

CHESHIRE POLICE AUTHORITY

2005-06 STATEMENT OF ACCOUNTS

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EXPLANATORY FOREWORD

Introduction

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

The Statement of Responsibilities for the Statement of Accounts - this sets out the responsibilities of the Authority and of the Treasurer as regards the Statement of Accounts.

The Statement of Internal Control – sets out the responsibilities and framework to ensure that public funds are safeguarded and properly used and accounted for.

The Statement of Accounting Policies - this explains the basis of the figures in the accounts.

The Consolidated Revenue Account - this summarises the expenditure financed by the council tax, government grants and redistributed national non-domestic rates.

The Consolidated Balance Sheet - this shows the assets and liabilities of the Authority at 31 March 2006.

The Cashflow Statement - this summarises the inflows and outflows of cash arising from both revenue and capital transactions.

The Statement of Total Movements in Reserves - this brings together all of the recognised gains and losses of the Authority during the year. The statement separates the movement between revenue and capital reserves.

Notes that provide additional information support the Revenue Account, Balance Sheet, Statement of Movement in Reserves and Cashflow Statement. The Statement of Accounts meet the requirements of the Code of Practice on Local Authority Accounting published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

Revenue Spending in 2005-06

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 2005 -06 the Council Tax met 25% of the Authority's net spending, with the balance being funded by the Government via a cash limited Police Grant (46%), Revenue Support Grant (18%) and National Non Domestic Rates (11%).

The Police Authority set a Net Budget Requirement for 2005-06 of £148.387m. The Council Tax for a Band D equivalent property was £102.60 which represented an increase of 5% on the Council Tax for 2004-05. The Authority planned to use reserves of £1.4m to support revenue expenditure. The total level of revenue resources available to meet the cost of service provision was therefore approximately £150m.

A review of the financial position of the Authority at the three quarter stage of the 2005-06 financial year revealed a forecast underspend by the year end of £0.493m compared to the original budget for the year. It was anticipated that expenditure on Police Pensions would exceed budget by £0.307m due to a higher than anticipated level of commutation payments to retiring Officers and an increase in the number of Officers retiring on ill health grounds. Expenditure on operational Police services was forecast to be £0.7m less than originally budgeted. The most significant variations in operational expenditure were as

a result of the secondment of Officers to other forces (reduction of £0.18m), adjustments in respect of delivery on IT programmes (reduction of £0.355m), increase in forensic activity (increase of £0.271m) and adjustments to corporate projects (reduction of £0.256m).

The final outturn position for 2005-06 represented a further reduction in expenditure of £0.722m – after appropriations to/from earmarked reserves - compared to the position forecast at the three quarter year review stage. Expenditure on Police Pensions had increased by a further £0.243m due to additional Officer Retirements compared to the level expected. Expenditure on operational Police services had reduced by a further £0.824m. This was attributable to reductions in the number of Police Officers in the last quarter of 2005-06 (reduction of £0.202m), reductions in forensic services (reduction of £0.384m) and procurement (reduction of £0.1m) and the retention of resources in a central contingency (reduction of £0.528m). These reductions were partly offset by increases in custody expenditure due to the delay in the PFI contract (increase of £0.154m), increase in bad debt provisions of £0.183m and increase in the contribution to the revenue reserve for capital expenditure of £0.369m.

At the end of 2005-06 general revenue reserves totalled £10.137m. This includes the appropriation to revenue of the remaining balances on the pension commutation reserve and the HQ PFI reserve which are now no longer required to be earmarked.

Police Pensions Liability

Within the balance sheet a liability of £1,018m is shown representing the future liabilities of police officer and staff pensions under the requirements of FRS17 - Accounting for Retirement Benefits. FRS17 is based on the principle that costs of retirement benefits should be accounted for at the time they were committed by the Authority even if the actual payment may be many years into the future. The implementation of FRS17 has a NIL impact on council tax, the only charge being the actual contributions payable in the year.

While this balance has a substantial impact on the net worth of the authority the actual pension liability will be made good by changes to the employer contributions over the remaining working life of the employees, as assessed by the scheme actuary, in order to ensure the financial position of the authority remains healthy.

Capital expenditure in 2005-06

The Capital Outturn for 2005-06 totalled £9.595m. This is £2.298m less than had been anticipated. There were 78 individual schemes in the Capital Programme, of which 39 were either complete by the year end or had been cancelled. The remaining 39 schemes have slipped into 2006-07 and involve total payments of £6.676m which will now be made in 2006-07. There are other committed schemes at 31 March 2006 which total £1.038m. The Authority has ensured that there are sufficient financial resources available to meet the cost falling in 2006-07 as a result of slippage and schemes committed in prior year, partly by making a contribution to a revenue reserve for capital expenditure so as to supplement available capital receipts and capital grants.

A summary of 2005-06 capital expenditure and its associated financing can be found in the Notes to the Consolidated Balance Sheet.

Revenue Budget for 2006-07

The Authority has set a Net Budget Requirement of £150.305m for 2006-07 and a Band D Council Tax of £108.49. This represents increases of 4.13% and 5.74% in Net Budget Requirement and Council Tax respectively compared to 2005-06. The introduction of new financing arrangements for Police Pensions means that it is not possible to make proper comparisons with expenditure for 2005-06 – because pensions expenditure is no longer charged to the revenue account – and therefore the comparison is with the “Alternative Notional Amount” for 2005-06 that was issued by the Government.

The introduction of the new financing arrangements for Police Pensions should mean that volatility in pensions expenditure does not have an impact on the Revenue Account in future years. The majority of Police Pensions expenditure will be charged to a separate holding account and the net cost of pensions will be met by a Government grant.

The Authority has utilised reserves amounting to £2.713m in order to balance the budget for 2006-07. The balance on the Pension Commutation Reserve at 31 March 2006 has been appropriated to revenue reserves and is therefore available for use in supporting general expenditure following changes to the funding arrangements for Police Officer pensions. As at 31 March 2007, the balance on the General Revenue Reserve is estimated to be £5.3m.

In terms of earmarked revenue reserves, the Authority agreed to establish a reserve of £2.1m to meet the cost of future commitments, particularly in respect of the additional cost of Community Support Officers in 2007-08. There is also a HQ IT Reserve amounting to £0.3m and a Resource Centre Reserve amounting to £0.49m representing the estimated under-spend at the end of 2005-06 which has been carried forward in 2006-07. The Authority have agreed that the Constabulary can carry forward into 2006-07 up to £0.5m of the 2005-06 under-spend.

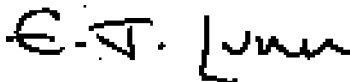
The budget included an additional £90,000, representing the impact of government funding reductions for the existing Community Support Officer (CSO) programme, and an additional £155,000 to meet the cost of CSO recruitment in 2006-07. It is estimated that an additional 92 CSO's will be employed in 2006-07 bringing the total number to 173 by 31 March 2007. The cost of continuing with the CSO programme is presenting challenges for the future as the level of Government funding does not meet the full cost of recruitment.

Future Developments

The Government has announced proposals to restructure the Police Service which, if enacted, will result in Cheshire Police Authority merging with Merseyside Police Authority. At the time of preparing the Statement of Accounts there are a number of unresolved issues and there is uncertainty as to whether the merger is to take place with effect from April 2007, as intended. If it proceeds, a merger with Merseyside would mean that a separate Cheshire Police Authority would no longer exist. Managing the financial implications of such a course of action would present significant challenges for the future.

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 Allan Rainford Head of Finance and Procurement on telephone (01244) 612070.



LIZ LUNN
TREASURER

STATEMENT OF RESPONSIBILITIES

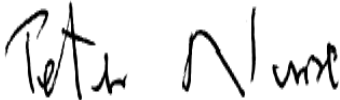
Responsibilities of the Cheshire Police Authority

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 of Police Authority Certificate

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



Chairman of Police Authority
27 June 2006

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 2006. 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;

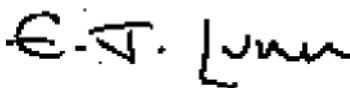
- that accounting policies have been applied consistently, and the accounting concepts of materiality, going concern, matching, consistency and prudence have been observed;
- that reasonable judgements and prudent estimates have been made where appropriate;
- that there has been compliance with the Code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

In addition;

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

Treasurer's Certificate

I certify that the Statement of Accounts presents fairly the financial position of the Authority as at 31 March 2006 and authorise the financial statement for issue.



Liz Lunn, Treasurer
27 June 2006

STATEMENT ON INTERNAL CONTROL 2005-06

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

The effectiveness of corporate governance arrangements, including progress against the action plan agreed by the Best Value and Audit Committee, were reviewed by Internal Audit and the Authority in the final quarter of 2005-06. Although there was some scope for improvement, in general Internal Audit was satisfied with the current arrangements. Satisfactory progress has been made in implementing the action plan with only one of 11 actions still outstanding – development of the protocol for Members/officer relations has been awaiting the issue of the National Code of Conduct for Local Government Employees.

Guidance on an updated Code of Corporate Governance is due to be issued by CIPFA/SOLACE in the coming months. Internal Audit will review the Authority and Constabulary's corporate governance arrangements against the revised CIPFA/SOLACE framework during 2006-07. The auditors will assist the Authority to update its code and prepare an action plan to address any areas for improvement.

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 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 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 2006 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 Authority's key priorities have been developed following public consultation and consideration of national priorities.

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. In addition, Area Commanders monitor performance on a daily basis using the Performance Management System. Internally, senior officers of the Constabulary receive regular update reports on performance issues.

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

The Authority has 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 Review Team which undertakes 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 the reporting thereof

The Financial Regulations and Standing Orders define the respective roles and responsibilities of the Authority, its members and officers on financial matters. Collectively they provide a framework of rules and procedures within which the Authority will conduct all its financial

affairs. Both have been prepared with regard to national standards of best practice in public authority financial management

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

The Authority buys-in an internal audit function which reports regularly to the 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 has been implemented with measures to assess performance against these standards. Further work is in hand to refine this and develop the process of monitoring further.

In addition, the Police Standards Unit measures the performance of the Constabulary against a set of statutory performance indicators on a 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 system of Internal Control within the Authority is considered to be satisfactory and effective although another challenging year is faced in 2006-07 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 2005-06 and it is considered will have an impact on 2006-07;
- Satisfaction results for 2005-06 show a decline in the satisfaction of non emergency callers when compared to the previous year. These results take into account time taken to answer calls and Police action in dealing with the incident.

The Constabulary has invested a significant amount of resources and time in improving call management, meeting its target of answering 90% of emergency calls within 15 seconds, and falling short of the 80% target by only 5% for answering non emergency calls within 40 seconds. The Constabulary continue to focus on the areas of service that are leading to a decline in customer satisfaction and confidence. The Constabulary have undertaken customer care training for all new staff and intend to roll this out to all existing staff. A customer service desk was established in February 2006 in the call management bureau to resolve as many of

the complaints about service provision as possible. Performance of individuals is now being monitored by supervisors and ring backs are planned for customers to receive early feedback. Satisfaction levels for crime victims are below average in the most similar Force comparisons made by HMIC and further work is being undertaken to establish reasons for this.

- Whilst sickness levels improved during 2005-06, they are still above target, particularly in the case of Police Staff. The Constabulary has put measures in place for 2006-07 to address this, particularly learning from good practice in specific areas of the Force or from other external organisations. The Constabulary has a comprehensive Absence Management Procedure which will be enforced more rigorously during 2006-07. Sickness is one of the areas 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 2006-07:
- Measures must be taken to ensure that the proposed merger of Cheshire and Merseyside Police Authorities does not impact adversely on performance. Furthermore, due diligence must be exercised in considering all merger issues.

The Authority has set up a Restructuring Working Group to receive updates on the Home Secretary's proposals to restructure the police service and to lead the Authority's response and activities in relation to the proposals. It also considers and advises the Authority on all key decisions in relation to the proposed restructuring, ensuring due diligence. Any impact on performance will be picked up by the relevant committee/panel through their regular assessment of performance.

Following the Home Secretary's decision to delay the restructuring timetable, it has been confirmed that no merger (other than Lancashire and Cumbria) will take effect from 1 April 2007, and that the objection period deadline of 2nd July 2006 for Wave One forces, would be extended indefinitely. Despite this delay, the proposed merger is, until any announcement is made to the contrary, still open for consideration and discussions / negotiations will continue with the Home Office over the coming months.

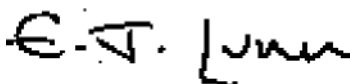
- A challenging budget was set for 2006-07 requiring significant cash savings, a call on reserves and a Council Tax increase of 5.74%. During the budget setting process, risks were assessed and the Treasurer advised on the adequacy of general reserves, taking into account future commitments and the potential impact on 2007/08. This position needs to be monitored during 2006/07 and considered in the 2007-08 budget setting process. In addition, there is a funding gap relating to protective services. The proposed restructuring of forces is expected to release savings which could be reinvested in additional resources for protective services; however, savings will only be fully available once all the restructuring costs have been met.



Cllr Peter Nurse
Chairman of Cheshire Police Authority



Peter Fahy
Chief Constable



Liz Lunn
Treasurer to Cheshire Police Authority

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

Opinion on the financial statements

I have audited the financial statements of Cheshire Police Authority for the year ended 31 March 2006 under the Audit Commission Act 1998. The financial statements comprise the Consolidated Revenue Account, the Consolidated Balance Sheet, the Statement of Total Movements in Reserves, the Cash Flow Statement and the related notes. The financial statements have been prepared under the accounting policies set out within them.

This report is made solely to Cheshire Police Authority in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

Respective responsibilities of the Chief Finance Officer and auditors

The Chief Finance Officer's responsibilities for preparing the financial statements in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005 are set out in the Statement of Responsibilities.

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

I report to you my opinion as to whether the financial statements present fairly the financial position of the Authority in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005:

I review whether the statement on internal control reflects compliance with CIPFA's guidance "The Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit regulations 2003", published on 2 April 2004. I report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the statement on internal control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures

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

Basis of audit opinion

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

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

Opinion

In my opinion the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005, the financial position of the Authority as at 31 March 2006 and its income and expenditure for the year then ended

Julian Farmer
District Auditor

Audit Commission
The Heath Business and Technical Park
Runcorn
Cheshire
WA7 4QF

Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

Authority's Responsibilities

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

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

Auditor's Responsibilities

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

I am required by section 7 of the Local Government Act 1999 to carry out an audit of the authority's best value performance plan and issue a report:

- certifying that I have done so;
- stating whether I believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Local Government Act 1999 and statutory guidance; and
- where relevant, making any recommendations under section 7 of the Local Government Act 1999.

Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and I am satisfied that, having regard to the criteria for other local government bodies specified by the Audit Commission and published in August 2005, in all significant respects Cheshire Police Authority have made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2006.

Best Value Performance Plan

I issued my statutory report on the audit of the authority's best value performance plan for the financial year 2005/06 on 4 December 2005. I did not identify any matters to be reported to the authority and did not make any recommendations on procedures in relation to the plan.

Certificate

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

Julian Farmer
District Auditor

Audit Commission
The Heath Business and Technical Park
Runcorn
Cheshire
WA7 4QF

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 Assets

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 the Notes 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 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 on fixed assets is shown in the Notes to the Revenue Account and Notes 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 2005. 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 5 to the Consolidated 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 Consolidated 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 2006.

Reserves

Details of all reserves are provided in the Notes to the Statement of Total Movement in Reserves.

The Capital Accounting Regulations require the establishment of a fixed asset restatement account and a capital financing account. These are shown in notes to the Statement of Total Movements in 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. There are revenue reserves for capital expenditure which are held to finance future earmarked capital expenditure and deferred expenditure on capital schemes.

The PFI reserve was 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. Following changes in the government grant payment mechanism from 1 April 2005, there will no longer be a need for a PFI reserve and the balance has been appropriated to the Consolidated Revenue Account.

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 has a major provision covering insurances. This covers insurance liability for those risks not covered externally, and also covers any excess on external insurance policies. The Authority also has a provision for bad debts, the level of which has been assessed following a review of outstanding debtors at the year end.

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.

The Authority has prepared disclosures in respect of pension benefits for both police officers and police staff in accordance with FRS17. The Authority participates in two schemes:

a) 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 2004 and took effect from 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.

b) 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 funding arrangements for Police Pensions are to change from 1 April 2006. Police Officers pension contributions and a new employers contribution will be paid into a pension scheme account. The account will be topped up as necessary by a Government grant if the contributions are insufficient to meet the cost of pension payments. The new arrangements should eliminate volatility resulting from fluctuations in Police Officer retirements.

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:

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

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

- The current service cost – the increase in liabilities as a result of years of service earned this year and allocated to the revenue account.
- Past service cost – the increase in liabilities arising from current year decisions whose effect relates to years of service earned in previous years. These are debited to the net cost of service as part of Non Distributed Costs.
- interest cost – the expected increase in the present value of liabilities during the year as they move one year closer to being paid. This is based on the discount rate and the present value of the scheme liabilities at the beginning of the period. The cost is debited to Net Operating Expenditure.
- expected return on assets – the annual investment return on assets based on an average of the expected long term return. This is credited to Net Operating Expenditure.
- actuarial gains and losses – changes in the net pensions liability that arise because events have not coincided with assumptions made at the last actuarial valuation or because the actuaries have updated their assumptions. These are not charged to revenue.
- Gains/losses arising from settlements or curtailments – the result of actions to relieve the Authority of liabilities or events that reduce the expected future service or accrual of benefits of employees. This is debited to the net cost of services as part of non distributed costs.

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. In the Consolidated Revenue Account this means that there is an appropriation to the Pensions (FRS17) Reserve after Net Operating Expenditure to remove the notional debits and credits for retirement benefits and replace them with debits for the payments made in respect of the schemes and any amounts unpaid but due at the year end.

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).

CONSOLIDATED REVENUE ACCOUNT FOR THE YEAR 2005-06

2004-05 Net Expenditure £'000		Gross Expenditure £'000	Gross Income £'000	2005-06 Net Expenditure £'000
	Crime			
1,234	Reducing Crime	15,239	1,605	13,634
70,475	Investigating Crime	56,905	11,807	45,098
	Policing in the Community			
47,946	Promoting Public Safety	64,990	9,795	55,195
36,641	Assistance to the Public	53,858	9,454	44,404
990	Corporate and Democratic Core	1,599	183	1,416
811	Non Distributed Cost	424	-	424
<hr/> 158,097	Net Cost of Services	<hr/> 193,015	<hr/> 32,844	<hr/> 160,171
(4,032)	Asset Management Revenue Account	-	4,580	(4,580)
34,340	Pensions – Interest cost and expected return on pensions asset	46,790		46,790
(805)	Interest and Investment Income	-	660	(660)
<hr/> 187,600	Net Operating Expenditure	<hr/> 239,805	<hr/> 38,084	<hr/> 201,721
3,351	Transfers to/(from) Earmarked Reserves			(4,007)
(43,296)	Transfer from FRS17 Pensions Reserve			(50,180)
801	Capital expenditure financed from revenue			66
(2,437)	Transfer from Capital Financing Account			(2,890)
<hr/> 146,019	Amount to be met from Government Grants and Local Taxation			<hr/> 144,710
(66,567)	Police Grant			(68,400)
(27,249)	Revenue Support Grant & Amending Grant			(27,069)
(13,430)	Non-domestic rates income			(16,018)
(35,012)	Precept on Council Tax Collection Funds			(37,117)
<hr/> 3,761	Net Fund (surplus)/deficit			<hr/> (3,895)
<hr/> (10,003)	Balance on Fund brought forward			<hr/> (6,242)
<hr/> <u>(6,242)</u>	Balance on Fund carried forward			<hr/> <u>(10,137)</u>

NOTES TO THE CONSOLIDATED REVENUE ACCOUNT

The Revenue Account reports the cost for the year of the functions for which the Authority is responsible. It is the final measure of the Authority's success in meeting its objectives as set out at the beginning of the year in its budget.

1. BEST VALUE CODE OF PRACTICE

The Revenue Account has been prepared on the basis of the CIPFA Best Value Accounting Code of Practice. The Code establishes 'proper practices' with regard to financial reporting and seeks to ensure that information is consistent and provides comparability. To facilitate this, costs of Police activities are grouped into standard divisions of service which are described below. Note 2 to the Revenue Account provides a subjective analysis of the Authority's expenditure and income.

The requirement to show the cost of Police Pensions as a separate heading in the Revenue Account has now been removed. The comparative figures for 2004-05 have therefore been adjusted and do not reflect the analysis of expenditure in the Statement of Accounts for 2004-05.

The Revenue Account analyses cost of Police Activity by the following divisions of service:

Reducing Crime

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

Investigating Crime

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

Promoting Public Safety

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

Assistance to the Public

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

Corporate and Democratic Core

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

Non Distributed Cost

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

Variation in 2004-05 and 2005-06 comparative actuals

During 2005-06 the Constabulary underwent a significant change in its organisational structure to improve public safety. This change in policing emphasis to pro-active intelligence led crime prevention in the targeting of persistent offenders and tackling anti-social behaviour explains the movement in costs between the divisions of service over the two respective financial years

2. REVENUE ACCOUNT FOR 2005-06 – SUBJECTIVE ANALYSIS

2004-05 Actual £000		Notes	2005-06 Actual £000
SUMMARY SERVICE EXPENDITURE			
81,616	Employees - Police Pay and Allowances		84,414
30,657	- Police Staff Pay and Allowances		31,805
3,123	- Other Employee Expenses		4,043
19,483	Police Officer Pensions		22,660
8,827	Premises		9,343
3,560	Transport		3,630
12,056	Supplies and Services		13,267
3,797	Third Party Payments		3,183
842	Contracted Out Support Services		568
7,121	Capital Charges		8,186
(21,941)	Service Income	3	(24,318)
8,283	Pensions – Current Service Net Cost	4	3,140
673	Pensions – Non Distributed Past Service Cost	4	250
158,097	NET COST OF SERVICE		160,171
(805)	Interest and Investment Income		(660)
(4,032)	Asset Management Revenue Account	5	(4,580)
34,340	Pensions – Interest less Return on Assets	4	46,790
187,600	NET OPERATING EXPENDITURE		201,721
APPROPRIATIONS			
Contributions to/(from) Earmarked Reserves			
2,190	- Revenue Reserve for Capital Expenditure		296
594	- PFI Reserve		(1,322)
348	- Pensions Commutation Reserve		(3,815)
(43,296)	- Pensions FRS 17 Reserve	4	(50,180)
227	- Regional Underwater Search Unit Reserve		-
(8)	- Resource Centre Reserve		479
-	- HQ IT Reserve		355
801	Contribution to Capital Expenditure		66
(2,437)	Transfer from Capital Financing Account		(2,890)
(41,581)	TOTAL COST OF APPROPRIATIONS		(57,011)
146,019	AMOUNT TO BE MET FROM GRANTS & LOCAL TAXPAYERS		144,710
FINANCED BY:			
(66,567)	Police Grant		(68,400)
(27,249)	Revenue Support Grant & Amending Grant		(27,069)
(13,430)	National Non Domestic Rates		(16,018)
(35,012)	Precept on Council Tax Collection Funds		(37,117)
(142,258)			(148,605)
3,761	NET FUND (SURPLUS)/DEFICIT FOR YEAR		(3,895)
GENERAL RESERVES			
(10,003)	Balance at beginning of year		(6,242)
3,761	Net Fund (Surplus)/Deficit for year		(3,895)
(6,242)	Balance at end of year carried forward		(10,137)

3. SERVICE INCOME

	2005-06	2004-05
	£000	£000
Fees & Charges	1,476	1,355
Sales	137	112
Reimbursements		
- Hypothecated Road Safety Camera Fines	1,023	856
- Central Services	1,210	1,041
- Regional Services	396	333
- National Crime Squad	1,061	1,181
- DNA	1,106	1,130
- PFI	374	-
- Home Office Operations	362	99
- Reimbursements from other forces	212	-
- Other reimbursements	1,143	1,340
Home Office Special Grants		
- Crime Fighting Fund	4,119	4,092
- Private Finance Initiative	4,955	5,452
- Basic Command Unit	604	658
- Special Priority Payments	1,266	822
- Airwave	665	474
- Community Safety Officers	646	330
- Rural Policing	286	206
- DNA Expansion	262	322
- Medical Assistance	48	103
- National Intelligence Model	34	91
- Champion Specials Initiative	80	65
- National High-tech Crime Unit	53	56
- Warrington CDRP	-	55
- No Witness No Justice	169	54
- IPLDP Grant	105	-
- Citizen Focused Policing	32	53
- Other grants	111	96
Mutual Aid	762	208
VAT Recovered	19	26
External Agency Funding	1,602	1,331
Total Service Income	24,318	21,941

4. PENSION COSTS

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

The Authority participates in two pension schemes:

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

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

	Local Government Pension Scheme		Police Pension Scheme	
	2005-06	2004-05	2005-06	2004-05
	£'000	£'000	£'000	£'000
Net Cost of Services				
• Current service cost	3,970	3,560	28,400	28,600
• Past service cost	150	-	100	673
Net Operating Expenditure				
• Interest cost	4,180	3,040	46,400	34,500
• Expected return on assets in the scheme	(3,790)	(3,200)	-	-
Amounts to be met from Government Grants and Local Taxation:				
• Movement on pensions reserve	(780)	90	(49,400)	(43,386)
Actual amount charged against Council Tax for pensions in the year:				
• Employers contributions payable to the scheme	(3,730)	(3,490)	-	-
• Retirement benefits payable to pensioners			(25,500)	(20,387)

Note 15 to the Consolidated Balance Sheet contains details of the assumptions made in estimating the figures included in this note. Note 1 to the Statement of Total Movements in Reserves details the costs that have arisen through the year.

5. ASSET MANAGEMENT REVENUE ACCOUNT

The Asset Management Revenue Account records the charges made to services for the use of assets and the actual cost to the Authority of external interest, offset by Government grants. The resulting surplus is shown in the Revenue Account.

	2005-06	2004-05
	£000	£000
INCOME		
- Capital charges to the Revenue Account	(8,186)	(7,121)
- Government Grants Deferred	(2,724)	(2,231)
EXPENDITURE		
- Depreciation charges	5,966	4,988
- External Loan Interest Paid	364	332
Surplus to Revenue Account	<u>(4,580)</u>	<u>(4,032)</u>

6. MINIMUM REVENUE PROVISION

The Authority is required by statute to set aside a minimum revenue provision for the redemption of external debt. This amounted to £352,000 in 2005-06 compared to £320,000 in 2004-05. The provision has been charged to services as a depreciation charge for fixed assets used. The balance has been transferred to the Capital Financing Account.

	2005-06	2004-05
	£000	£000
Amount charged as depreciation	5,966	4,988
Government Grants released	(2,724)	(2,231)
Excess transferred to Capital Financing Account	(2,890)	(2,437)
Minimum revenue provision	<u>352</u>	<u>320</u>

7. RECRUITMENT AND PUBLICITY

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

	2005-06	2004-05
	£000	£000
Recruitment advertising	182	152
Other advertising	67	34
Other publicity	2	43
Total	<u>251</u>	<u>229</u>

8. OFFICERS' EMOLUMENTS

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

Remuneration Band £000	Number of Employees	
	2005-06	2004-05
50 – 60	27	33
60 – 70	15	13
70 – 80	5	0
80 – 90	0	1
90 – 100	1	2
Over 100	2	2
Total	50	51

9. MEMBERS ALLOWANCES

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

	2005-06 £000	2004-05 £000
Basic Allowances	46	45
Special Responsibility Allowances	100	97
TOTAL	146	142

10. LONG TERM CONTRACTS

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

11. FINANCE LEASES

The Authority has a 25 year lease on Charles Stuart House in Warrington which has been accounted for as a finance lease. The rentals payable in 2005-06 and 2004-05 were £265,000 per annum.

12. RELATED PARTY TRANSACTIONS

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

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

Material transactions with other public bodies (i.e. Cheshire County Council and the district councils of Cheshire) and the Cheshire Pension Fund have been disclosed within the revenue account and the cashflow statement. Separate specific disclosures have also been made in other notes to the accounts.

There is one material related party transaction to report. The Authority has a contract with Cheshire County Council for the provision of Internal Audit (£66,000 in 2005-06) and Treasurership services (£111,000 in 2005-06). Within the contract value is an amount of £28,711 which reflects the work undertaken by Cheshire County Council's Performance Improvement Officer in her specific role as Treasurer to the Police Authority.

There are no material transactions to disclose in respect of employees and members of the Authority or in respect of partnership arrangements with organisations in the voluntary or independent sector.

13. EXTERNAL AUDIT COSTS

In 2005-06 the Authority incurred the following fees relating to external audit and inspection before the receipt of £10,500 in grant.

	2005-06	2004-05
	£000	£000
- Fees payable with regard to external audit services	38	74
- Fees for certification of grant claims and returns	-	7
- Fees payable in respect of other services provided by the appointed auditor	44	-
TOTAL	82	81

CONSOLIDATED BALANCE SHEET AS AT 31 MARCH 2006

	NOTES	31.3.06		31.3.05	
		£000	£000	£000	£000
Fixed Assets					
Intangible Fixed Assets	1		1,096		622
Tangible Fixed Assets	2				
- <i>Operational Assets</i>					
- Property		46,084		43,407	
- Vehicles		2,538		2,489	
- Equipment		5,112		4,743	
- <i>Non-Operational Assets</i>					
- Police Houses		2,657		3,426	
- Assets under Construction	3	-		1,641	
Total Fixed Assets			56,391		55,706
Long Term Prepayments	8		9,907		6,180
Total Long-Term Assets			67,394		62,508
Current Assets					
- Stocks	9	181		177	
- Debtors and Prepayments	10	7,790		12,144	
- Investments (Short Term)		6,700		12,705	
- Cash in Hand		9,030	23,701	5,066	30,092
Total Assets			91,095		92,600
Current Liabilities					
- Creditors	11	(15,209)		(9,846)	
- Deposits	12	(86)		(369)	
- Short term borrowing		(156)		(156)	
- Bank overdrawn		(117)	(15,568)	(2,628)	(12,999)
Total Assets Less Current Liabilities			75,527		79,601
Long Term Liabilities					
Long-term Creditors	4		(2,249)		(2,390)
Long-term Borrowing	13		(7,840)		(7,091)
Insurance Provision	14		(524)		(561)
Pensions Liability	15		(1,018,200)		(881,000)
Net Liabilities			(953,286)		(811,441)
Financed by:					
Notional Capital Accounts					
- Government Grants Deferred Account		9,722		9,111	
- Fixed Asset Restatement Account		27,669		30,140	
- Capital Financing Account		8,463	45,854	6,051	45,302
Earmarked Reserves					
<i>Notional</i>					
- Pension Reserve (FRS17)		(1,018,200)		(881,000)	
<i>Capital</i>					
- Capital Reserve – usable receipts		3,000		-	
- Deferred Capital Receipts		-		3,048	
- Unapplied Capital Grants		2,008		3,266	
<i>Revenue</i>					
- Revenue Reserve for Capital Expenditure		2,707		6,123	
- Pension Commutation Reserve		-		3,815	
- PFI Reserve		-		1,322	
- Insurance Reserve		200		200	
- Other Reserves		1,008	(1,009,277)	241	(862,985)
General Reserves			10,137		6,242
TOTAL NET WORTH			(953,286)		(811,441)

NOTES TO THE CONSOLIDATED BALANCE SHEET

1. INTANGIBLE FIXED ASSETS

The Authority has purchased software licences which have been regarded as an intangible asset. The cost of purchases has been amortised over 3 years. During 2005-06 £1.284m was incurred on software licences.

	2005-06 £000	2004-05 £000
Gross Book Value on 1 April	1,145	815
Additions	1,284	721
Disposals	(424)	(391)
Gross Book Value on 31 March	<u>2,005</u>	<u>1,145</u>
Depreciation at 1 April	(523)	(402)
Charge for the Year	(810)	(512)
Disposals	424	391
Depreciation at 31 March	<u>(909)</u>	<u>(523)</u>
Net Book Value at 31 March	<u>1,096</u>	<u>622</u>

2. TANGIBLE FIXED ASSETS

The figures below provide information on the movement of fixed assets held by the Authority during 2005-06.

	Operational Assets			Non Operational Assets	TOTAL
	Property £000	Vehicles £000	Equipment £000	£000	£000
Gross Book Value on 1 April	44,784	7,473	10,068	3,563	65,888
Additions	1,181	1,620	3,716	-	6,517
Disposals	(337)	(2,236)	(3,932)	(765)	(7,270)
Transfers from WIP	2,925	-	511	-	3,436
Expenditure w/o – no increase in value	(1,181)	(198)	(464)	-	(1,843)
Revaluations/restatements	618	-	-	-	618
Gross Book Value on 31 March	<u>47,990</u>	<u>6,659</u>	<u>9,899</u>	<u>2,798</u>	<u>67,346</u>
Depreciation at 1 April	(1,377)	(4,984)	(5,445)	(137)	(11,943)
Charge for the Year	(602)	(1,244)	(3,274)	(36)	(5,156)
Disposals	3	2,107	3,932	32	6,074
Revaluations/Restatements	70	-	-	-	70
Depreciation at 31 March	<u>(1,906)</u>	<u>(4,121)</u>	<u>(4,787)</u>	<u>(141)</u>	<u>(10,955)</u>
Net Book Value at 31 March	<u>46,084</u>	<u>2,538</u>	<u>5,112</u>	<u>2,657</u>	<u>56,391</u>

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 2005 - 06, revaluations were carried out in respect of one operational property previously classed as work in progress, one new operational property, and the four land acquisitions. 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.

DEPRECIATION

Depreciation has been provided on all fixed assets that have been deemed to have a useful finite life and a full years 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 2005-06 reflect this position. Depreciation is calculated on a straight line basis using the following asset lives:

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

3. ASSETS UNDER CONSTRUCTION

In 2004-05 there were a number of capital schemes involving land purchases and construction works which were not complete at 31 March and which were recorded as Assets under Construction in the Balance Sheet. These schemes amounted to £1.641m at 31 March 2005. All of these schemes were completed in 2005-06.

4. ASSETS ACQUIRED UNDER A FINANCE LEASE

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

	Other Land & Buildings £000
Value at 1 April 2005	2,390
Depreciation	(141)
Value at 31 March 2006	<u>2,249</u>

Outstanding obligations to make payments under these finance leases at 31 March 2006 accounted for as part of long term liabilities are as follows:

	Other Land & Buildings £000
Obligations payable in 2006/07	265
Obligations payable between 2007/08 and 2010/11	1,060
Obligations payable after 2010/11	2,915
Total	<u>4,240</u>

5. INFORMATION ON ASSETS HELD

Fixed Assets owned by the Authority at 31 March 2006 include the following:

	31 March 2006	31 March 2005
	Number	Number
Land at Winsford, Runcorn & Middlewich	4 plots	1 plot
Police Stations	36	36
Police Houses	18	23
Vehicles	564	529

6. CAPITAL EXPENDITURE AND FINANCING

	2005-06 £000	2004-05 £000
Capital Expenditure in year		
• Land and Buildings	2,584	4,658
• Vehicles	1,620	1,499
• Equipment	5,391	3,896
Total Expenditure	<u>9,595</u>	<u>10,053</u>
Financed as follows:		
• Capital Grants	3,160	3,422
• Borrowing	1,100	1,100
• Capital Receipts	1,318	4,636
• Contribution from revenue reserve	3,712	-
• Contribution from other earmarked reserve	65	-
• Revenue contribution	66	801
• Other contributions	174	94
Total Financing	<u>9,595</u>	<u>10,053</u>

7. SIGNIFICANT COMMITMENT UNDER CAPITAL CONTRACTS

Significant capital expenditure commitments include the following:

	£'000
IMD Infrastructure refresh	738
Panic alarms	222
Information Delivery Infrastructure	285
Aircraft refit	100
Body Armour	273
Data/Voice Network Refresh	580

8. LONG TERM PREPAYMENTS & COMMITMENTS UNDER PFI CONTRACTS

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

	Initial Capital contribution	Contract Period	Written down value at 31 March 2006	Written down value at 31 March 2005
	£000	Years	£000	£000
Constabulary Headquarters	6,500	30	5,963	6,180
Custody suites	4,000	30	3,944	-
Total			9,907	6,180

Annual payments over the life of the contracts are made for the provision of services and facilities. The gross amounts paid in 2005-06 total £5.6m and £1.5m for headquarters and the custody suites respectively. These amounts are charged to the Consolidated Revenue Account. Annual payments are linked to movements in the underlying rate of inflation (RPI) and with deductions for non-availability or poor performance and additional payments for increases in the level of services. The Authority receives specific government grant as a contribution to the cost of financing the scheme.

9. STOCKS

The value of stocks held at 31 March 2006 is as follows:

	31 March 2006	31 March 2005
	£000	£000
Central Stores – Uniforms	108	114
Other Items	73	63
TOTAL	181	177

10. DEBTORS & PREPAYMENTS

The level of debtors and prepayments are shown below. Relocation payments to staff following the move to new HQ premises in Winsford are being charged to the revenue account over a three year period. The balance outstanding of £0.318m at 31 March 2006 is shown as HQ Relocation Prepayments in the table below.

	31 March 2006	31 March 2005
	£000	£000
Short Term Debtors – Car Loans (0-1 years)	5	11
Long Term Debtors – Car Loans (1-5 years)	8	16
HQ Relocation Prepayments	318	836
Capital Debtors/Deferred Capital Receipt	-	3,048
Pensions Prepayment	1,996	0
General Debtors Capital	1	481
General Debtors Revenue	5,645	7,752
LESS Provision for Bad Debts	(182)	-
TOTAL	7,790	12,144

11. CREDITORS

The level of creditors at 31 March 2006 is shown in the table below. Included in the figure for revenue creditors is £0.024m in respect of donations to charity from money held by the Authority in accordance with the Police Property Act Fund.

	31 March 2006	31 March 2005
	£000	£000
Government Departments	2,953	2,910
Grant received in advance	1,117	743
Other revenue creditors	10,164	5,932
Capital creditors	975	261
TOTAL	15,209	9,846

12. DEPOSITS

The Police seize money, mainly as a result of anti-drugs activities and activities in accordance with the Proceeds of Crime Act. This money will sometimes be refunded to the individuals/organisations concerned. Other money, particularly in respect of the Proceeds of Crime Act, is paid to the Home Office and is redistributed to Police Authorities. The amounts held by the Police Authority at 31 March 2006 are shown below:

	31 March 2006	31 March 2005
	£000	£000
Seizures from anti-drug activities	30	30
Seizures under Proceeds of Crime Act activities	56	339
TOTAL	86	369

13. ANALYSIS OF BORROWING

The following table shows the borrowing outstanding at 31 March 2006.

	31 March 2006	31 March 2005
	£000	£000
Analysis of loans by type		
• Public Works Loans Board	7,642	6,878
• Local Authority (Cheshire County Council)	198	213
Total Outstanding	<u>7,840</u>	<u>7,091</u>
Analysis of loans by maturity		
• Between 1 and 2 years	156	156
• Between 2 and 5 years	758	810
• Between 5 and 10 years	879	985
• More than 10 years	6,047	5,140
Total Outstanding	<u>7,840</u>	<u>7,091</u>

14. INSURANCE PROVISION

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

	2005-06 £000	2004-05 £000
Balance at 1 April	561	541
Use of provision in the year	(269)	(134)
Increase in provision charged to revenue account	232	154
Balance at 31 March	<u>524</u>	<u>561</u>

15. NET PENSION LIABILITY

Note 4 to the Revenue Account contains details of the Authority's participation in the Local Government Pension Scheme (administered by Cheshire County Council) and the Police Pension Scheme in providing civilian and uniformed officers with retirement benefits.

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

	Local Govt. Pension Scheme		Police Pension Scheme		Total	
	31.3.06 £000	31.3.05 £000	31.3.06 £000	31.3.05 £000	31.3.06 £000	31.3.05 £000
Estimated Liabilities in the scheme	(96,600)	(75,500)	(991,500)	(857,200)	(1,088,100)	(932,700)
Estimated Assets in the scheme	69,900	51,700	-	-	69,900	51,700
Net Liability	<u>(26,700)</u>	<u>(23,800)</u>	<u>(991,500)</u>	<u>(857,200)</u>	<u>(1,018,200)</u>	<u>(881,000)</u>

The Liabilities show the underlying commitments that the Authority has in the long run to pay retirement benefits. The total liability of £1,018m has a substantial impact on the net worth of the Authority as recorded in the Balance Sheet, resulting in a negative overall balance of £953m.

However statutory arrangements for funding the deficit mean that the financial position of the Authority remains healthy:

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

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

	Local Government Pension Scheme		Police Pension Scheme	
	2005/06	2004/05	2005/06	2004/05
	%	%	%	%
Rate of Inflation	3.1	2.9	3.1	2.9
Rate of increase in salaries	4.6	4.4	4.6	4.4
Rate of increase in pensions	3.1	2.9	3.1	2.9
Proportion of employees opting to take a commuted lump sum	0	n/a	n/a	n/a
Rate for discounting scheme liabilities	4.9	5.4	4.9	5.4

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

	Long Term Returns	Estimated Fund Value at 31 March 2006	Proportion of the Fund 31 March 2006	Proportion of the Fund 31 March 2005
	%	£000	%	%
Equities	7.4	1,661,900	77.8	76.6
Bonds	4.6	234,100	11.0	10.9
Property	5.5	182,300	8.6	9.1
Cash	4.6	56,200	2.6	3.4
Total		2,134,500	100.0	100.0

Changes to the local government pension scheme

Changes to the Local Government Pension Scheme permit employees retiring on or after 6 April 2006 to take an increase in their lump sum payment on retirement in exchange for a reduction in their future annual pension. On the advice of our actuaries we have taken the view that there is insufficiently reliable evidence to assume a level of take-up of the change in the pension scheme. The advice of our actuaries is that even if there was to be adjustment to reflect this change the effect would be relatively modest. Consequently the valuation of the Authority's retirement benefit liabilities as at 31 March 2006 does not include any allowance for this change to the pension scheme. The position will be kept under close review and will be re-examined in 2007 when information regarding the actual take up of the greater lump sum option will be available.

16. CONTINGENT ASSET/LIABILITY

The Authority has identified a potential contingent asset or liability in relation to the receipt of performance penalties and the payment of costs as a result of changes to the building specification relating to the provision of custodial services. It is thought that the value of the asset/liability will range from a receipt of up to £0.4m to a payment of £0.6m. Due to the uncertainty surrounding this issue, no provision for this has been included in the accounts.

17. INTRODUCTION OF THE EURO

The replacement of sterling with the Euro may call for significant expenditure to be incurred by many local authorities to adapt their information systems to accommodate the single currency.

As the possible date for British participation comes closer it is possible that the Authority may have to devote additional resources in order to deal with this issue. The Authority may incur a variety of costs including planning, training and the modification of computer systems. At the present time there is no clear indication as to when Britain may adopt the single European currency and therefore the Authority is not planning to devote resources to Euro preparation.

CASHFLOW STATEMENT 2005-2006

The statement provides a link between the Balance Sheet at the beginning of the year, the Revenue Account for the year and the Balance Sheet at the end of the year. It looks at where the money came from and how it was spent for both revenue and capital activities, and therefore reflects the changes in the financial structure of the Cheshire Police Authority during the year.

REVENUE ACTIVITIES

	2005-06	2005-06	2004-05	2004-05
	£000	£000	£000	£000
Outflows				
Payments to and on behalf of employees	120,164		112,643	
Other operating payments	48,421	168,585	52,695	165,338
Inflows				
Government Grants – Specific Grants	82,981		66,720	
– Other Home Office Grants	0		13,082	
Precepts	37,015		34,989	
Surplus on collection funds	102		23	
Revenue Support Grant	26,627		27,249	
National non-domestic rates	16,089		13,430	
Charges for services and other receipts	7,019		8,684	
		169,833		164,177
Revenue Activities Net Cash (Inflow)/Outflow		(1,248)		1,161
SERVICING OF FINANCE				
Outflows				
Interest Paid	364		333	
Inflows				
Interest received	845		648	
Servicing of Finance - net (Inflow)/Outflow		(481)		(315)
CAPITAL ACTIVITIES				
Outflows				
Purchase of fixed assets	3,412		4,137	
Assets under construction	3,436		4,580	
Other Capital Cash Payments	2,035		1,258	
	8,883		9,975	
Inflows				
Sale of fixed assets	4,798		3,830	
Capital grants received	1,902		3,246	
Other capital receipts	175		94	
	6,875		7,170	
Capital Activities - net (Inflow)/Outflow		2,008		2,805
NET CASH (INFLOW)/OUTFLOW BEFORE FINANCING		279		3,651
MANAGEMENT OF LIQUID RESOURCES				
Net increase (decrease) in short term deposits		(6,005)		(3,035)

	2005-06 £000	2005-06 £000	2004-05 £000	2004-05 £000
FINANCING				
<i>Outflows</i>				
Repayments of long term loans	156		156	
Repayments of short term loans	1,500		1,250	
	<u>1,656</u>		<u>1,406</u>	
<i>Inflows</i>				
Long term loans raised	905		1,100	
Short term loans raised	1,500		1,250	
	<u>2,405</u>		<u>2,350</u>	
Financing – net (inflow)/outflow		(749)		(944)
NET (INCREASE)/DECREASE IN CASH		<u>(6,475)</u>		<u>(328)</u>

NOTES TO THE CASHFLOW STATEMENT

	2005-06	2005-06	2004-05	2004-05
	£000	£000	£000	£000
1 Reconciliation of revenue cashflow				
(Surplus)/ Deficit for year		(3,895)		3,761
Interest Paid (Net)		481		315
Add non-cash transactions:				
Contribution (to) from pensions commutations reserve	3,815		(348)	
Contribution (to) from insurance provision	37		(20)	
Contribution (to) from capital financing reserve (capital outlay)	(66)		(801)	
Contribution (to) from capital financing reserve (MRP)	(352)		(320)	
Contribution (to) from capital reserve	(296)		(2,190)	
Contribution (to) from PFI reserve	1,322		(594)	
Contribution (to) from Resource Centre Reserve	(479)		8	
Contribution (to) from DNA	0		13	
Contribution (to) from Deposits	283		(326)	
Contribution (to) from UWSU Reserve	0		(227)	
Contribution (to) from HQ IT Reserve	(355)			
Contribution (to) from other reserves	0	3,909	10	(4,795)
Adjustment for items on an accruals basis:				
Increase/(Decrease) in stocks and work in progress	4		33	
Increase/(Decrease) in non capital debtors/prepayments	308		445	
Increase/(Decrease) in long term prepayments	3,728		48	
Increase/(Decrease) in non capital creditors	(4,649)		1,759	
Increase/(Decrease) in relocation prepayments	(518)	(1,743)	(405)	1,880
Revenue Activities Net Cash Flow – Outflow		(1,248)		1,161

2 Movement in liquid resources and cash	As at 31.03.06 £000	As at 31.03.05 £000	Movement in year £000	As at 31.03.05 £000	As at 31.03.04 £000	Movement in year £000
Liquid Resources						
Investments (short term)*	6,700	12,705	(6,005)	12,705	15,740	(3,035)
Cash/Bank						
Cash in hand & bank o/draft	8,913	2,438	6,475	2,438	2,110	328

3 Movement in long-term borrowing						
Long term borrowing	(7,996)	(7,247)	(749)	(7,247)	(6,303)	(944)
NET CASH INFLOW/(OUTFLOW)	7,617	7,896	(279)	7,896	11,547	(3,651)

* Short term money market investments 6,700

STATEMENT OF TOTAL MOVEMENTS IN RESERVES

The Statement of Total Movements in Reserves brings together all the recognised gains and losses of the Authority during the year and identifies those which have and have not been recognised in the Consolidated Revenue Account. The Statement separates the movements between revenue and capital reserves.

	2005-06		2004-05	
	£000	£000	£000	£000
Surplus/(deficit) for year – Consolidated Revenue Account	3,895		(3,761)	
<i>add back</i>				
Movements on earmarked reserves	(7,786)		3,337	
<i>Deduct</i>				
Appropriation from pensions reserve	(50,180)		(43,296)	
Actuarial gains and (losses) relating to pensions	(87,020)		(201,718)	
Total decrease in revenue resources (note 1)		(141,091)		(245,438)
Increase/(decrease) in useable capital receipts	3,000		(334)	
Increase/(decrease) in unapplied capital grants and contributions	(1,258)		(176)	
Total Increase/(decrease) in realised capital resources (note 2)		1,742		(510)
Gains/losses on revaluation of fixed assets	569		502	
Writing out of capital expenditure not increasing the value if the asset	(1,844)		(1,258)	
Total decrease in unrealised value of fixed assets (note 3)		(1,275)		(756)
Value of Assets sold or disposed of (note 3)		(1,196)		(7,820)
Capital Receipts set aside to finance capital	1,318		4,636	
Revenue resources set aside	1,094		(1,495)	
Movement on Government Grants Deferred	611		1,285	
Movement on deferred capital receipts	(3,048)		3,048	
Total Increase/(decrease) in amounts set aside to finance capital investment (note 4)		(25)		7,474
Total Recognised gains and losses		<u>(141,845)</u>		<u>(247,050)</u>

NOTES TO THE STATEMENT OF TOTAL MOVEMENTS IN RESERVES

1. Movements in revenue resources

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

- a) Resource Centre Reserve: under-spending on resource centres can be carried forward to the following financial year. The balance on this reserve at 31 March 2006 is £493,000 (£14,000 at 31 March 2005)
- b) HQ IT Reserve: the Authority agreed to the creation of this reserve in 2005-06. It holds resources which can be used for the replacement of IT equipment and has a balance of £355,000 at 31 March 2006.
- c) Underwater Search Unit Reserve: the Authority acts as the lead authority for the regional underwater search unit. The Unit has unutilised resources amounting to £160,000 at 31 March 2006 (£227,000 at 31 March 2005) which it can use to support its operations.
- d) Insurance Reserve: this is used to meet the cost of future losses which may arise as a result of public and employers liability claims and vehicle losses and any other such future claims which are presently unknown and which cannot be met from insurance premiums. The balance on the reserve at 31 March 2006 is £200,000 (unchanged since 31 March 2005)
- e) Revenue reserve for capital expenditure: this is used to finance capital expenditure in future years, predominantly slippage and commitments approved in previous years. The balance on the reserve at 31 March 2006 is £2.707m (£6.123m at 31 March 2005).

	General Revenue Reserves	Earmarked Revenue Reserves	Pensions Reserve (FRS17)
	£000	£000	£000
Surplus (deficit) for 2005-06	3,895	-	-
Appropriations from (to) revenue		(7,786)	(50,180)
Actuarial gains (losses) relating to pensions	-	-	(87,020)
Total decrease in revenue resources	3,895	(7,786)	(137,200)
Balance brought forward at 1 April 2005	<u>6,242</u>	<u>11,701</u>	<u>(881,000)</u>
Balance carried forward at 31 March 2006	<u>10,137</u>	<u>3,915</u>	<u>(1,018,200)</u>

In terms of the Pensions (FRS17) Reserve, the actuarial (gains)/losses identified as movements on the Reserve in 2005-06 can be analysed into the following categories, measured as absolute amounts and as a percentage of assets or liabilities at 31 March 2006:

a) Local Government Pension Scheme

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

* Note – all figures are expressed as a percentage of the total present value of liabilities, with the exception of the first line which is expressed as a percentage of the assets, hence, the individual percentages do not total to the bottom line.

b) Police Pension Scheme

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

2. **Movements in realised capital resources**

This represents the extent to which there have been changes in the Authority's ability to finance capital investment in future years. It comprises movements in usable capital receipts and unapplied capital grants. Unapplied Capital Grants represent specific grants received but not yet used to finance capital expenditure. Usable capital receipts relate to the proceeds from the sale of fixed assets.

	Usable capital receipts	Unapplied capital grants
	£000	£000
Amounts received in 2005/06	4,318	2,567
Amounts applied to finance capital expenditure	(1,318)	(3,160)
Amounts transferred to revenue account	-	(665)
Increase (decrease) in realised capital resources in 2005/06	<u>3,000</u>	<u>(1,258)</u>
Balance brought forward at 1 April 2005	-	3,266
Balance carried forward at 31 March 2006	<u>3,000</u>	<u>2,008</u>

3. Movements in Unrealised Value of Fixed Assets

This represents the extent to which the value of the Authority's asset portfolio has changed in the year. Such movement are reflected in the Fixed Asset Restatement Account which shows 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.

	Fixed Asset Restatement Reserve
	£000
Gains on revaluation of fixed assets in 2005/06	569
Amounts written off	(1,844)
Total increase(decrease) in unrealised capital resources in 2005/06	<u>(1,275)</u>
Amounts written off fixed asset balances for disposal in 2005/06	<u>(1,196)</u>
Total Movement on reserve in 2005/06	(2,471)
Balance brought forward at 1 April 2005	30,140
Balance carried forward at 31 March 2006	<u><u>27,669</u></u>

4. Movements in amounts set aside to finance capital investment

These are represented by movements on the Capital Financing Account and the Government Grants Deferred Account.

The Capital Financing Account 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.

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.

	Capital financing Account	Government Grants Deferred Account	Capital Receipts Deferred Account	TOTAL
	£000	£000	£000	£000
Capital receipts set aside in 2005/06				
- usable receipts applied	1,318	-	-	
Total capital receipts set aside in 2005/06				1,318
Revenue resources set aside in 2005/06				
- capital expenditure financed from revenue	66	-	-	
- capital expenditure financed from revenue reserves	3,777	-	-	
- reconciling amount for provisions for loan repayment	(2,749)	-	-	
Total revenue resources set aside in 2005/06				1,094
Government grants and receipts applied to capital investment in 2005/06	-	3,334	(3,048)	
Amounts credited to the Asset Management Revenue Account in 2005/06	-	(2,723)	-	
Movement on Government Grants Deferred & Capital Receipts Deferred				(2,437)
Total increase(decrease) in amounts set aside to finance capital investment				25
Total movement on reserve in 2005/06	2,412	611	(3,048)	
Balance brought forward at 1 April 2005	6,051	9,111	3,048	
Balance carried forward at 31 March 2006	8,463	9,722	-	

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.

Contribution to Capital Expenditure

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

Council Tax

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

Creditors

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

Current Assets and Liabilities

Current assets are items which can be readily converted into cash. Current liabilities are items

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

Debtors

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

Deferred Capital Receipts

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

District Council Collection Fund

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

Earmarked Reserves

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

Fixed Assets

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

Fixed Asset Restatement Account

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

General Reserves

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

Government Grants and other Contributions

Revenue grants and contributions are credited to the revenue account.

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

Income

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

Long-Term Borrowing

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

National Non-Domestic Rate

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

councils and are then redistributed nationally on the basis of resident population.

Net Debt

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

Pension – Defined Benefit Scheme

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

Pension Assets – Expected Rate of Return

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

Pension – Interest Costs

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

Pension – Past Service Costs

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

Precept

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

Provisions

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

Public Works Loan Board (PWLB)

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

Reserves

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

Revenue Expenditure

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

Revenue Support Grant

General government grant support towards police authority expenditure.

Temporary Investments

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

Unapplied Capital Grants

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