, and the existing balance (£1.322m) will be available for use by the Authority, subject to the need to fund from it any residual costs for those properties not yet sold. There will also be no need to create a PFI reserve in respect of the Custody PFI, due to become operational around October 2005.

CHESHIRE POLICE AUTHORITY STATEMENT OF ACCOUNTS 2004 - 2005

FINANCING

	2004-05 £000	2004-05 £000	2003-04 £000	2003-04 £000
Outflows				
Repayments of long term loans	156		156	
Repayments of short term loans	1,250		6,715	
	<u>1,406</u>		<u>6,871</u>	
Inflows				
Long term loans raised	1,100		1,122	
Short term loans raised	1,250		6,715	
	<u>2,350</u>		<u>7,837</u>	
Financing - net (Inflow)/Outflow		(944)		(966)
(INCREASE)/DECREASE IN CASH		<u>(328)</u>		<u>1,177</u>

NOTES TO THE CASHFLOW STATEMENT

1. Reconciliation of revenue cashflow	2004-05 £000	2004-05 £000	2003-04 £000	2003-04 £000
(Surplus)/ Deficit for year		3,761		(1,282)
Interest Paid (Net)		315		778
Add non-cash transactions:-				
Contribution (to) from pensions commutations reserve	(348)		(1,078)	
Contribution (to) from insurance provision	(20)		317	
Contribution (to) from capital financing reserve (cap outlay)	(801)		(1,746)	
Contribution (to) from capital financing reserve (MRP)	(320)		(283)	
Contribution (to) from capital reserve	(2,190)		787	
Contribution (to) from PFI reserve	(594)		(729)	
Contribution (to) from Resource Centre Reserve	8		1,273	
Contribution (to) from DNA reserve	13		184	
Contribution (to) from Crime Seizures	(326)		43	
Contribution (to) from UWSU Reserve	(227)		0	
Contribution (to) from other reserves	10	(4,795)	(1)	(1,233)
Adjustment for items on an accruals basis:-				
Increase/(Decrease) in stocks and work in progress	33		(112)	
Increase/(Decrease) in non capital debtors/prepayments	445		1,834	
Increase/(Decrease) in long term prepayments	48		6,132	
Increase/(Decrease) in non capital creditors	1,759		(3,840)	
Increase/(Decrease) in relocation prepayments	(405)	1,880	1,241	5,255
Revenue Activities Net Cash Flow - Outflow		<u>1,161</u>		<u>3,518</u>

2. Movement in liquid resources and cash	As at 31.3.05 £000	As at 31.3.04 £000	Movement in year £000	As at 31.3.04 £000	As at 31.3.03 £000	Movement in year £000
Liquid Resources						
Investments (short term)*	12,705	15,740	(3,035)	15,740	19,805	(4,065)
Cash/Bank						
Cash in hand and Bank overdraft	2,438	2,110	328	2,110	3,287	(1,177)
3. Movement in long-term borrowing						
Long term borrowing	(7,247)	(6,303)	(944)	(6,303)	(5,337)	(966)
NET CASH INFLOW/(OUTFLOW)	<u>7,896</u>	<u>11,547</u>	<u>(3,651)</u>	<u>11,547</u>	<u>17,755</u>	<u>(6,208)</u>

	£000
* Short term money market investments	12,700
Public Sector reserve account	5
	<u>12,705</u>

CHESHIRE POLICE AUTHORITY STATEMENT OF ACCOUNTS 2004 - 2005

STATEMENT OF TOTAL MOVEMENTS IN RESERVES

	CAPITAL RESERVES						REVENUE RESERVES			
	Fixed Asset Restatement Account	NOTIONAL Capital Financing Account	Capital Grants Deferred Account	Unapplied Capital Grants	USABLE Usable Capital Receipts Reserve	Deferred Capital Receipts	NOTIONAL Pensions Reserve	Earmarked Reserves	USABLE General Reserves	TOTAL
	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000
Balance as at 1.4.04	(38,716)	(2,910)	(7,826)	(3,442)	(334)	-	635,986	(8,418)	(10,003)	564,337
Net (surplus)/deficit for year		2,296	(1,285)	176				(2,505)	3,761	2,443
Resource Centre carried forward								8		8
Appropriation from revenue to PFI reserve								(593)		(593)
Appropriation to Revenue from DNA Reserve								13		13
Appropriation from Revenue to Regional USU reserve								(227)		(227)
Appropriation from Revenue to Pensions Commutation Reserve								(348)		(348)
Appropriation from Pensions Reserve to Revenue							43,296			43,296
Actuarial (gains)/losses re. pensions							201,718			201,718
Unrealised (gains)/losses from revaluation of fixed assets	(502)									(502)
Effect of disposals of fixed assets:-										
Cost or value of assets disposed of	9,078									9,078
Proceeds of disposals					(4,302)					(4,302)
Deferred Proceeds of Disposals						(3,048)				(3,048)
Financing of fixed assets		(5,437)			4,636					(801)
Balance as at 31.3.05	(30,140)	(6,051)	(9,111)	(3,266)	Nil	(3,048)	881,000	(12,070)	(6,242)	811,072

The actuarial (gains)/losses identified as movements on the Pensions Reserve in 2004-05 can be analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities at 31 March 2005.

	Local Government Pension Scheme			Police Pension Scheme	
	£000	% of		£000	% of liabilities
		Assets	Liabilities		
Differences between the expected and actual return on assets	(1,630)	3.2	-	-	-
Differences between actuarial assumptions about liabilities and actual experience	174	-	0.2	(5,400)	(0.6)
Changes in the financial assumptions underlying the present value of the scheme liabilities	14,260	-	18.9	161,414	18.8
Other gains (losses) on liabilities	-	-	-	32,900	3.8
Actuarial (gains)/losses	12,804	3.2	17.0	188,914	22.0
Comparative (gains)/losses for 2003-04	(5,109)			702	

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.

Asset Charges

Local authorities are required to charge the revenue account with the full economic costs of the assets used to deliver services. These charges are called asset charges and are reversed via the asset management revenue account, ensuring there is no impact on the level of council tax.

Asset Management Revenue Account

The asset charges are reversed in the asset management revenue account, ensuring that there is no impact on the level of Council Tax. This account meets the charge for the depreciation on the Authority's fixed assets and the external interest payable on the Authority's borrowing. Capital grants and contributions are credited to this account over the same asset lives as assumed for the calculation of depreciation.

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.

Contingencies

Sums set aside to cover unforeseen events where the cost is unknown, or unforeseen expenditure which may be needed during the year. The main contingency that the Authority makes relates to pay and price increases.

Contingent Liabilities

A potential liability at the balance sheet date when the accounts are submitted for approval. The liability is included in the balance sheet if it can be estimated with reasonable accuracy, otherwise it will be disclosed as a note to the balance sheet.

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 2004-05 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 now levies a standard rate on all properties (2004-05 – 45.6p in the £) 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.