



**STATEMENT
OF
ACCOUNTS**

2007-2008

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Foreword by the Treasurer

The purpose of the Statement of Accounts is to provide details of Merseyside Police Authority's financial activities for the year ending 31st March 2008. The Accounts are prepared in accordance with the Code of Practice on Local Authority Accounting. The statements may not always appear straightforward since the report has to meet technical, legal and professional standards. This forward provides a brief explanation and overview of the financial performance of the Authority and highlights any significant features.

Background

Merseyside Police Authority is an independent body that oversees Merseyside Police. Its principal duty is to provide an efficient and effective police service on Merseyside. The Authority sets annual priorities and targets for Merseyside Police, and sets the budget and a council tax precept to finance expenditure not met by central government funding. It is responsible for managing overall expenditure within budget. However, responsibility for day to day financial management is delegated to the Chief Constable in accordance with the financial framework agreed by the Authority.

The Financial Accounts

The Accounts that follow this foreword provide further detail of the financial affairs of the Authority and comprise: -

- **Statement of Accounting Policies**, the purpose of this statement is to explain the basis of the figures in the accounts. The Accounting Policies adopted in preparing the Accounts accord with nationally accepted principles and are set out in detail on pages 6 to 9;
- an **Annual Governance Statement**, which explains how the Authority has complied with its own Code of Corporate Governance, and also provides assurance on the system of internal control that the Authority maintains and on the way it conducts its affairs;
- an **Income and Expenditure Account** which summarises the net cost for the year of all the functions for which the Authority is responsible, and demonstrates how that cost has been financed from General Government Grants and income from local taxpayers. For comparability and understandability the service expenditure analysis is in accordance with the Best Value Accounting Code of Practice;
- **Statement of Movement on the General Fund Balance** which links the movement in Income and Expenditure Account to the General Fund Balances during the year;
- **Statement of Total Recognised Gains and Losses** summarises all the gains and losses recognised during the year;
- a **Balance Sheet** which sets out the financial position of the Authority on 31st March 2008;
- a **Cash Flow Statement** which summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes; and
- a **Pensions Fund Account** which shows all the transactions that are re-imbursed through the Home Office top up grant.

A glossary of terms has been prepared and is included at page 54 to assist readers to understand the technical accounting terminology.

Foreword by the Treasurer

The format of the accounts has changed for 2007/08; the main changes to the accounts are as follows:-

- (i) there is now a requirement to produce an Annual Governance Statement which is a formal statement that recognises, records and publishes the Authority's governance arrangements. This statement has subsumed the previous Statement on the System of Internal Control;
- (ii) the Income and Expenditure statement summarises the costs of all the functions for which the Authority is responsible, in accordance with BVACOP (Best Value Accounting Code of Practice). For the 2007 BVACOP, Police Services have been merged into one line and there are no separate mandatory or discretionary subdivisions. The figures for 2006/07 have also been merged to show a direct year-on-year comparison;
- (iii) the replacement of the Fixed Asset Restatement Account and the Capital Financing Account by a Revaluation Reserve and Capital Adjustment Account. The Balance Sheet has been restated as at 31st March 2007 and the balances on the old Capital Financing Account and Fixed Asset Restatement Account transferred to the new Capital Adjustment Account. The purpose of these new accounts is contained within the Statement of Accounts;
- (iv) there are changes to the calculation of the impairment element of capital charges. Impairment now has to be charged to the Income and Expenditure Account when there has been a reduction to an asset value due to a general fall in prices as well as any obsolescence or physical damage to an asset. Impairment also has to be shown when there is expenditure incurred on assets that does not lead to an increase in the value of the asset. These charges appear in the Income and Expenditure Account but they are reversed out in the Statement of Movement on the General Fund Balance and have no impact on the overall position;
- (v) there is a change to the way Financial Instruments have to be recognised and measured. Financial Instruments cover both financial assets and liabilities i.e. debtors and creditors etc. as well as derivatives. All financial assets and liabilities need to be valued at fair value less directly attributable transaction costs. The impact of this change has been assessed and there are no changes necessary to the amounts contained in the Balance Sheet; and
- (vi) the new Local Authorities (Capital Finance & Accounting) Regulations 2008 came into force on 31st March 2008. This changes the calculation for the Minimum Revenue Provision (MRP). Previously the way it was calculated meant that any capital spend from borrowing was charged to the revenue account over 25 years in equal instalments. The new regulations remove the requirement to adhere to the prescribed formula and state that there is a duty to make an amount of MRP which the Authority considers prudent. Although the regulations do not define prudence, the underlying principle is that the Authority should ensure that the requirement to set aside a revenue provision to repay debt should not be longer than the life of the asset for which the debt was procured to finance. For 2007 the regulatory method has been used and does not result in any changes in the way the charge to revenue has been calculated.

As a consequence the financial information for 2006/07 where appropriate has been restated to ensure comparability with the new accounting requirements.

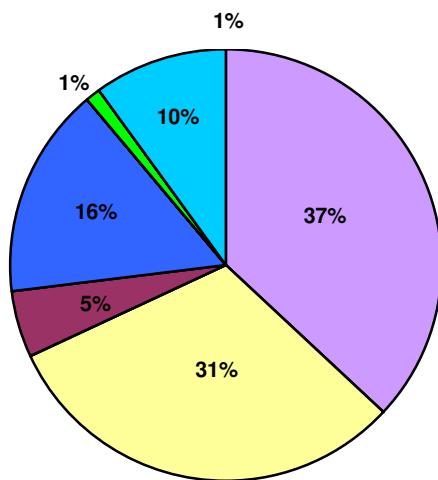
Financial Performance for the Year 2007/08

The Authority's Budget for 2007/08 was constructed under the principle of financial devolution, which allows budget holders to better manage the resources at their disposal and improve accountability to the Chief Constable, and ultimately the Authority.

The net revenue expenditure during 2007/08 amounted to £344.099m. In broad terms the following charts show where the Authority's money came from and how it was spent.

Foreword by the Treasurer

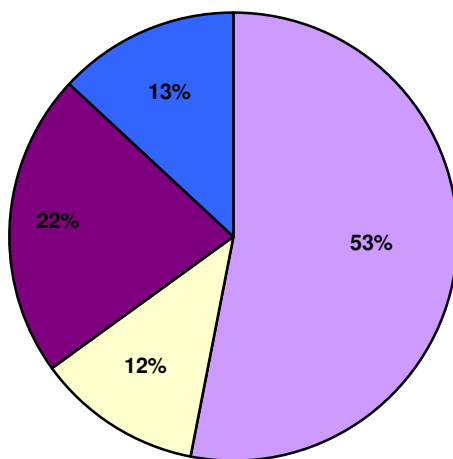
Where the Money Came From



This table sets out where the Authority's resources came from

	£m	%
General Police Grant	127.674	37
National Non Domestic Rate	108.044	31
Revenue Support Grant	18.132	5
Precepts	54.147	16
Collection Fund	(0.676)	-
Total Government Grants and taxation	307.321	
Utilisation of General Balances and Reserves	2.733	1
Specific Grants	34.045	10
Total Resources	344.099	100

How the Money was Spent



This table analyses spending over the main types of expenditure

	£m	%
Police Pay	181.401	53
Police Pensions	41.818	12
Support Staff Pay	77.140	22
Other Expenditure	43.740	13
Total Expenditure	344.099	100

As can be seen above, the Authority received the majority of its income from Government Grants and the precept, which is raised locally and is collected by the District Councils along with their council tax. In addition, in 2007/08 the Authority made a planned contribution to revenue from earmarked reserves and provisions of £2.733m to balance the budget. It is noted that in 2007/08 the Authority was restricted in the amount that it could raise through the precept, as the Government threatened all Local Authorities and Police Authorities with capping if they set precept increases above 5%. The Authority's 2007/08 budget incorporated a precept requirement of £54.147m, an increase of 5% over 2006/07.

Foreword by the Treasurer

The outturn position for 2007/08 shows total net expenditure of £344.099m. This represents a reduction in planned expenditure of £3.275m, i.e. 0.95%, compared to the original 2007/08 budget. The main explanations for this reduction were:-

- (i) a reduction in the level of provision for future insurance claims due to improved risk management arrangements;
- (ii) a reduction in the value of insurance claims settled during the year, reflecting the above;
- (iii) revenue savings achieved across service departments within the Force, through a more efficient use of resources and scrutiny of spending; and
- (iv) the receipt of additional interest payments.

It is noted that the total net expenditure of £344.099m stated above differs to that reported within the Income and Expenditure Account on Page 27, i.e. £456.512m. The reason for this is that the Income and Expenditure Account is required to include a number of accounting entries which do not impact on the Authority's annual revenue account, including the requirement of Financial Reporting Standard (FRS) 17 and the disclosure of employers contributions and retirement benefits.

A significant capital programme was also undertaken in the year, with actual expenditure amounting to £8.666m. The major items of capital expenditure in the year included the continuation of the strategic IT developments, improvements to the Authority's estate and the ongoing vehicle replacement programme. In order to finance the capital programme, the Authority received Home Office funding and utilised part of its capital reserves, with the balance being financed through authorised borrowing. This borrowing was undertaken in accordance with the requirements under the Prudential Code and was well within the indicators approved by the Authority.

The Authority maintains General Balances, Earmarked Reserves and an Insurance Provision in order to ensure that adequate financial resilience is maintained. As at the 31st March 2008 the Authority's General Balances stood at £8.552m, earmarked Reserves totalled £12.981m and an Insurance Provision of £3.964m. In order to ensure that the level of the Authority's General Balances are robust and prudent the Treasurer and Chief Constable have undertaken a review of the level of these balances, taking account of the risks included in the Authority and Force risk registers. The risk based review undertaken in 2007/08 concluded that by the end of 2008/09 General Balances should be £6.630m. This assessment is currently under review to arrive at the current risk based figure. The proposed utilisation of available resources during 2008/09 currently held in General Balances will be subject of a report to the Authority early in the municipal year.

Pension Liabilities

Police Officers and Police Staff are offered retirement benefits by the Authority as part of their terms and conditions of employment. In accordance with Financial Reporting Standard (FRS) 17, the Authority is required to ensure that its accounts reflect the fair value of the assets and liabilities of the schemes and that benefits earned are recognised in the accounting periods in which they arise. As at the 31st March 2008 the Authority had the following net pension liabilities:-

	£m
Police Officers	2,354.380
Police Staff	77.565
Total	2,431.945

In accordance with FRS 17 the Authority has created a (negative) pensions reserve to show the estimated liability in relation to the retirement benefits.

Foreword by the Treasurer

However, considering this note, and the overall impact it has on the balance sheet, it must be remembered that :-

(i) The Police Officer pension scheme is a statutory scheme, as specified by Police Regulations, whereby the Authority pays an employer's contribution of 24.6% of pensionable pay for all serving police officer into the new Police Pensions Account. If there is insufficient money in the Pensions Account to meet all expenditure commitments in any particular year, the Home Office will fund the deficit. In practice, therefore, the significant liability of £2.354billion will be covered by future employer contributions and the receipt of Home Office grant monies.

(ii) Police Staff are entitled to join the Local Authority Pension Scheme (LGPS) as administered by Wirral Metropolitan Borough Council. The disclosed liability of £77.6m in respect of LGPS will be funded by future increases in the employers' contribution to the LGPS.

Further information on the pensions liabilities is provided in the notes to the Pension Fund Account.

2008/09 and Beyond

In respect of 2008/09 the Authority was awarded a net increase in general grants of 2.7% in the Local Authority Finance Settlement 2008/09. For the first time, the Authority was given details of the proposed settlements for each of the following two years. These amount to 2.6% for 2009/10 and 2.6% for 2010/11. Whilst these increases were disappointing and do not meet the inflationary and developmental needs of the Force, this gives the Authority the opportunity to prepare a more certain Medium Term Financial Strategy and plan services for the next three years with more confidence around future funding levels.

Notwithstanding the above, the Authority set a balanced budget, with a 5% precept increase, and has also been able to put in place a reinvestment plan of over £3.1m. This has been achieved primarily through a programme of efficiencies and savings identified by the Chief Constable, in conjunction with the Treasurer.

These resources have been used to increase Police Officer strength by 100 officers, who will be deployed in accordance with the priorities contained in the Strategic Policing Plan. Increasing Police Officer numbers has been a strategic objective of the Authority since 2004, when Members agreed to aim for 600 extra Police Officers on the beat. These additional 100 Police Officers will bring the total number on Merseyside up to 4,557 by the end of 2008/09, an increase of 310 since this objective was put in place. Along with 100 redeployed as a result of civilianisation this means that an additional 410 Police Officers have been made permanently available for front line duties.

Further Information

This publication provides a review of the financial performance of the Police Authority for 2007/08. A summary set of accounts has also been produced and published on the Authority's website, at www.merseysidepoliceauthority.gov.uk. Comments are invited on the usefulness and readability of the Statement of Accounts and the summary document through the website.



Paul Johnson

Treasurer to the Police Authority

26th June 2008

Statement of accounting policies

Accounting policies are the principles applied to show the effect of transactions and events on the financial statements. The financial statements have been prepared in accordance with 'the Code of Practice on Local Authority Accounting in the UK 2007: A Statement of Recommended Practice (SORP)'. Any variations are shown in notes to the accounts or in the principles set out below.

The review and annual update of the SORP has introduced revised and additional requirements on the Authority, and a number of changes to Accounting Policies have been made, the most significant of which are as follows:

- the Capital Financing account and the Fixed Asset Restatement Account have been replaced with a new Revaluation Reserve and a Capital Adjustment Account.
- changes to the calculation of the impairment element of capital charges.
- Financial Instruments i.e. financial assets and liabilities have to be valued at fair value less directly attributable transaction costs.
- the Statement on the System of Internal Control has been replaced by an Annual Governance Statement.

1. Accruals of Income and Expenditure

All transactions of a revenue and capital nature are matched and accounted for in the period to which they relate, that is, in the period in which the goods or services were received and/or consumed.

2. Fixed Assets

Recognition

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 benefit to the Authority for a period of more than one year. This excludes expenditure on routine repairs and maintenance of fixed assets which is charged to the Income and Expenditure

Measurement

Operational land and buildings and other operational assets are included in the Balance Sheet at the lower of net current replacement cost or net realisable value in existing use. Non operational assets are included in the Balance Sheet at market value.

Land and buildings are revalued by a qualified valuer on a rolling programme ensuring all assets are valued every five years.

Land & Buildings

Increases in value of assets are matched by credits to the new Revaluation Reserve. The Revaluation Reserve contains revaluation gains since 1st April 2007 only, the date of its formal implementation. Gains arising before that date have been consolidated into the Capital Adjustment Account.

Impairment

Impairment is charged to the Income and Expenditure Account when an asset suffers an impairment representing a clear consumption of economic benefit (e.g. storm damage) or when there is a downward revaluation of an asset and there is no previously accumulated revaluation gain. Impairment is also charged where there has been expenditure on an asset that has not resulted in an upward revaluation.

Disposals

Receipts over £10,000 from the sale of property, vehicles and equipment are defined as capital receipts. These are credited to a usable capital receipts reserve until they are used to finance new capital expenditure.

Depreciation

Depreciation is provided for on all operational fixed assets with a finite useful life. It is calculated by deducting the estimated residual value from the value of the asset and apportioning the charge over the estimated useful life of the asset. Depreciation is not provided for on land or non-operational buildings.

Statement of accounting policies

Depreciation is calculated as follows:-

Buildings - calculated on a straight line basis over the estimated life of the building (40-75 years depending on the building).

Plant & Equipment - calculated on a straight line basis over 4 years.

Vehicles - calculated on a straight line basis over the estimated life of the vehicle (usually 3-5 years).

Helicopter - the estimated remaining life has been re-assessed to be 4 years and depreciation is calculated on a straight line basis.

Charges to Revenue for Fixed Assets:-

The Income and Expenditure account is charged with the annual provision for depreciation and any impairment in the year. This is a notional charge and does not impact on the amount required to be raised from local taxation.

Depreciation and Impairment costs are reversed out in the Statement on the General Fund Balance. There is, however, a requirement to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement, this is the Minimum Revenue Provision. The new Local Authorities (Capital Finance and Accounting) Regulations 2008 came into force on 31st March 2008. This changes the calculation for the Minimum Revenue Provision but does not have any impact on the charge made in 2007/08.

3. Interest

During the year interest receivable on surplus cash is credited to revenue. A proportion is credited to the Pensions Reserve and Insurance Provision at the year end.

4. Interest Charges

External interest charges are paid on the inherited debt brought forward at 1st April 1986. This is administered by Wirral Metropolitan Borough Council and is being repaid on a straight-line basis in compliance with the Debt Redemption Order 1986.

5. Stocks and Stores

Stocks and stores, where applicable, are included in the Balance Sheet at the lower of cost or net realisable value. Included in the valuation of the stock are a number of vehicle parts which are held on a sale or return basis.

6. Grants

All Government grants and other contributions are accounted for on an accruals basis and recognised in the accounting statements when the conditions for their receipt have been complied with and there is reasonable assurance that the grant or contribution will be received.

Capital grants are initially credited to the Government Grants Deferred Account and may cover all or part of the cost of the asset. The grant is subsequently released over the useful life of the asset to match the depreciation charged on the asset to which it relates.

For expenditure pre 1st April 1990, a Police Specific Loan Charges Grant is received which is set against the debt redemption costs charged to revenue over the life of the asset.

7. Provisions and Reserves

The Police Authority complies with the Code of Practice which sets out that provisions be made for any liabilities or losses which are likely, or sure to be incurred but the amounts or dates on which they arise are uncertain. It also states that they should only be utilised for the purposes for which they were established. All other amounts set aside are classified as reserves.

Full details of the provisions can be found at note 27 to the Core Financial Statements.

Full details of the Authority's reserves are shown at note 29.

Statement of accounting policies

8. Leases

Lease rentals payable under operating leases are charged to the Income and Expenditure account.

There is not full compliance with the SORP as full details of outstanding obligations on rental leases are not disclosed.

9. Financial Instruments (Financial Assets and Liabilities)

All financial instruments are included in the Balance Sheet at amortised cost. For borrowings this means that the amount presented in the Balance Sheet is the outstanding principal repayment and the interest charged to the Income and Expenditure account is the amount payable in the year. Likewise investments are included in the Balance Sheet as the outstanding principal receivable and the interest credited to the Income and Expenditure account is the amount receivable in the year.

10. Overheads

Support Service costs are all included within the cost of Police Services in the Income and Expenditure account. The cost of the Corporate and Democratic Core and of Non-Distributed Costs are shown separately on the Income and Expenditure account.

11. Contingent Liability

The Authority recognises material contingent liabilities in the notes to the Balance Sheet which arise from past events and whose existence will be confirmed only by the occurrence of one or more uncertain future events not wholly within the Authority's control.

12. Pension Costs

The Police Authority participates in two different pension schemes which meet the needs of its officers and police staff. The schemes provide members with defined benefits related to pay and service as follows:-

Police Officers

This scheme is unfunded. From 1st April 2006 new financial arrangements were introduced for police officer pensions. A top up grant is received from the Home Office to meet the shortfall in the cost of normal police pensions. Full details of the pensions accounts are shown on page 33.

Police Staff

Police staff, subject to certain qualifying criteria, are eligible to join the Local Government Superannuation Scheme. The pension costs that are charged to the Authority's accounts in respect of these employees are equal to the contributions paid to the funded pension scheme for these employees. Further costs arise in respect of certain pensions paid to retired employees on an unfunded basis. The funding of this scheme is in accordance with the advice of a professionally qualified actuary, the last valuation having been at 31st March 2007.

All authorities have had to fully adopt the accounting policies contained within Financial Reporting Standard 17 (FRS17) "Retirement Benefits". The principle behind FRS 17 is that an organisation should account for retirement benefits when it is committed to give them, even if the actual benefit will be many years in the future. The liability for the total cost of pensions is included in the Balance Sheet.

Statement of accounting policies

The liabilities of the Merseyside Superannuation Fund attributable to Merseyside Police are included in the Balance Sheet on an actuarial basis using the projected unit method, i.e. an assessment of the future payments that will be made in relation to retirement benefits earned to date by employees, based on assumptions about mortality rates, employee turnover rates, etc, and estimates of projected earnings for current employees.

Statutory provisions limit the Authority in raising precepts to cover the amounts payable by the Authority to the pension fund in the year. In the Statement of Movement on the General Fund Balance this means that there are appropriations to and from the Pensions Reserve to remove the notional debits and credits for retirement benefits and replace them with debits for cash paid to the pension fund and also with the net costs of police pensions under the new accounting arrangements.

13. VAT

Vat is only included in income and expenditure when it is irrecoverable.

14. Redemption of Debt

Under the Local Government Act 1985, outstanding loan debt relating to police services was transferred to Merseyside Police on 1st April 1986. This debt is administered by Wirral Metropolitan Borough Council (WMBC). Loan charges are reimbursed by Merseyside Police to WMBC.

Loan debt incurred from 1st April 1986 is directly administered by Merseyside Police.

Instalments of principal repayments are charged through the statutory Minimum Revenue Provision of 4%. The Police Authority also makes additional voluntary repayments.

15. Estimation

Estimation techniques have been used for the entries in respect of pensions liabilities. These figures are calculated by actuaries and details are shown at note 35 to the Core Financial Statements.

An estimate has also been made for incentivisation income due for the fourth quarter of 2007/08. This is income due from asset recovery; an estimate of £0.328m has been made based on performance to 31st December 2007.

Independent auditor's report to the Members of Merseyside Police Authority

Opinion on the financial statements

I have audited the accounting statements, the police pension fund accounting statements and related notes of Merseyside Police Authority for the year ended 31 March 2008 under the Audit Commission Act 1998. The accounting statements comprise the 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. I am not required to consider, nor have I have considered, information regarding future projections included within the statement of accounts.

This report is made solely to the members of Merseyside 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 2007 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, the police pension fund accounting statements and related notes present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007:

- 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 governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE 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 governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

I read other information published with the accounting statements, the police pension fund accounting statements and related notes and consider whether it is consistent with the audited accounting statements, the police pension fund accounting statements and related notes. This other information comprises the Foreword by the Treasurer. I consider the implications for my report if I become aware of any apparent misstatements or material inconsistencies with the accounting statements, the police pension fund accounting statements and related notes. My responsibilities do not extend to any other information.

Independent auditor's report to the Members of Merseyside Police Authority

Basis of audit opinion

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounting statements, the police pension fund accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the accounting statements, the police pension fund accounting statements and related notes, 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 accounting statements, the police pension fund accounting statements and related notes 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 accounting statements, the police pension fund accounting statements and related notes.

Opinion

In my opinion:

- The 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 2007, the financial position of the Authority as at 31 March 2008 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 2007, the financial transactions of the police pension fund during the year ended 31 March 2008, and the amount and disposition of the fund's assets and liabilities as at 31 March 2008, other than liabilities to pay pensions and other benefits after the end of the scheme year.

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.

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.

Independent auditor's report to the Members of Merseyside Police Authority

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, Merseyside Police Authority made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2008.

Certificate

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

Julian Farmer
District Auditor
29th September 2008

Audit Commission
1st Floor, Block 4
The Heath Business & Technical Park
The Heath
Runcorn
Cheshire
WA7 4QF

Statement of Responsibilities for the Statement of Accounts

1. 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, efficient and effective use of resources and safeguard its assets;
- and approve the Statement of Accounts

2. The Treasurer's responsibilities

The Treasurer is responsible for securing the preparation and production of the Authority's Statement of Accounts which, in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ('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 31st March 2008.

In securing the preparation of the Statement of Accounts, the Treasurer has:-

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

The Treasurer has also:-

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

3. The Responsibilities of the Force Director of Resources

Under the Financial Management Code of Practice, issued under section 39 of the Police Act 1996, the Force Director of Resources has undertaken the responsibility for the day to day management of the financial activities of the Force, and prepared the Statement of Accounts in accordance with the requirements of the Treasurer.

TO THE MERSEYSIDE POLICE AUTHORITY

I certify that the Statement of Accounts set out on pages 14 - 51 reflects the true financial position and the Income and Expenditure of the Merseyside Police Authority for 2007/08 and has been prepared in accordance with the accounting principles and policies set out on pages 6 - 9.

I have authorised the Statement of Accounts for issue on the 26th June 2008. Any events after this date have not been recognised.



Paul Johnson

Treasurer to Merseyside Police Authority

26th June 2008

Annual Governance Statement

1. Scope of Responsibilities

The Merseyside Police Authority ('the Authority') is responsible for ensuring that its business is conducted in accordance with the law and proper standards, that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. The Authority also has a duty 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.

In discharging this overall responsibility, the Authority is also responsible for putting into place proper arrangements for the governance of its affairs and facilitating the exercise of its functions, which includes ensuring a sound system of internal control is maintained through the year and that arrangements are in place for the management of risk.

The Authority has approved and adopted a code of corporate governance, which is consistent with the principles of the CIPFA/SOLACE Framework: Delivering Good Governance in Local Government. A copy is available on the Authority's website at www.merseysidepoliceauthority.gov.uk or can be obtained from Merseyside Police Authority, PO Box 101A, West House, Mercury Court, Tithebarn Street, Liverpool, L69 2NU.

This statement explains how the Authority has complied with the code and also meets the requirements of Regulation 4(2) of the Accounts and Audit regulations 2003 as amended by the Accounts and Audit (Amendment) (England) Regulations 2006 in relation to the publication of a statement on internal control.

2. The Purpose of the Governance Framework

The governance framework comprises the systems, processes, culture and values by which the Authority is directed and controlled, and the activities through which it accounts to and engages with the community. It enables the Authority to monitor the achievement of its strategic objectives and to consider whether those objectives have led to the delivery of appropriate, cost-effective services, including achieving value for money.

The system of internal control is a significant part of that framework and is designed to manage risk to a reasonable and foreseeable level. It cannot eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide a reasonable, and not an 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 effectively, efficiently and economically.

The governance framework has been in place at the Authority for the year ended 31st March 2008 and up to the date of approval of the Statement of Accounts.

3. The Governance Framework

Although the Chief Constable is responsible for operational policing matters, the direction and control of police personnel, and for putting in place proper arrangements for the governance of the Force, the Authority is required to hold him to account for the exercise of those functions and those of the persons under his direction and control. It therefore follows that the Authority must satisfy itself that the Force has appropriate mechanisms in place for the maintenance of good governance, and that these operate in practice.

The Authority developed and approved a Code of Corporate Governance which incorporated the six core good governance principles in the local context, and set out the arrangements for reviewing their effectiveness. The key elements of the systems and processes that comprise the governance arrangements within the Authority and Force are detailed below under the appropriate core principles of good governance:-

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(i) The Authority aims to focus on its purpose and on outcomes for the community to create and implement a vision for the local area.

To achieve this, the Authority:-

- considered and developed its purpose and vision, and promoted it through the annual Policing Plan;
- consults with partners (e.g. Crime and Disorder Reduction Partnerships) to ensure that partnerships were underpinned by a common vision of their work that was understood and agreed by all parties;
- ensures that the organisation's vision, strategic plans, priorities and targets are developed in consultation with the local community and other key stakeholders, and that they are clearly articulated and disseminated;
- published annual reports, including the Policing Plan, Budget, Statement of Accounts and individual Committee reports, which communicated the Authority's activities and achievements, its financial position and performance;
- set and published performance targets within the annual Policing Plan to measure the quality of service for users and the Performance Scrutiny and Review Committee monitored performance against the targets set;
- the Police Authority Support Unit, in conjunction with the Force, made sure that the information needed to review service quality effectively and regularly was available to its Members via the relevant Committees;
- put in place effective arrangements to improve service delivery in accordance with the Strategic Policing Plan;
- considered how best to achieve value for money and ensured that the Authority or partnerships had the information needed to review value for money and performance effectively.

(ii) The Authority aims to take informed and transparent decisions which are subject to effective scrutiny and risk management arrangements.

To achieve this, the Authority:-

- has continued to improve its arrangements to challenge and scrutinise Force performance and compliance with other requirements, specifically through its annual target setting process and reporting to its various Committees;
- improved the transparency and effectiveness of its mechanisms for documenting and evidencing decisions, recording the criteria, rationale and considerations on which decisions were based;
- has in place arrangements that safeguarded Members and employees against conflicts of interest and appropriate processes that ensure that they continue to operate in practice;
- developed a more effective audit role of the Resources & Strategy Committee, in accordance with CIPFA guidance;
- ensured that effective, transparent and accessible arrangements were in place for dealing with complaints;
- ensured that Members making decisions were provided with information that was fit for purpose, i.e. relevant, timely and gave clear explanations of technical issues and their implications;
- ensured that professional advice on matters that had legal or financial implications was available and recorded in advance of decision making and was used appropriately;
- ensured that risk management was embedded into the Authority, with the Resources and Strategy Committee given responsibility for risk management arrangements and the appointment of a lead Member for Risk Management. It was also ensured that Members and officers at all levels recognised that risk management was part of their job;
- ensured that arrangements were in place for whistle blowing to which employees and all those contracting with the Authority had access; and

Annual Governance Statement

- recognised the limits of lawful action and observed both the specific requirements placed upon them, as well as the requirements of general law, and in particular to integrate the key principles of good administrative law, i.e. rationality, legality and natural justice into their procedures and decision making processes.

(iii) The Authority aims to ensure Members and officers working together to achieve a common purpose with clearly defined functions and roles.

To achieve this, the Authority:-

- has a clear statement of the respective roles of individual Members responsibilities and the Authority's approach towards putting this into practice;
- has in place a scheme of delegation, including a formal schedule of those matters specifically reserved for collective decision of the Authority, taking account of relevant legislation, and ensured that this was monitored and updated when required;
- regularly reviews and updates Contract Standing Orders and Financial Regulations, which clearly defined how decisions are to be taken and the processes and controls required to manage risks;
- has in place a Chief Executive who is responsible for the operational management of the Police Authority;
- has in place a Chief Constable who is responsible for the operational management of the Force;
- has in place a Treasurer (the Section 151 officer) who is responsible to the Authority for ensuring that appropriate advice is given on all financial matters, for keeping proper financial records and accounts, and for maintaining an effective system of internal financial control;
- has in place a Monitoring Officer who is responsible to the Authority for ensuring that agreed procedures are followed and that all applicable statutes and regulations are complied with;
- has developed protocols to ensure that the Chairman and Chief Executive have a shared understanding of their roles and objectives;
- has in place protocols that ensure effective communication between Members and officers in their respective roles;
- established the terms and conditions for remuneration of Members and Chief Officers and the structure for managing the process;
- ensured that effective mechanisms existed to monitor service delivery, via its Committee Structure;
- seeks to ensure that when working in partnership, that Members were clear about their roles and responsibilities, both individually and collectively, in relation to the partnership and to the Authority; and
- seeks to ensure that when working in partnership that there was clarity about the legal status of the partnership and that representatives, or organisations, both understood and made clear to all other partners the extent of their authority to bind their organisation to partner decisions.

(iv) The Authority aims to promote its values and demonstrate the values of good governance through upholding high standards of conduct and behaviour.

To achieve this, the Authority:-

- ensures that its leadership sets a tone for the organisation by creating a climate of openness, support and respect;
- has put in place arrangements to ensure that systems and processes are designed in conformity with appropriate ethical standards, and monitor their continuing effectiveness in practice;

Annual Governance Statement

- ensures that standards of conduct and personal behaviour expected of Members and employees, of work between Members and employees and between the Authority, its partners and the community are defined and communicated through codes of conduct and protocols;
- maintains and promotes shared values including leadership both for the organisation and employees reflecting public expectations, and communicates these to Members, employees, the community and partners;
- has in place an effective Standards Committee, including the publishing of an Annual Report on the Standard Committee's activities in 2007/08;
- uses its vision and values to act as a guide for decision making and as a basis for developing positive and trusting relationships within the Authority; and
- in pursuance of the objective(s) of a partnership, seeks to agree a set of values against which decision making and actions could be judged.

(v) The Authority aims to develop the capacity and capability of Members and officers to be effective in their roles.

To achieve this, the Authority:-

- provides an induction programme to all new Members, which is tailored to their individual needs, and provides opportunities for all Members and officers to update their knowledge on an ongoing basis;
- ensures that the statutory officers have the skills, resources and support necessary to perform effectively in their roles and that these roles are properly understood throughout the organisation;
- assesses the skills required by Members and statutory officers and gives a commitment to develop those skills to enable roles to be carried out effectively;
- develops skills on a continuing basis to improve performance including the ability to scrutinise and challenge and to recognise when outside expert advice is needed; and
- ensures that effective arrangements are in place for reviewing the performance of the Authority as a whole and agrees an action plan which is aimed to address any training or development needs.

(vi) The Authority aims to engage with local people and other stakeholders to ensure robust public accountability.

To achieve this, the Authority:-

- makes clear to themselves, all staff, the community and stakeholders, what they were accountable for and to whom;
- ensures that arrangements are in place to enable the Authority to engage with all sections of the community effectively. These arrangements recognise that different sections of the community have different priorities and established explicit processes for dealing with these competing demands;
- seeks to ensure that clear channels of communication are in place with all sections of the community and other stakeholders including monitoring arrangements to ensure that they operate effectively;
- holds meetings in public unless there are good reasons for confidentiality;
- has in place a clear policy on those issues on which the Authority meaningfully consults with the public and service users, including a feedback mechanism;
- publishes an annual Policing Plan giving information on the Authority's vision, strategy, plans and financial statements as well as information about its performance, achievements and the satisfaction of service users; and
- ensures that the Authority as a whole is open and accessible to the community, service users and its employees and makes a commitment to openness and transparency in all its dealings, including partnerships subject only to the need to preserve confidentiality in those specific circumstances where it is proper and appropriate to do so.

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4. Review of Effectiveness

The Authority has responsibility for conducting, at least annually, a review of the effectiveness of the governance framework, including:-

- the system of internal audit; and
- the system of internal control.

These reviews have been completed/informed by the work of the Authority, its Membership and Committees, the Executive Officers within the Authority, the Chief Constable and Internal Audit, who have the responsibility for the development and maintenance of the governance environment. In addition, comments made by the Audit Commission and Her Majesty's Inspector of Constabulary have informed this review.

The Authority

The Authority has responsibility for approving the local Code of Corporate Governance and for undertaking an annual review of its effectiveness. The Authority received and approved the Annual Governance Statement at the same meeting in June that it approved the annual Statement of Accounts. The Annual Governance Statement is signed jointly by the Chair of the Authority, the Chief Executive, the Treasurer and the Chief Constable.

During the course of the year the Authority completed the Police Authority Self Assessment Framework (PASAF), which helped identify the Corporate Governance arrangements in place. The PASAF will be reviewed and inspected by the Home Office during 2008/09.

In addition, the Authority's adherence to the Code of Governance and system of Internal Control is fundamentally based around its Committee structure, which is supported by Codes of Conduct, Procedural and Contract Standing Orders, Financial Regulations, a framework of regular management information, administrative procedures (including segregation of duties), management supervision, Force Financial Instructions, and a scheme of delegation and accountability.

The Authority discharges these duties through its committee structure, and the key elements in terms of the Corporate Governance arrangements and internal control environment were included as follows:-

Resources & Strategy Committee - ensures that the Authority is able to monitor and scrutinise the Force's use of resources both in terms of financial and people resources. It is responsible for the development and implementation of the Medium Term Financial Strategy. It seeks to work in partnership with the Force to determine resource usage and ensures that these are in accordance with the Authority's Standing Orders, Scheme of Delegation and Financial Regulations. It also ensures that responsibilities of both the Authority and Force associated with Risk Management and Health & Safety are met and developed further an effective audit role.

Performance Scrutiny & Review Committee - ensures that the Authority is fully aware and is able to independently exercise its oversight role with regard to policing performance. It recommends targets for the Local Policing Plan and monitors and scrutinises the Force's performance against the approved Plan. It promotes and supports improvement and seeks to work in partnership with the Force to improve performance in line with the Strategic Policing Plan. It also considers and recognises good performance and ensures that work associated with data quality and recording is monitored and that progress is maintained.

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Service Improvement Committee - ensures that a programme of service improvement reviews is undertaken during the year. The reviews are undertaken in consultation with the Chief Constable and take into account the work of other committees of the Authority. The criteria for determining the reviews takes account of overall force performance, value for money concerns and risk

Professional Standards & Complaints Committee - ensures that the Authority is fully aware of and able to exercise its oversight role with regard to police professional standards. It ensures that the Authority fulfils its statutory obligations and that the Force sets a standard of policing, particularly in the handling of complaints and misconduct thus maintaining and improving the trust and confidence between the police and the public.

Community Safety & Liaison Committee - ensures that the Authority monitors and scrutinises both the Force's and its own arrangements with regard to engaging with the community. Having regard to these arrangements it ensures that these are kept up to date and relevant for communities across Merseyside and ensures that the findings are fed into the policing plan process and help inform the strategic priorities of the Authority. This Committee also ensures that the Authority meets its statutory obligations in respect of equalities legislation and Independent Custody Visiting. In addition, the Committee also monitors and scrutinises aspects of neighbourhood policing, partnership working and all aspects of a citizen focused approach to policing.

Equality and Diversity Sub Committee - the Authority has established an Equality and Diversity Sub Committee, which reports to the Community Safety & Liaison Committee. The Sub Committee meets quarterly to receive and consider issues on matters relating to the Authority's responsibilities in accordance with the Race Relations Act, Disability Discrimination Act, and the Childrens Act. It also assists the ongoing development and implementation of the Authority's and the Force's Equalities Schemes and monitors progress against the objectives contained within the schemes. In addition it receives feedback on the work of the Merseyside Police Disability Steering Group and the work of the Independent Advisory Group, as well as feedback on national initiatives and developments that impact on the work of the Sub-Committee.

Estate Strategy Committee - ensures that progress is made with regard to the implementation of the Estate Strategy and oversees the short and medium term operational delivery of that Strategy. The Committee also ensures the achievement in respect of value for money in all property matters and ensures that the management of the Authority's Estate is done efficiently, both in terms of strategic estate management and the day to day operational requirements. It also deals with all planning issues relating to the development of the Estate and considers and makes recommendations regarding any proposed purchases and disposals of estate assets.

The Standards Committee - has delegated authority to consider the Government's Model Code of Conduct and advise the Authority on the adoption of an appropriate Local Code of Conduct for Members and/or Officers of the Authority. The Committee's work in 2007/08 has largely been based on the twin aims of promoting the high standards expected of Police Authority Members and ensuring the revised Code of Conduct is fully understood, operational and applied by Members. It also considered two complaints made to the Standards Board for England regarding Member's conduct; however, both complaints were rejected by the Board.

In accordance with Section 5, Local Government and Housing Act 1989, the Chief Executive is appointed as the Authority's **Monitoring Officer**. This officer is responsible for ensuring that, at all times, the Authority acts within its legal powers and advises the Standards Committee accordingly. Similarly, in accordance with Section 151 of the Local Government Act 1972, the **Treasurer** is the officer responsible for ensuring the proper administration of the Authority's financial affairs.

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Police Authority Support Unit – is governed by a Service Level Agreement between the Authority and Knowsley Metropolitan Borough Council (the 'Lead' Authority). The Police Authority is supported by the Chief Executive, the Treasurer and Officers from within the Police Authority Support Unit all employed by the Lead Authority. The Support Unit provides the following:-

- Strategic Financial Advice;
- National and Regional Officer representation;
- Committee and Administrative Support;
- Internal Audit;
- Consultation and Communication arrangements;
- Strategic Policy support; and
- Performance Management.

In addition, the Lead Authority provides services in relation to Legal Advice, Human Resources, Estates Management, Insurance and Treasury Management.

The Authority also has a Risk Management Strategy Group, led by the Authority's Treasurer which develops and implements an overall Risk Management Strategy. The group reported to the Resources and Strategy Committee during the year.

Performance Team - supports members in their scrutiny of Force performance. The Team undertakes independent verification of information provided by the Force, both in respect of information which forms part of the national performance assessment framework and wider performance issues. The Team contributes to APA policy groups in respect of performance issues and reviews the work of other police authorities to determine best practice in the role of monitoring performance.

In addition to reviewing committee reports submitted by the Force to the Performance Scrutiny and Review Committee, the Team monitors other areas of performance on a monthly basis, e.g. Force sickness levels, NCRS and NSIR compliance, along with progress against action plans arising from Force inspections. During 2007/08, the Team coordinated the consultation process for target setting for the 2008/09 policing plan. A process was developed with the Force whereby performance information was shared with partners and agreement gained in respect of targets for priority areas, taking into account any shared resources that were available.

The Force

The development and maintenance of the system of internal control within the Force is undertaken by the Chief Constable, in consultation with the Treasurer. In particular, the system includes:-

- comprehensive financial accounting systems;
- setting targets to measure financial and other performance;
- the preparation of regular financial reports which indicate actual revenue and capital expenditure against the forecasts;
- an anti fraud strategy statement (including procedures for reporting and investigating suspected irregularities); and
- risk management systems.

In addition, policy and decision making within the Force ultimately rests with the Chief Constable. However, a number of corporate management controls are in place to support him in this process:-

Chief Officers Group (COG) - chaired by the Chief Constable and attended by the Chief Officers. The group is responsible for the control and direction of the Force, in accordance with the requirements of the Police Act. It also ensures that the Force Strategy is implemented.

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The terms of reference are :-

- to define, communicate and implement the Force Strategy;
- to develop and approve supporting strategies which will contribute to the overall achievement of the Force Strategy;
- to determine the overall operational and organisational structure of the Force;
- to determine and oversee the financial and budgetary structure of the Force;
- to determine senior officers' succession planning (superintending ranks and chief inspectors);
- to commission new pieces of work to address the Force's priorities;
- to operate as approval body for the establishment of corporate projects; and
- to consider the Force response to most significant risks as identified via the Risk Management Group, Strategic Co-ordination and Risk Group for consideration by the Chief Constable.

Business Management Group (BMG) - chaired by the Chief Constable and attended by senior managers, heads of department, trade unions and staff associations. The group is the Force's main policy approval body, as well as considering other aspects of organisational change. The terms of reference are:-

- To operate as the Force's policy approval body;
- To consider the recommendations from Service Improvement Reviews before being remitted to Service Improvement Committee;
- To consider reports from HMIC and other external bodies which affect the policing of the Force and consider the proposed Force response; and
- To act as a consultative forum for organisational change.

Risk Management Group – the Force hold a bi-monthly Risk Management Group meeting, which is chaired by the Deputy Chief Constable and involves relevant departmental heads and Area Commander Representation. The group's primary responsibilities are to:-

- Oversee the development of the Risk Management Policy and framework and its roll-out to the Force;
- Identify significant risks that are likely to have an impact on the achievement of Force objectives and those operational risks with Force-wide implications;
- Develop and maintain the Force risk profile;
- Determine the risk appetite; and
- Determine appropriate risk control measures to mitigate high scoring risks.

Reputation Risk Group – chaired by the Deputy Chief Constable and attended by Head of PSD, Head of PSU, Force Solicitor, Head of SDD, Risk Manager, Head of IMD and Press Office Manager. The group is responsible for:-

- Identifying risks that may have a significant impact on the Force's reputation;
- Agreement and development of the Force Reputation Risk Register; and
- Ensuring all reputation risks had effective control strategies in place to mitigate risks.

Strategic Co-ordination and Risk Group (SCRG) - chaired by the Deputy Chief Constable and attended by Chief Officers, Head of Strategic Development, Force Risk and Business Managers. The group operates as the Force's strategic risk group, and also has particular focus on performance and co-ordination of development activity. The terms of reference are:-

- To operate as the Force Strategic Risk Group, considering those risks assessed as the most
- To agree a prioritised risk register;
- To consider significant performance risks and agree appropriate responses; and
- To consider thematic inspections undertaken by the Corporate Audit Team (CAT) and agree the programme of audits.

Risk Management Arrangements - the Force Risk Manager has introduced a three-tiered approach to managing risks within the Force – at a strategic level, which involves the management of high level, strategic risks that impact on the achievement of Force objectives, as well as the management of the Force's reputational risks and at an area/departmental level where identified risks relate to local/operational activities specific to an area/department.

The Risk Manager visits all Command Teams in BCUs and Senior Management Teams in departments to promulgate information regarding risk management practices at a local level. In addition, a number of Risk Management Seminars are held to provide nominated Risk Champions with training in how to identify, assess and address risks at a local level. All BCUs and departments now have in place a local risk register, all of which have been quality assured by the Risk Manager. The process of managing local risks is monitored quarterly and subject of regular review of the process.

The Force and Authority have adopted a similar risk management process to ensure that risks are identified, assessed, addressed and managed through the identification of mitigating controls in a consistent manner. The Force and Authority have produced a joint Strategic Risk Register, which details the overarching strategic risks that apply to both the Force and Authority. Risk Management has been a key influence in the 2008/09 budget process in terms of determining the level of general balances/ reserves, as well as influencing the Policing Plan process for 2008/09.

The Force's Strategic Risk Register is also used to inform the Corporate Audit Team programme of work in terms of providing an assurance framework that risks are being effectively managed through suitable and appropriate control strategies and actions. Chief Officers approve all audit activity in-Force through SCRG.

Corporate Audit Team – is an independent internal auditing function charged with protecting the integrity of the Force by carrying out audits and inspections in key areas where there is an identified risk or potential for abuse, major operational failure or a loss of public confidence and satisfaction. The team provide independent and objective assurance to the Deputy Chief Constable and other senior managers within the Force that the risks are being mitigated to an acceptable level and report where they are not. During 2007/08 the team undertook a number of inspections, including Domestic Abuse, Hate Crime and Business Continuity.

Force Performance Analysis Team - monitors Force performance against the Performance Indicators set in the annual Policing Plan. On a six weekly basis a performance report is submitted to the Authority's Performance Scrutiny and Review Committee outlining performance against target, comparison with the previous years performance and performance against peers in our Most Similar Force group. Such performance monitoring provides the Force with an early indication of emerging issues thus enabling timely action plans to be implemented.

Within the Force corporate performance meetings are held on a regular basis to monitor performance. An Area Performance meeting is held on a monthly basis along with a two weekly interim meeting. This enables the main Tier one Performance Indicators in relation to crime, detections and Citizen Focus at a Force and BCU level to be carefully scrutinized. Further it provides the Assistant Chief Constables the opportunity to task Area Commanders and Heads of Departments. On a monthly basis a Departmental performance meeting chaired by the Deputy Chief Constable is held that focuses on each departments performance against their respective Performance Indicators.

TRUE Programme - was set up to examine the culture of the force and a working group, consisting of representatives from staff associations, unions, Professional Standards Department and support networks, was given responsibility for delivering against the objectives of the programme.

Under the leadership of the Chief Constable, the TRUE programme introduced a set of shared Leadership Standards and Values in order to define what we expect from our staff before we can change individual and subsequently, organisational behaviour.

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The Force Values and Standards and the Organisational and Public expectations of what Merseyside Police stands for have to be implemented by all staff within the organisation. The development of the Leadership Standards and Values support a culture aimed at achieving sustainable success. They are the underpinning platform on which we take forward our aim of being the Best Police Force in the Country.

The Leadership Standards and Values are owned and adopted by the force to create a culture where we embrace diversity and treat each other with respect. They are therefore integrated into the PDR process and form an integral part of our day to day activities.

Force Diversity Steering Group – has been established and is chaired by Deputy Chief Constable, who is also the Equality Champion for the Force. The group meets quarterly and is attended by members of the Police Authority. It reports and discusses the following four strategic themes, Promotion of Equality (i.e. Race Equality Scheme and Recruitment & Retention); Organisational Development (i.e. Training and Planning/Scanning; Citizen Focus (i.e. Professional Standards, Operations Policy and Communications & Marketing; and Community Cohesion (i.e. Community Relations).

During 2007/08, annual reviews of the Force Disability Equality Scheme and Gender Equality Scheme were undertaken. Also the Diversity Strategy was revised and publicised across the Force.

Staff Support Network Groups – are also well established within the Force which provides Equality & Diversity support. They are the Black Police Association, the Gay & Lesbian Support Network, the Disabled Staff Support Group, the Christian Police Association, the Part-time Staff Support Network and the Women's Support Network. Police Officers and Police Staff are members of all of the above support network groups.

Professional Standards Department – the conduct and behaviour of police officers within the Force is governed by the Police Act and by various Police Regulations. In particular, the Police (Conduct) Regulations 2004 contains the current Code of Conduct by which officer conduct (both on and off duty) is judged. The Professional Standards Department (PSD) reinforce these standards. The Department owns and reinforces Force policies in relation to Random Drugs Testing, Gifts and Hospitality, Pocket Notebooks and Business Interests, to ensure high standards of behaviour are maintained. Additionally the Department has a proactive function whereby key messages are delivered to staff by a variety of means such as visits to the workplace, Professional standards inputs and training to supervision, the Back2Basics poster campaign the departmental intranet page and a newsletter. All these communication methods highlight current issues and promote best practise and high standards.

The Force monitors the professional standards of its officers in a number of ways. All reports of misconduct are centrally assessed at PSD ensuring there is a consistency of approach to misconduct and to ensure investigators are fully aware of an officer's conduct history. Misconduct hearings are wherever possible chaired by the same Chief Officer to ensure consistency of approach and to give Chief Officers an holistic overview of cases heard at panel. To reinforce this uniform approach panel members are currently being trained in participating on panels. The Referred Officer Scheme captures information about officers receiving multiple complaints.

Where there are breaches of the Code of Conduct the Force undertakes investigations (and where appropriate misconduct proceedings) aiming at all times to be proportionate, fair and timely. Subject to the current regulations the present procedures attempt to mirror the proposed Taylor Report system expected to be in place by Autumn 2008. The Force is currently preparing for this new conduct regime. Central to the change will be new regulations and guidance containing a new Standard of Professional Behaviour. The Force will promote this new aspirational code and, building on the work already done, will use the new system to bring about the cultural change envisaged by Lord Taylor as necessary within the service and further improve the professional standards of Merseyside Police.

Annual Governance Statement

Professional Standards Unit (PSU) - is a covert investigating unit aimed at protecting the organisation's integrity and combating corruption by monitor intelligence and information about individuals and their behaviour, in order to protect the Force from corruption and ensure the Force's integrity is maintained. It also conducts regular monitoring and auditing of the various Force computerised systems to ensure compliance with the law and policy. This unit is widely seen as a national leader. It owns the policy "Doing the Right Thing" that relates to staff reporting of wrongdoing within the organisation.

Internal Audit

The primary role of Internal Audit is to give an assurance to the Authority, through the Resources and Strategy Committee, on the effectiveness of the controls in place to manage risks. To this end the Treasurer delivers an annual opinion on the effectiveness of the controls reviewed by the Internal Audit Team. This annual opinion is one of the key sources of evidence in support of the Annual Governance Statement. Any issues identified during an audit were dealt with initially in the relevant audit report, with any major control weaknesses initially being reported to the Treasurer and the Force. Significant governance failures identified through general audit work are referred to the Resources and Strategy Committee.

In order to ensure an independent review of the adequacy, or otherwise, of the corporate governance arrangements and the system of internal financial control the Authority maintains an Internal Audit function. The Internal Audit function, under the independent control and direction of the Treasurer, carries out an independent examination of accounting, financial and other operations of the Authority, thereby reviewing and reporting upon:-

- the soundness and adequacy of financial management and other internal control systems and their implementation;
- the extent of compliance with and the financial effect of established policies, plans and procedures;
- the extent to which assets and interests are accounted for and safeguarded from losses due to fraud, waste, extravagance and inefficiency;
- the arrangements for assessing and controlling risks, both financial and business related; and
- the suitability and reliability of other management data developed within the Authority.

The Financial Services Manager is responsible for the day to day management of the Internal Audit Service, and reports directly to the Treasurer, who has the right to report directly to the Chief Executive and the Chief Constable if required. Direct access to the Chair of the Authority and the Chair of the Resources & Strategy Committee is also sanctioned if considered appropriate.

The terms of reference for the Internal Audit Service require that work is conducted in accordance with professional standards, including those as set out in the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Internal Audit in Local Government. In addition, Internal Audit is subject to regular reviews by the District Auditor, the findings of which are reported upon within his Annual Management Letter.

Internal Audit's plans and performance are reported annually to the Resources and Strategy Committee. The Internal Audit plan for 2007/08 included the review of key financial systems such as payroll and pensions. In addition, it took into account a broader view of business risks not just financial risks, e.g. the production and reporting of Statutory and Local Performance Indicators and Health & Safety management arrangements. Many of the reviews undertaken during the year, whilst identifying a number of weaknesses and making recommendations for possible improvement, have not identified any areas of major concern. Some areas reviewed were found to be particularly well controlled, with only minor recommendations being required to further enhance the control environment. On the basis of all the systems reviewed and reported on by Internal Audit during the year, it is felt that the internal financial control systems in place are generally operating satisfactorily.

However, it is noted that a number of issues have arisen in specific areas which have led to a concentration of Internal Audit resources to ensure adherence to the requirements of the Internal Control environment. These issues were brought to the attention of the Authority by the Treasurer immediately he became aware of them. As a result of the internal reviews undertaken to date, the Force have substantially improved the control environment in these areas. The outcome of these reviews has and will be reported in the Annual Internal Audit outturn report.

In accordance with the Accounts and Audit (Amendment) Regulations 2006 (Amended) the Authority once again conducted a review of the effectiveness of its system of Internal Audit. Consequently, the Authority's Internal Audit Service undertook a self assessment of compliance with the CIPFA Code of Practice for Internal Audit in Local Government in the United Kingdom 2006, using the self assessment checklist within the code to form the basis of the judgment. The Treasurer and the Financial Services Manager have completed the self assessment and have concluded that the Internal Audit Service overall complies with internal audit standards within the Code of Practice.

However, it did identify areas where improvements could be made. In addition, the External Auditor, i.e. the Audit Commission, is currently undertaking a review of the self assessment and will report his findings shortly to the Authority. To reflect the positive relationship is reflected in the fact that the Audit Commission has adopted a managed audit approach with the Authority, with the Audit Commission placing greater reliance on the work of Internal Audit in order to facilitate the provision of the most effective audit of the Authority. It is proposed that further details will be provided in the Internal Audit outturn report submitted to the Resources & Strategy Committee in July. The report will include a detailed action plan to address any issues identified.

External Audit

The Audit Commission also audits the Authority's Governance arrangements and the system of internal financial control, via its audit of the Authority's financial statements, the Police Use of Resources Assessment (PURE), the Annual Governance Statement and performance management arrangements, as well as undertaking thematic based reviews. In 2007/08 data quality was reviewed and grades of excellent and good were achieved. The Audit Commission are currently finalising the PURE for 2007/08 and the review of the system of Internal audit. In addition, the Audit Commission will shortly commence their audit of the Authority's financial statements and Annual Governance Statement relating to 2007/08. The Audit Commission plans and reports, including the Annual Governance Report and the Annual Audit Letter, are considered by the Authority and the Resources

As stated the Audit Commission are required to assess how well Police Authorities manage and use their financial resources by providing scored judgements on the Authority's arrangements in five specific areas. This is known as PURE and was completed for the first time in 2006, looking back at 2005/06. The assessment focuses on the importance of having sound and strategic financial management to ensure that resources are available to support the Authority's priorities and improve services. It covers financial reporting, financial management, financial standing, internal control and value for money. Each judgement area is given a score between 1, i.e. inadequate performance and 4, i.e. performing strongly, and the overall use of resources score is based on combining auditors' scores for each of the areas covered.

In 2006/07 the Audit Commission scored the Authority an overall 3, i.e. consistently above minimum requirements – performing well. This was an improvement on the overall score of 2, i.e. adequate performance, obtained in 2005/06. The individual score for the internal control area was a 2. The Authority and Force have produced an action plan to address the issues raised by the Audit Commission and are currently awaiting the results of the 2007/08 PURE assessment.

Annual Governance Statement

Her Majesty's Inspectorate of Constabulary (HMIC)

The Home Office appoints a number of Inspectors of Constabulary to inspect and report to the Secretary of State, in the first instance, on the efficiency and effectiveness of police forces. The HMIC carry out periodic thematic inspections on strategic topics determined by the Home Office and the inspection of BCU's, as well as monitoring Force performance on an ongoing basis. All Forces are subject to a periodic visit and formal inspection process, the contents of which are reported to the Home Secretary and the Police Authority, prior to publication. During 2007/08 there were four HMIC reports relating specifically to PNC compliance, Forensics Detections, Stop and Search and Domestic Violence resulting in grades of fair to good.

5. Significant Governance Issues

Taking into account the work of the Authority, the Chief Constable, Internal Audit, the Audit Commission, the HMIC and the various other reviews that were reported to the Authority and the Chief Constable during 2007/08, and the Corporate Governance arrangements in place, it can be reasonably concluded that there were no significant Governance or internal control issues to report during 2007/08.

The following reviews and inspections may, potentially, impact on the Governance Framework and internal control environment during 2008/09 and beyond. The findings of these reviews and inspections will be closely monitored by both the Governance Working Group and the Resources and Strategy Committee and include:-

- Police Authority Self Assessment Framework (PASAF);
- Collaborative Working & Partnership arrangements;
- Police Use of Resources (PURE); and
- Comprehensive Area Assessment (CAA).

The Authority and the Chief Constable propose over the coming year to take steps to address any issues emanating from these reviews and inspections, particularly where these reviews identify opportunities to further enhance the Authority's governance arrangements and internal control environment. These will be reported throughout the year and form part of next year's Annual Governance Statement.

Signed



Bill Weightman
Chair of Merseyside Police Authority



Bernard Hogan-Howe
Chief Constable of Merseyside Police



Sheena Ramsey
Chief Executive of Merseyside Police Authority



Paul Johnson
Treasurer of Merseyside Police Authority

on behalf of the Members and Senior Officers of the Merseyside Police Authority and Merseyside Police Force.

The Income and Expenditure account

This statement summarises the costs of all the functions for which the Authority is responsible, in accordance with BVACOP (Best Value Accounting Code of Practice). For 2007 BVACOP, Police Services have been merged into one line and there are no separate mandatory or discretionary subdivisions. The figures for 2006/07 have also been merged to show a direct year-on-year comparison.

2006/07				2007/08
Net Expenditure £000		Gross Expenditure £000	Income £000	Net Expenditure £000
307,653	Police Services	383,883	(73,834)	310,049
4,030	Non-Distributed Costs	2,782	0	2,782
859	Corporate and Democratic Core	841	0	841
312,542	Net cost of services	387,506	(73,834)	313,672
2	Loss on the disposal of fixed assets			0
376	Secunded Officers			309
(89)	Total net deficit/(surplus) on trading undertakings			1
448	Interest payable and similar charges			423
(829)	Interest and Investment Income			(952)
134,666	Pensions interest cost and expected return on pensions assets			143,059
447,116	Net operating expenditure			456,512
(51,479)	Precepts			(54,147)
43	(Surplus)/Deficit on Collection Fund			676
(125,466)	Specific Police Grant			(127,674)
(1,061)	Amending Grant			0
(19,339)	Revenue Support Grant			(18,132)
(100,185)	National Non Domestic Rate income			(108,043)
149,629	Net deficit/(surplus) for year			149,192

Statement of Movement on the General Fund Balance

The Income and Expenditure Account shows the Authority's actual financial performance for the year, measured in terms of the resources consumed and generated over the last twelve months. However, the Authority is required to raise precepts on a different accounting basis, the main differences being:-

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

The General Fund Balance compares the Authority's spending against the precept that it raised for the year, taking into account the use of reserves. This reconciliation statement summarises the difference between the outturn on the Income and Expenditure Account and the General Fund Balance.

2006/07		2007/08
Net Expenditure £000	Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the General Fund Balance for the year	Net Expenditure £000
149,629	(Surplus)/Deficit for the year on the Income and Expenditure Account	149,192
(150,346)	Net Additional amount required by statute and non-statutory proper practices to be debited to the General Fund Balance for the year (see note on the next page)	(151,103)
(717)	Increase in General Fund Balance for the year	(1,911)
(5,924)	General Fund Balance brought forward	(6,641)
(6,641)	General Fund Balance carried forward	(8,552)

Statement of Movement on the General Fund Balance

Note of reconciling items for the Statement of Movement on the General Fund Balance

2006/07		2007/08	2007/08
£000		£000	£000
	Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on the General Fund Balance for the year		
-10,735	Depreciation and impairment of fixed assets	-12,186	
4,616	Government Grants Deferred amortisation	5,015	
-2	Net loss/gain on sale of fixed assets	0	
-219,371	Net charges made for retirement benefits in accordance with FRS 17	-220,404	
-225,492			-227,575
	Amounts not included in the Income and Expenditure Account but required to be included by statute when determining the Movement on the General Fund Balance for the year		
906	Minimum revenue provision for capital financing	1,008	
255	Capital expenditure charged in-year to the General Fund Balance	1,253	
71,350	Employer's contributions payable to the Pensions Account, retirement benefits payable direct to pensioners and pension top up grant transferred to Pensions Fund Account	74,949	
72,511			77,210
	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		
148	Voluntary revenue provision for capital financing	383	
235	Payment of Inherited Debt	235	
2,252	Net transfer to/(from) earmarked reserves	-1,356	
2,635			-738
-150,346	Net additional amount required to be credited to the General Fund balance for the year		-151,103

Statement of Total Recognised Gains and Losses

This statement brings together all the gains and losses and shows the aggregate increase or decrease in the net worth of the Police Authority. In addition to the deficit on the Income and Expenditure Account, it includes gains and losses relating to the revaluation of fixed assets and re-measurement of the net liability to cover the costs of retirement benefits.

2006/07		2007/08
Net Expenditure £000		Net Expenditure £000
149,629	(Surplus)/Deficit for the year on the Income and Expenditure Account	149,192
5,646	(Surplus)/Deficit arising on revaluation of fixed assets	(26,086)
(239,881)	Actuarial (gains)/losses on pension fund assets and liabilities	(393,838)
(543)	(Increases)/Decreases in unapplied capital grant	0
(85,149)	Total recognised (gains)/losses for the year	(270,732)

The Balance Sheet

While the Income and Expenditure account identified the expenditure incurred and income earned during the year, the Balance Sheet shows the financial position of the Authority as at 31st March. The Balance Sheet for 2006/07 has been restated to show the transfer of balances from the Fixed Asset Restatement Account and the Capital Financing Account into the new Capital Adjustment Account and the creation of a new Revaluation Reserve. Unapplied Capital Grants has also been moved to be shown as a receipt in advance under current liabilities.

2006/07		2007/08	2007/08	Note
£000		£000	£000	
	Fixed assets			
	Operational assets:			
125,058	Land and buildings		146,674	13,14,15,
15,071	Vehicles, plant and equipment, fixtures and fittings		15,078	16
215	Assets under construction		121	
2,550	Non operational assets: Surplus Housing		3,536	
142,894	Sub total		165,409	
15	Long term debtors		5	21
142,909	Total long term assets		165,414	
	Current assets:			
937	Stocks	1,026		
20,073	Debtors	17,373		22
1,715	Investments	662		
51	Imprests	53		
6	Cash	0	19,114	
165,691	Total assets		184,528	
	Current liabilities:			
(6,100)	Short Term Loans	0		
(788)	Unapplied capital grant	(22)		
(17,620)	Creditors	(22,857)		23
0	Cash Overdrawn	(86)	(22,965)	
141,183	Total assets less current liabilities		161,563	
(4,465)	Long term borrowing		(4,230)	25
(4,072)	Provision - insurance		(3,964)	27
(1,600)	Provision - compensatory grant		0	27
(17,943)	Government grants deferred account		(17,917)	
(2,680,328)	Liability related to defined benefit pension scheme		(2,431,945)	37
(2,567,225)	Total net assets /(liabilities)		(2,296,493)	
	Financed by:			
90,279	Capital Adjustment account		86,059	15
0	Revaluation reserve		25,964	28
1,846	Usable capital receipts reserve		1,896	20
(2,680,328)	Pensions Reserve FRS 17		(2,431,945)	37
2,787	Pensions Reserve		789	29
11,550	Earmarked reserves (excluding Pensions)		12,192	29
6,641	General Balances		8,552	
(2,567,225)	Total net worth		(2,296,493)	

The Cash Flow Statement

This consolidated statement summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.

2006/07		2007/08
£000		£000
	Revenue activities	
328,783	Cash paid to and on behalf of employees	335,840
51,456	Other operating costs	53,032
-67	Rents	-60
-51,436	Council tax income (precepts)	-53,471
-100,185	Non-domestic rate income	-108,043
-19,339	Revenue support grant	-18,132
-177,556	Other Government grants	-184,676
-29,412	Charges for services and other cash receipts	-33,462
2,244	Revenue activities net cash flow	-8,972
	Returns on Investments and Servicing of Finance	
446	Interest paid	434
-880	Interest received	-904
	Capital activities	
8,063	Purchase of fixed assets	8,524
-367	Sale of fixed assets	-50
-5,540	Capital grants received	-4,224
-4,095	(Reduction)/Increase in investments	-1,053
-129	Net cash inflow before financing	-6,245
	Management of Liquid Resources	
	Income	
0	New short term loans	0
	Expenditure	
235	Repayments of amounts borrowed	235
0	Repayments of short term loans	6,100
106	Net cash (inflow)/outflow	90
	Increase/decrease in cash and cash equivalents	
105	(Increase)/decrease in cash	92
1	(Increase)/decrease in petty cash	-2
106	Net Increase/decrease in cash and cash equivalents	90

Pensions Fund Account

This account reflects the new Pensions arrangements from 1st April 2007 to 31st March 2008. The pension transactions are now split between two separate accounts. The pensions fund account records all the transactions which are re-imbursed through the new top up grant from the Home Office. The remainder of the expenditure resides with the Police Authority.

2006/07		2007/08
£000	Pensions Fund Account	£000
	Income	
	Contributions Receivable	
-34,293	Police Employers Pension Contribution Income	-35,447
-14,878	Employees Pension Contributions	-14,862
-309	Employees Pension Contributions (new 9.5% scheme)	-820
	Other	
-1,102	Police Transfer Value Receivable	-448
-1,584	Capital Equivalent Income - Ill Health Pensions	-1,115
-52,166	Total Income	-52,692
	Expenditure	
	Benefits Payable	
57,878	Police Pensions	62,000
1,682	Police Ill Health Commutations	1,240
14,208	Police Ordinary Commutations	13,238
145	Police Death in Service Grant	167
	Other	
581	Police Transfer Value Payable	408
74,494	Total Expenditure	77,053
22,328	Net Amount Payable/(Receivable) before top-up grant	24,361
-22,328	Pension Top up Grant from Income & Expenditure Account	-24,361
0	Net Amount Payable/(Receivable)	0

2006/07		2007/08
£000	Net Assets Statement	£000
	NET CURRENT ASSETS AND LIABILITIES	
	Creditors/Receipts in Advance	
-11	Unpaid Pension Benefits	-1,098
-763	Employers Contributions Received in Advance	0
-338	Employees Contributions Received in Advance	0
	Debtors/Prepayments	
3,869	Pensions paid in advance	0
2,757	Total Net Assets	-1,098

Notes to the Core Financial Statements

NOTES TO THE INCOME AND EXPENDITURE ACCOUNT

1. Leased assets - rentals

There are no costs in 2007/08 for operating leases. All lease rentals are charged to the Income and Expenditure Account and no provision is made for outstanding lease commitments which are payable in future years. The total amount charged in 2007/08 for rental was £1.593m.

2. Publicity Account

Section 5 of the Local Government Act 1986 requires the Police Authority to maintain a separate memorandum account of expenditure and income on publicity. The summary of the net expenditure for 2007/08 appears below:

2006/07		2007/08
£000	Expenditure	£000
43	Recruitment advertising	28
263	Other advertising	165
1,166	Other publicity	1,122
1,472	Expenditure total	1,315

3. Group Accounts

Authorities with, in aggregate, material and controlling interests in subsidiary and associated companies and joint ventures, which would be regarded as such under the Companies Act, are required to prepare summarised group accounts. An assessment of these criteria has shown that the Authority is not required to produce group accounts for the period to 31st March 2008.

4. Third Party Payments

Underwater Search Unit

The Underwater Search Unit serves the areas of Cheshire, Greater Manchester, Merseyside, Lancashire, Cumbria and North Wales and is staffed by police officers from the six constituent Police Authorities with the overall expenditure being met by those Authorities. The expenditure is apportioned on the basis of the 2007/08 police grant allocations.

The Merseyside Police Authority incurs expenditure in the provision of police officers, equipment and vehicles. The reimbursement of this expenditure is included in the appropriate income line and in 2007/08 this amounted to £142,354. The Authority's contribution towards the overall cost of the Underwater Search Unit in 2007/08 was £201,761.

5. Pensions

All details on Pensions are shown within the notes to the Core Financial Statements (pages 47-51)

Notes to the Core Financial Statements

NOTES TO THE INCOME AND EXPENDITURE ACCOUNT

6. Remuneration of employees and members allowances

The numbers of employees whose remuneration was above £50,000 are as follows:

2006/07		2007/08
232	£50,000 - £60,000	253
33	£60,001 - £70,000	32
18	£70,001 - £80,000	24
12	£80,001 - £90,000	13
2	£90,001 - £100,000	2
3	£100,001 - £110,000	3
1	£110,001 - £120,000	1
1	£120,001 - £130,000	0
1	£130,001 - £140,000	1
0	£140,001 - £150,000	1
0	£150,001 - £160,000	0
1	£160,001 - £170,000	0
0	£170,001 - £180,000	1
304		331

Remuneration covers all amounts paid to, or receivable by, an employee and includes sums due by way of expenses allowance and the estimated money value of any other benefits received by an employee other than in cash.

Total allowances including national insurance paid to members during the year amounted to £231,016.

7. Audit Costs

2006/07		2007/08
£000		£000
79	Fees payable to the Audit Commission in respect of Financial Statements	75
21	Fees payable to the Audit Commission for the Police Use of Resources and Whole of Government Accounts	25
100	Total	100

Notes to the Core Financial Statements

NOTES TO THE INCOME AND EXPENDITURE ACCOUNT

8. Accountable Body for Safer Merseyside Partnership

The Authority is the accountable body for the Safer Merseyside Partnership. As a consequence the financial affairs of the Partnership were administered through the Authority. The Partnership ceased to operate from the 31st March 2005 and as a consequence the Authority has been responsible for the finalising and closure of the Partnership's accounts. The table below analyses the level of income and expenditure for the Partnership over the last 2 years.

2006/07		2007/08
£000		£000
31	Expenditure	80
0	Income	-29
-31	Transfer of surplus/(deficit) to earmarked reserves	(51)
0	Total	0

As at the 31st March 2008 there is also £28,000 of stock remaining (£56,000 as at 31st March 2007) which is for materials for alley gates held by the Police Authority. This has not been included in the Balance Sheet or the reserve.

9. Minimum Revenue Provision

As at 31st March 2008 the Authority had outstanding long term external loans of £4.230m. The external loan relates to inherited debt, administered by Wirral Metropolitan Borough Council. In line with the Prudential Code the revenue account is charged with amounts at least equivalent to 4% of the capital financing requirement adjusted so that it approximates the amounts previously calculated.

2006/07		2007/08
£000		£000
	Actual repayments	
235	External debt	235
1,054	Minimum Revenue Provision (Includes voluntary contribution)	1,391
1,289		1,626

Notes to the Core Financial Statements

NOTES TO THE INCOME AND EXPENDITURE ACCOUNT

10. Related party transactions

Central Government has effective control over the general operations of the Police Authority - it is responsible for providing the statutory framework within which the Authority operates and provides the majority of funding in the form of grants. Details of significant transactions with government departments are disclosed within the Notes to the Cashflow Statement (Page 46).

Funding from Local Authorities in the Merseyside area, in the form of Precepts has been included on the basis of materiality.

2006/07		2007/08
£000		£000
12,888	Wirral MBC Precept	13,343
11,332	Sefton MBC Precept	11,838
15,444	Liverpool City Council Precept	15,860
6,674	St.Helens MBC Precept	7,046
5,098	Knowsley MBC Precept	5,384
11,005	Merseyside Superannuation Fund (Wirral MBC)	11,967
187	Underwater Search & Marine Unit (Cheshire Police) - expenditure	202
-142	Underwater Search & Marine Unit (Cheshire Police) - income	(142)
1,536	Knowsley MBC - Police Authority costs	1,735
64,022		67,233

The Authority has considered transactions with Members and senior officers and has concluded that there are no material transactions to disclose.

11. Internal trading operations

The In-House Cleaning Contractor was awarded the contract from 1st June 2001.

2006/07		2007/08
£000	Expenditure	£000
1,389	Employees	1,497
56	Cleaning & domestic services	65
1	Other supplies and services	5
11	Support services	26
1,457		1,593
-1,546	Contract receipts	-1,592
-89	Net (surplus)/deficit	1

12. The Euro

The Authority's financial system is capable of adapting to another currency. There is currently the facility to make payments in Euros. The potential impact of the Euro on the Authority is not significant.

13. Movement of Fixed Assets in Year

	Non-operational Land & Buildings	Operational land/buildings Completed	Work in progress	Plant & Equipment	Vehicles & Helicopter	Total
	£000	£000	£000	£000	£000	£000
Value as at 1st April 2007	2,550	134,748	215	26,729	20,781	185,023
Additions	0	1,007	0	5,276	2,383	8,666
Transfers from work in progress	0	215	-94	0	-121	0
Revaluations	275	18,289	0	0	0	18,564
Impairment	-53	-2,891	0	-877	-183	-4,004
Disposals	-47	-1	0	0	-1,574	-1,622
Transfers	811	-811	0	0	14	14
Adjustment for 2006/07	0	0	0	0	-3,426	-3,426
Gross Value as at 31st March 2008	3,536	150,556	121	31,128	17,874	203,215
Depreciation as at 1st April 2007	0	-9,690	0	-19,803	-12,636	-42,129
Depreciation written off	0	7,660	0	0	0	7,660
Depreciation for year	0	-1,852	0	-4,339	-1,991	-8,182
Disposals	0	0	0	0	1,419	1,419
Adjustment for 2006/07	0	0	0	0	3,426	3,426
Depreciation as at 31st March 2008	0	-3,882	0	-24,142	-9,782	-37,806
Net book value as at 31st March 2008	3,536	146,674	121	6,986	8,092	165,409

The adjustment for 2006/07 relates to vehicles sold in prior years where the gross book value and depreciation had not been written out.

14. Capital Financing

Capital Financing	2007/08
	£000
Government Grants received in year	4,224
Government Grants Brought Forward	766
Borrowing	2,423
Revenue Financing & Financing From Reserves	1,253
Total Capital Financing	8,666

Notes to the Core Financial Statements

NOTES TO THE BALANCE SHEET

15. Capital Adjustment Account

The Capital Adjustment Account was created on 1st April 2007. The opening balance consists of the balances on the Fixed Asset Restatement Account and the Capital Financing Account. The balance sheet for 2006/07 has been restated to reflect this change. The opening balances consolidates revaluation gains accumulated up to 31st March 2007 and the net amount of the financing of assets e.g. capital receipts, government grants etc. and the charges for the use of the fixed assets e.g. depreciation and impairment.

From 1st April 2007 it is credited with resources set aside to finance capital expenditure and debited with the historical cost of acquiring, creating or enhancing assets, over the life of those assets.

Capital Adjustment Account	2007/08
	£000
Balance Transferred from Fixed Asset Restatement Account	80,919
Balance Transferred from Capital Financing Account	9,360
Opening Balance	90,279
Sources of Finance	
Amortisation of Government Grant Deferred	5,015
Revenue financing & financing from reserves	1,253
Minimum Revenue Provision	1,008
Voluntary Revenue Provsion	383
Repayment for inherited debt	235
	98,173
Cost of Acquiring, Creating or Enhancing Assets	
Depreciation & Impairment for year	(12,186)
Difference between current cost and historic cost depreciation	260
Adjustments for disposals and transferred assets	(188)
Balance Carried Forward	86,059

16. Information on assets held

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

	2006/07	2007/08
	No.	No.
Non-operational		
Surplus housing	19	18
Operational		
Force Headquarters	1	1
Police Training Centres	2	2
Police stations/Custody Suites	49	48
Retained housing	7	7
Medical Examination Centres *	1	1
Vehicles	989	958

* The number of assets for 2006/07 have been re-stated as 1 disposal had not been deducted.

Notes to the Core Financial Statements

NOTES TO THE BALANCE SHEET

17. Capital Financing Requirement

Capital; Expenditure & Financing	2007/08
	£000
Opening Capital Financing Requirement	34,671
Capital Investment	
Operational assets	8,666
Sources of Finance	
Government Grants	(4,990)
Revenue financing & financing from reserves	(1,253)
Minimum Revenue Provision	(1,391)
Repayment for inherited debt	(235)
Closing Capital Financing Requirement	35,468
Explanation of movements in year	
Increase in underlying need to borrow (supported by Government financial assistance)	797
Increase in Capital Financing Requirement	797

18. Fixed asset valuation

The freehold and leasehold properties which comprise the Authority's property portfolio were all valued as at December 2002 by the Director of Property Services, Knowsley M.B.C. Properties are now valued on a rolling programme. In 2007/08, 40 operational buildings and all surplus housing properties were revalued. The valuations were in accordance with the Statement of Asset Valuation Practice and Guidance Notes, as issued by the Royal Institute of Chartered Surveyors and other guidance notes as issued by the Chartered Institute of Public Finance and Accountancy.

Depreciation has been provided for over their useful economic life and any impairment in the buildings has been considered in undertaking the valuations. Impairment has also been accounting for when there has been capital expenditure incurred that has not directly led to an increase in the value of the asset.

All other assets have been valued on the basis of historic cost, and depreciated over their useful economic life.

Capital works involving land and buildings, once completed, are referred to the valuer to assess the impact on the Balance Sheet valuation. All material revaluations are accounted for in the year in which the scheme was completed.

19. Capital Contracts

As at 31st March 2008 the Authority had entered into the following capital contracts:-

- Business Objects Software - The total value of the contract is £73,200 of which nothing had been spent at 31st March 2008.
- Upgrade Data Network - The total value of the contract is £745,325 of which £695,000 had been spent at 31st March 2008.
- Call Centre Software - The total value of the contract is £98,738 of which £34,558 had been spent at 31st March 2008.
- Replacement of Essential Services at Police HQ - The total value of the contract is £149,747 of which £84,787 had been spent at 31st March 2008.
- Cell Refurbishment at St. Anne Street - The total value of the contract is £74,246 of which work amounting to £19,846 had been completed at 31st March 2008.

Notes to the Core Financial Statements

NOTES TO THE BALANCE SHEET

20. Capital receipts

2006/07		2007/08
£000		£000
1,480	Unapplied receipts: Balance brought forward at 1st April	1,846
	Receipts during the year:	
219	Sale of Police Buildings	2
137	Sale of Police houses	48
10	Sale of vehicles	0
366	Total capital receipts during the year	50
0	Less: Financing of capital expenditure	0
1,846	Capital receipts unapplied at 31st March	1,896

21. Long term debtors

2006/07		2007/08
£000		£000
15	Car loans to employees	5
15	Total long term debtors	5

22. Debtors

2006/07		2007/08
£000		£000
9,896	Government departments	12,310
2,673	Other local authorities	2,778
1,476	Sundry debtors	1,659
6,069	Prepayments	670
(41)	Provision for bad debts	(44)
20,073	Total debtors	17,373

The amounts owed to the Police Authority in respect of general sundry debtors are kept continually under review and particularly in respect of the likelihood that some debts may not be paid. As at 31st March 2008 the provision for bad debts was £44,456.

Notes to the Core Financial Statements

NOTES TO THE BALANCE SHEET

23. Creditors

2006/07		2007/08
£000		£000
(975)	Government Departments	(680)
(4,870)	HM Revenue & Customs	(6,442)
(1,520)	Other Local Authorities	(1,766)
(10,255)	Sundry creditors	(13,969)
(17,620)	Total external creditors	(22,857)

24. Cash

As at 31st March 2008 the Force held a total of £4,030,821 representing cash seized by Police and retained as evidence in support of crimes or cash handed into the Police as found property awaiting claim by the owner or finder.

The amount is not under the ownership of the Force which acts as steward on behalf of various parties and as such does not form part of the accounts of the Authority.

25. Long term loans

The figure for loans outstanding relates to inherited debt administered by Wirral Metropolitan Borough Council. Similar debts are administered on behalf of all Authorities comprising the former Merseyside County Council. As such it is not possible to provide an analysis of the amount outstanding for an individual Authority by lender category and maturity, the overall debt being managed as a single sum. However, in line with the Redemption of Debt Order (1986), the loans are being repaid on a straight-line basis over 40 years.

26. Contingent Liability

In accordance with FRS12 "Provisions, Contingent Liabilities and Contingent Assets" the Authority recognises that it potentially has a contingent liability of some £1.714m for insurable accidents, i.e. the risk in respect of motor, public and employees liabilities that have been incurred but as of yet the Authority have not yet received an insurance claim. The assessment has been made on the basis of historical insurance patterns and adjusted to reflect the fact that the Authority will not be liable for all claims reported.

Notes to the Core Financial Statements

NOTES TO THE BALANCE SHEET

27. Provisions

2006/07			2007/08	
Insurance	Compensatory Grant		Insurance	Compensatory Grant
£000	£000		£000	£000
(4,725)	(1,300)	Balance b/f	(4,072)	(1,600)
(2,931)	(300)	Contributions in year (including Interest)	(1,354)	0
2,381	0	Expenditure	2,058	1,373
1,203	0	Transfers to/(from) Earmarked Reserve	(1,288)	0
0	0	Release to Revenue	692	227
(4,072)	(1,600)	Balance c/f	(3,964)	0

In 2007/08 the Authority made a contribution of £1.354m to the insurance provision (including interest of £0.404m). The contributions made each year are in respect of the anticipated cost of claims in relation to that year and are based upon best advice received from the Authority's insurance brokers. This will have taken account of previous claims history and the anticipated outcomes of known claims. Self-insurance currently substantially assumes the risk in respect of public, employer and motor liabilities. The Authority continually reviews the level of the Insurance Provision to ensure it is at an appropriate level. Consequently during the year the Authority identified that the provision was overprovided for and subsequently released £0.692m to revenue which has increased General Balances, thus ensuring that the provision was in line with the estimated value of present obligations, in accordance with the requirements of FRS12.

The provision for compensatory grant was utilised in 2007/08 for compensatory grant paid in April 2008. Compensatory grant is a payment made to officers in receipt of transitional rent allowance to reimburse them for the tax paid on this allowance. The payment is made in April each year in respect of the tax paid in the previous year. The amount remaining in the provision has been released to revenue. In future years an accrual will be made for the payment made in the following April.

Notes to the Core Financial Statements

NOTES TO THE BALANCE SHEET

28. Revaluation Reserve

	2007/08
	£000
Balance as at 1st April	0
Revaluation of Operational Buildings	25,949
Revaluation of Non-Operational Buildings	275
Depreciation on Revaluation	-260
Balance at 31st March	25,964

The Revaluation Reserve is a new account created on 1st April 2007. It is utilised for the following:-

- Revaluation Gains - Any increases in the value of assets from 1st April 2007 are credited.
- Impairment - Where there is an impairment loss charged to the Income and Expenditure Account and there are revaluation gains in the Revaluation Reserve for that asset then an amount up to the value of the loss is transferred to the Capital Adjustment Account. As there were no revaluation gains in the reserve prior to the 31st March this does not apply in 2007/08.
- Disposals - Any revaluation gains in the Revaluation Reserve for assets disposed of are transferred to the Capital adjustment Account. As there were no revaluation gains in the reserve prior to 31st March this does not apply in 2007/08.
- Depreciation - Revaluation gains are depreciated with an amount equal to the difference between the current value depreciation and the depreciation that would have been chargeable on their historical cost being transferred each year from the Revaluation Reserve to the Capital Adjustment Account.

Notes to the Core Financial Statements

NOTES TO THE BALANCE SHEET

29. Statement of total movement on reserves

	Balance as at 1 April 2007	Contrib- utions to reserves	Contrib- utions from reserves	Balance as at 31 March 2008
	£000	£000	£000	£000
Details of movement in Earmarked Reserves				
Helicopter Reserve	2	309	-216	95
Internal Trading Reserve	164	1	0	165
Earmarked Capital Reserve	1,880	427	-184	2,123
Airwave Reserve	1,539	0	-785	754
Carryover Reserve	885	934	-885	934
PCSO Reserve	3,214	0	-469	2,745
Other Reserves	810	638	-286	1,162
Police Property Act Fund	24	92	-1	115
Earmarked Pensions Reserve	2,787	106	-2,104	789
Restructure Reserve	0	2,000	0	2,000
Additional Officer Reserve	0	626	-241	385
Insurance Reserve	3,032	404	-1,722	1,714
	14,337	5,537	-6,893	12,981

Notes to the Core Financial Statements

NOTES TO THE CASHFLOW STATEMENT

30. Analysis of Government Grants

2006/07 £000		2007/08 £000
(125,466)	Police specific revenue grant	(127,674)
(19,339)	Revenue support grant	(18,132)
-1,061	Amending grant	0
-4,744	Terrorism grant	(5,099)
(5,540)	Capital grants	(4,224)
(9,499)	Crime fighting fund grant	(9,499)
(4,465)	Other minor grants	(5,217)
-16,606	Pensions Top-Up grant	(24,624)
(1,966)	DNA grant	(1,751)
(217)	Loan charges grant	(254)
(7,050)	Community Support Officers	(6,845)
(1,388)	Basic Command Unit Grants	(1,392)
(2,321)	Special Priority Payments Grant	(2,321)
(199,662)	Total	(207,032)

31. Reconciliation of net surplus on the Income and Expenditure account to net cash flow from revenue activities

2006/07 £000		2007/08 £000	2007/08 £000
-677	(Surplus)/deficit for the year		(1,911)
	Non-cash transactions		
-2,028	Capital charges	(1,626)	
0	Financing of capital expenditure	(1,253)	
-40	Contribution to/from General Balances	0	
-1,777	Contribution to/from reserves	1,356	
353	Contribution to provisions	1,708	185
	Accruals basis		
4,248	(Reduction)/increase in debtors	(2,710)	
197	Increase/(reduction) in stock	89	
1,534	(Increase)/reduction in creditors	(5,095)	(7,716)
	Interest		
-446	Interest paid	(434)	
880	Interest received	904	470
2,244	Revenue activities net cash flow		(8,972)

Notes to the Core Financial Statements

PENSIONS FUND ACCOUNT NOTES

32. Pension Fund Account

The pensions fund account records all the expenditure and income that are specified by regulations released on 1st August 2007. These relate to police officer pensions, police staff have a separate scheme which is described below.

The Police Pension Scheme is a defined benefit scheme, governed by the Police Pensions Regulations 1987 and related regulations. It is an unfunded scheme meaning that there are no investment assets built up to meet the pensions liabilities. Following the introduction of the new financial arrangements for police officer payments a top up grant is received from the Home Office to meet the costs of pensions. The amounts remaining to be paid from Police grant are the notional employer contributions, charges for ill health retirements and injury awards.

The Police officers make a contribution equivalent to 11% or 9.5% of their salary (depending on which scheme they are in). In 2006/07 a revised scheme was introduced for new officers in April 2006 with contributions of 9.5%. In total £15.682m (£15.187m in 2006/07) contributions have been netted off the retirement benefits payable to pensioners.

There are no investment assets held by the fund and it is balanced to nil each year by receipt of a Home Office top up grant. The fund is drawn up in accordance with the Accounting Policies detailed at pages 6 to 9. The fund's financial statements do not take into account liabilities to pay pensions and other benefits after the period end.

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 that needs to be disclosed at the time that employees earn their future entitlement. Details of liabilities for both police officers and police staff are shown at note 34.

33. Police Staff Pensions

The Local Government Pension Scheme for police staff is administered by Merseyside Superannuation Fund. This is a defined benefit scheme which is funded by a dedicated portfolio of assets to fund any liabilities of the scheme. The Authority and employees pay contributions into a fund, calculated at a level intended to balance the pensions liability with investment assets. In addition, the Authority has made arrangements for the payment of added years to certain retired employees outside the provision of the scheme. The cost of employer's contributions for police staff was £9.021m in 2007/08 (£8.040m in 2006/07).

Notes to the Core Financial Statements

PENSIONS FUND ACCOUNT NOTES

34. Pension Costs

The Authority recognise the cost of retirement benefits in the Net Cost of Services when they are earned by employees rather than when the benefits are eventually paid as pensions. However, the charge required to be made against the precept is based on the cash payable in the year, so the real cost of retirement benefits is reversed out in the Statement of Movement of the General Fund. The following transactions have been made during the year:-

	Local Government Pension Scheme		Police Pension Scheme	
	31 Mar 07 £000	31 Mar 08 £000	31 Mar 07 £000	31 Mar 08 £000
Net Cost of Services:				
Current Service Cost	8,505	7,963	72,170	66,600
Past service cost	0	2,482	4,030	300
Net Operating Expenditure				
Interest Cost	9,753	11,018	133,270	142,180
Expected Return on assets	-8,357	-10,139		
Net Charge to the Income and Expenditure Account	9,901	11,324	209,470	209,080
Statement of Movement in the General Fund Balance				
Reversal of net charges made for retirement benefits in accordance with FRS17	-9,901	-11,324	-209,470	-209,080
Actual amount charged against revenue for pensions in the year:				
Employers contributions payable to the scheme	8,040	9,021		
Actual net amounts charged to revenue retirement benefits paid to pensioners. (net of pension contributions and in 2007/08 net of top up grant)			40,842	41,818

Note 36 contains details of the assumptions made in estimating the figures included in this note.

Notes to the Core Financial Statements

PENSIONS NOTES

35. Pension Liabilities

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

	Local Government Pension Scheme		Police Pension Scheme		Total	
	£000	£000	£000	£000	£000	£000
	31-Mar-07	31-Mar-08	31-Mar-07	31-Mar-08	31-Mar-07	31-Mar-08
Estimated Liabilities in scheme	(200,291)	(234,565)	(2,632,050)	(2,354,380)	(2,832,341)	(2,588,945)
Estimated assets in scheme	152,013	157,000	0	0	152,013	157,000
Net Liability	(48,278)	(77,565)	(2,632,050)	(2,354,380)	(2,680,328)	(2,431,945)

The liabilities show the underlying commitments that the Authority has in the long-run to pay retirement benefits. The total liability of £2,432m has a substantial impact on the net worth of the Authority as recorded in the Balance Sheet, resulting in a negative overall balance of £2,298m. However, statutory arrangements for funding the deficit mean that the financial position of the Authority remains healthy.

- The deficit on the local government scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary.
- From 1st April 2006 the payments made in the year for police pensions are partly funded from a Home Office grant under new funding arrangements.

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. The Local Government Scheme liabilities have been assessed by Mercer Ltd., an independent firm of actuaries. Estimates for the Local Government Scheme are based on the latest full valuation of the scheme as at 31st March 2007.

There was a change in the Local Government Pension Scheme which now permits employees retiring on or after the 6th April 2006 to take an increase in their lump sum payment on retirement in exchange for a reduction in their future annual pension. The actuaries have assumed a take-up rate of 50% for employees taking advantage of this change. Experience has shown that based on actual experience that take up is a little lower than 50% but changing the assumption would have a minor effect on the liabilities and it is too early to judge whether the recent experience is a reliable indication of the long term.

The Police Scheme liabilities have been assessed by the Government Actuaries Department using data provided by the Authority.

Notes to the Core Financial Statements

PENSIONS NOTES

36. Pension Liabilities contd.

The main assumptions used in their calculations have been:

	Local Government		Police	
	Pension Scheme		Pension Scheme	
	31-Mar-07	31-Mar-08	31-Mar-07	31-Mar-08
Rate of inflation	3.1%	3.6%	3.4%	3.7%
Rate of increase in salaries	4.4%	4.9%	4.9%	5.2%
Rate of increase in pensions	3.1%	3.6%	3.4%	3.7%
Rate for discounting scheme liabilities	5.4%	6.1%	5.4%	6.9%

The Police Pension Scheme has no assets to cover its liabilities. Assets in the Local Government Pension Scheme 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 Scheme:-

	Expected			Expected		
	Return on			Return on		
	Assets	Assets at		Assets	Assets at	
	31.03.07	31.03.07		31.03.08	31.03.08	
	%	£000	%	%	£000	%
Equity investments	7.5%	88,624	58.3%	7.5%	90,275	57.5%
Government bonds	4.7%	25,538	16.8%	4.6%	25,277	16.1%
Other bonds	5.4%	8,969	5.9%	6.1%	9,263	5.9%
Property	6.5%	14,897	9.8%	6.5%	13,659	8.7%
Cash/Liquidity	5.3%	8,209	5.4%	5.3%	7,065	4.5%
Other	7.5%	5,776	3.8%	7.5%	11,461	7.3%
Total		152,013	100.0%		157,000	100.0%

The asset values in the Local Government Pension Scheme were based on 9 months actual performance of the Pension Fund, plus an estimate for the final quarter, representing a combined performance of - 3.0%. Final calculations indicated that the actual performance was -1.3%, less an allowance of 0.2% for administration expenses. Assets as at 31 March 2008 were therefore understated by some 1.5 to 1.6% estimated at £2.434m.

37. Pensions Reserve

2006/07		2007/08
£000		£000
-2,772,188	Balance as at 1st April	-2,680,328
	Appropriations (to)/from Revenue:	
-219,371	Reversal of Net Charges made for retirement benefits in accordance with FRS17	-220,404
71,350	Employer's contributions payable to the Pensions Account and retirement benefits payable direct to pensioners.	74,949
239,881	Actuarial Gains and Losses	393,838
-2,680,328	Balance carried forward 31st March	-2,431,945

Notes to the Core Financial Statements

PENSIONS NOTES

37. Pensions Reserve continued

Actuarial Gains & Losses on Pension Reserve										
	2003/04		2004/05		2005/06		2006/07		2007/08	
	£000	%	£000	%	£000	%	£000	%	£000	%
Local Government Scheme										
Difference between the expected and actual return on assets	10,217	11.3	5,121	4.9	17,561	12.9	-45	0.0	-14,890	0.0
Differences between actuarial assumptions about liabilities and actual experience	0		2,917	1.8	-5,522	2.8	0	2.8	-7,046	0.0
Changes in the demographic and financial assumptions	0		-31,803	20.0	-18,610	9.5	12,486	6.2	-5,048	6.2
	<u>10,217</u>		<u>-23,765</u>		<u>-6,571</u>		<u>12,441</u>	6.2	<u>-26,984</u>	6.2
Police Pension Scheme										
Difference between the expected and actual return on assets	0		0		0		0		0	
Differences between actuarial assumptions about liabilities and actual experience	-2,420	0.1	5,690	0.3	31,480	1.2	57,240	2.2	-20,088	0.9
Changes in the demographic and financial assumptions	-322,650	18.7	-419,870	18.8	-391,720	14.4	170,200	6.5	440,910	18.7
	<u>-325,070</u>		<u>-414,180</u>		<u>-360,240</u>		<u>227,440</u>		<u>420,822</u>	

FAU Outturn statement

This statement does not form part of the statutory accounts. It is to provide details of the outturn compared to the revised estimate as reported to the Authority. It does not include the entries for the new pensions requirement.

Outturn 2006/07	Summary level	Probable Outturn 2007/08	Final Outturn 2007/08
£000		£000	£000
11,127	Strategic Development	16,770	16,273
	Citizen Focus		
7,765	Citizen Focus	9,566	9,562
7,329	Call Handling	7,236	7,281
15,094		16,802	16,843
	Administrative Support		
12,432	Personnel and Development	13,022	12,694
25,677	Finance	26,950	26,116
38,109		39,972	38,810
	Operations		
159,459	Basic Area Operations	157,030	156,728
1,732	Area Co-ordination	2,911	2,967
218	Special Constabulary	144	137
754	Community Relations	813	800
162,163		160,898	160,632
	Operational Support		
27,967	Operational Support	32,263	32,406
17,299	Crime and Intelligence	18,342	17,948
14,693	Force Crime Operations Unit	15,378	15,403
59,959		65,983	65,757
690	Operational Contingency Fund	569	568
1,981	Police Authority Support Unit	2,076	2,037
	Non Rechargeable Financing Items & Levies		
40,842	Police pensions	42,021	41,818
376	Attachments	350	308
1,729	Forcewide services	1,908	1,616
166	Underwater Search Unit	203	202
4,612	Costs of Capital	(451)	2,023
(2,352)	Income	(2,023)	(1,991)
684	PNC charges	827	780
46,057		42,835	44,756
335,180	Net expenditure carried forward	345,905	345,676

FAU Outturn statement

Outturn 2006/07		Summary level	Revised estimate 2007/08	Final Outturn 2007/08
£000			£000	£000
335,180	Brought Forward		345,905	345,676
0	Contingency for Pay & Prices		70	0
0	Provision for Police Reform Pay and Conditions		838	755
85	Interest Payable		445	423
	Income			
-304	Interest and investment income		-314	-442
334,961			346,944	346,412
	Appropriations			
40	Net carry over from previous year		-885	-885
885	Net carry over to next year		-430	934
-9,760	Reversal of Depreciation & Government Grants released		-4,696	-7,171
1,652	Minimum Revenue Provision & Payment for MRDF		1,626	1,626
677	Contribution to/(from) General Balances		1,648	3,183
300	Contribution/Release of Compensatory Grant Provision		0	0
-2,981	Contribution to/(from) Pensions Reserve		-1,992	-1,992
-500	Contribution to/(from) Insurance Reserve		-500	-500
0	Contribution to/(from) Additional Officer Reserve		-241	-241
325,274	Total Net Expenditure to be met from Government Grants and Taxation		341,474	341,366
	Less: Specific Home Office Revenue Grants:			
-125,466	General Police Grant		-127,674	-127,674
-27,787	Specific Grants		-34,153	-34,045
-19,339	Revenue support grant		-18,132	-18,132
-1,061	Amending Adjustment		0	0
-100,185	Business rate income		-108,044	-108,044
43	(Surplus)/Deficit on collection fund		676	676
-51,479	PRECEPT REQUIREMENTS		-54,147	-54,147
0	(Surplus)/deficit for the year to General Balances		0	0
-5,924	General revenue balance brought forward		-6,641	-6,641
-677	Contribution to/(from) revenue		-1,648	-3,183
0	Transfer to Additional Officer Reserve		626	626
0	Transfer to Restructure Reserve		646	646
-40	Overspend Carryover		430	0
-6,641	General revenue balance carried forward		-6,587	-8,552

Council Tax Base (Number of Band D Properties)

424,585

Council Tax - Band D

£127.53

Increase on Previous Year (£6.07)

5%

Glossary of Terms

CAPITAL EXPENDITURE

This is expenditure on the acquisition of a fixed asset, or expenditure that adds to the value, or extends the useful life of an existing asset. Capital expenditure is not usually a direct charge to the Income and Expenditure Account, being normally met by loan, grant, external contribution or capital receipts.

CAPITAL EXPENDITURE FROM INCOME AND EXPENDITURE ACCOUNT

This relates to the financing of capital expenditure directly from revenue as opposed to financing from borrowing, other credit arrangements or grants.

CAPITAL RECEIPTS

Income from the sale of assets, which can only be used to finance new capital expenditure or repay outstanding debt on assets, financed from loans.

THE BALANCE SHEET

The Balance Sheet represents a summary of the assets, liabilities, funds and reserves of the Authority.

THE INCOME AND EXPENDITURE ACCOUNT

The account which summarises the cost of all the functions for which the Authority is responsible. It also includes notional depreciation charges for assets and the notional cost of retirement benefits earned by employees in the year.

COLLECTION FUND

An amount received from or paid to a Billing Authority based on the actual amount of council tax collected by the Billing Authority above or below the expected collection levels.

CORPORATE & DEMOCRATIC CORE

This is a definition under the Best Value Code of Practice. It shows costs on Democratic Representation & Management (DRM) and Corporate Management (CM). DRM covers all aspects of members activities acting on behalf of the Authority. It also includes costs associated with other support to members.

CREDITORS

Individuals or organisations to whom the Authority owes money at the end of the financial year.

DEBTORS

Individuals or organisations who owe the Authority money at the end of the financial year.

DEPRECIATION

An annual charge to reflect the extent to which an asset has been worn out or consumed during the financial year.

NATIONAL NON DOMESTIC RATE

The level of National Non Domestic Rate (Business Rate) is determined by Central Government. Amounts collected by local authorities are paid into a national pool and the total is redistributed by Central Government in proportion to the population of each authority.

NON DISTRIBUTED COSTS

This covers past services costs settlements and curtailments in respect of FRS17 pension costs. It also covers costs associated with unused assets.

Glossary of Terms

PRECEPT

This is the amount of Council Tax income county councils, police authorities, the Greater London Authority, parish councils and some fire authorities need to provide their services. The amounts for all local authorities providing services in an area appear on one Council Tax bill, which comes from the billing authority.

PRECEPTING AUTHORITY

This is an authority which sets a precept to be collected by billing authorities through the Council Tax bill. County councils, police authorities, the Greater London Authority, some fire authorities and parish councils are all precepting authorities.

RESERVES

Monies set aside for specific future costs (e.g. Airwave) or generally held to meet unforeseen or emergency expenditure (e.g. General Balances).

REVENUE ACCOUNTS

The day-to-day expenditure and income of the Council on such items as salaries and wages of employees, running costs of services, and the purchase of consumable materials and equipment, together with the financing costs of capital assets.

REVENUE SUPPORT GRANT

General Government Grant support towards police authority expenditure.

SPECIFIC GRANTS

Targeted or ring-fenced grants are sometimes referred to as specific grants.

SPECIFIC POLICE GRANT

A specific revenue grant that police authorities receive from the Home Office.