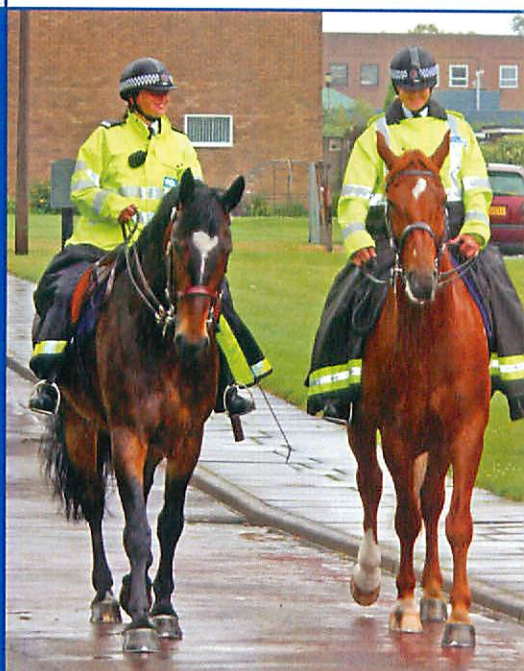


NORTHUMBRIA POLICE AUTHORITY

Statement of Accounts

2006/2007



Northumbria
Police Authority



*Total
Policing*

NORTHUMBRIA POLICE AUTHORITY STATEMENT OF ACCOUNTS – 2006/07

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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 2006 and the Code of Practice on Local Authority Accounting in the United Kingdom 2006, A Statement of Recommended Practice (“the SORP”), published by the Chartered Institute of Public Finance and Accountancy (CIPFA). It shows the financial affairs of Northumbria Police Authority during 2006/07 and the financial position as at 31 March 2007.

There have been a number of significant changes in the SORP 2006 which have resulted in the requirement to prepare three new ‘core’ statements, Income and Expenditure Account, Statement of Movement on the General Fund Balance and Statement of Total Recognised Gains and Losses (STRGL). These Statements have replaced the Consolidated Revenue Account and Statement of Total Movement on Reserves. In addition the Pension Fund Account has been updated to reflect changes in funding arrangements for police pensions and the new statutory requirement for police authorities to maintain Pension Fund Accounts. There is also a requirement to group the core financial statements together (ie. Income and Expenditure Account, Statement of Movement on the General Fund Balance, STRGL, Balance Sheet and Cash Flow Statement) followed by the notes to the core statements followed by the supplementary statements (Pension Fund Accounts) with the notes to each supplementary statement following the supplementary statement.

The 2006 SORP also requires the Authority to adopt three significant new accounting policies that impact on the comparative figures for 2005/06 in the Income and Expenditure Account:

- Capital financing charges for the use of fixed assets are no longer made to revenue accounts;
- Credits for government grants deferred are now posted direct to the Income and Expenditure Account instead of through the asset management revenue account (AMRA); and
- Gains and losses on the disposal of fixed assets are recognised in the Income and Expenditure Account.

The figures in the accounts for 2005/06 have been adjusted to comply with the 2006 SORP to enable the reader to compare performance between 2005/06 and 2006/07 on a consistent basis.

When read in conjunction with the Northumbria Police Authority Local Policing Plan, the publications provide an insight into the many activities and achievements of the Authority during the year.

Explanatory Foreword

The Accounts of the Police Authority are set out on Pages 2 to 54. They consist of:

- i. **Statement of Accounting Policies (Page 8)**- 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.
- ii. **Statement of Responsibilities (Page 15)**- This statement sets out the respective responsibilities of the Authority and its Treasurer.
- iii. **Statement on Internal Control (Page 16)**- This statement outlines the Authority's system of internal control, in line with Regulation 4 of the Accounts and Audit Regulations 2006, which has been approved by the Authority's Audit and Scrutiny Committee.
- iv. **Independent Auditor's Report to the Authority (Page 19)** - This report details the basis of the Auditor's opinion on the Financial Statements.

The Accounting Statements

- v. **Income and Expenditure Account (Page 23)** - 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 income and expenditure 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 budget during the year.
- vi. **Statement of Movement on the General Fund Balance (Page 26)** – This statement reconciles the surplus or deficit on the income and expenditure account to the movement in the general fund balance.
- vii. **Statement of Total Recognised Gains and Losses (Page 27)** - This statement shows all the recognised gains and losses during the year.
- viii. **Balance Sheet (Page 28)** - This shows the Authority's financial position and net assets at 31 March 2007. It summarises the fixed and current assets, which are used in carrying out the Authority's activities, together with its liabilities.
- ix. **Cashflow Statement (Page 30)** - This summarises the cash receipts and payments of the Authority arising from transactions for both revenue and capital purposes.
- x. **Notes to the Core Statements (Page 32)** – The notes provide additional information to support the core statements.
- xi. **Police Officer Pension Fund Statements (Page 53)** – This shows the Police Officer Pension Fund Account and Net Assets Statement for the year.

Income and Expenditure Account

The net revenue budget for 2006/07 to be met from Government Grants and local taxation was approved by the Police Authority at £260.475m. The revised estimate that the Authority later agreed recognised that an underspend of £4.060m was likely to arise during the year resulting in net appropriations from reserves of £1.465m.

Explanatory Foreword

From the summary table below, it can be seen that the financial position at the year end is an increase in the general fund balance of £2.689m. However, this measure on its own is not the best indicator of financial performance during the year. If account is taken of reclassification of earmarked reserves to the general fund during the year (£3.359m) and appropriation to earmarked reserves of relevant revenue underspends (£0.592m), the revenue position is actually a net use of reserves of £0.078m. When compared to the revised budget position which forecast a net use of reserves of £1.465m made up of appropriations from earmarked reserves (£3.359m) and appropriations to the general reserve (£1.894m), the outturn position is an underspend against the revised budget of £1.387m (0.5%). The fact that expenditure has been contained within the revised estimate reflects effective budget monitoring and budgetary control during the year. The most significant area is insurance, where a lower than budgeted number of self funded claims have resulted in an underspend of £1.278m. Further detail was considered at the meeting of the Authority's Resource Management Committee on 6 June 2007. The revenue surplus allows appropriations of £2.689m to the general reserve, which is broadly consistent with the Authority's Medium Term Financial Strategy (MTFS) which was agreed in November 2006. The MTFS sets out the proposed use of the general reserve to 2009/10.

The following table summarises the financial position for the year:

	2005/06 Outturn	2006/07 Original Budget	2006/07 Revised Budget	2006/07 Outturn
	£000s	£000s	£000s	£000s
Expenditure on Services	266,862	264,156	262,352	285,519
Levies		0	0	0
(Gain)/ Loss on disposal of Fixed Assets	(73)	0	0	(16)
Interest Payable and similar charges	2,640	2,527	2,437	2,462
Interest and Investment Income	(5,012)	(3,864)	(6,030)	(5,917)
Return on Pensions Assets	99,370	0	0	111,440
Amending Report Grant	(450)	(615)	(615)	(617)
Contribution to Police Pension Fund	0	0	0	9,718
Net Operating Expenditure	363,337	262,204	258,144	402,589
Police Grant	(130,020)	(105,707)	(105,707)	(105,707)
Revenue Support Grant	(79,518)	(20,066)	(20,066)	(20,066)
National Non Domestic Rates	(22,623)	(103,950)	(103,950)	(103,950)
Precepts	(29,854)	(30,752)	(30,752)	(30,752)
Home Office Pensions Top Up Grant	0	0	0	(9,718)
	(262,015)	(260,475)	(260,475)	(270,193)
(Surplus)/ Deficit for the year	101,322	1,729	(2,331)	132,396
Net Transfer to/ (from) Earmarked Reserves debited/ (credited) to the General Fund Balance for the year.	3,071	(2,525)	(3,359)	(2,767)
Other additional amounts required to be debited or (credited) to the General Fund Balance for the year.	(107,747)	3,796	3,796	(132,318)
(Increase)/ Decrease in General Fund Balance for the Year	(3,354)	3,000	(1,894)	(2,689)

Appropriations to / from Reserves

Appropriations to / from reserves are as follows: -

£0.352m has been appropriated to devolved reserves as a result of revenue underspends within the scheme of devolvement for use in Area Commands and Force Departments in future years.

£0.008m has been appropriated to the North East Air Support Unit reserves as a result of interest earned on balances.

£0.232m has been appropriated to the North East Centre for Policing Skills to support spending on the shared training facility in the future.

£2.500m has been appropriated from the pensions commutations reserve, £0.524m from the revenue equalisations reserve and £0.335m from the trading reserves as agreed in the Authority's Medium Term Financial Strategy.

Following the appropriations outlined above £2.689m was appropriated to the general reserve.

Income from local taxpayers

The Authority received £30.752m from the precept it levied on billing authorities within its area during 2006/07. A breakdown is provided in note 8 to the core statements.

Capital Expenditure

In addition to spending on day to day activities, the Authority incurs expenditure on buildings, information technology and other major items of plant and equipment which have a longer term life.

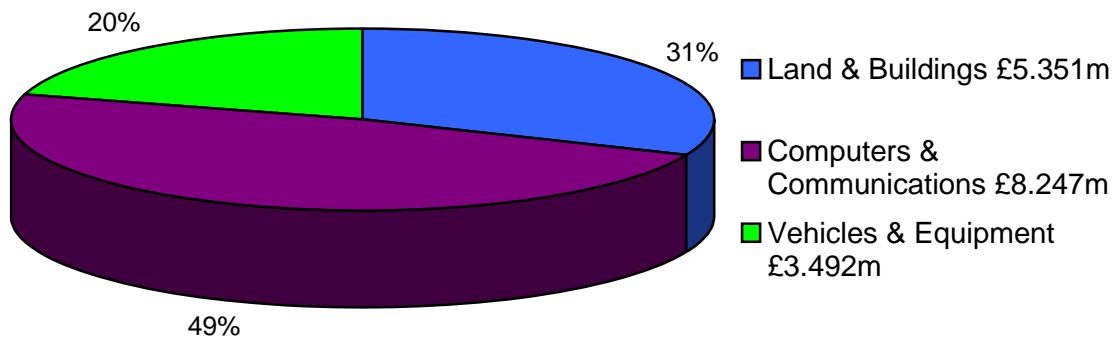
Capital expenditure for the year totalled £17.090m. A summary of how this was financed is shown below:

	£m
Capital Grant	11.928
Receipts	0.040
Reserves	0.027
Revenue	5.095
	<u>17.090</u>

The Authority has, as at 31 March 2007, unapplied capital receipts and capital grant of £9.998m and £7.814m respectively, and a Capital Development Reserve of £31.076m. These amounts will be used to finance future capital projects, including the implementation of the Estates Strategy, which represents the critical operational needs of the Chief Constable, as outlined in the Medium Term Financial Strategy.

Explanatory Foreword

The breakdown of capital expenditure for 2006/07 is shown in the following pie chart.



Material Assets and Liabilities

As at 31 March 2007, the Authority holds £76.991m of fixed assets and short-term investments amounting to £120.742m.

The Authority also has current liabilities of £21.126m, long term borrowing and deferred liabilities of £32.843m and provisions for future liabilities of £1.903m.

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 core statements.

Cashflow

Cashflow is monitored closely during the year to ensure that optimum investment returns are obtained.

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 2 years. During 2006/07 the Authority's short-term investments decreased by £4.520m. Contributory factors to the decrease include the use of internal resources to finance capital expenditure

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 income and expenditure account.

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 3 to the core statements.

Prospects For 2007/08 And Beyond

For the financial year 2007/08 Northumbria Police Authority has approved a revenue budget of £270.145m. This translates into a precept at Band D of £74.62, the lowest in the Country.

The budget includes high priority growth initiatives identified by the Chief Constable of £7.965m.

The Authority approved a capital budget of £24.895m for 2007/08. Within this estimate the major schemes programme at £7.440m 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 £17.455m.

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

Further Information

This publication provides a review of the financial performance of the Police Authority for 2006/07. A summary set of accounts has been produced and published on the Authority's website www.northumbria-police-authority.org. These will also be included in the Local Policing Summaries for 2006/07 which are sent to all households in the Northumbria area during 2007. Comments are invited on the usefulness and readability of this summary document.


D V Coates BA CPFA IRRV
Treasurer

Dated: 7/9/07

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 2006: 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 income and expenditure 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 which is used for budget monitoring purposes.

Group Accounts

The SORP 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.

– Support Services

The Police Authority's income and expenditure 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 income and expenditure account also includes the cost of advice to the Authority from its appointed officers, such as the Chief Executive 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.

Balance Sheet

– Current Assets

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

Redemption of Debt

Since 1986 Gateshead Council has taken out all borrowing on behalf of the Police Authority. The income and expenditure account of the Police Authority is charged with the minimum revenue provision calculated at 4% of outstanding debt. Interest is also charged to the income and expenditure account, the average rate being 7.51% (2005/06 7.71%). During 2006/07, the Police Authority agreed to transfer its outstanding debt into the Authority's name from Gateshead Council. This allows the Authority more control over its debt at a time when significant investment in the Police Estate is being planned. The transfer was agreed by the Public Works Loan Board and took effect on 31 March 2007.

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 income and expenditure 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 following groupings required by the Code of Practice on Local Authority Accounting:

The Statement of 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 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: -

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.

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 2006/07.

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 caused by or due to factors such as obsolescence, lack of ongoing maintenance, environmental changes or declining market values 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 2006/07 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 licences, which in accordance with the SORP, are separately disclosed on the balance sheet and in note 19 to the core statements.

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

– Charges to Revenue

The income and expenditure account is charged with a depreciation charge for all fixed assets used in the provision of services.

– 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 12 to the core statements.

– Capital Receipts

Receipts from the sale of capital assets are held on the balance sheet until such time as they are used to finance new expenditure with the exception of receipts below £0.010m which are credited to the income and expenditure account. Interest earned on the capital receipts is credited to the income and expenditure 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 26 to the core statements.

– 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

Pension 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 a defined benefit scheme, which is balanced to nil at the end of each year by receipt of a pension top- up grant from the Home Office or by paying the surplus over to the Home Office. There are no investment assets built up to meet the pensions liabilities and cash has to be generated by the Home Office 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.

The Statement of Accounting Policies

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 Balance Sheet, and the true costs of retirement benefits are reflected in the Income and Expenditure Account.

Movements during the year in the net asset / liability of the pension scheme are reflected in the Income and Expenditure 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. The Treasury Management Support Services Agreement sets out the services provided for the Authority. Investment interest is calculated based on estimated cash flows.

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 core statements. There are no such events in relation to the 2006/07 Statement of Accounts.

Financial Relationships

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

SORP 2006

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

- Capital financing charges for the use of fixed assets are no longer made to revenue accounts
- Credits for government grants deferred are now posted direct to the Income and Expenditure Account instead of through the asset management revenue account (AMRA).
- Gains and losses on the disposal of fixed assets are recognised in the Income and Expenditure Account

The Statement of Accounting Policies

These changes have had the following impact on the comparative figures for 2005/06 compared with those published in the 2005/06 Statement of Accounts.

	CRA in 2005/06 Statement of Accounts £000	Removal of capital financing charges £000	Relocation of government grants deferred credits £000	Recognition of gains and losses on disposal of fixed assets £000	2005/06 comparatives in Income and Expenditure Account £000
Crime	139,401	(1,179)	(2,294)		135,928
Policing in the Community	131,914	(1,115)	(2,171)		128,628
Corporate and Democratic Core and Non Distributed Costs	2,306	0	0		2,306
Impact on Net Cost Of Services	273,621	(2,294)	(4,465)		266,862
Profit on disposal of fixed assets				(73)	(73)
Asset Management Revenue Account (Interest payable and similar charges in 2006/07)	(4,121)	2,294	4,465		2,638
Impact on Net Operating Expenditure	269,500	0	0	(73)	269,427

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; and
- to approve the statement of accounts.

I certify that the Northumbria Police Authority approved this Statement of Accounts at its meeting on 19th September 2007.



M Henry
Chair of Northumbria Police Authority

Dated: 19.09.07

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; and
- complied with the Code.

The Treasurer has also: -

- kept proper accounting records which are up to date; and
- 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 2007, required by the Accounts and Audit Regulations 2006, 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 2007, and its income and expenditure for the year ended 31 March 2007.



D V Coates BA CPFA IRRV
Treasurer

Dated: 7/9/07

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 2007 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 been given 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;
 - 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;

Statement on Internal Control

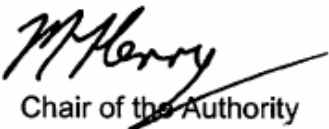


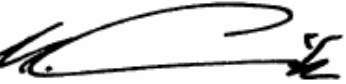
- Adoption of the principles of the CIPFA / SOLACE Guidelines on Corporate Governance; and
 - Participation in the National Fraud Initiative.
7. In order to ensure the independent review of the adequacy, or otherwise, of the system of internal control, the Authority maintains an adequate and effective internal audit. The Internal Audit Service works in compliance with the CIPFA Code of Practice for Internal Audit in Local Government 2006 and other professional standards.
 8. The work of the Internal Audit Service is based upon a risk based 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 Scrutiny 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. The Audit and Scrutiny Committee receives quarterly reports on risk management as well as annual report.
 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 Scrutiny 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 Scrutiny 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 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 Chief Executive, Chief Constable, and the Audit and Scrutiny 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 Scrutiny Committee. The Annual Internal Audit Report for 2006/2007, which was presented to Audit and Scrutiny Committee 11 June 2007, concluded that, based on the work undertaken the Authority's system of internal control was satisfactory.
16. A review of the effectiveness of the system of internal audit has been undertaken for 2006/07 in compliance with the Accounts and Audit regulations 2006. This was presented to the Audit and Scrutiny Committee on 11 June 2007, and concluded that the Authority's system of Internal Audit was effective.

Statement on Internal Control

17. The Annual Risk Management Report for 2006/07 was presented to the Audit and Scrutiny Committee in 11 June 2007, in which the Force and the Authority concluded that risk management arrangements were found to be sound.
18. 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 Scrutiny Committee on 11 June 2007, 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.
19. The Audit Commission Annual Audit Letter for 2005/06 was positive and identified that the Authority was performing well on Internal Control following an assessment undertaken as part of the police use of resources (PURE).
20. Reports from Audit Commission and other external reviews are reported to the Authority, or the Audit and Scrutiny Committee, who monitor progress against action plans.
21. Quarterly reporting on performance management information has taken place to the Audit and Scrutiny Committee throughout the year. An annual report was presented to the Audit and Scrutiny Committee on 21 May 2007.
22. 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.
23. The results of the review of the Authority's system of internal control have concluded that it is satisfactory and effective.

Signed	Signed	Signed	Signed
			
Chair of the Authority	Chief Executive	Treasurer	Chief Constable
Dated 5/9/07	Dated 5/9/07	Dated 5/9/07	Dated 11.09.07.

Opinion on the financial statements

I have audited the financial statements and the police pension fund accounting statements of Northumbria Police Authority for the year ended 31 March 2007 under the Audit Commission Act 1998. The financial statements comprise the Explanatory Foreword, Income and Expenditure Account, Balance Sheet, Statement of Total Recognised Gains and Losses, Cash Flow Statement and the related notes. The police pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial statements and police pension fund accounting statements have been prepared under the accounting policies set out within them.

This report is made solely to 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 Treasurer and auditor

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

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

I report to you my opinion as to whether the financial statements and the police pension fund accounting statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006:

- the financial position of the Authority and its income and expenditure for the year; and
- the financial transactions of its police pension fund during the year and the amount and disposition of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.

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

Basis of audit opinion

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

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

Opinion

In my opinion:

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



Lynne Snowball
District Auditor

Audit Commission
Nickalls House
Metro Centre
Gateshead NE11 9NH

24 September 2007

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

Authority's Responsibilities

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

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

Auditor's Responsibilities

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

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

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

Conclusion

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for police authorities specified by the Audit Commission and published in December 2006, I am satisfied that, 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 2007.

Best Value Performance Plan

I issued my statutory report on the audit of the authority's best value performance plan for the financial year 2006/07 on 20 December 2006. I did not identify any matters to be reported to the authority and did not make any recommendations on procedures in relation to the plan.

Certificate

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



Lynne Snowball
District Auditor

Audit Commission
Nickalls House
Metro Centre
Gateshead NE11 9NH

24 September 2007

Income and Expenditure Account

CIPFA Best Value Accounting Code of Practice (BVACOP) Classification

In accordance with the Best Value Accounting Code of Practice (BVACOP) these accounts are presented in a format which allocates and apportions expenditure over operational service headings.

Net Expenditure 2005/06 £000s	BVACOP Service Expenditure Analysis	Gross Expenditure 2006/07 £000s	Gross Income 2006/07 £000s	Net Expenditure 2006/07 £000s
135,928	Crime	167,638	(17,829)	149,809
128,628	Policing in the Community	159,780	(16,993)	142,787
	National police services undertaken			
0	locally	0	0	0
0	Exceptional costs of legal settlements	0	0	0
1,422	Corporate and democratic core (note 1)	1,428	0	1,428
884	Non distributed costs (note 2)	1,350	(9,855)	(8,505)
266,862	Net Cost of Services	330,196	(44,677)	285,519
(73)	(Gain)/ Loss on disposal of Fixed Assets			(16)
0	Levies to national police services			0
2,640	Interest Payable and similar charges			2,462
(5,012)	Interest and investment income			(5,917)
99,370	Pensions interest cost and expected return on pensions assets			111,440
(450)	Amending Report Grant			(617)
0	Contribution to Police Pension Fund			9,718
363,337	Net Operating Expenditure			402,589
(130,020)	Police Grant			(105,707)
(79,518)	Revenue Support Grant			(20,066)
(22,623)	National Non-domestic rates			(103,950)
(29,854)	Precepts			(30,752)
0	Home Office Pensions Top Up Grant			(9,718)
(262,015)				(270,193)
101,322	Deficit for the year			132,396

Income and Expenditure Account

CIPFA Subjective Classification

This statement summarises the income and expenditure account. It shows the day to day running costs of all services paid for by council tax, government grants and other income. It reconciles to the BVACOP revenue account on page 23 at the net cost of services line.

2005/06 £000s		2006/07 £000s	2006/07 £000s
	Employees		
137,472	Operational Personnel	139,939	
38,359	Support Staff	42,744	
14,740	National Insurance	15,291	
6,151	Support Staff Pensions (note 3)	7,263	
65,543	Police Pensions (note 3)	59,742	
5,962	Allowances	5,600	
268,227			270,579
	Premises		
3,453	Maintenance and Improvements	3,063	
1,588	Utilities	2,016	
221	Furniture and Fittings	210	
2,271	Rent and Rates	1,375	
1,596	Contract Cleaning (note 11)	1,647	
9,129			8,311
	Supplies and Services		
1,743	Computer Equipment	1,901	
2,913	Communications	3,157	
2,303	Equipment and Materials	3,028	
87	Catering	89	
1,223	Clothing and Uniforms	1,011	
1,977	Education and Training	2,078	
10,246			11,264
	Transport		
3,314	Vehicle Running Expenses	3,442	
1,206	Car Allowances/Vehicle Hire	1,310	
1,542	Air Support Services (note 15)	1,753	
6,062			6,505
	Establishment Expenses		
1,532	Printing, Stationery & Advertising	1,599	
1,284	Travelling & Subsistence	1,196	
1,766	Insurances	1,332	
2,740	Support Services (note 11)	2,666	
7,322			6,793
	Agency Services (note 4)		
248	Consortium Charges	99	
4,113	Forensic Science Service	4,412	
617	Other National Police Services	578	
1,324	Airwave	1,360	
6,302			6,449

Income and Expenditure Account

2005/06 £000s		2006/07 £000s	£000s
	Miscellaneous		
1,981	Surgeons & Pathologists Fees	2,390	
1,102	Community Safety	944	
494	Crime Management	570	
3,604	Other Expenses	3,869	
7,181			7,773
	Capital Accounting Charges		
7,466	Depreciation	9,023	
(4,465)	Government Grants Deferred Credits	(6,356)	
3,001			2,667
317,470	Total Expenditure		320,341
	Income		
(3,101)	Fees and charges	(3,489)	
(4,033)	Secondments	(2,285)	
(14,892)	Pension Contributions	0	
(325)	Rents	(339)	
(28,257)	Grants & Other Income	(28,709)	
(50,608)	Total Income		(34,822)
266,862	Net Cost of Services		285,519
(73)	(Gain) or Loss on Disposal of Fixed Assets		(16)
2,640	Interest Payable and similar charges (note 5)		2,462
(5,012)	Interest and Investment Income		(5,917)
99,370	Pensions Interest Costs and Expected Return on Assets (note 3)		111,440
(450)	Amending Report Grant		(617)
0	Contribution to Police Pension Fund		9,718
363,337	Net Operating Expenditure		402,589
	Financed by		
(130,020)	Home Office Grant	(105,707)	
(79,518)	Revenue Support Grant	(20,066)	
(22,623)	National Non-Domestic Rates	(103,950)	
(29,854)	Proceeds of Police Authority Precepts (note 8)	(30,752)	
0	Home Office Pensions Top Up Grant	(9,718)	
(262,015)			(270,193)
101,322	Deficit for the Year		132,396

Statement of Movement on the General Fund Balance

This statement reconciles the surplus or deficit on the income and expenditure account to the movement in the general fund balance.

2005/06 £000s		2006/07 £000s
101,322	(Surplus) or deficit for the year on the Income and Expenditure Account	132,396
(104,676)	Net Additional amount required by statute and non- statutory proper practices to be debited or (credited) to the General Fund Balance for the year (note 17)	(135,085)
(3,354)	Increase in General Fund Balance for the year	(2,689)
(20,646)	General Fund Balance Brought Forward	(24,000)
(24,000)	General Fund Balance Carried Forward	(26,689)

Statement of Total Recognised Gains and Losses

Not all gains and losses experienced by a Police Authority are reflected in the Income and Expenditure Account. It is necessary to consider all gains and losses recognised in a period when assessing the financial result during the year.

2005/06 £000s		2006/07 £000s
101,322	(Surplus)/ Deficit for the year on the Income and Expenditure Account.	132,396
(104)	(Surplus)/ Deficit arising on revaluation of fixed assets	(6,484)
327,810	Actuarial (gains) / losses on pension fund assets and liabilities.	(180,530)
562	Other (Gains) / Losses	7,816
429,590	Total recognised (gains) and losses for the year	(46,802)

Balance Sheet

31/03/2006 £000s		31/03/2007 £000s £000s		
Long Term Assets				Note
350	Intangible Fixed Assets	277		19
	Tangible Fixed Assets			
	Operational			
6,788	Police Houses	5,169		20
42,932	Other Land / Buildings	49,258		20
13,381	Vehicles and Equipment	17,565		20
	Non-Operational			
745	Surplus/ Investment	1,947		20
20	Assets Under Construction	2,775		20
0	Deferred premiums on early repayment of debt	42		5
<u>64,216</u>			77,033	
Current Assets				
700	Stocks and Stores	795		21
10,666	Debtors	9,517		22
125,262	Short Term Investments	120,742		23
<u>136,628</u>			131,054	
Current Liabilities				
<u>19,485</u>	Creditors		<u>21,126</u>	24
181,359	TOTAL ASSETS LESS CURRENT LIABILITIES		186,961	
Long Term Liabilities				
34,212	Long Term Borrowing		32,843	25
2,298,010	Pensions Liability		2,253,610	3
2,537	Insurance Provision		1,903	26
8,339	Government Grants Deferred		13,911	31
<u>0</u>	Deferred discounts on early repayment of debt		<u>47</u>	5
(2,161,739)	TOTAL ASSETS LESS LIABILITIES		(2,115,353)	

Balance Sheet

31/03/2006	Financed by:	31/03/2007	Note
£000s		£000s	
(16,622)	Fixed Asset Restatement Account	(11,914)	27
38,284	Capital Financing Account	42,147	28
15,134	Capital Grants Unapplied	7,814	29
9,146	Capital Receipts Unapplied	9,998	30
24,000	General Reserve	26,689	32
12,475	Insurance Reserve	12,475	33
335	Trading Reserve	0	34
2,380	Devolved Budget Reserve	2,732	35
535	Air Support Unit General Reserve	512	36
4	Air Support Unit Capital Reserve	8	37
(2,298,010)	Pensions General Reserve	(2,253,610)	3
4,092	Police Staff Pensions Reserve	4,092	38
13,699	Police Officers Commutations Reserve	11,199	38
1,000	Airwave Reserve	1,000	39
524	Revenue Equalisation Reserve	0	40
31,076	Capital Development Reserve	31,076	41
0	North East Centre for Policing Skills Reserve	232	42
209	Other Funds	197	43
(2,161,739)	TOTAL NET WORTH	(2,115,353)	



D V Coates BA CPFA IRRV
Treasurer

Dated: 9/9/07

Cash Flow Statement

2005/06 £000s		2006/2007	
		£000s	£000s
	Revenue Activities		
	Cash Outflows		
258,207	Cash paid to and on behalf of employees	245,356	
47,433	Other operating cash payments	46,709	
0	Contribution to Police Pension Fund	9,718	
305,640			301,783
	Cash Inflows		
(79,518)	Revenue Support Grant	(20,066)	
(130,020)	Police Grant	(105,707)	
(22,623)	National Non-Domestic Rate receipts from national pool	(103,950)	
(450)	Amending Report Grant	(617)	
(29,590)	Precepts received	(30,464)	
(264)	Net Surplus Collection Funds	(288)	
0	Home Office Pensions Top Up Grant	(8,504)	
(19,012)	Other Government Grants	(19,767)	
(32,589)	Cash received from Sales, Fees & Charges	(16,639)	
(314,066)			(306,002)
(8,426)	Net Cash Inflow – Revenue Activities		(4,219)
	Returns on Investments and Servicing of Finance		
	Cash Outflow		
2,614	Interest Paid	2,462	
	Cash Inflow		
(5,012)	Interest Received	(5,917)	
(2,398)	Net Cash Outflow/ (Inflow) – Servicing of Finance		(3,455)
	Capital Activities		
	Cash Outflows		
9,095	Purchase of fixed assets	16,583	
0	Other capital cash payments	0	
9,095			16,583
	Cash Inflows		
(548)	Sale of fixed assets	(893)	
(4,867)	Capital grants received	(4,876)	
(5,415)			(5,769)
3,680	Net Cash Outflow/ (Inflow) – Capital Activities		10,814
(7,144)	Net Cash Outflow/ (Inflow) Before Financing		3,140

Cash Flow Statement

2005/06 £000s		2006/2007	
		£000s	£000s
	Management of Liquid Resources		
7,123	Net Increase / (Decrease) in Short Term Investments		(4,520)
	Financing		
	Cash Outflow		
1,905	Repayments of amounts borrowed	1,368	
	Cash Inflow		
(1,960)	New loans raised	0	
76	Other Funds	12	
<u>(1,884)</u>		<u>12</u>	12
<u>21</u>	Net cash (inflow)/ outflow from financing		<u>1,380</u>
<u>0</u>	Net (increase)/ decrease in cash		<u>0</u>

1. 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.

2. 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. Rounding differences between the actuarial estimate of pension payments and the actual cash payments made during the year are also included in Non Distributed Costs.

3. 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 police staff, 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 over the long term.
- The Police Pension Scheme is a defined benefit scheme, which is balanced to nil at the end of each year by receipt of a pension top- up grant from the Home Office or by paying the surplus over to the Home Office. There are no investment assets built up to meet the pensions liabilities and cash has to be generated by the Home Office to meet actual pensions payments as they eventually fall.

Notes to the Core Statements

The Authority recognises the cost of retirement benefits in the Net Cost of Services when employees earn them, 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. The transactions shown below have been made during the year:

	Local Government Pension Scheme		Police Pension Scheme	
	2005/06 £000	2006/07 £000	2005/06 £000	2006/07 £000
Net Cost of Services:				
Current service cost	5,870	7,330	64,940	68,180
Past service costs	260	30	650	1,320
Non distributed costs	21	(97)	(47)	(9,758)
Total Net Cost of Services	6,151	7,263	65,543	59,742
Net Operating Expenditure:				
Interest cost	7,220	7,930	97,970	110,720
Expected return on assets in the scheme	(5,820)	(7,210)	0	0
Total Net Operating Expenditure	1,400	720	97,970	110,720
Amounts to be met from Government Grants and Local Taxation:	7,551	7,983	163,513	170,462
Contribution to / (from) pensions reserve	(1,730)	(1,490)	(107,760)	(134,640)
Actual amount charged against council tax for pensions in the year:				
Employers contributions payable to scheme	5,821	6,493		31,768
Retirement benefits payable to pensioners			55,753	4,054

Notes to the Core Statements

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.

The underlying assets and liabilities for retirement benefits attributable to the Authority at 31 March 2007 are as follows:

	Local Government Pension Scheme		Police Pension Scheme		Total	
	£m	£m	£m	£m	£m	£m
	31 March 2006	31 March 2007	31 March 2006	31 March 2007	31 March 2006	31 March 2007
Estimated liabilities in scheme	(158.52)	(171.85)	(2,247.77)	(2,202.27)	(2,406.29)	(2,374.12)
Estimated assets in scheme	108.28	120.51	0.00	0.00	108.28	120.51
Net asset / (liability)	(50.24)	(51.34)	(2,247.77)	(2,202.27)	(2,298.01)	(2,253.61)

The liabilities show the underlying commitments that the Authority has in the long-run to pay retirement benefits. The total liability of £2,254m has a substantial impact on the net worth of the Authority as recorded in the balance sheet, resulting in a negative overall balance of £2,114m. However, statutory arrangements for funding the deficit mean that the financial position of the Authority remains sound based on the following principles:

- 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.
- The Home Office will finance police pensions when the pensions are actually paid through the top up grant.
- 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 Core Statements

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

In respect of the Police Scheme, an actuarial valuation has not been carried out as at 31 March 2007. 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 2006/07", 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 2006, 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	2006/07	2005/06	2006/07
	%	%	%	%
Rate of Inflation	3.0	3.2	3.2	3.4
Rate of increase in salaries	4.5	4.7	4.7	4.9
Rate of increase in pensions	3.0	3.2	3.2	3.4
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 2007	
	Long Term Proportion Return	Assets	Long Term Proportion Return	Assets
	%	%	%	%
Equities	7.3	68	7.7	67
Government Bonds	4.3	12	4.7	13
Other Bonds	4.9	9	5.3	8
Property	6.3	9	6.7	10
Other Assets	4.6	2	5.6	2
Average long term expected rate of return	6.6		7.0	

Notes to the Core Statements

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

	Local Government Pension Scheme		Police Pension Scheme	
	£m	%	£m	%
Actual less expected return on pension assets	(0.70)	0.6		
Experience gains / (losses) arising on the pension liabilities	(0.31)	0.2	30.38	1.3
Changes in assumptions underlying the present value of pension liabilities	1.40	0.8	149.76	
	0.39		180.14	
Comparative totals for 2005/06	2.81		(330.62)	

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.

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

4. Agency Services

Consortium Charges

The Authority has an agency agreement with the National Automated Fingerprint Identification System (NAFIS) to provide fingerprinting services. Payments in 2006/07 amounted to £0.99m (2005/06 £0.248m).

Forensic Science Service

The Authority has an agency agreement with the Forensic Science Service in Wetherby, North Yorkshire. Payments in 2006/07 amounted to £4.412m (£4.113m in 2005/06).

Other National Police Services

The Authority made a subscription payment for the Police National Computer of £0.578m in 2006/07 (£0.617m in 2005/06).

Airwave

The Authority made payments of £1.360m to Airwave (£1.324m in 2005/06).

5. Premium/ Discounts 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. The premium is included in the interest payable amount in the income and expenditure account. The remaining premia and discounts are held on the Authority's balance sheet following the transfer of debt from Gateshead Council on 31 March 2007.

6. 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.

2005/06		2006/07
£000s		£000s
561	Voluntary Revenue Provision	0
<u>1,344</u>	Minimum Revenue Provision	<u>1,368</u>
1,905		1,368

7. Publicity

The Local Government Act 1986 Section 5 requires the Authority to keep a separate account of expenditure on publicity. The Authority spent £676,834 on all forms of publicity in 2006/07 (2005/06 £743,501).

8. Police Authority Precept

The Police Authority precept generated proceeds as outlined below:

2005/06		2006/07	
£000s		Surplus on Collection Funds £000s	Precept Levied £000s
4,121	Gateshead MBC	116	4,112
5,249	Newcastle CC	35	5,377
4,377	North Tyneside MBC	69	4,471
3,079	South Tyneside MBC	10	3,157
5,589	Sunderland CC	30	5,728
865	Alnwick DC	(3)	898
710	Berwick Upon Tweed BC	3	719
1,679	Blyth Valley BC	0	1,721
1,345	Castle Morpeth BC	1	1,380
1,560	Tynedale DC	17	1,598
1,280	Wansbeck DC	10	1,303
<u>29,854</u>		<u>288</u>	<u>30,464</u>

9. 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	
	2005/06	2006/07
£50,000 - £59,999	26	34
£60,000 - £69,999	20	22
£70,000 - £79,999	4	9
£80,000 - £89,999	1	3
£90,000 - £99,999	2	1
£100,000 - £109,999	1	-
£110,000 - £119,999	-	1
£120,000 - £129,000	-	-
£130,000 - £139,999	1	1

10. Members' Allowances

The total of members' allowances paid during 2006/07 was £170,797 (2005/06, £171,364).

11. 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 Income and Expenditure Account:

Government Departments

2005/06 £000s		2006/07 £000s
130,020	Police Grant	105,707
79,518	Revenue Support Grant	20,066
22,623	NNDR	103,950
450	Amending Report Grant	617
18,831	Other Home Office Grants	19,586
181	Other DCLG Grants	181
251,623		250,107

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 8 to the core statements.

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 £2.666m in 2006/07 (£2.740m in 2005/06).

In respect of this: -

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

The Deputy Chief Executive 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 Human Resources Adviser of the Police Authority is also Gateshead Council's Head of Human Resources.

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

A payment of £1.647m was paid to Gateshead Council in respect of contract cleaning in 2006/07 (£1.596m in 2005/ 06).

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.

12. 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 2006/07 payments of £314,938 (2005/06 £296,282).

13. Audit Commission Fees

In 2006/07 Northumbria Police Authority incurred the following fees relating to external audit and inspection:

	2005/06	2006/07
	£000s	£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	3	0
Fees payable in respect of other services provided by the appointed auditor	0	0
Total	89	86

14. 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.

The Authority has commitments to make payments in the forthcoming year as follows:

	31.03.2006	31.03.2007
	£000s	£000s
Commitment Expires		
Less than 1 year	96	58
2 to 5 years	16	50
Over 5 years	193	162
Total	305	270

In respect of these leases the Authority paid £278,461 in 2006/07 (£132,208 2005/06)

15. North East Air Support Consortium

Northumbria Police Authority is 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 2006/07 the share of running costs, reserves and assets are allocated on the basis of the 2005/06 Formula Spending Shares (FSS), as the Consortium agreed to use this basis for the three years 2005/06 to 2007/08. The apportionment will be reviewed for 2008/09.

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

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

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

16. Statement of Movement on the General Fund Balance

The Statement of Movement on the General Fund Balance shows the opening balance, debited with the deficit for the year as per the Income and Expenditure Account and credited with the net additional amount required by statute and non-statutory proper practices to produce the closing General Fund Balance.

The movement on the General Fund Balance is the difference between the amount raised by Government Grants and Local Taxation and the amount which is financed by Government Grants and Local Taxation.

The closing General Fund Balance is the amount available to fund future deficits and appropriate to the Income and Expenditure Account in line with the Medium Term Financial Strategy.

17. Breakdown of the amounts additional to the (surplus)/ deficit on the Income and Expenditure Account to be debited/ (credited) to the General Fund.

2005/06		2006/07 £000s	2006/07 £000s
	Amounts included in the Income & Expenditure Account but required by statute to be excluded when determining the movement on the General Fund Balance:		
(118)	Amortisation of Intangible Fixed Assets	(128)	
(7,348)	Depreciation and Impairment of Fixed Assets	(8,895)	
4,465	Government Grants Deferred Amortisation	6,356	
73	Net Gain / (Loss) on Sale of Fixed Assets	16	
(109,490)	Net Changes made for the Retirement Benefits in Accordance with FRS17	(136,130)	
(112,418)			(138,781)
	Amounts not included in the Income & Expenditure Account but required by statute to be excluded when determining the movement on the General Fund		
	Minimum Revenue Provision for Capital		
1,344	Financing	1,368	
2,766	Capital Expenditure charged to the General Fund Balance	5,095	
4,110			6,463
	Transfers to or from the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year:		
	Voluntary Revenue Provision for Capital		
561	Financing	0	
3,071	Net Transfer to or (from) Reserves	(2,767)	
3,632			(2,767)
(104,676)	Net additional amount required by statute and non-statutory proper practices to be debited or (credited) to the General Fund Balance for the year		(135,085)

18. 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, reserves or prudential borrowing. In 2006/07 the Police Authority did not undertake any borrowing. The Police Authority's capital payments made during 2006/07 are summarised below together with the method of financing:

2005/06 £000	Major Schemes	2006/07 £000	2006/07 £000
0	Ponteland HQ Development	5	
0	Refurbishment of Southwick Custody Suite	118	
33	Premises Improvement Fund	0	
0	Southern Communications Upgrade	165	
2	Newcastle- New Command HQ	8	
19	North Tyneside- New Command HQ	2,863	
0	Relocation of NCC Training Facilities	36	
10	HQ Administration Building	0	
897	Recovery of Non- Operational Space	455	
961			3,650
	Minor Building Works		
67	Upgrading of Residential Accommodation Block 1 and 2	99	
6	Blyth Police Station	44	
0	Viking Park Marine Unit	2	
0	NCC Improvements	4	
132	CCTV in Custody Suites	119	
0	Community Access Police Stations	11	
333	Forcewide DDA Building Modifications	586	
229	Forcewide Cell Refurbishments, Ligature/Fire Precautions	451	
215	Locker and Changing Room Rationalisation	316	
10	Gillbridge Avenue		
103	Energy Management Initiatives	20	
0	HQ Block 42- External Work	22	
0	HQ Phase 2- Electricity Work	27	
4	Collation of Newcastle ASU	0	
64	Collocation of North Tyneside ASU	0	
1,163			1,701

Notes to the Core Statements

2005/06 £000		2006/07 £000	£000
	Computers and Communications		
583	Technology Refresh	453	
512	Airwave	1,591	
326	S7000 Tandem Mainframe Upgrade	0	
5	PIMS- Crime Management	0	
190	Software Licences	55	
8	Personnel Phase 2	30	
168	CRISP	0	
0	ICCS/Airwave Voice Recording System	200	
59	GIS Mapping & Gazetteer	32	
502	Data/Radio/Telephone Network	3,570	
50	Windows 2000 Upgrade	0	
41	Software Distribution	26	
	Professional Standards - Implement National		
81	System	37	
0	Socrates System	17	
66	Integrated Competency Framework - IT Solution	11	
0	Pensions Statement Software	70	
0	National Management Information System	18	
33	Clue 2 Installation- FIB	0	
7	Clue 2 Installation Upgrade- Special Branch	74	
256	Application Server Refresh	208	
153	Windows XP/ 2003 Upgrade	115	
477	E-services	203	
25	Communications Rooms Review	941	
13	Replacement of PROMAT video ID Equipment	8	
409	Single Non Emergency Number Equipment	504	
0	Storage Area Network	84	
3,964			8,247
	Vehicles and Equipment		
3,766	Vehicles and Equipment	3,452	
65	Air Support	40	
3,831			3,492
9,919	Total Capital Payments		17,090
	Financing		
5,193	Capital Grant		11,928
1,960	Borrowing		0
2,619	Revenue		5,095
147	Reserves		27
0	Receipts		40
9,919			17,090

Notes to the Core Statements

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 2006/07 upon the capital financing requirement.

2005/06		2006/07
£000s		£000s
34,161	Opening Capital Financing Requirement	34,216
	Capital Investment	
190	Intangible Fixed Assets (Software Licences)	55
2,124	Building Works	5,351
3,774	Computers and Communications	8,192
3,831	Vehicles and Equipment	3,492
	Sources of Finance	
(5,194)	Government Grants and Other Contributions	(11,995)
(4,670)	Revenue Provision (Includes MRP)	(6,463)
34,216	Closing Capital Financing Requirement	32,848
	Explanation of movements in year	
1,960	Increase in underlying need to borrow (supported by Government financial assistance)	0
(561)	Repayment of Principal Outstanding (Deferred Liability)	0
(1,344)	Minimum Revenue Provision	(1,368)
55	Increase/(Decrease) in Capital Financing Requirement	(1,368)

19. Intangible Fixed Assets

	Purchased Software Licenses £000s
Original Cost	588
Amortisations to 1 April 2006	<u>(238)</u>
Balance at 1 April 2006	350
Expenditure in year	55
Written off to revenue in year	<u>(128)</u>
Balance at 31 March 2007	277

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

20. Tangible Fixed Assets

	Police Houses £000s	Other Land and Buildings £000s	Vehicles and Equipment £000s	Non Operational Surplus £000s	Assets Under Construction £000s	Total £000s
Value at 01/04/2006	5,650	51,080	58,897	2,382	20	118,029
Additions	0	1,846	12,282	0	2,907	17,035
Disposals	(120)	0	(30,000)	(773)	0	(30,893)
Revaluations and Restatements	120	5,799	214	503	(152)	6,484
Value at 31/03/2007	5,650	58,725	41,393	2,112	2,775	110,655
Depreciation at 01/04/2006	(381)	(8,084)	(45,517)	(181)	0	(54,163)
Charge for the Year	(100)	(1,383)	(7,412)	0	0	(8,895)
Disposal Depreciation	0	0	29,101	16	0	29,117
Depreciation at 31/03/2007	(481)	(9,467)	(23,828)	(165)	0	(33,941)
Net Book Value 31/03/2007	5,169	49,258	17,565	1,947	2,775	76,714
Net Book Value 31/03/2006	6,788	42,932	13,381	745	20	63,866

A review of vehicles and equipment owned has been carried out during 2006/07 and a number of assets previously disposed of have been written out.

	Number as at 31/3/06	Number as at 31/3/07
Designated Police Stations	26	26
Police Houses	65	61
Other Police Stations and Buildings	120	120
	<u>211</u>	<u>207</u>
Cars	707	698
Vans and Heavy Goods Vehicles	222	246
Motor Cycles	21	21
Aircraft	2	2
	<u>952</u>	<u>967</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.

21. Stocks and Stores

	31/3/06	31/3/07
	£000s	£000s
Clothing and Other	526	617
Motor Vehicle Parts	174	178
	<u>700</u>	<u>795</u>

22. Debtors

Amounts Falling due in one year : -	31/3/06	31/3/07
	£000s	£000s
Government Departments	5,018	5,921
Inland Revenue	0	0
Other Local Authorities	457	256
Sundry Debtors and Prepayments	5,317	3,472
Car Loans to Employees	7	0
	<u>10,799</u>	<u>9,649</u>
Less Bad Debt Provision	(133)	(132)
	<u>10,666</u>	<u>9,517</u>

23. Short Term Investments

Under the Authority's Treasury Management 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 2 years.

24. Creditors

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

	31/03/06	31/03/07
	£000s	£000s
Government Departments	3,086	3,539
Inland Revenue	4,235	4,450
Other Local Authorities	1,673	1,744
Sundry Creditors	10,491	11,393
	<u>19,485</u>	<u>21,126</u>

25. Long Term Borrowing

Source of Loan	Average Interest Rate Payable	1-2 yrs	2-5 yrs	5-10 yrs	10 yrs+	Total
	%	£000s	£000s	£000s	£000s	£000s
PWLB	6.72	5	3,021	3,423	26,394	32,843

Borrowing from the PWLB was undertaken in the name of Gateshead Council on the Authority's behalf under the pooled arrangements specified in the Treasury Management Service Agreement. This debt was transferred into the Police Authority's name on 31 March 2007. Long Term Borrowing at 31 March 2006 was £34.212m.

26. Provisions

Insurance Provision

The Authority holds an insurance provision to cover the estimated cost of outstanding liability claims as at 31 March 2007 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	2,537
Movement in the Year	(634)
Insurance Provision as at 31 March 2007	<u>1,903</u>

27. Fixed Asset Restatement Account

The fixed asset restatement account records the deficit or surplus arising on the revaluation of assets and is written down by the net book value of assets at disposal.

	£000s
Balance Brought Forward	16,622
Disposals in Year	1,776
Revaluation and restatement in Year	(6,484)
Balance Carried Forward	<u>11,914</u>

28. Capital Financing Account

The capital financing account contains the amounts which are required by statute to be set aside from capital receipts for the repayment of external loans together with the sums of capital expenditure financed from revenue, capital receipts, reserves and capital grants. It also contains the difference between amounts provided for depreciation and that required to be charged to revenue to repay the principal amount of external loans. The balance on the reserve is reduced as loan debt is repaid.

	£000s
Balance Brought Forward	38,284
2006/07 Capital Financing:	
Revenue	5,095
Reserves	27
Usable Capital Receipts	40
Transfer from Government Grants Deferred	6,356
Less Depreciation Provision in Excess of MRP	(7,655)
Balance Carried Forward	<u>42,147</u>

29. Capital Grants Unapplied

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

30. Capital Receipts Unapplied

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

31. Government Grants Deferred

	£000s
Balance Brought Forward	8,339
Less Transfer to Income and Expenditure Account	(6,356)
Grant Received in Year	11,928
Balance Carried Forward	<u>13,911</u>

32. 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 £16m by 31 March 2009. This will allow growth in services identified by the Chief Constable and set out in the Medium Term Financial Strategy to be met without a detrimental impact on the precept and the Authority's medium term financial position.

33. 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 Income and Expenditure Account. Movements during 2006/07 are outlined below:

Internal Insurance Account

	£000s
Premium Received	(1,579)
Death in service	(10)
Movement in insurance provision	(634)
Current year claims settled	951
Revenue Surplus	<u>(1,272)</u>

Insurance Reserve

	£000s
Balance Brought Forward	12,475
Appropriation received from Internal Insurance Account	1,272
Appropriation to Income and Expenditure Account due to reassessment	<u>(1,272)</u>
	<u>12,475</u>

34. 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. Following a review of this reserve, it is considered that the general reserve at 5% of gross expenditure is adequate to cover any risk in this area, and the trading reserve has been transferred to the general reserve.

35. Devolved Budget Reserve

The Police Authority has approved a scheme of financial devolution to ensure that responsibility and accountability for resources rests with those managers who are responsible for service delivery. To make the scheme work and give devolved budget holders the necessary freedom to manage their resources, they are allowed to carry forward underspends. 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.

36. 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.

37. Air Support Unit Capital Reserve

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

38. 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.

39. Airwave Reserve

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

40. Revenue Equalisation Reserve

The revenue equalisation reserve was set up to assist in financing additional revenue expenditure commitments relating to job evaluation during future financial years. Following a review it is considered that the general reserve is adequate to cover any risk in this area, and this earmarked reserve has been transferred to the general reserve.

41. 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.

42. North East Centre for Policing Skills (NECPS) Training Reserve

This reserve represents Northumbria's share of the training reserve held by Durham Police Authority.

43. Other Funds

Balance 01/04/06 £000s		Receipts In Year £000s	Payments In Year £000s	Balance 31/03/07 £000s
169	Police Property Act	25	(28)	166
40	Police Charities	3	(12)	31
209	Total	28	(40)	197

The Police Charities balances are included in the Authority's balance sheet but they are held in trust.

The Police Authority also holds balances in relation to the Retention of Crime Related Funds which are excluded from the Authority's balance sheet. As at 31 March 2007 the balance held in relation to this was £1.287m (£0.871m 31 March 2006).

44. Movement in Reserves

Balance 01/04/06 £000s	Reserve	Gains or Losses £000s	Transfers to/ from other reserves £000s	Balance 31/03/07 £000s
(16,622)	Fixed Asset Restatement Account	4,708	0	(11,914)
38,284	Capital Financing Account	3,863	0	42,147
15,134	Capital Grants Unapplied	(7,320)	0	7,814
9,146	Capital Receipts Unapplied	852	0	9,998
4	Air Support Unit Capital Reserve	4	0	8
31,076	Capital Development Reserve	0	0	31,076
24,000	General Reserve	2,689	0	26,689
12,475	Insurance Reserve	0	0	12,475
335	Trading Reserves	(335)	0	0
2,380	Devolved Budget Reserve	352	0	2,732
535	Air Support Unit General Reserve	(23)	0	512
13,699	Pensions Commutations Reserve	(2,500)	0	11,199
4,092	Support Staff Pensions Reserve	0	0	4,092
1,000	Airwave Reserve	0	0	1,000
524	Revenue Equalisation Reserve	(524)	0	0
0	NECPS Training Reserve	232	0	232
209	Other Funds	(12)	0	197
(2,298,010)	Pensions Reserve	44,400	0	(2,253,610)
(2,161,739)	Total	46,386	0	(2,115,353)

Note to the Cash Flow Statement:

45. Reconciliation of net deficit on the Income and Expenditure Account to the movement in cash

2005/06 £000s		2006/07 £000s	£000s
(101,322)	Deficit on the Income and Expenditure Account		(132,396)
	Non-cash transactions		
7,466	Depreciation	9,023	
(73)	(Gain)/ Loss on sale of fixed assets	(16)	
(263)	Provisions Set Aside	(634)	
(4,465)	Government Grants deferred amortisation	(6,356)	
109,490	FRS 17 Adjustments	136,130	
112,155			138,147
	Items on an accruals basis		
280	(Increase) / Decrease in Stocks	(95)	
(1,770)	Increase / (Decrease) in Creditors	1,090	
13	(Increase) / Decrease in Long Term Debtors	0	
1,468	(Increase) / Decrease in Debtors	928	
(9)			1,923
	Items classified elsewhere in Cash Flow Statement		
2,614	Interest Paid	2,462	
(5,012)	Interest Received	(5,917)	
(2,398)			(3,455)
8,426	Net Cash Inflow from Revenue Activities		4,219

46. Reconciliation of net cash flow to the movement in net debt

2005/06 £000s		2006/07 £000s	2006/07 £000s
0	(Increase)/Decrease in cash per Cash Flow Statement		0
	Less:		
(7,123)	Management of Liquid Resources	4,520	
8,426	Revenue Activities	4,219	
(3,680)	Capital Activities	(10,814)	
2,398	Servicing of Finance	3,455	
<u>21</u>			<u>1,380</u>
(21)			(1,380)

Movement 2005/06 £000s	Movement in Net Debt:	Balance 01/04/06 £000s	Balance 31/03/07 £000s	Movement 2006/07 £000s
616	Financing:			
(1)	Long Term Borrowing	34,209	32,840	(1,369)
(560)	Deferred Liability	3	3	0
(76)	Borrowing due within 1 yr	4	5	1
	Other Funds	209	197	(12)
<u>(21)</u>		<u>34,425</u>	<u>33,045</u>	<u>(1,380)</u>

47. Reconciliation of items under the Financing and Management of Liquid Resources sections to the opening and closing balance sheets

Movement 2005/06 £000s		Balance 01/04/06 £000s	Balance 31/03/07 £000s	Movement 2006/07 £000s
	(Increase) / Decrease in Liquid Resources			
(7,123)	Short Term Investments	125,262	120,742	4,520

48. Analysis of other Government Grants

2005/06 £000s		2006/07 £000s
181	Department for Communities and Local Government (DCLG)	181
18,831	Home Office Grants	19,586
<u>19,012</u>		<u>19,767</u>

Fund Account 2006/07

	£000s	£000s
Contributions Receivable		
From Employer		
Normal	(31,672)	
Early Retirements	0	
Other	(224)	
		(31,896)
From Members	(14,385)	
		(14,385)
Transfers in		
Individual Transfers	(715)	
Other	0	
		(715)
Benefits Payable		
Pensions	44,015	
Commutations and Lump Sum Retirement Benefits	11,622	
Lump Sum Death Benefits	220	
Other	505	
		56,362
Payments To and On Account of Leavers		
Refunds of Contributions	17	
Individual Transfers Out To Other Schemes	335	
Other		352
Sub total for the year before transfer from the police authority of amount equal to the deficit		9,718
Additional funding payable by the police authority to fund the deficit for the year		(9,718)
Net Amount (Receivable) / Payable For The Year		0

Net Assets Statement

	£000s
Contributions Due From Employer	0
Pension Top-Up Grant Receivable From Home Office	0
Unpaid Pension Benefits	0
Amount Due To Home Office	0
Other Current Assets and Liabilities	0

Notes to the Police Officer Pension Fund Statements

1. The Police Officer Pension Fund is managed by the Police Authority.

There are no investment assets and the fund is balanced to nil each year by receipt of a pension top up grant from the Home Office or by paying over the surplus to the Home Office.

2. The accounting policies detailed in this Statement of Accounts have been followed in dealing with items which are judged material in accounting for, or reporting on, the transactions and net assets of the fund. No significant estimation techniques have been adopted.
3. The funds financial statements do not take account of liabilities to pay pensions and other benefits after the period end.

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.

Airwave – The digital radio system used by all police forces in England and Wales.

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

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 Financing Account – An account which contains amounts set aside from the Revenue Account or from capital receipts to finance expenditure on fixed assets or for the repayment of external loans and a number of other capital finance transactions.

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

Capital Grant Unapplied – This account holds the accumulated portion of capital grant not yet applied to finance capital expenditure.

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.

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.

Glossary of Terms

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.

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.

Glossary of Terms

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 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.

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)

