

NORTHUMBRIA POLICE AUTHORITY

Statement of Accounts
2005/2006



Northumbria
Police Authority


**NORTHUMBRIA POLICE AUTHORITY
STATEMENT OF ACCOUNTS – 2005/06**

CONTENTS

	Page
Contents	1
Explanatory Foreword	2
Financial Review	4
Statement of Responsibilities	8
Statement On Internal Control	9
Auditors Report To Northumbria Police Authority	13
Statement of Accounting Policies	17
Consolidated Revenue Account	
- CIPFA Best Value Accounting Code of Practice	24
- CIPFA Subjective Classification	25
- Notes	28
Capital Expenditure	37
Consolidated Balance Sheet	40
Statement of Total Movement On Reserves	52
Cash Flow Statement	57
Glossary of Terms	61

Explanatory Foreword

Introduction

Under the Police Act 1996, the Police Authority and its officers have defined responsibilities, which are distinct from the operational management of the police force under the Chief Constable. The general functions of police authorities include securing the maintenance of an efficient and effective police force, publishing the local policing plan, and determining local policing objectives in consultation with the Chief Constable and local community. The Police Authority is also responsible for preparing and publishing the statement of accounts.

Financial Statements

The financial statement of accounts as presented in the following pages have been compiled in accordance with and as required by the Accounts and Audit Regulations 2003 and the Code of Practice on Local Authority Accounting in Great Britain, published by the Chartered Institute of Public Finance and Accountancy (CIPFA). It shows the financial affairs of Northumbria Police Authority during 2005/06 and the financial position as at 31 March 2006.

When read in conjunction with the Northumbria Police Authority Joint Annual Review 2005/2006, the publications provide an insight into the many activities and achievements of the Authority during the year.

The Accounts of the Police Authority are set out on Pages 4 to 60. They consist of:

- i. **Financial Review (Page 4)** – This explains briefly, in financial terms, the Authority's activities during 2005/06 and its financial position as at 31 March 2006.
- ii. **Statement of Responsibilities (Page 8)** - This statement sets out the respective responsibilities of the Authority and its Treasurer.
- iii. **Statement on Internal Control (Page 9)** - This statement outlines the Authority's system of internal control, in line with Regulation 4 of the Accounts and Audit Regulations 2003.
- iv. **Independent Auditor's Report to the Authority (Page 13)** - This report details the basis of the Auditor's opinion on the Financial Statements.
- v. **Statement of Accounting Policies (Page 17)** - This explains the basis of the figures in the accounts. The accounts can only be properly appreciated if the policies, which have been followed in dealing with material items, are explained.
- vi. **Consolidated Revenue Account (Page 24)** - The purpose of this account is to report expenditure and income relating to the Police Authority and how the net cost of the Police Authority has been financed by local taxpayers and Central Government Grants. The revenue account is presented using the Service Expenditure Analysis set out in CIPFA's Best Value Accounting Code of Practice (BVACOP), and in a traditional subjective analysis format, which is used to monitor expenditure against during the year.
- vii. **Capital Expenditure (Page 37)** - This statement reports expenditure (and its associated financing) on fixed assets.

Explanatory Foreword

- viii. **Consolidated Balance Sheet (Page 40)** - This shows the Authority's financial position and net assets at 31 March 2006. It summarises the fixed and current assets, which are used in carrying out the Authority's activities, together with its liabilities.
- ix. **Statement of Total Movement on Reserves (Page 52)** - This statement shows all the recognised movements during the year on both revenue and capital reserves.
- x. **Cashflow Statement (Page 57)** - This summarises the cash receipts and payments of the Authority arising from transactions for both revenue and capital purposes.

Financial Review

Revenue Account

The net revenue budget to be met from Government Grants and local taxation was approved by the Police Authority at £262.015m. The revised estimate that the Authority later agreed recognised that an underspend of £3.860m was likely to arise during the year, resulting in an appropriation to reserves of £1.380m instead of the original estimate of an appropriation from reserves of £2.480m.

Effective budget monitoring and budgetary control during the year has ensured that expenditure has been contained within the revised estimate. In addition, circumstances particular to 2005/06 including a lower than budgeted number of insurance claims have led to the revenue outturn for the year being £5.045m under the revised estimate, which allows appropriations of £3.071m to earmarked reserves and £3.354 to the general reserve. However, it is necessary to recognise that in overall terms, the variance reflects these particular circumstances and is not typical of the Authority's medium term financial position.

The table shown below summarises the financial position for the year:

	2004/05	2005/06	2005/06	2005/06
	Outturn	Original	Revised	Outturn
	£000s	£000s	£000s	£000s
Expenditure on Services	248,334	265,765	261,805	273,621
Levies	0	0	0	0
AMRA	(2,350)	0	0	(4,121)
Interest and Investment Income	(4,634)	(5,100)	(5,100)	(5,012)
Premium on Early Resettlement of Borrowing	2	0	0	2
Return on Assets	90,880	0	0	99,370
Net Operating Expenditure	332,232	260,665	256,705	363,860
Govt Grants Applied	3,042	0	0	4,465
Contribution to/(from) Earmarked Reserves	5,858	(2,480)	0	3,071
Provision for Repayment of External Loans	(4,300)	0	0	(5,561)
Revenue Contributions to Capital Outlay	2,808	4,280	4,380	2,766
Contribution from Pensions Reserve	(89,830)	0	0	(109,490)
Amending Report Grant	0	(450)	(450)	(450)
Amount to be met from Government Grants and Local Taxation	249,810	262,015	260,635	258,661
Police Grant	(124,860)	(130,020)	(130,020)	(130,020)
Revenue Support Grant	(77,690)	(79,518)	(79,518)	(79,518)
National Non Domestic Rates	(18,821)	(22,623)	(22,623)	(22,623)
Precepts	(28,439)	(29,854)	(29,854)	(29,854)
	(249,810)	(262,015)	(262,015)	(262,015)
Contribution to General Reserve	0	0	(1,380)	(3,354)
Balance Brought Forward	(20,646)	(20,646)	(20,646)	(20,646)
Balance Carried Forward	(20,646)	(20,646)	(22,026)	(24,000)

Financial Review

The main variations from the revised budget are detailed below:

Revenue Contributions to Capital Outlay (RCCO) were £1.614m lower than the budgeted level as a direct consequence of slippage on the capital programme.

There was an underspend against the Authority's insurance budget of £1.779m arising from the reduction in liabilities

Appropriations to / (from) Reserves

Appropriations to / from reserves are as follows: -

An appropriation of £17.760m has been made to the capital development reserve in order to provide for the future costs of the Estates Strategy development programme. This includes an appropriation from the police officers pensions reserve of £13.830m as this reserve is no longer required due to the introduction of a new police officers pension account from April 2006. A further £3.930m was appropriated from the revenue surplus.

£0.111m has been appropriated to the trading reserve as a result of surpluses on the trading accounts.

£0.261 has been appropriated to the North East Air Support Unit general reserve resulting from a revenue underspend.

£0.109m has been appropriated from the devolved reserves, £0.105m of which was to finance additional new vehicles.

£0.039m has been appropriated from the North East Air Support Unit to finance capital expenditure.

£1.083m has been appropriated from the pensions commutations reserve to finance the additional commutations paid due to an increased number of retirements.

Income from local taxpayers

The Authority received £29.854m from the precept it levied on billing authorities within its area during 2005/06. A breakdown is provided in note 10 to the consolidated revenue account.

Capital Expenditure

Capital expenditure for the year totalled £9.919m. A summary of how this was financed is shown below:

	£000s
Capital Grant	5,193
Borrowing	1,960
Revenue	2,619
Reserves	<u>147</u>
	<u>9,919</u>

Financial Review

The Authority has, as at 31 March 2006, unapplied capital receipts and capital grant of £9.146m and £15.134m respectively. £0.969m of capital grant is earmarked to finance future capital expenditure on Airwave (the new radio communication's system), £0.094m to finance the Single Non Emergency Scheme (SNEN) capital expenditure, £0.075m to finance the North East Air Support Unit (NEASU) capital expenditure, and £0.023m to finance the North East Centre for Policing Skills (NECPS) capital expenditure. The balance can be used to support the implementation of the estates strategy, which represents the critical operational property needs of the Chief Constable.

Material Assets and Liabilities

At 31 March 2006, the Authority holds £64.216m of fixed assets and short-term investments amounting to £126.133m.

The Authority also has current liabilities of £19.485m, long term borrowing and deferred liabilities of £34.212m and provisions for future liabilities of £2.537m as at 31 March 2006. Borrowing from the PWLB is undertaken in the name of Gateshead Council on the Authority's behalf under the pooled arrangements specified in the Authority's Treasury Service agreement.

In accordance with FRS17 the Authority's pensions liability is also recorded in the balance sheet.

A full description of the Authority's material assets and liabilities is provided in the notes to the consolidated balance sheet.

Cashflow

The Authority's surplus cash balances are deposited on its behalf by Gateshead Council with banks and building societies for periods ranging from overnight up to a maximum of 364 days. During 2005/06 the Authority's short-term investments increased by £7.123m. Contributory factors to the increase include the surplus generated in 2005/06 and capital receipts of £0.548m.

Euro Currency

Costs associated with the potential introduction of the Euro Currency into the UK are not considered significant and when incurred will be charged to the consolidated revenue account.

Financial Review

Impact Of Financial Reporting Standard 17 – Retirement Benefits (FRS17)

As part of the terms and conditions of employment of its officers and other employees, the Authority offers retirement benefits. Although these will not actually be payable until employees retire, the Authority has a commitment to make the payments, which need to be recognised at the time that employees earn their future entitlement. This is a requirement of Financial Reporting Standard 17 – Retirement Benefits (FRS17).

The Authority's financial statements have been compiled in accordance with the requirements of FRS17, and further details are outlined in note 4 to the consolidated revenue account and note 10 to the balance sheet.

Prospects For 2006/07 And Beyond

For the financial year 2006/07 Northumbria Police Authority has approved a revenue budget of £260.475m. This translates into a precept at Band D of £71.78, the lowest in the Country.

The budget includes high priority growth initiatives identified by the Chief Constable of £2.165m.

The Authority approved a capital budget of £32.251m for 2006/07. Within this estimate the major schemes programme at £13.195m will support the continued implementation of the Estates Strategy Development Programme.

The programme for Minor Building Works, Vehicles, Plant and Equipment and Computers and Communications totals £19.056m. This is made up of £3.646m relating to Airwave, £5.4m for the data/ radio/ telephone network and £10.01m reflecting operational requirements as assessed by the Chief Constable.

The Authority's relatively sound financial position supports the Chief Constable's continuing success in reducing crime and, helping to make Northumbria a safer place to live and work.

D V Coates BA CPFA IRRV
Treasurer

Dated:

Statement of Responsibilities

The Authority's Responsibilities

The Authority is required: -

- to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this Authority, that officer is the Treasurer;
- to manage its affairs to secure economic and effective use of resources and safeguard its assets.

The Treasurer's Responsibilities

The Treasurer is responsible for the preparation of the Authority's statement of accounts which, in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ("the Code"), 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.

In preparing this statement of accounts the Treasurer has: -

- selected suitable accounting policies and applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the Code.

The Treasurer has also: -

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

Chief Finance Officer's Certificate

I hereby certify that the Statement of Accounts for the year ended 31 March 2006, required by the Accounts and Audit Regulations 2003, are set out in the following pages.

I further certify that the Statement of Accounts presents fairly the financial position of Northumbria Police Authority at 31 March 2006, and its income and expenditure for the year ended 31 March 2006.

D V Coates BA CPFA IRRV
Treasurer

Dated:

Statement On Internal Control

SCOPE OF RESPONSIBILITY

1. The Authority is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Authority also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.
2. In discharging this overall responsibility, the Authority is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the Authority's functions and which includes arrangements for the management of risk.

PURPOSE OF THE SYSTEM OF INTERNAL CONTROL

3. The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Authority's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.
4. The system of internal control has been in place at Northumbria Police Authority for the year ended 31 March 2006 and up to the date of approval of the statement of accounts.

INTERNAL CONTROL ENVIRONMENT

5. The Police Authority is responsible for ensuring that the financial affairs of the Authority and Force are conducted properly. The Chief Constable has delegated responsibility for financial management and for putting in place effective internal control systems to support this delegation.
6. The system of internal control is set out in the Authority's Standing Orders and Financial Regulations supported by a framework of regular management information, contract procedures, administrative procedures (including segregation of duties), management supervision, and a system of delegation and accountability. The development and maintenance of the system is undertaken by managers within the Authority, and ensures the economical, efficient and effective use of resources, and for securing continuous improvement in the way in which the Authority's functions are exercised, having regard to a combination of economy, efficiency and effectiveness as required by the Best Value duty. In particular, the system includes:-
 - A clear system of delegation incorporated within the Standing Orders;
 - Comprehensive budgeting systems;

Statement On Internal Control

- A robust system of financial planning and budgetary control including formal monitoring of periodic and annual reports to indicate financial performance against forecasts;
 - Setting targets to measure financial and other performance;
 - A corporate performance management system to measure financial and other performance;
 - The adoption of CIPFA capital expenditure guidelines, including the requirements of the Prudential Code;
 - Use as appropriate of formal project management disciplines;
 - Strict adherence to the CIPFA Code of Treasury Management in Public Services;
 - Compliance with established policies, procedures, laws and regulations;
 - Adoption of the principles of the CIPFA / SOLACE Guidelines on Corporate Governance; and
 - Participation in the National Fraud Initiative.
7. In order to ensure the independent review of the adequacy, or otherwise, of the system of internal control, the Authority maintains an adequate and effective internal audit. The Internal Audit Service works in compliance with the CIPFA Code of Practice for Internal Audit in Local Government 2003 and other professional standards.
8. The work of the Internal Audit Service is based upon a risk based three-year Strategic Audit Plan that covers all areas of the Authority's operations.
9. Under the Authority's Standing Orders, the Internal Audit Service reports upon its planning and performance to the Audit and Service Improvement Committee on a quarterly and annual basis.
10. The Authority has a Corporate Risk Management Framework in place, which facilitates the identification and control of risks on both a Strategic and Operational basis, and produces an Annual Risk Management Report, which is reported to the Audit and Service Improvement Committee.
11. As part of its performance management processes the Authority produces a number of statutory and local performance indicators, which are presented to the Audit and Service Improvement Committee on a quarterly and annual basis.
12. There is a process where managers assigned with the ownership of risk carry out a self assessment to provide assurances of the effectiveness of the related key controls. The outcomes of this are reported to the Audit and Service Improvement Committee on an annual basis.

REVIEW OF EFFECTIVENESS

13. The Authority has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. The review of the effectiveness of the system of internal control is informed by the work of the Internal Audit Service, Managers who have responsibility for the development and maintenance of the internal control environment, the work of risk management, performance

Statement On Internal Control

measurement and comments made by the external auditors and other review agencies and inspectorates such as HMIC.

14. The Chief Internal Auditor reports to the Treasurer, but in order to ensure independence has direct access to the Clerk to the Authority, Chief Constable, and the Audit and Service Improvement Committee.
15. The Chief Internal Auditor provides an independent opinion on the adequacy and effectiveness of the system of internal control, which is incorporated in the Annual Internal Audit Report to the Audit and Service Improvement Committee. The Annual Internal Audit Report for 2005/2006, which was presented to Audit and Service Committee 12 June 2006, concluded that, based on the work undertaken the Authority's system of internal control were satisfactory.
16. The Annual Risk Management Report for 2005/06 was presented to the Audit and Service Improvement Committee on 12 June 2006, in which the Force and the Authority concluded that risk management arrangements were found to be sound.
17. Managers have carried out self assessments of the processes and controls they have in place to allow them to achieve their services objectives. A report was submitted to the Audit and Service Improvement Committee on 12 June 2006, which concluded that managers agree that controls are in place to allow them to achieve their services objectives and therefore the objectives of the Authority.
18. The Audit Commission Annual Audit Letter for 2004/05 was positive and stated that the Authority had continued to strengthen its approach in key areas.
19. Reports from Audit Commission and other external reviews are reported to the Authority, or the Audit and Service Improvement Committee, who monitor progress against action plans.
20. Quarterly reporting on performance management information has taken place to the Audit and Service Improvement Committee throughout the year. An annual report was presented to the Audit and Service Improvement Committee on 12 June 2006.
21. The review of the effectiveness of the system of internal control is informed by:
 - The work of managers;
 - The work of the Internal Audit Service;
 - The work of Corporate Risk Management;
 - Performance Management Information;
 - Views of the Audit Commission, HMIC and other external inspectorates.
22. The results of the review of the Authority's system of internal control have concluded that it is satisfactory and effective.
23. The dynamic nature of controls and the environment in which they operate, requires that they are always improved upon, in conjunction with the Authority's Senior Management, we will endeavour to ensure that any recommendations for improvement to the system of internal control arising from the review process are implemented to support continuous improvement of the system

Statement On Internal Control

Signed

Signed

Signed

Signed

Chairman

Clerk of the Authority

Chief Constable

Treasurer

Dated

Dated

Dated

Dated

Independent Auditor's Report To Northumbria Police Authority

Opinion on the financial statements

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

This report is made solely to Northumbria 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.

Independent Auditor's Report To Northumbria Police Authority

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.

Signature:

Date:

Name: Lynne Snowball
District Auditor
Audit Commission
Nickalls House
Metro Centre
Gateshead NE11 9NH

Independent Auditor's Report To Northumbria Police Authority

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, Northumbria Police Authority 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 31 October 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.

Independent Auditor's Report To Northumbria Police Authority

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.

Signature:

Date:

Name: Lynne Snowball
District Auditor
Audit Commission
Nickalls House
Metro Centre
Gateshead NE11 9NH

Accounting Policies

GENERAL PRINCIPLES

The Authority's financial statements have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2004: A Statement of Recommended Practice ("the SORP"), issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), and conform with the Statements of Standard Accounting Practice (SSAPs) and Financial Reporting Standards (FRSs) relevant to Local Authorities.

Any departure from the relevant SSAPs/FRSs will be stated in the notes below: -

CIPFA's BEST VALUE ACCOUNTING CODE OF PRACTICE

In line with CIPFA's best practice approach to accounting for best value, the consolidated revenue account is presented using the Service Expenditure Analysis set out in CIPFA's Best Value Accounting Code of Practice (BVACOP) as well as in a subjective analysis format.

GROUP ACCOUNTS

The SORP 2004 requires the Police Authority to produce Group Accounts to include services provided by organisations other than the Police Authority itself but in which the Authority has a material interest. The Police Authority has complied with the SORP and, while it has identified certain bodies in which it has an interest, it has concluded that none of these interests, either individually or in total, are material in value and therefore that full compliance with the SORP would not assist the reader of the accounts.

INCOME AND EXPENDITURE

Revenue

The revenue accounts are maintained on a receipts and payments basis during the year and converted at the end of the year to an income and expenditure basis by the creation of debtors and creditors.

As a general principle a full year's charge is included in the accounts for those services used continuously (for example gas, electricity and telephones), although the period covered does not always coincide with the financial year.

Police overtime is adjusted from a payments basis in the accounts so that it is charged to the financial year that the liability is incurred.

Capital

Capital transactions are accounted for on an accrual basis during the year. Capital expenditure, which does not result in the creation of a fixed asset, is treated as a deferred charge.

Accounting Policies

Support Services

The Police Authority's consolidated revenue account includes some support services such as payroll, which are provided by Gateshead Council in accordance with s.113 of the Local Government Act 1972. For technical staff the allocation is based upon actual time spent, with their administrative staff being allocated pro rata. With other professional staff, allocation is based on estimated time spent and is calculated on an annual basis. The consolidated revenue account also includes the cost of advice to the Authority from its appointed officers, such as the Clerk and Treasurer, along with support to those officers. These costs are allocated using the same method as professional staff. Office accommodation is allocated on a floor area basis.

The broad services provided, to whom they are provided, appropriate performance measures and the annual cost are outlined in a series of support service agreements. The agreements cover the resources provided by Gateshead Council to the Police Authority to support the statutory and delegated roles of Chief Officers, and also financial processes and administrative services provided by the Chief Constable. The agreements are reviewed annually and approved by the Police Authority.

CURRENT ASSETS

Stocks and Stores are included in the accounts at the lower of cost and net realisable value.

REDEMPTION OF DEBT

To realise economies of scale, Gateshead Council borrows on behalf of the Police Authority. The consolidated revenue account of the Police Authority is charged with the minimum revenue provision calculated at 4% of outstanding debt. Interest is also charged to the consolidated revenue account, the average rate being 7.71% (2004/05 8.42%).

The Police Authority's consolidated revenue account also includes charges in respect of Public Works Loan Board that was transferred to the Police Authority upon abolition of Tyne and Wear County Council. Principal was repayable at maturity and the average rate of interest charged was 7.08% (2004/05 7.36%).

CAPITAL ASSETS

Fixed Assets

All expenditure on the acquisition, creation or enhancement of fixed assets is capitalised on an accruals basis in the accounts. Expenditure on fixed assets is capitalised, provided that the fixed asset yields benefits to the Authority and the services it provides for a period of more than one year. This excludes expenditure on routine repairs and maintenance of fixed assets, which is charged direct to the consolidated revenue account.

Fixed assets are valued on the basis recommended by CIPFA and in accordance with the Statements of Asset Valuation Principles and Guidance Notes issued by the Royal Institution of Chartered Surveyors (RICS). Fixed assets are classified into the groupings required by the Code of Practice on Local Authority Accounting:

Accounting Policies

- operational properties and other operational assets are included in the balance sheet at the lower of net current replacement cost or net realisable value;
- non-operational properties (including investment properties) and other non-operational assets that are surplus to requirements, are included in the balance sheet at net realisable value.

Income from the disposal of fixed assets is accounted for on an accruals basis. Such income that is not reserved for the repayment of external loans and forms part of the capital financing reserve is included in the balance sheet as usable capital receipts.

When an asset is included in the balance sheet at current value, it is formally re-valued at intervals of not more than five years and the revised amount is included in the balance sheet with any surpluses arising on the re-valuation being credited to the fixed asset restatement reserve. Valuations are carried out on a rolling programme of valuations, with 20% of the Authority's property portfolio being revalued each year. This provides a full revaluation every five years, in line with statutory requirements. In addition, the Police Headquarters is valued annually. Valuations are carried out by the Authority's valuation officer, D Gillbanks BSc (Hons), FRICS, IRRV.

The freehold and leasehold properties which comprise the Authority's property portfolio were re-valued in full at 31 March 2004 on behalf of the Clerk (Estates) by the Authority's then valuation officer, S Brown BSc, FRICS. The valuation was in accordance with the Statements of Asset Valuation Practice and Guidance Notes of the Royal Institution of Chartered Surveyors (RICS). Police houses which were vacant at the balance sheet date were valued at market value; whilst those which were occupied were valued on the basis of existing use value for social housing. It was neither practicable nor considered by the valuation officer to be necessary to inspect each property for the purposes of the valuation.

Depreciation

Financial Reporting Standard 15 (FRS15 *Tangible Fixed Assets*) requires depreciation to be provided for all fixed assets with a finite useful life (which is determined at the time of acquisition or revaluation) according to the following policy: -

- a full years depreciation is charged on newly acquired assets in the year of acquisition, although assets in the course of construction are not depreciated until they are brought into use.
- depreciation is calculated using the straight-line method.

Generally, assets are depreciated in accordance with the following estimate of useful lives: -

- Police Houses: 50 years
- Police Stations: 10 or 30 years depending on use, construction type and condition
- Computer and other Equipment: 5 years
- Communication Towers: 8 - 13 years depending on condition
- Vehicles: 3 years

The residual value adopted for all land and buildings is 10%. All other assets have a zero residual value.

Accounting Policies

Another requirement of FRS15 is that separate charges should be made for the depreciation of major elements of a single asset, which have materially useful economic lives. This requirement has been complied with in 2005/06.

On the revaluation of fixed assets the SORP states that the accumulated depreciation can either be written off or maintained for the life of the asset. The accumulated depreciation on revaluation has therefore been maintained on the basis that the consumption of benefits (benefit from using the asset) has still occurred regardless of the change in valuation.

Revaluations and Impairment

Financial Reporting Standard 11 (FRS11 *Impairment of Fixed Assets and Goodwill*) requires the Authority to consider on an annual basis whether there has been a permanent diminution in the value of its assets to ensure that assets recorded in its accounts are at no more than realisable value and any impairment loss is measured and recognised on a consistent basis.

A review of fixed assets by the Authority's valuation officer in 2005/06 revealed no instances of impairment.

Intangible Fixed Assets

Financial Reporting Standard 10 (FRS10 *Goodwill and Intangible Fixed Assets*) defines intangible fixed assets as "non financial fixed assets that do not have physical substance but are identifiable and are controlled by the entity through custody or legal rights". Assets falling under this category therefore include purchased software licenses, patents and licenses, trademarks and artistic originals. Until 2004 the SORP did not require these types of assets to be separately disclosed.

A review of the Authority's assets has identified purchased software licenses, which in accordance with the 2004 SORP, are separately disclosed on the balance sheet and in note 1 to the balance sheet.

The licenses are being amortised over five years on a straight-line basis. This policy will be subject to an annual review.

Charges to Revenue

The consolidated revenue account is charged with a capital charge for all fixed assets used in the provision of services. The total charge covers the annual provision for depreciation plus a capital financing charge determined by applying a specified notional rate of interest to net asset values. The aggregate charge to the service is determined on the basis of the capital employed.

External interest payable and the provision for depreciation are charged to the asset management revenue account, which is credited with capital charges charged to revenue. Capital charges therefore have a neutral impact on the amounts required to be raised from local taxation.

Amounts set aside from revenue for the repayment of external loans, to finance capital expenditure or as transfers to other earmarked reserves are disclosed separately as appropriate.

Accounting Policies

Capital Grants

Where the acquisition of a fixed asset is financed wholly or in part by a Government grant, the amount of the grant is credited to revenue over the useful life of the project, in accordance with Statement of Standard Accounting Practice No.4 (SSAP 4).

Private Finance Initiative (PFI)

The Authority has an existing PFI arrangement in respect of its Mounted Section Facility at Kirkley Hall. This arrangement represents a continuing commitment by the Authority for 15 years and is accounted for as an operating lease in accordance with Statement of Standard Accounting Practice No.21 (SSAP 21). There is therefore no direct impact on the balance sheet. The revenue commitment is given in note 14 to the consolidated revenue account.

Capital Receipts

Receipts from the sale of capital assets are excluded from the consolidated revenue account. They are held on the balance sheet until such time as they are used to finance new expenditure. Interest earned on the capital receipts is credited to the consolidated revenue account.

Disposal of Assets

Upon the disposal of assets the fixed assets account is reduced by the net book value of the asset.

PROVISIONS AND RESERVES

Provisions

Financial Reporting Standard 12 (FRS12 *Provisions, Contingent Liabilities and Contingent Assets*) requires that provisions are established for any material liabilities of uncertain timing or amount to be settled by the transfer of economic benefits.

The Authority has an insurance provision to cover the estimated cost of outstanding claims. Full details are disclosed in note 11 to the balance sheet.

Reserves

The types of reserve that the Authority has are differentiated below: -

- those representing unrealised gains e.g. fixed asset restatement account
- those containing resources available to finance future revenue or capital expenditure e.g. balances earmarked from revenue, usable capital receipts
- those containing resources that have been applied to past expenditure e.g. capital financing account

Accounting Policies

PENSIONS COSTS

Scheme Participation

As part of the terms and conditions of employment of its officers and other employees, the Authority offers retirement benefits. To do this, it participates in two different pension schemes which both offer defined benefits related to pay and service.

The Police Pension Scheme is an unfunded, defined benefit 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.

The Local Government Pension Scheme (Tyne and Wear Pension Fund), which is administered by South Tyneside Metropolitan Borough Council, is a funded defined benefit scheme, meaning that the Authority and employees pay contributions into a fund, calculated at a level estimated to balance the pensions liabilities with investment assets.

Although retirement benefits will not actually be payable until employees retire, the Authority has a commitment to recognise liabilities at the point at which employees earn their future entitlement. This is in accordance with Financial Reporting Standard 17 (*FRS17 Retirement Benefits*). In simple terms, the aim of this standard is to ensure that the true net asset / liability of a defined benefit pension scheme is recognised in the Consolidated Balance Sheet, and the true costs of retirement benefits are reflected in the Consolidated Revenue Account.

Movements during the year in the net asset / liability of the pension scheme are reflected in the Consolidated Revenue Account. As with capital charges, FRS17 entries are reconciled back to cash amounts payable to ensure that there is no effect upon Council Tax Precepts.

Investments

Funds of the Authority are invested on its behalf by Gateshead Council under the direction of the Treasurer. An agreement is in place which sets out the services provided for the Authority.

Value Added Tax (VAT)

VAT is included in the income and expenditure accounts, whether of a revenue or capital nature, only to the extent that it is irrecoverable.

Post Balance Sheet Events

Post balance sheet events are defined as those events, both favourable and unfavourable, which occur between the balance sheet date and the date on which the Statement of Accounts is signed by the responsible financial officer. In accordance with CIPFA's Statement of Recommended Practice (SORP), material post balance sheet events which are not reflected in the financial statements are disclosed as a note to the balance sheet. There are no such events in relation to the 2005/06 Statement of Accounts.

Accounting Policies

Financial Relationships

Gateshead Council provides a range of support services in accordance with s.113 of the Local Government Act 1972.

Consolidated Revenue Account

CIPFA Best Value Accounting Code of Practice (BVACOP) Classification

Net Expenditure 2004/05	BVACOP Service Expenditure Analysis (note 1)	Gross Expenditure 2005/06	Gross Income 2005/06	Net Expenditure 2005/06
£000s		£000s	£000s	£000s
113,162	Crime	163,333	(23,932)	139,401
133,489	Policing in the Community	154,542	(22,628)	131,914
0	National police services undertaken locally	0	0	0
0	Exceptional costs of legal settlements	0	0	0
1,476	Corporate and democratic core (note 2)	1,422	0	1,422
207	Non distributed costs (note 3)	884	0	884
248,334	Net Cost of Services	320,181	(46,560)	273,621
0	Levies to national police services	0	0	0
(2,350)	Asset Management Revenue Account		(4,121)	(4,121)
(4,634)	Interest and investment income		(5,012)	(5,012)
2	Premium on early resettlement of borrowing	2		2
90,880	Pensions interest cost and expected return on assets	105,190	(5,820)	99,370
332,232	Net Operating Expenditure	425,373	(61,513)	363,860
3,042	Government grants applied			4,465
5,858	Transfers to reserves			3,071
2,808	Revenue contributions to capital outlay			2,766
(4,300)	Provision for repayment of external loans			(5,561)
(89,830)	Contribution from pensions reserve			(109,490)
0	Amending Report Grant			(450)
249,810	Amount to be met from government grants and local taxation			258,661
124,860	Police Grant			130,020
77,690	Revenue Support Grant			79,518
18,821	National Non-domestic rates			22,623
28,439	Precepts			29,854
249,810				262,015
0	Surplus for the year			(3,354)
(20,646)	Balance brought forward 01/04/05			(20,646)
(20,646)	Balance carried forward 31/03/06			(24,000)

Consolidated Revenue Account

CIPFA Subjective Classification

2004/05		2005/06	2005/06
£000s		£000s	£000s
EMPLOYEES			
132,596	Operational Personnel	137,472	
33,035	Support Staff	38,359	
13,884	National Insurance	14,740	
5,242	Support Staff Pensions (note 4)	6,151	
49,515	Police Pensions (note 4)	65,543	
6,360	Allowances	5,962	
240,632			268,227
PREMISES			
3,911	Maintenance and Improvements	3,453	
1,375	Energy Costs	1,588	
245	Furniture and Fittings	221	
1,907	Rent and Rates	2,271	
1,551	Contract Cleaning	1,596	
8,989			9,129
SUPPLIES AND SERVICES			
2,163	Computer Equipment	1,743	
2,834	Communications	2,913	
2,976	Equipment and Materials	2,303	
79	Catering	87	
816	Clothing and Uniforms	1,223	
924	Education and Training	1,977	
9,792			10,246
TRANSPORT			
3,362	Vehicle Running Expenses	3,314	
1,173	Car Allowances/Vehicle Hire	1,206	
1,533	Air Support Services	1,542	
6,068			6,062
ESTABLISHMENT EXPENSES			
1,925	Printing, Stationery & Advertising	1,532	
1,314	Travelling & Subsistence	1,284	
2,174	Insurances	1,766	
2,999	Support Services	2,740	
8,412			7,322

Consolidated Revenue Account

2004/05 £000s		2005/06 £000s	2005/06 £000s
AGENCY SERVICES (note 5)			
237	Consortium Charges	248	
3,759	Forensic Science Service	4,113	
595	Other National Police Services	617	
1,314	Airwave	1,324	
5,905			6,302
MISCELLANEOUS			
1,647	Surgeons & Pathologists Fees	1,981	
1,122	Community Safety	1,102	
452	Crime Management	494	
3,201	Other Expenses	3,604	
6,422			7,181
CAPITAL ACCOUNTING CHARGES			
6,428	Depreciation	7,466	
2,196	Interest	2,294	
8,624			9,760
294,844	TOTAL EXPENDITURE		324,229
INCOME			
(3,176)	Fees and charges	(3,101)	
(3,827)	Secondments	(4,033)	
(14,900)	Pension Contributions	(14,892)	
(396)	Rents	(325)	
(24,211)	Grant & Other Income	(28,257)	
(46,510)	TOTAL INCOME		(50,608)
248,334	NET POLICE EXPENDITURE		273,621
(2,350)	Transfer to / (from) Asset Management Revenue Account (note 7)		(4,121)
(4,634)	Interest and Investment Income		(5,012)
2	Premium on Early Resettlement of Borrowing (note 6)		2
90,880	Pensions Interest Costs and Expected Return on Assets (note 4)		99,370
332,232	NET OPERATING EXPENDITURE		363,860

Consolidated Revenue Account

2004/05		2005/06	2005/06
£000s		£000s	£000s
<u>332,232</u>	NET OPERATING EXPENDITURE		<u>363,860</u>
3,042	Government Grants Applied		4,465
	Appropriations to / (from) Earmarked Reserves		
0	Deferred Charges Applied	0	
1,069	Pensions Commutations Reserve	(1,083)	
0	Pensions General Reserve	(13,830)	
0	Airwave Reserve	0	
150	Air Support Unit Reserve	261	
2	Air Support Unit Capital Reserve	(39)	
226	Devolved Budget Reserve	(109)	
3,929	Capital Development Reserve	17,760	
4	Trading Reserve	111	
478	Insurance Reserve	0	
<u>5,858</u>		<u> </u>	3,071
(4,300)	Provision for Repayment of External Loans (note 8)		(5,561)
2,808	Revenue Contributions to Capital Outlay		2,766
(89,830)	Contribution from Pensions Reserve		(109,490)
0	Amending Report Grant		(450)
<u>249,810</u>	AMOUNT TO BE MET FROM GOVERNMENT GRANTS AND LOCAL TAXATION		<u>258,661</u>
	FINANCED BY		
(124,860)	Home Office Grant	(130,020)	
(77,690)	Revenue Support Grant	(79,518)	
(18,821)	National Non-Domestic Rates	(22,623)	
(28,439)	Proceeds of Police Authority Precepts (note 10)	(29,854)	
<u>(249,810)</u>		<u> </u>	<u>262,015</u>
0	SURPLUS FOR THE YEAR		(3,354)
(20,646)	BALANCE BROUGHT FORWARD		(20,646)
(20,646)	BALANCE CARRIED FORWARD		(24,000)

Notes to the Consolidated Revenue Account

Notes to the Revenue Account

1. Best Value Accounting Code of Practice

In line with CIPFA's best practice approach to accounting for best value, the consolidated revenue account is presented using the Service Expenditure Analysis set out in CIPFA's Best Value Accounting Code of Practice (BVACOP) as well as in a subjective analysis format.

2. Corporate and Democratic Core

Corporate and Democratic Core is defined in two divisions of service, Democratic Representation and Management (DRM) and Corporate Management (CM). These service divisions accommodate the wide range of governance structures adopted by police authorities. DRM includes all aspects of members' activities and the officer time in the provision of advice and support to members. CM concerns those activities that provide the infrastructure that allows services to be provided, whether by the Authority or not, and the information that is required for public accountability.

3. Non Distributed Costs

The Best Value Accounting Code of Practice treats pension costs relating to past service costs and gains or losses on settlements or curtailments, as defined by FRS17, as non-distributed costs.

4. Pensions

As part of the terms and conditions of employment of its officers and other employees, 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, and these 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 for civilian employees, administered by South Tyneside Metropolitan Borough Council – this is a funded scheme, meaning that the Authority and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.
- the Police Pension Scheme for police officers – this is an unfunded scheme, meaning 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.

Notes to the Consolidated Revenue Account

Notes to the Revenue Account (continued)

The Authority recognises 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 made against council tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out of the consolidated revenue account after Net Operating Expenditure. The transactions shown below have been made in the consolidated revenue account during the year:

	Local Government Pension Scheme		Police Pension Scheme	
	2005/06 £000	2004/05 £000	2005/06 £000	2004/05 £000
Net Cost of Services:				
Current service cost	5,870	5,190	65,480	49,360
Past service costs	260	100	650	260
Non distributed costs	21	(48)	(587)	(105)
Total Net Cost of Services	6,151	5,242	65,543	49,515
Net Operating Expenditure:				
Interest cost	7,220	6,850	97,970	89,110
Expected return on assets in the scheme	(5,820)	(5,080)	0	0
Total Net Operating Expenditure	1,400	1,770	97,970	89,110
Amounts to be met from Government Grants and Local Taxation:	7,551	7,012	163,513	138,625
Contribution to / (from) pensions reserve	(1,730)	(2,290)	(107,760)	(87,540)
Actual amount charged against council tax for pensions in the year:				
Employers contributions payable to scheme	5,821	4,722		
Retirement benefits payable to pensioners			55,753	51,085

Notes to the Consolidated Revenue Account

Notes to the Revenue Account (continued)

The non-distributed costs above show the gains/losses on settlement and curtailment, plus rounding differences between the actuarial estimate of pension payments and the actual cash payments made during the year.

Note 10 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 on Reserves details the costs that have arisen through the year.

Further information on the Tyne and Wear Pension Fund can be found in the Annual Report which is available upon request from:

South Tyneside Metropolitan Borough Council
Town Hall and Civic Offices
Westoe Road
South Shields
Tyne & Wear

5. Agency Services

Consortium Charges

The Authority has an agency agreement with the National Automated Fingerprint Identification System (NAFIS) to provide fingerprinting services. Payments in 2005/06 amounted to £0.248m (2004/05 £0.237m).

Forensic Science Service

The Authority has an agency agreement with the Forensic Science Service in Wetherby, North Yorkshire. Payments in 2005/06 amounted to £4.113m (£3.759m in 2004/05).

Other National Police Services

The Authority made a subscription payment for the Police National Computer of £0.617m in 2005/06 (£0.595m in 2004/05).

6. Premium on Early Resettlement of Borrowing

The reorganisation of debt results in either a premium payable or discount receivable, which is written off over the remaining life of the loan to which the restructuring relates. In 2001/02, 2002/03 and 2005/06 the Authority restructured debt resulting in an additional premium charge of £0.002m per annum but this is more than offset by savings to the Authority in respect of interest repayments.

Notes to the Consolidated Revenue Account

Notes to the Revenue Account (continued)

7. Asset Management Revenue Account

This account enables the Authority to offset the impact of the capital charges in arriving at the total level of expenditure to be financed from Government Grant and precept.

2004/05 £000s	Income	2005/06 £000s	£000s
	Capital Charges:-		
(6,428)	Depreciation	(7,466)	
<u>(2,196)</u>	Interest	<u>(2,294)</u>	
(8,624)			(9,760)
<u>(3,042)</u>	Transfer from Government Grants Deferred		<u>(4,465)</u>
(11,666)			(14,225)
	Expenditure		
6,428	Provision for Depreciation	7,466	
<u>2,888</u>	External Interest Charges	<u>2,638</u>	
<u>9,316</u>			<u>10,104</u>
<u>(2,350)</u>	Balance to Consolidated Revenue Account		<u>(4,121)</u>

8. Minimum Revenue Provision

The Local Government and Housing Act 1989 requires an Authority to set aside an amount from revenue, the minimum revenue provision (MRP) for the repayment of external loans. This charge is based upon a statutory percentage of the Authority's underlying need to borrow for a capital purpose (the Capital Financing Requirement) at the start of each year.

	2004/05 £000s	2005/06 £000s
Minimum Revenue Provision - Managed Debt	813	561
- General	1,315	1,344
Amount Charged as Depreciation	<u>(6,428)</u>	<u>(7,466)</u>
Transfer to Consolidated Revenue Account	<u>(4,300)</u>	<u>(5,561)</u>

9. Publicity

The Local Government Act 1986 Section 5 requires the Authority to keep a separate account of expenditure on publicity. The Authority spent £743,501 on all forms of publicity in 2005/06 (2004/05 £372,117). The increase includes the forcewide marketing of the Chief Constable's Drunk, Violence and Disorder (DVD) Campaign.

Notes to the Consolidated Revenue Account

Notes to the Revenue Account (continued)

10. Police Authority Precept

The Police Authority precept generated proceeds as outlined below:

2004/05		Surplus on Collection Funds £000s	2005/06 Precept Levied £000s
£000s			
3,951	Gateshead MBC	141	3,980
4,977	Newcastle CC	29	5,220
4,123	North Tyneside MBC	49	4,328
2,949	South Tyneside MBC	0	3,079
5,372	Sunderland CC	21	5,568
828	Alnwick DC	(10)	875
658	Berwick Upon Tweed BC	12	698
1,602	Blyth Valley BC	0	1,679
1,274	Castle Morpeth BC	(1)	1,346
1,488	Tynedale DC	8	1,552
<u>1,218</u>	Wansbeck DC	<u>15</u>	<u>1,265</u>
<u>28,440</u>		<u>264</u>	<u>29,590</u>

11. Officer Emoluments

The number of employees whose remuneration, excluding pension contributions was £50,000 or more (in bands of £10,000) were:

Remuneration Band	Number of Employees	
	2004/05	2005/06
£50,000 - £59,999	31	26
£60,000 - £69,999	18	20
£70,000 - £79,999	-	4
£80,000 - £89,999	2	1
£90,000 - £99,999	1	2
£100,000 - £109,999	-	1
£110,000 - £119,999	1	-
£120,000 - £129,000	-	-
£130,000 - £139,999	1	1

12. Members' Allowances

The total of members' allowances paid during 2005/06 was £171,364 (2004/05, £159,580).

Notes to the Consolidated Revenue Account

Notes to the Revenue Account (continued)

13. Related Party Transactions

The Financial Reporting Standard on Related Party Disclosures (FRS8) and the 1998 Code of Practice require that material 'related party' transactions with the Authority / Force are disclosed in the Statement of Accounts. During the year material transactions with related parties arose as follows and are included within the Consolidated Revenue Account:

Government Departments

	2004/05	2005/06
	£	£
Police Grant	124,859,764	130,020,123
Revenue Support Grant	77,690,002	79,519,804
NNDR	18,820,626	22,622,929
Amending Report Grant	0	449,511
Crime Fighting Fund	7,272,104	7,271,104
Special Priority Payments	1,652,794	2,124,245
Loan Charges Grant	820,143	632,125
DNA Expansion Grant	549,522	1,062,779
PFI Grant	194,004	181,439
Basic Command Unit Grant	1,374,907	1,344,586
Criminal Justice Management of Offenders Grant	1,151,572	2,171,379
Police Community Support Officers Grant	660,056	1,993,356
National Intelligence Model Grant	55,476	64,911
Football Intelligence Grant	99,200	217,215
Occupational Health Grant	146,222	166,337
Drugs Testing Grant	368,484	752,906
No Witness No Justice Grant	18,835	107,735
Single Non Emergency Grant	0	70,763
Initial Police Learning and Development Programme	0	392,661
Building Capacity Fund	186,512	252,465
Airwave Grant	0	102,685
Invest to Save Grant	40,355	42,375
IMPACT Grant	0	25,360
Domestic Violence Co-Ordinator Grant	0	10,665
Sexual Arrest Referral Centre Grant	0	4,232
Operation Pheonix Grant	0	20,872
Labour Party Conference Grant	1,000,000	0

Notes to the Consolidated Revenue Account

Notes to the Revenue Account (continued)

Precepts

The Authority obtains part of its income from precepts levied on the collection authorities in its area. During the year transactions with these related parties were as previously shown in note 10 to the consolidated revenue account.

Gateshead Council

Gateshead Council provides a range of support services to the Police Authority. The necessary power for this exists within s.113 of the Local Government Act 1972. The Authority is also advised by appointed officers, some of which are statutory posts.

The combined cost of support services and advice to the Police Authority amounted to £2.740m in 2005/06 (£2.999m in 2004/05).

In respect of this: -

The Clerk of the Police Authority is also Gateshead Council's Chief Executive.

The Deputy Clerk and Solicitor of the Police Authority is also Gateshead Council's Strategic Director, Legal and Corporate Services.

The Treasurer of the Police Authority is also Gateshead Council's Strategic Director, Finance and ICT.

The Deputy Treasurer of the Police Authority is also Gateshead Council's Deputy Director, Finance and ICT

The Personnel and Management Services Adviser of the Police Authority is also Gateshead Council's Strategic Director, Human Resources.

The Architect and Technical Adviser to the Police Authority is also Gateshead Council's Director of Development and Enterprise.

A payment of £1.596m was paid to Gateshead Council in respect of contract cleaning in 2005/ 06 (£1.551m in 2004/ 05).

In addition, a survey of members and chief officers declared interests has been carried out and there are no disclosures to be made under FRS8 in respect of material transactions with members and chief officers.

Notes to the Consolidated Revenue Account

Notes to the Revenue Account (continued)

14. Private Finance Initiative (PFI)

On 15 May 1998 an agreement for the provision of Mounted Section Facilities at Kirkley Hall was signed. The arrangement is for 15 years commencing 13 October 1998. The annual payment in accordance with the original agreement comprises an availability element and service charge as follows: -

	Availability	Service	Total
Annual Payments	£81,778	£173,997	£255,775

Actual payments are linked to fluctuations in the GDP Deflator and performance targets of the lessor and this was reflected in the 2005/06 payments of £296,282 (2004/05 £294,145).

15. Audit Commission Fees

In 2005/06 Northumbria Police Authority incurred the following fees relating to external audit and inspection:

	2004/05 £000s	2005/06 £000s
Fees payable to the Audit Commission with regard to external audit services carried out by the appointed auditor and in respect of statutory inspection	86	86
Fees payable to the Audit Commission for the certification of grant claims and returns	2	3
Fees payable in respect of other services provided by the appointed auditor	0	0
Total	<u>88</u>	<u>89</u>

16. Operating Leases

In 2005/06 the Authority paid £132,208 (£135,066 2004/05) in respect of buildings leased for operational purposes.

Notes to the Consolidated Revenue Account

Notes to the Revenue Account (continued)

17. North East Air Support Consortium

Northumbria Police Authority are the lead authority in the North East Air Support Unit Consortium which also comprises Durham Police Authority and Cleveland Police Authority. The Consortium is co-ordinated and managed by the Consortium Monitoring Group comprising officers from each consortium member.

In 2005/06 the share of running costs and reserves were allocated on the basis of Formula Spending Shares (FSS), which is reviewed every two years. Assets are allocated on the basis of the FSS in place when the asset is purchased.

The air support costs shown in the consolidated revenue account are Northumbria Police Authority's contribution to the annual running costs of the Consortium.

The assets of the Authority shown in the consolidated balance sheet are Northumbria Police Authority's share of the aircraft.

The air support reserves shown in the consolidated balance sheet are Northumbria Police Authority's share of the reserves, with Durham Police Authority and Cleveland Police Authority's shares being shown in external creditors and lenders.

Capital Expenditure

The Police Service operates under the prudential framework supported by the Local Government Act 2003. Authorities are able to determine their own spending plans according to prudent estimates of affordability. Expenditure for capital purposes is financed from Home Office approvals relating to capital grant and supported borrowing. The balance of capital must be met from revenue contributions, capital receipts or prudential borrowing. In 2005/06 the Police Authority did not undertake any prudential borrowing. The Police Authority's capital payments made during 2005/06 are summarised below together with the method of financing:

2004/05		2005/06	
£000		£000	£000
	MAJOR SCHEMES		
13	Ponteland HQ Development	0	
7	Estates Strategy	0	
169	Premises Improvement Fund	33	
469	Gold Command Relocation	0	
0	Newcastle- New Command HQ	2	
0	North Tyneside- New Command HQ	19	
0	HQ Administration Building	10	
0	Recovery of Non- Operational Space	897	
658			961
	MINOR BUILDING WORKS		
0	Upgrading of Residential Accommodation Block 1 and 2	67	
0	Gateshead East AC- Replacement Windows	6	
331	Gilbridge Police Station - Upgrade of Services	0	
1	Refurbishment of HQ Dining Facilities	0	
337	CCTV in Custody Suites	132	
6	Community Access Police Stations	0	
120	Forcewide DDA Building Modifications	333	
89	Forcewide Cell Refurbishments, Ligature/Fire Precautions	229	
7	HQ Training Classrooms	0	
687	Locker and Changing Room Rationalisation	215	
0	Gillbridge Avenue	10	
104	Energy Management Initiatives	103	
113	Collation of Newcastle ASU	4	
6	Collocation of North Tyneside ASU	64	
1,801			1,163

Capital Expenditure

2004/05		2005/06	
£000		£000	£000
	COMPUTERS AND COMMUNICATIONS		
0	Technology Refresh	583	
142	Airwave	512	
0	S7000 Tandem Mainframe Upgrade	326	
683	Technology Upgrade	0	
0	PIMS- Crime Management	5	
199	Microsoft Office Licences	190	
158	Personnel Phase 2	8	
12	CRISP	168	
15	NSPIS PNC	0	
23	Community Safety Dept. Burglar Alarm System	0	
79	GIS Mapping & Gazetteer	59	
346	Data/Radio/Telephone Network	502	
42	Windows 2000 Upgrade	50	
16	Software Distribution	41	
33	Professional Standards - Implement National System	81	
11	Community Safety i2 installation	0	
3	Integrated Competency Framework - IT Solution	66	
12	National Violent and Sex Offenders Database	0	
160	Communications Sites Upgrade	0	
0	Clue 2 Installation- FIB	33	
0	Clue 2 Installation Upgrade- Special Branch	7	
0	Application Server Refresh	256	
0	Windows XP/ 2003 Upgrade	153	
0	E-services	477	
0	Communications Rooms Review	25	
0	Replacement of PROMAT video ID Equipment	13	
0	Single Non Emergency Number Equipment	409	
7	IPLDP Set Up Costs - IT	0	
1,941			3,964
	VEHICLES AND EQUIPMENT		
3,329	Vehicles and Equipment	3,766	
2,035	Air Support	65	
5,364			3,831
9,764	TOTAL CAPITAL PAYMENTS		9,919
	FINANCING		
4,926	Capital Grant		5,193
2,030	Borrowing		1,960
2,808	Revenue		2,619
0	Reserves		147
9,764			9,919

Capital Expenditure

The capital financing requirement measures the Authority's underlying need to borrow for a capital purpose. The following statement shows the effect of the Authority's capital investment decisions in 2005/06 upon the capital financing requirement.

	2004/05	2005/06
	£000s	£000s
Opening Capital Financing Requirement	34,259	34,161
Capital Investment		
Intangible Fixed Assets	199	190
Building Works	2,459	2,124
Computers and Communications	1,742	3,774
Vehicles and Equipment	5,364	3,831
Sources of Finance		
Government Grants and Other Contributions	(4,926)	(5,194)
Revenue Provision (NB: includes MRP)	(4,936)	(4,670)
Closing Capital Financing Requirement	34,161	34,216
Explanation of movements in year		
Increase in underlying need to borrow (supported by Government financial assistance)	2,030	1,960
Repayment of Principal Outstanding (Deferred Liability)	(813)	(561)
Minimum Revenue Provision	(1,315)	(1,344)
Increase/(Decrease) in Capital Financing Requirement	(98)	55

Consolidated Balance Sheet

31/03/2005 £000s		31/03/2006 £000s	31/03/2006 £000s	Note
	Long Term Assets			
278	Net Fixed Assets: Intangible	350		1
7,039	Net Fixed Assets: Police Houses	6,788		2
42,377	Net Fixed Assets: Other Land / Buildings	42,932		2
968	Net Fixed Assets: Non-Operational	765		
11,496	Net Fixed Assets: Vehicles and Equipment	13,381		2
13	Long Term Debtors	0		3
<u>62,171</u>			64,216	
	Current Assets			
980	Stocks and Stores	700		4
12,261	External Debtors & Borrowers	10,666		5
119,010	Short Term Investments	126,133		6
<u>132,251</u>			137,499	
	Current Liabilities			
<u>20,982</u>	External Creditors and Lenders		<u>19,485</u>	7
173,440	ASSETS LESS CURRENT LIABILITIES		182,230	
	Long Term Liabilities			
33,593	Long Term Borrowing		34,209	8
4	Deferred Liability		3	9
1,860,710	Pensions Liability		2,298,010	10
2,800	Insurance Provision		<u>2,537</u>	11
(1,723,667)	NET ASSETS		(2,152,529)	

Consolidated Balance Sheet

31/03/2005 £000s		31/03/2006 £000s	Note
	Represented by:		
(16,227)	Fixed Asset Restatement Account	(16,622)	12
36,614	Capital Financing Account	38,284	13
15,598	Capital Grants Unapplied	15,134	14
8,598	Capital Receipts Unapplied	9,146	15
7,611	Government Grants Deferred	8,339	16
20,646	General Reserve	24,000	17
12,475	Insurance Reserve	12,475	18
224	Trading Reserve	335	19
2,489	Devolved Budget Reserve	2,380	20
274	Air Support Unit General Reserve	535	21
43	Air Support Unit Capital Reserve	4	22
(1,860,710)	Pensions General Reserve	(2,298,010)	10
13,830	Police Officers Pensions Reserve	0	23
4,092	Support Staff Pensions Reserve	4,092	23
14,782	Police Officers Commutations Reserve	13,699	23
1,000	Airwave Reserve	1,000	24
524	Revenue Equalisation Reserve	524	25
13,314	Capital Development Reserve	31,076	26
1,156	Other Funds	1,080	27
(1,723,667)		(2,152,529)	

D V Coates BA CPFA IRRV
Treasurer

Dated:

Notes to the Balance Sheet

Notes to the Balance Sheet

1. Intangible Fixed Assets

	Purchased Software Licenses £000s
Original Cost	398
Amortisations to 1 April 2005	<u>(120)</u>
Balance at 1 April 2005	278
Expenditure in year	190
Written off to revenue in year	<u>(118)</u>
Balance at 31 March 2006	350

The software licences relate to the purchase of Forcewide Microsoft Office Licenses. The contract for the licences ensures updates for three years. The licenses are being amortised over a five-year period as this is considered to be the maximum life of the licenses.

2. Tangible Fixed Assets

	Police Houses £000s	Other Land/ Buildings £000s	Non Operational £000s	Vehicles and Equipment £000s	Total £000s
Value at 01/04/2005	7,335	49,345	1,063	51,768	109,511
Additions		1,770	20	7,939	9,729
Disposals	(143)		(225)	(807)	(1,175)
Revaluations		(36)			(36)
Value at 31/03/2006	7,192	51,079	858	58,900	118,029
Depreciation at 01/04/2005	(296)	(6,968)	(95)	(40,272)	(47,631)
Charge for the Year	(115)	(1,179)		(6,054)	(7,348)
Disposal Depreciation	7		2	807	816
Depreciation at 31/03/2006	(404)	(8,147)	(93)	(45,519)	(54,163)
Net Book Value 31/03/2006	6,788	42,932	765	13,381	63,866
Net Book Value 31/03/2005	7,039	42,377	968	11,496	61,880

Notes to the Balance Sheet

Notes to the Balance Sheet (continued)

Fixed Assets Held	Number at 31/3/05	Number at 31/3/06
Designated Police Stations	26	26
Police Houses	67	65
Other Police Stations and Buildings	120	120
	<u>213</u>	<u>211</u>
Cars	651	707
Vans and Heavy Goods Vehicles	205	222
Motor Cycles	20	21
Aircraft	3	2
	<u>879</u>	<u>952</u>

When an asset is included in the balance sheet at current value, it is formally re-valued at intervals of not more than five years and the revised amount is included in the balance sheet with any surpluses arising on the re-valuation being credited to the fixed asset restatement reserve. Full valuations are programmed every five years. In addition, the Police Headquarters is valued annually.

Plant and machinery is included in the valuation of the buildings.

Properties regarded by the Authority as operational were valued on the basis of the lower of net current replacement cost and net realisable value. Properties regarded by the Authority as non-operational have been valued on the basis of net realisable value.

The main items of capital expenditure related to: -

	£000s
Intangible Fixed Assets	190
Building works	2,124
Communications and Information Technology	3,774
Vehicles and Equipment	<u>3,831</u>
	<u>9,919</u>

Notes to the Balance Sheet

Notes to the Balance Sheet (continued)

Operating Leases

The Authority holds a number of buildings on an operating lease basis, which are not included within the Authority's tangible fixed assets. In respect of these assets the Authority has commitments to make payments in the forthcoming year as follows:

Commitment Expires	2004/05	2005/06
	£000s	£000s
Less than 1 year	78	93
2 to 5 years	24	16
Over 5 years	<u>36</u>	<u>196</u>
Total	<u>138</u>	<u>305</u>
3. Long Term Debtors	31/03/05	31/03/06
	£000s	£000s
Amounts falling due after one year: -		
Car Loans to Employees	<u>13</u>	<u>0</u>
4. Stocks and Stores		
Clothing and Other	814	526
Motor Vehicle Parts	<u>166</u>	<u>174</u>
	<u>980</u>	<u>700</u>
5. External Debtors and Borrowers		
Amounts falling due in one year: -		
Government Departments	5,525	5,018
Inland Revenue	19	0
Other Local Authorities	477	457
Sundry Debtors and Prepayments	6,360	5,317
Car Loans to Employees	<u>17</u>	<u>7</u>
	12,398	10,799
Less Bad Debt Provision	<u>(137)</u>	<u>(133)</u>
	<u>12,261</u>	<u>10,666</u>
6. Short Term Investments		

Under the Authority's Treasury services agreement, surplus cash balances are deposited on its behalf by Gateshead Council with banks and building societies for periods ranging from overnight up to a maximum of 364 days.

Notes to the Balance Sheet

Notes to the Balance Sheet (continued)

7. External Creditors and Lenders

These amounts represent sums owing to various sources and receipts in advance:

	31/03/05 £000s	31/03/06 £000s
Government Departments	5,018	3,086
Inland Revenue	4,092	4,235
Other Local Authorities	1,887	1,673
Sundry Creditors	9,985	10,491
	20,982	19,485

8. Long Term Borrowing

Source of Loan	Interest Rate Payable (%)	1-2 yrs £000s	2-5 yrs £000s	5-10 yrs £000s	10 yrs+ £000s	Total £000s
PWLB	7.71	3	5,072	9,895	19,239	34,209

Borrowing from the PWLB is undertaken in the name of Gateshead Council on the Authority's behalf under the pooled arrangements specified in the Treasury Service agreement. Long term borrowing at 31 March 2005 was £33.593m.

9. Deferred Liability

Source of Loan	Range of Interest Rates Payable %	1-2 yrs £000s	2-5 yrs £000s	5-10 yrs £000s	10 yrs+ £000s	Total £000s
PWLB Transferred Debt	3.75–9.25	0.5	1.5	1.5	0	3.5

Debt which was transferred to the Police Authority from Tyne & Wear County Council is classified as a deferred liability (2004/05 £0.004m).

10. Pensions

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

Notes to the Balance Sheet

Notes to the Balance Sheet (continued)

The underlying assets and liabilities for retirement benefits attributable to the Authority at 31 March 2006 are as follows:

	Local Government Pension Scheme		Police Pension Scheme		Total	
	£m	£m	£m	£m	£m	£m
	31 March 2006	31 March 2005	31 March 2006	31 March 2005	31 March 2006	31 March 2005
Estimated liabilities in scheme	(158.52)	(133.79)	(2,247.77)	(1,809.39)	(2,406.29)	(1,943.18)
Estimated assets in scheme	108.28	82.47	0.00	0.00	108.28	82.47
Net asset / (liability)	(50.24)	(51.32)	(2,247.77)	(1,809.39)	(2,298.01)	(1,860.71)

The liabilities show the underlying commitments that the Authority has in the long-run to pay retirement benefits. The total liability of £2,298m has a substantial impact on the net worth of the Authority as recorded in the balance sheet, resulting in a negative overall balance of £2,153m. However, statutory arrangements for funding the deficit mean that the financial position of The Authority remains sound.

- the deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary.
- finance is only required to be raised to cover police pensions when the pensions are actually paid.
- the Authority's pension liability is matched by a corresponding (negative) pension reserve.

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. Under the projected unit method, the current service cost will increase as the members of the scheme approach retirement for schemes in which the age profile of the active membership is rising significantly.

Hewitt, Bacon and Woodrow Limited, an independent firm of actuaries, has valued the Tyne and Wear Fund assets and liabilities in respect of Police Support Staff in accordance with FRS17. Their calculations are based on an update of the liabilities determined in the actuarial valuation of the fund (as at 31st March 2004) on a going concern basis.

Notes to the Balance Sheet

Notes to the Balance Sheet (continued)

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 assumed 50% of employees retiring after 6 April 2006 will take advantage of this change to the pension scheme. Our actuaries have advised that this assumption has reduced the value placed on the liabilities for FRS17 purposes by £3.31 million. This has been reflected in the Statement of Total Movements in Reserves. The change has not affected the figures in the Consolidated Revenue Account

In respect of the Police Scheme, an actuarial valuation has not been carried out as at 31 March 2006. Instead, the Authority has followed the approach set out in the joint Government Actuary's Department (GAD) / CIPFA paper "Assessment of Pension Liabilities for Disclosures for the Year 2005/06", as realised in GAD's model. This model values liabilities on an actuarial basis using the Projected Unit Method model and satisfies the disclosure requirements of CIPFA's Code of Practice on Local Authority Accounting in the United Kingdom 2005, A Statement of Recommended Practice (the SORP).

The main assumptions used in their calculations have been:

	Local Government Pensions Scheme		Police Pension Scheme	
	2005/06	2004/05	2005/06	2004/05
Rate of Inflation	3.0%	2.9%	3.2%	2.9%
Rate of increase in salaries	4.5%	4.4%	4.7%	4.4%
Rate of increase in pensions	3.0%	2.9%	3.2%	2.9%
Rate for discounting scheme liabilities (NB based on 3.5% real)	4.9%	5.3%	4.9%	5.4%

The Police Pension Scheme has no assets to cover its liabilities. Assets in the Tyne & Wear 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:

	31 March 2006		31 March 2005	
	Long Term	Proportion	Long Term	Proportion
	Return	Assets	Return	Assets
	%	%	%	%
Equities	7.3	68	7.7	65
Government Bonds	4.3	12	4.7	15
Other Bonds	4.9	9	5.3	10
Property	6.3	9	6.7	8
Other Assets	4.6	2	4.8	2
Average long term expected rate of return	6.6		6.9	

Notes to the Balance Sheet

Notes to the Balance Sheet (continued)

The Local Government Pension Scheme figures shown above have been provided by the actuaries to the Tyne and Wear Pension Fund using information provided by the scheme and assumptions determined by the Council in conjunction with the actuary.

Actuarial calculations involve estimates based on assumptions about events and circumstances in the future, which may mean that the result of actuarial calculations may be affected by uncertainties within a range of possible values.

11. Provisions

Insurance Provision

The Authority holds an insurance provision to cover the estimated cost of outstanding liability claims as at 31 March 2006 as informed by the Authority's insurers. These outstanding liability claims have been received from claimants, the level of the potential cost has been estimated by insurers and the cost of future claim settlements will be met by the Authority.

	£000s
Balance Brought Forward	2,800
Payments in Year	<u>(263)</u>
Insurance Provision as at 31 March 2006	<u>2,537</u>

12. Fixed Asset Restatement Account

	£000s
Balance Brought Forward	16,227
Disposals in Year	359
Revaluation in Year	<u>36</u>
	<u>16,622</u>

13. Capital Financing Account

	£000s
Balance Brought Forward	(36,614)
2005/06 Capital Financing:	
- Revenue	(2,619)
- Reserves	(147)
Usable Capital Receipts	0
Transfer from Asset Management Revenue Account	(4,465)
Less Depreciation Provision in Excess of MRP	<u>5,561</u>
	<u>(38,284)</u>

Notes to the Balance Sheet

Notes to the Balance Sheet (continued)

14. Capital Grants Unapplied

This represents capital grants currently held by the Authority in order to finance future capital expenditure.

15. Capital Receipts Unapplied

This represents capital receipts currently held by the Authority in order to finance future capital expenditure.

16. Government Grants Deferred

	£000s
Balance Brought Forward	(7,611)
Less Transfer to Asset Management Revenue Account	4,465
Grant Received in Year	<u>(5,193)</u>
	<u>(8,339)</u>

17. General Reserve

The general reserve exists to protect the Authority against unexpected events and to finance future revenue or capital expenditure. The Authority has an agreed strategy to reduce this reserve to £15m over the period 2006/07 to 2008/09. This will allow growth in services identified by the Chief Constable to be met without a detrimental impact on the precept.

18. Insurance Reserve

The insurance reserve is maintained for potential liabilities and costs, which fall onto the Authority where no external insurance cover is arranged by or available to the Authority. Potential liabilities include storm damage, business interruption and claims that would fall within the Authority's policy excess limits. In line with the requirements of the SORP, the Authority operates an Internal Insurance Account, where surpluses generated are credited to the reserve. An assessment of the level of insurance reserve, however, has resulted in the surplus being transferred to the Consolidated Revenue Account. Movements during 2005/06 are outlined below:

Internal Insurance Account	£000s
Premium received	(2,583)
Death in service	(10)
Movement in insurance provision	(263)
Current year claims settled	<u>1,016</u>
Revenue Surplus	<u>(1,840)</u>

Insurance Reserve

Balance b/fwd	(12,475)
Appropriation received from Internal Insurance Account	(1,840)
Appropriation to Consolidated Revenue Account due to reassessment	<u>1,840</u>
Balance c/fwd	<u>(12,475)</u>

Notes to the Balance Sheet

Notes to the Balance Sheet (continued)

19. Trading Reserves

These reserves represent the cumulative operating surpluses / deficits of the Authority's Cleaning of Buildings, Fleet and Print Trading organisations, to cover potential deficits in future years.

20. Devolved Budget Reserve

This amount represents the cumulative net unspent element of the budget devolved to specific departments and area commands which is carried forward into the following financial year to cover future events.

21. Air Support Unit General Reserve

This represents the cumulative net unspent element of the Air Support Unit (pertinent to Northumbria) that is carried forward into the next financial year. The reserve is maintained to allow for future unexpected events.

22. Air Support Unit Capital Reserve

This represents the Authority's share of the Air Support Unit's capital reserve.

23. Pensions Reserves

In addition to the (negative) reserve which matches the pensions liability as prescribed by FRS17, the Authority also holds cash backed reserves to allow for future increases in pension commitments. There are separate reserves for Police Staff and Police Officers.

24. Airwave Reserve

The Airwave reserve is maintained to allow for the future costs associated with the national radio communications system.

25. Revenue Equalisation Reserve

The revenue equalisation reserve is to assist in financing additional revenue expenditure commitments relating to job evaluation during future financial years.

26. Capital Development Reserve

The capital development reserve is to assist in developing and improving the capital assets of the Authority particularly the Estates Strategy Development Programme.

Notes to the Balance Sheet

Notes to the Balance Sheet (continued)

27. Other Funds

Balance 01/04/05 £000s		Receipts In Year £000s	Payments In Year £000s	Balance 31/03/06 £000s
160	Police Property Act	45	(36)	169
33	Police Charities	15	(8)	40
963	Police Retention of Crime Related Funds	532	(624)	871
1,156	Total	592	(668)	1,080

28. Movement in Revenue Reserves

Balance 01/04/05 £000s	Reserve	Receipts In Year £000s	Payments In Year £000s	Balance 31/03/06 £000s
20,646	General Reserve	3,354	0	24,000
12,475	Insurance Reserve	1,840	(1,840)	12,475
224	Trading Reserves	164	(53)	335
2,489	Devolved Budget Reserve	693	(802)	2,380
274	Air Support Unit General Reserve	261	0	535
13,830	Pensions Reserve	0	(13,830)	0
14,782	Pensions Commutations Reserve	0	(1,083)	13,699
4,092	Support Staff Pensions Reserve	0	0	4,092
1,000	Airwave Reserve	0	0	1,000
524	Revenue Equalisation Reserve	0	0	524
1,156	Other Funds	592	(668)	1,080
(1,860,710)	Pensions Reserve	0	(437,300)	(2,298,010)
(1,789,218)	Total	6,904	(455,576)	(2,237,890)

The total movement on revenue reserves during 2005/06, excluding the movement on the pensions reserve amounts to (£11.372m).

Statement Of Total Movements On Reserves

	2004/05 £000s	2005/06 £000s
Surplus/(Deficit) for the Year:	0	3,354
add back Movements on earmarked revenue reserves (excluding pensions reserve)	2,082	(11,372)
Movements on pension reserve.	(455,310)	(437,300)
Appropriation (to) / from pensions reserve	89,830	109,490
Actuarial (gains) / losses relating to pensions	<u>365,480</u>	<u>327,810</u>
Total increase/(decrease) in revenue resources(note 1)	2,082	(8,018)
Increase/(decrease) in useable capital receipts	645	548
Increase/(decrease) in unapplied capital grants and contributions	4,388	22,494
Total increase/(decrease) in realised capital resources (note 2)	5,033	23,042
Gains/(losses) on revaluation of fixed assets	(1,446)	(36)
Impairment losses on fixed assets due to general changes in prices	0	0
Total increase/(decrease) in unrealised value of fixed assets (note 3)	(1,446)	(36)
Value of assets sold, disposed of or decommissioned (note 4)	(570)	(359)
Capital receipts set aside	0	0
Revenue resources set aside	1,550	1,670
Movement on Government Grants Deferred	<u>1,884</u>	<u>728</u>
Total increase/(decrease) in amounts set aside to finance capital investment (note 5)	3,434	2,398
Increase / (decrease) in the pensions reserve	(455,310)	(437,300)
Total recognised gains and losses	(446,777)	(420,273)

Statement Of Total Movements On Reserves

Notes to the Statement of Total Movement On Reserves

	General Fund Balances £000s	Earmarked Revenue Reserves £000s	Pensions Reserve £000s	Total £000s
NOTE 1				
Movements in revenue resources				
Surplus/(deficit) for 2005/06	3,354			3,354
Appropriations to / (from) revenue		(11,372)	(109,490)	(120,862)
Actuarial gains / (losses) relating to pensions			(327,810)	(327,810)
	3,354	(11,372)	(437,300)	(445,318)
Balance brought forward at 1 April 2005	20,646	50,846	(1,860,710)	(1,789,218)
Balance carried forward at 31 March 2006	24,000	39,474	(2,298,010)	(2,234,536)

An analysis of the movement on earmarked revenue reserves and the pensions reserve is provided at note 28 to the balance sheet.

The actuarial gains identified as movements on the pensions 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:

	Local Government		Police	
	Pension Scheme		Pension Scheme	
	£m	%	£m	%
Actual less expected return on pension assets	15.35	14.2	-	
Experience gains / (losses) arising on the pension liabilities	0.09	0.1	19.30	0.9
Changes in assumptions underlying the present value of pension liabilities	<u>(12.63)</u>	8.0	<u>(349.92)</u>	14.7
	<u>2.81</u>		<u>(330.62)</u>	
Comparative totals for 2004/05	<u>(15.42)</u>		<u>(349.40)</u>	

Statement Of Total Movements On Reserves

Notes to the Statement of Total Movement On Reserves (continued)

	Useable capital Receipts	Unapplied Capital grants And Contributions
	£000s	£000s
NOTE 2 – Movements in realised capital resources		
Amounts receivable in 2005/06	548	22,494
Amounts applied to finance new capital investment in 2005/06	0	(5,235)
Total increase/(decrease) in realised capital resources in 2005/06	548	17,259
Balance brought forward at 1 April 2005	8,598	28,955
Balance carried forward at 31 March 2006	<u>9,146</u>	<u>46,214</u>

Capital Receipts Unapplied

This represents capital receipts currently held by the Authority in order to finance future capital expenditure.

Capital Grants Unapplied

This represents capital grants currently held by the Authority in order to finance future capital expenditure.

Capital Contributions Unapplied

This represents contributions held by the Authority to finance future capital expenditure.

Statement Of Total Movements On Reserves

Notes to the Statement of Total Movement On Reserves (continued)

	Fixed Asset Restatement Account £000s
NOTE 3 – Movements in unrealised value of fixed assets	
Gains / losses on revaluation of fixed assets in 2005/06	(36)
Impairment losses on fixed assets due to general changes in prices in 2005/06	0
Total increase / (decrease) in unrealised capital resources in 2005/06	<hr/> (36)

NOTE 4 – Value of assets sold, disposed of or decommissioned

Amounts written off fixed assets balances for disposals in 2005/06	(359)
Total movement on reserve in 2005/06	<hr/> (395)
Balance brought forward at 1 April 2005	(16,227)
Balance carried forward at 31 March 2006	<hr/> (16,622) <hr/>

Fixed Asset Restatement Account

This represents the surplus/deficit on revaluation of fixed assets and will be written down by the net book value of assets as they are disposed of.

Statement Of Total Movements On Reserves

Notes to the Statement of Total Movement On Reserves (continued)

	Capital Financing Account £000s	Government Grants Deferred £000s	Total £000s
NOTE 5 – Movements in amounts set aside to finance capital investment			
Capital receipts set aside in 2005/06:			
- reserved receipts	0		0
- useable receipts applied	0		0
Total capital receipts set aside in 2005/06	0		0
Revenue resources set aside in 2005/06:			
- capital expenditure financed from revenue	2,766		2,766
- reconciling amount for provisions for loan repayment	(1,096)		(1,096)
Total revenue resources set aside in 2005/06	1,670		1,670
Grants applied to capital investment in 2005/06		5,193	5,193
Amounts credited to the asset management revenue account in 2005/06		(4,465)	(4,465)
Movement on Government Grants Deferred		728	728
Total increase / (decrease) in amounts set aside to finance capital investment			2,398
Total movement on reserve in 2005/06	1,670	728	
Balance brought forward at 1 April 2005	36,614	7,611	
Balance brought forward at 31 March 2006	38,284	8,339	

Capital Financing Account

This represents the amount of capital expenditure financed from revenue and capital receipts. It also contains the difference between amounts provided for depreciation and that required to be charged to revenue to repay the principal element of external loans.

Government Grants Deferred

Government grants and other contributions are credited to the balance sheet and amortised to revenue over the life of the relevant assets to offset provisions made for depreciation.

Cashflow Statement

2004/05 £000s		2005/2006 £000s	2005/2006 £000s
	REVENUE ACTIVITIES		
	Cash Inflow		
(77,690)	Revenue Support Grant	(79,518)	
(124,860)	Police Grant	(130,020)	
(18,821)	Redistributed Non-Domestic Rates	(22,623)	
0	Amending Report Grant	(450)	
(28,139)	Precepts	(29,590)	
	Share of Net Surplus on District		
(300)	Council Collection Funds	(264)	
(15,590)	Other Government Grants	(19,012)	
(28,856)	Sales, Fees & Charges	(32,589)	
(294,256)			(314,066)
	Cash Outflow		
240,683	Cash paid to and on behalf of employees	258,207	
45,423	Other operating costs	47,433	
286,106			305,640
(8,150)	Net Cash Inflow – Revenue Activities		(8,426)
	SERVICING OF FINANCE		
	Cash Inflow		
(4,634)	Interest Received	(5,012)	
	Cash Outflow		
2,888	Interest Paid	2,614	
(1,746)	Net Cash Outflow/ (Inflow) – Servicing of Finance		(2,398)
	CAPITAL ACTIVITIES		
	Cash Inflow		
(645)	Sale of Fixed Assets	(548)	
(4,754)	Capital Grants Received	(4,867)	
(5,399)		(5,415)	
	Cash Outflow		
9,879	Purchase of Fixed Assets	9,095	
0	Other Capital Cash Payments	0	
9,879		9,095	
4,480	Net Cash Outflow/ (Inflow) – Capital Activities		3,680
(5,416)	Net Cash Inflow Before Financing		(7,144)

Cashflow Statement

2004/05 £000s		2005/2006 £000s	2005/2006 £000s
	MANAGEMENT OF LIQUID RESOURCES		
5,473	Net Increase / (Decrease) in Short Term Investments		7,123
	FINANCING		
	Cash Inflow		
(2,030)	New loans raised	(1,960)	
<u>(155)</u>	Other Funds	<u>76</u>	
(2,185)		(1,884)	
	Cash Outflow		
<u>2,128</u>	Repayments of amounts borrowed	<u>1,905</u>	
<u>(57)</u>	Net Cash Inflow from Financing		<u>21</u>
<u>0</u>	(Increase)/ Decrease in Cash		<u>0</u>

Cashflow Statement

Notes to the Cashflow Statement

Note 1: Reconciliation of net surplus on the Consolidated Revenue Account to the movement in cash

2004/05		2005/06	
£000s		£000s	£000s
0	Surplus for the year		3,354
	Non-cash transactions		
6,428	Depreciation	7,466	
2,808	Direct Revenue Funding	2,766	
0	Deferred Charge	(263)	
(532)	Provisions Set Aside	0	
5,858	Movement on Reserves	3,071	
(4,300)	Depreciation in Excess of MRP	(5,561)	
10,262			7,479
	Items on an accruals basis		
(343)	(Increase) / Decrease in Stocks	280	
1,594	Increase / (Decrease) in Creditors	(1,770)	
25	(Increase) / Decrease in Long Term Debtors	13	
(1,642)	(Increase) / Decrease in Debtors	1,468	
(366)			(9)
	Items classified elsewhere in Cash Flow Statement		
2,888	Interest Paid	2,614	
(4,634)	Interest Received	(5,012)	
(1,746)			(2,398)
8,150	Net Cash Inflow from Revenue Activities		8,426

Cashflow Statement

Notes to the Cashflow Statement (continued)

Note 2: Reconciliation of net cash flow to the movement in net debt

2004/05 £000s		2005/06 £000s	2005/06 £000s
	(Increase)/Decrease in cash per Cash Flow Statement		
0	Less		0
(5,473)	Management of Liquid Resources	(7,123)	
8,150	Revenue Activities	8,426	
(4,480)	Capital Activities	(3,680)	
1,746	Servicing of Finance	2,398	
<u>(57)</u>			<u>21</u>
57			(21)

Movement 2004/2005 £000s	Movement in Net Debt:	Balance 01/04/2005 £000s	Balance 31/03/2006 £000s	Movement 2005/2006 £000s
	Financing:			
1,885	Long Term Borrowing	33,593	34,209	616
(561)	Deferred Liability	4	3	(1)
(1,422)	Borrowing due within 1 yr	564	4	(560)
155	Other Funds	1,156	1,080	(76)
<u>57</u>		<u>35,317</u>	<u>35,296</u>	<u>(21)</u>

Note 3: Reconciliation of items under the Financing and Management of Liquid Resources sections to the opening and closing balance sheets

Movement 2004/2005 £000s		Balance 01/04/2005 £000s	Balance 31/03/2006 £000s	Movement 2005/2006 £000s
	(INCREASE)/DECREASE IN LIQUID RESOURCES			
(5,473)	Short Term Investments	119,010	126,133	(7,123)

Note 4: Analysis of other Government Grants

2004/2005 £000s		2005/2006 £000s
194	Department for Communities and Local Government (DCLG)	181
15,396	Home Office Grants	18,831
<u>15,590</u>		<u>19,012</u>

Glossary of Terms

Accrual – A sum included in the final accounts to cover income or expenditure attributable to an accounting period for goods supplied and received or work done, but for which payment has not been received / made by the end of the period.

Activity Based Costing – a costing methodology which links inputs (expenditure) with outputs (incidents / activities).

Actuarial Valuation – A valuation of assets held, an estimate of the present value of benefits to be paid and an estimate of required future contributions, by an actuary, on behalf of a pension fund.

Agency Services – The provision of services by one body (the agent) on behalf of another that is legally responsible for providing the service.

Appropriations - Amounts transferred to or from revenue or capital reserves.

Asset Management Revenue Account – An account required under the system of capital accounting. All principal repayments and interest charges on loans are charged to this account.

Audit Commission – An independent body, responsible for the appointment of external auditors to the Police Authority. Assesses whether the Police Authority makes proper arrangements for economy, efficiency and effectiveness in its use of resources and is also required to review the Authority's corporate governance arrangements.

Best Value – The means of reviewing services for areas of improvement revolving around the 4 C's: Challenge, Compare, Compete, and Consult.

Best Value Accounting Code of Practice (BVACOP) - A CIPFA Code providing guidance on all formal financial disclosures required in relation to the Best Value regime.

Budget – A statement of the Authority's forecast of net revenue and capital expenditure over a period of time.

Capital Accounting Charge – A charge to the Revenue Account to reflect the cost of fixed assets consumed during the year

Capital Expenditure – Spending on assets (e.g. land, buildings, roads etc) which adds to and not merely maintains the value of an existing fixed asset. Expenditure that does not fall within the definition must be charged to the revenue account.

Capital Grant - Grants from Central Government used to finance specific schemes in the capital programme.

Capital Receipts – The money from the sale of land or other assets. Capital receipts can be used to pay for new capital expenditure, within rules set down by the government, or to repay outstanding loans. They cannot be used to finance revenue expenditure.

Glossary of Terms

CIPFA – The Chartered Institute of Public Finance and Accountancy. This is the professional body responsible for accountants working in the public service. The Institute provides financial and statistical information on local government and public finance matters. CIPFA is privately funded with charitable status.

Credit Approvals – This was the previous system of borrowing where the government placed limits – called credit approvals – on the level of commitments which local authorities could enter into in any year by borrowing or credit arrangements. Supplementary Credit Approvals (SCAs) could be issued for specific programmes or schemes for the Police Authority. This system has been discontinued and replaced by Supported Capital Expenditure (Revenue).

Creditor – An amount owed by the Authority to suppliers for work done or goods received for which payment has not yet been made.

Current Assets - Cash and anything that is expected to be converted into cash within twelve months of the balance sheet date.

Debtor – Money owed to the Authority.

Deferred Charges – An item on the balance sheet where there is no tangible asset.

Deferred Liabilities – Liabilities which by arrangement are payable beyond the next year at some points in the future or paid off by an annual sum over a period of time.

Depreciation – The measure of the wearing out, consumption, or other reduction in the useful economic life of a fixed asset, whether arising from use, passage of time or obsolescence through technological or other changes.

Earmarked Reserves – Those elements of the Police Fund that have been set aside, “earmarked” for specific services.

Emoluments – All taxable sums paid to or received by an employee including the value of any benefits received other than in cash.

Financial Regulations – A written code of procedures approved by the Authority, intended to provide a framework for proper financial management.

Financial Year – The period covered by a set of financial accounts – the Police Authority financial year commences 1 April and finishes 31 March the following year.

Fixed Asset – An asset that has value beyond one financial year.

Financial Reporting Standards (FRS) – These standards are developed by the Accounting Standards Board and regulate the preparation and presentation of financial statements. Any material departures from these standards should be disclosed in the notes to the accounts.

Government Grant – Assistance by government and inter-government agencies and similar bodies, whether local, national or international, in the form of cash or transfers of assets to an Authority in return for past or future compliance with certain conditions relating to the activities of the Authority.

Glossary of Terms

Gross Expenditure – The total cost of providing the Authority's services before taking into account income.

Gross Income - The total amounts that the Authority receives or expects to receive, from any source. Income includes fees, charges, sales and specific and special grants.

Impairment – A reduction in the value of a fixed asset on the Balance Sheet due to lack of maintenance or change of use.

Interest Income – The money earned from the investment of surplus cash.

Investments – A long-term investment is an investment that is intended to be held for use on a continuing basis in the activities of the Authority for 365 days or more. A short-term investment occurs when surplus funds are invested for 364 days or fewer.

Liabilities – Money owed to individuals or organisations that will be paid at some time in the future.

Minimum Revenue Provision (MRP) – The minimum amount which must be charged each year to the Authority's revenue account and set aside as provision for credit liabilities, as required by the Local Government and Housing Act 1989.

National Non-Domestic Rates (NNDR) – A levy on businesses, based on a national rate in the pound set by the government, multiplied by the 'rateable value' of the premises they occupy. Collected by billing authorities in line with national criteria and then redistributed among all local authorities and police authorities on the basis of population.

Net Book Value – The amount at which fixed assets are included in the balance sheet, i.e. their historical cost less the cumulative amounts provided for depreciation.

Police Grant – The term used to specify all government grants to the Authority other than revenue support grant.

Precepts – The demands made by the Authority on the district councils to finance the Authority's expenditure.

Provision – An amount, set aside in the accounts, for liabilities that are likely to be incurred but the amounts or the dates on which they will arise are uncertain.

Prudential Code for Capital Finance in Local Authorities

This replaced the previous regulatory frameworks in England, Wales and Scotland. The 2003 Code introduced a need for local authorities to consider capital spending plans with reference to affordability (implications for Council Tax), prudence and sustainability, value for money, stewardship of assets, strategic objectives and the practicality of the plans.

Glossary of Terms

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.

Related Party Transactions – The transfer of assets or liabilities or the performance of services, to or for a related party, irrespective of whether a charge is made.

Reserves – Monies set aside by the Authority that do not fall within the definition of provisions.

Revenue Contribution to Capital Outlay – Resources provided from the Authority's revenue budget to finance the cost of capital projects.

Revenue Expenditure – The day-to-day running costs incurred by an Authority in providing services.

Revenue Support Grant (RSG) – A grant paid by central government in aid of Authority services in general, as opposed to specific grants, which may only be used for a specific purpose.

Statements of Standard Accounting Practice (SSAP's) – Standards developed by the Accounting Standards Board and its predecessor bodies to regulate the preparation and presentation of financial statements. Any new standards are now referred to as Financial Reporting Standards (FRS's). The CIPFA Code of Practice on Local Authority Accounting requires local authorities to comply with SSAP's and FRS's or to disclose the nature and effect of non compliance. (See Financial Reporting Standards)

Unfunded Pension Scheme – A scheme where the costs of pensions and other benefits, after accounting for employees' contributions in the year, are charged to the revenue account e.g. Police Pension Scheme.