



**STATEMENT  
OF  
ACCOUNTS**

**2008-2009**

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## Foreword by the Treasurer

### 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 2009. 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 foreword 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 2009;
- 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 **Pension Fund Account** which summarises the amounts received into and paid out of the police officer pension fund operated by the Authority during the year.

Notes to the above statements and a glossary of terms have been prepared and are included to assist readers to understand the technical accounting terminology.

The format of the 2008/09 accounts have not changed from 2007/08. However, a Prior Year adjustment to the published 2007/08 Statement of Accounts is shown on Page 32. The reason for this Prior Year adjustment is that since the 2007/08 Statement of Accounts were published, the treatment of the Home Office Grant payable towards the cost of retirements benefits has changed and this Grant is now shown individually on the Income and Expenditure Account, and in the Statement of Movement on the General Fund Balance. Since the 2007/08 Accounts were closed, additional Guidance has been released regarding the treatment of this Grant, and the 2008/09 figures have been presented in line with this Guidance. A comparative statement is included.

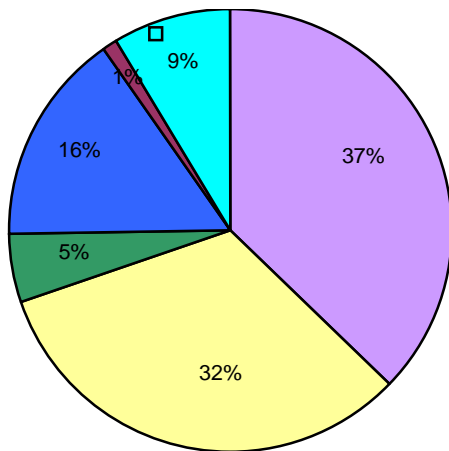
## Foreword by the Treasurer

### Financial Performance for the Year 2008/09

The Authority's Budget for 2008/09 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 2008/09 amounted to £352.016m. In broad terms the following charts show where the Authority's money came from and how it was spent.

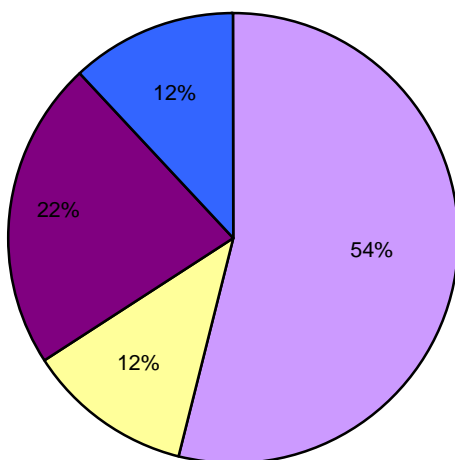
#### Where the Money Came From



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

	£m	%
General Police Grant	131.347	37
National Non Domestic Rate	113.428	32
Revenue Support Grant	15.790	5
Precepts	56.677	16
Collection Fund	(0.142)	
<b>Total Government Grants and taxation</b>	<b>317.100</b>	
Planned Utilisation of Earmarked Reserves & General Balances	1.769	1
Specific Grants	33.147	9
<b>Total Resources</b>	<b>352.016</b>	<b>100</b>

#### How the Money was Spent



#### This table analyses spending over the main types of expenditure

	£m	%
Police Pay	188.628	54
Police Pensions	41.752	12
Support Staff Pay	77.891	22
Other Expenditure	43.745	12
<b>Total Expenditure</b>	<b>352.016</b>	<b>100</b>

## Foreword by the Treasurer

As can be seen from the 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 2008/09 the Authority made a planned contribution from revenue to earmarked reserves and provisions of £1.769m to balance the budget. It is noted that in 2008/09 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 2008/09 budget incorporated a precept requirement of £56.677m, an increase of 5% over 2007/08.

The outturn position for 2008/09 shows total net expenditure of £352.016m. This represents a reduction in planned expenditure of £2.764m, i.e. 0.78%, compared to the original 2008/09 budget. The main explanations for this reduction were:-

- (i) revenue savings achieved across service departments within the Force, through a more efficient use of resources and scrutiny of spending;
- (ii) reductions in the cost of Forensics analysis; and
- (iii) a reduction in the number of Police Officer ill health retirements.

It is noted that the total net expenditure of £352.016m stated above differs to that reported within the Income and Expenditure Account on page 31, i.e. £457.856m. 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 £10.834m. The major items of capital expenditure in the year included the continuation of the strategic IT developments and the ongoing vehicle replacement programme. It is noted that the work on implementing the Estate Strategy, in particular the designing and planning of the new Wirral Area Command Centre commenced during the year, but no capital expenditure was incurred. In order to finance the capital programme the Authority received Home Office funding of £5.344m, utilised £0.711m of its capital reserves, and financed £0.263k from Revenue, with the balance of £4.516m 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. One of the requirements of the Prudential Code is that the Authority adopts the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice for Treasury Management in Local Authorities which it has done for several years.

In addition, the Authority approves its Treasury Management Strategy annually and monitors its performance against this and the Prudential Indicators.

The Authority maintains General Balances, Earmarked Reserves and Provisions in order to ensure that adequate financial resilience is maintained. As at the 31st March 2009 the Authority's General Balances stood at £8.421m, earmarked Reserves totalled £13.746m and Provisions £5.123m. 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 the risks included in the Authority and Force risk registers. The risk based review undertaken concluded that by the end of 2009/10 General Balances should be £7.750m. It is planned to utilise £0.556m of General Balances during 2009/10 to fund the declared 2008/09 Collection Fund Defecit by Local Authorities, thus leaving a balance of £7.865m at year end. Consequently, General Balances are forecast to be £0.115m over the risk assessed level, which provides a degree of tolerance and I believe is an acceptable position.

## Foreword by the Treasurer

### 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 2009 the Authority had the following net pension liabilities :-

	£m
Police Officers	2,200.240
Police Staff	57.366
<b>Total</b>	<b>2,257.606</b>

In accordance with FRS 17 the Authority's accounts incorporate a negative pensions reserve to show the estimated liability in relation to the retirement benefits.

However, considering the above liability and the overall impact it has on the balance sheet, it must be taken into account 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 24.2% 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 £2.200 billion will be covered by future employer contributions and the receipt of Home Office grant monies.
- (ii) Police Staff are entitled to join the Local Government Pension Scheme (LGPS) as administered by Wirral Metropolitan Borough Council. The disclosed liability of £57.4m in respect of LGPS is likely to be funded in a number of ways, including potential changes to employee contribution rates following the next triennial review, increases in the employers' contribution to the LGPS and improvements in the funds investments.

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

### 2009/10 and Beyond

In respect of 2009/10 the Authority was awarded a net increase in general grants of 2.6% in the Local Authority Finance Settlement 2009/10. In addition, the Government has indicated that it plans to honour the 2.6% provisional grant increase for 2010/11, which was announced as part of the original three year grant settlement. These increases were disappointing and do not meet the inflationary and developmental needs of the Force.

Notwithstanding the above, within the precept increase of 5%, the Authority has been able to put in place a significant reinvestment plan. This has been achieved primarily due to a programme of efficiencies and savings amounting to £3.25m.

These resources have been used to increase frontline Police Officer strength by 79, who will be deployed in accordance with the priorities contained within the Strategic Policing Plan. This increase in officer strength comprises of an additional 32 officers, along with the redeployment of 47 from back office functions.

Increasing front line Police Officer numbers has been a strategic objective of the Authority since 2004, when Members aspired to an extra 600 Police Officers on the beat. The additional front line Police Officers incorporated within the 2009/10 budget will mean that the Authority has successfully deployed an extra 489 officers towards its goal of 600. In addition, this budget will also continue to support the retention of the current Police Community Support Officers establishment of 466.

## Foreword by the Treasurer

As referred to above, while the financial resources of the Authority are safeguarded for 2010/11, the position in 2011/12 is far less certain given that it will be the first year of the next Comprehensive Spending Review (CSR), i.e. 2011/12 to 2013/14. It is anticipated that the next CSR period will see tight financial settlements, with little growth opportunities. In addition, the global economy is currently in an economic recession following the credit crunch, and this is seriously affecting the British Economy. As a consequence of this the Authority may face a number of financial and operational issues, these include:-

- the availability of credit to allow the Authority to borrow to invest in its Capital Programme, in particular the Estate Strategy. In addition, the Authority is likely to receive less interest from its investments, thus reducing income;
- often in times of economic downturn the last bill to be paid by the householder is their Council Tax. This is likely to have an impact on the District Councils' tax collection rates and could result in further Collection Fund Deficits being declared by the Districts; and
- a great deal of uncertainty exists over whether the impact of the decline in the economy has the potential to put pressure on operational policing demands. There is research on the links between unemployment and crime but the results are inconclusive. However as unemployment is likely to increase over the coming year, coupled with individuals suffering from the increasing financial pressures, it would seem logical to assume that there will be pressure on acquisitive crime trends. This would, in particular, result in pressure on volume crime statistics and is a potential risk for as long as the economic outlook remains gloomy.

Overall, the Authority is currently in a sound financial position, with significant resilience to meet unforeseen circumstances, a major issue with regard to an emergency service such as the Police Force. Within a tight financial regime the Authority has not only maintained operational performance, but significantly improved it through investing in the operational priorities set out by the Police Authority within the Strategic Policing Plan.

Whilst, the immediate future within the current CSR period looks relatively certain, the prospects for 2011/12 and beyond, given the state of the public finances, look potentially severe. I, in conjunction, with the Chief Constable and the Authority's Members and Officers, am already beginning to plan for an uncertain financial future with the intention of continuing to provide the best possible police service for people living and working in Merseyside.

### Further Information

This publication provides a review of the financial performance of the Police Authority for 2008/09. A summary set of accounts has also been produced and published on the Authority's website, at [www.merseysidepoliceauthority.gov.uk](http://www.merseysidepoliceauthority.gov.uk). Comments are invited on the usefulness and readability of the Statement of Accounts and the summary document through the website.



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**Paul Johnson**

**Treasurer to the Police Authority**

**23rd September 2009**

## 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 2008: A Statement of Recommended Practice (SORP)'. Any variations are shown in notes to the accounts.

### 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. Intangible Fixed Assets

Expenditure on assets that do not have physical substance but are identifiable and controlled by the Authority, such as software licences, is capitalised if it will bring benefit to the Authority for more than one year. The balance is subsequently amortised to revenue over the useful economic lives of the intangible assets (usually 4 years).

### 3. Tangible Fixed Assets

Tangible fixed assets are assets that have physical substance and are held for use in the provision of services or for administrative purposes on a continuing basis.

#### **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 account.

#### **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 normally 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 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 from the sale of property, vehicles and equipment are defined as capital receipts. In accordance with the SORP they 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 (with the exception of assets with a value of less than £2,500 which are fully depreciated in the year of purchase).

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

Helicopter - as at 1st April 2007 the estimated remaining life was 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 of Movement on the General Fund Balance.

There is a requirement to make an annual provision from revenue to contribute towards the reduction in its overall borrowing requirement and this is called the Minimum Revenue Provision. The Minimum Revenue Provision figure for 2008/09 is £1.391m

#### **4. 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.

#### **5. 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.

#### **6. 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.

#### **7. 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.

#### **8. 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

### 9. Leases

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

### 10. 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.

### 11. 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.

### 12. 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.

### 13. 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 55.

#### ***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.

### 14. VAT

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

### 15. 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.

### 16. 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 38 to the Core Financial Statements.

An estimate has also been made for incentivisation income due for the fourth quarter of 2008/9. This is income due from asset recovery; an estimate of £0.332m has been made based on performance to 31st December 2008.

# 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 2009 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, Statement of Movement on the General Fund Balance, Balance Sheet, Statement of Total Recognised Gains and Losses, Cash Flow Statement, and the related notes. The police pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial statements and police pension fund accounting statements have been prepared under the accounting policies set out within them.

This report is made solely to 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 49 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 Code of Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities.

My responsibility is to audit the accounting 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 accounting statements, the police pension fund accounting statements and related notes present fairly, in accordance with applicable laws and regulations and the Code of Practice on Local Authority Accounting in the United Kingdom 2008:

- 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. I am not required to consider, nor have I considered, information regarding future projections included within the statement of accounts.



# 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 and related notes present fairly, in accordance with applicable laws and regulations and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the as at 31 March 2009 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 2009 and the amount and disposition of the fund's assets and liabilities as at 31 March 2009, 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 regularly to 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.

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

### 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 May 2008 and updated in February 2009, and the supporting guidance, 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 2009.

### 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  
September 2009

Audit Commission  
First Floor, Block 4  
The Heath Technical and Business 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 ensure 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

## APPROVAL OF STATEMENT OF ACCOUNTS

I confirm on behalf of the Authority that the Statement of Accounts have been approved.



**Bill Weightman**  
**Chair of Merseyside Police Authority**  
**23rd September 2009**

## 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 2009.

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 31 - 62 reflects the true financial position and the Income and Expenditure of the Merseyside Police Authority for 2008/09 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 23rd September 2009. Any events after this date have not been recognised.



**Paul Johnson**  
**Treasurer to Merseyside Police Authority**  
**23rd September 2009**

# 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 that 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](http://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 31<sup>st</sup> March 2009 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.

## Annual Governance Statement

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:-

**(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; and
- 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;

## Annual Governance Statement

- 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 & 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 role;
- ensured that arrangements were in place for whistle blowing to which employees and all those contracting with the Authority had access; and
- 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 are 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 the scheme was monitored and updated when required;
- regularly reviews and updates Contract Standing Orders and Financial Regulations, which clearly define 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;

## Annual Governance Statement

- 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 set 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;
- 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 2008/09;
- 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;

## Annual Governance Statement

- 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 are 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.

### **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 collectively 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.

# Annual Governance Statement

## 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.

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.

**Service Improvement Committee** - ensures that a programme of service improvement reviews are 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 management factors. During 2008/09 this Committee was renamed the Value for Money Committee and a new terms of reference were agreed, focusing on ensuring that the Force is providing Value for Money.

**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 Partnership Committee** - ensures that the Authority monitors and scrutinises both the Force's and its own arrangements with regard to engaging with the community. It ensures that these arrangements 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 Authority's strategic priorities. This Committee also has responsibility for ensuring that the Authority meets its statutory obligations in respect of equalities legislation and Independent Custody Visiting. This Committee also has responsibility for monitoring and scrutinising aspects of neighbourhood policing, partnership working and all aspects of a citizen focused approach to policing.

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**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 carried out 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 also has responsibility for developing and monitoring of all aspects of Members' training and oversees the training of its own Members and training of Authority Members. No allegations of a breach of the Code of Conduct were reported to the Committee in 2008/09 and the Committee's work has largely been based on promoting the high standards expected of Police Authority Members and ensuring the revised Code of Conduct is fully understood, operational and applied by Members.

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.

**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, Estate 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 Authority's link Member attends these meetings as well as the Force Risk Manager. The group reported to the Resources & Strategy Committee during the year.

**Performance & Policy 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.

## Annual Governance Statement

In addition to reviewing committee reports submitted by the Force to the Performance Scrutiny & Review Committee, the Team monitors other areas of performance on a monthly basis, e.g. Force sickness levels, National Crime Recording Standards (NCRS) and National Standards for Incident Recording (NSIR) compliance, along with progress against action plans arising from Force inspections.

During 2008/09, the Team coordinated the consultation process for target setting for the 2009/10 Policing Plan. The Authority and Force continued to develop the process 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 Team also reviews and researches policy issues that may affect the Authority, advising Members and Senior Officers appropriately and co-ordinating responses to national consultation on policing issues.

### Internal Audit

The primary role of Internal Audit is to give an assurance to the Authority, through the Resources & 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 & 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;
- the completeness, reliability and integrity of other information, both financial and operational; and
- the economy, efficiency and effectiveness with which resources are employed.

The Assistant Treasurer 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.

## Annual Governance Statement

Internal Audit's plans and performance are reported annually to the Resources & Strategy Committee. The Internal Audit plan for 2008/09 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. risk 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 the Treasurer's opinion that the overall adequacy and effectiveness of the Authority's and Force's control environment is 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 will be reported in the Annual Internal Audit outturn report.

In order to comply with the International Standards on Auditing (United Kingdom and Ireland) the District Auditor is required to consider and understand the activities of Internal Audit, in order to assist him in planning the audit of the Authority and developing an effective audit approach. In practice this means that the District Auditor reviews the work of Internal Audit annually to assess the quality of their work and the strength of the control environment. The District Auditor also assesses Internal Audit's effectiveness in more detail every three years, to determine the extent to which it complies with the CIPFA Code of Practice for Internal Audit.

During 2008/09 this Tri-annual review of Internal Audit was completed. The main conclusions from work undertaken were that Internal Audit is an important element of the control environment at Merseyside Police Authority. It provides an effective review of major elements of internal control and the quality of work is good and that Internal Audit meets the requirements of the CIPFA Code of Practice for Internal Audit. The audit did however identify a number of areas where Internal Audit's approach and arrangements can be developed further. As a consequence an action plan was agreed with the Treasurer, the District Auditor and the Authority to address these issues.

In addition, 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 Assistant Treasurer have completed the self assessment and have concluded that the Internal Audit Service complies with Internal Audit Standards within the Code of Practice.

A protocol for liaison between Internal and External Audit has been drawn up by officers from Internal Audit and the Audit Commission. The objective of the protocol is to provide a framework which will optimise the benefits of audit to the Authority from the audit resources available, while enabling Internal Audit and the Audit Commission to deliver their respective responsibilities. Specifically it clarifies the respective roles of External and Internal Audit, highlights areas where External Audit will place reliance on the work of Internal Audit and establishes a framework for co-operation in the planning, conduct and reporting of audit, 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.

# Annual Governance Statement

## 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) and the Annual Governance Statement, as well as undertaking thematic based reviews. The Audit Commission is currently finalising the PURE for 2008/09 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 2008/09. The Audit Commission plans and reports, including the Annual Governance Report and the Annual Audit Letter, are considered by the Authority and the Resources & Strategy Committee at appropriate times during the annual cycle of meetings.

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 2007/08 the Audit Commission scored the Authority an overall 3, i.e. consistently above minimum requirements – performing well.

This overall score was also obtained in 2006/07. The individual score for the internal control area was a 3, which was an improvement on the score of 2 in 2006/07. 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 2008/09 PURE assessment.

## 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. 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;

## Annual Governance Statement

- 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 purpose of BMG can be summarised as follows:-

- to consider and determine the necessary influences and actions arising from Best Value Reviews;
- to identify issues and make recommendations to COG concerning organisational change;
- to agree significant policy changes as they affect the Force;
- to provide a consultative forum for those issues which will be referred to COG; and
- to agree operational policies that may be required.

**Risk Management Group** – the Force hold a quarterly Risk Management Group meeting, which is chaired by the Deputy Chief Constable and involves relevant departmental heads and Area Commander Representation. The Authority's link Member attends these meetings as well as the Authority's Deputy Director. Any emerging issues are reflected within the risk registers and reported onto the Resources & Strategy Committee. 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 Professional Standards Department (PSD), Head of Professional Standards Unit (PSU), Force Solicitor, Head of Strategic Development Department (SDD), Risk Manager, Head of Information Bureau (IB) 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.

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**Deputy Chief Constable's Governance Group** – chaired by the Deputy Chief Constable and attended by all Chief Officers, Head of SDD and Research & Analysis Manager. The full meeting takes place on a quarterly basis, with an interim meeting taking place on a six-weekly basis. The terms of reference for the group are as follows:

- to provide the Deputy Chief Constable with corporate oversight and governance of Force performance, both qualitative and quantitative;
- to ensure coordinated activity across portfolios leading to performance improvements and achievement of organisational objectives;
- to consider exception reporting on performance against Tier 1 and Tier 2 performance indicators;
- assess progress of improvement activity with regard to external inspection activity and thematic reports including Her Majesty's Inspectorate of Constabulary (HMIC) and Audit Commission (AC);
- consider and approve audits undertaken by the Corporate Audit Team;
- monitor progress of commitments within the Policing Plan and Blueprint for Total Policing;
- consider the risks, which potentially impact on the ability of the Force to achieve its strategic objectives and to agree the control measures in place to manage the strategic risks; and
- progress against the implementation of ACPO (Association of Chief Police Officers) / NPIA (National Policing Improvement Agency) Doctrine.

**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 Basic Command Units (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 and other staff in key roles 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 has recently developed its partnership governance arrangements and has introduced a Partnership Governance Framework, which emphasises the Force's commitment to partnership working, and ensures that the Force get the maximum benefit from joint working, whilst putting in place appropriate safeguards. As part of the assessment framework, the Force requires significant partners to produce a risk register, which is quality assured and monitored by the Risk Manager. This captures the threats and opportunity risks of and to the partnership.

## Annual Governance Statement

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 2009/10 budget process in terms of determining the level of general balances/ reserves, as well as influencing the Policing Plan process for 2009/10.

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 the Deputy Chief Constable's (DCC) Governance Group meeting.

**Corporate Audit Team** – is an independent internal auditing function charged with protecting the integrity of the Force by carrying out strategic 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 2008/09 the team undertook a number of audits, including Confidence & Satisfaction, DNA, Roads Policing and an Evaluation of Niche Self-Crime Recording.

**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 & Review Committee outlining performance against target, comparison with the previous year's 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.

**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. The TRUE programme is intent on delivering objectives to ensure that the Force represents the diverse community that it serves, that all staff are equipped with the appropriate tools to challenge inappropriate behaviour and to ensure that Merseyside Police's response to inappropriate behaviour is timely and proportionate to the behaviour. The Force have established a TRUE Meeting, which is held on a bi-monthly basis. The meeting is chaired by the Chief Constable and attended by Chief Officers and various representatives from across the Force.

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 these Leadership Standards and Values support a culture aimed at achieving sustainable success. They are the underpinning platform on which the Force takes forward its aim of being the Best Police Force in the Country.

## Annual Governance Statement

The Leadership Standards and Values are owned and adopted by the Force to create a culture which embraces diversity and treats each other with respect. They are therefore integrated into the PDR process and form an integral part of our day to day activities.

**Professional Standards Department (PSD)** – 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 reinforces 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 practice 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 a 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. In 2008, the Force introduced the Performance, Conduct and Standards of Professional Behaviour, which covers the new regulations governing police conduct (including Police (Conduct) Regulations 2008 and Police (Performance) Regulations 2008). This has streamlined the processes in relation to unsatisfactory performance, attendance and misconduct, in accordance with the recommendations of the Taylor review.

**Professional Standards Unit (PSU)** - is a covert investigative unit aimed at protecting the organisation's integrity and combating corruption by monitoring 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.

**QUEST Project** – in 2008, the Force introduced QUEST, which is an approach to designing and implementing operational process improvement projects that increase capacity, improve performance and generate efficiencies. It is a joint venture between the Home Office, KPMG (an external consultancy) and police forces. Quest can deliver substantial improvements in productivity, enabling better use of resources in line with our Force priorities – Total Policing – in our ambition to 'be the best'. The first of the Force's Quest projects is ongoing and involves examining processes within Custody and Criminal Justice. The progress and outcome of the Quest reviews are reported and monitored by the Authority's Value for Money Committee.

**Business Continuity Management** – The Force and Authority have continued to develop business continuity processes in line with the Civil Contingencies Act 2004 and British Standards BS 25999. The Force has delivered a plan with clear targets and deadlines in order to effectively embed the Business Continuity Management (BCM) process within the organisational culture. Varying levels of workshops are held on an ongoing basis, aimed at raising BCM awareness and providing BCM Champions with appropriate knowledge and tools to manage business continuity at a local level.

## Annual Governance Statement

Six elements were approved as part of the process in terms of business continuity management, these were:-

- (i) BCM programme management;
- (ii) Understanding the organisation;
- (iii) Determining BCM strategy;
- (iv) Developing and implementing a BCM response;
- (v) Exercising, maintaining and reviewing BCM arrangements; and
- (vi) Embedding BCM in the organisational culture.

### **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 2008/09 the following inspections were undertaken within Merseyside:-

- HMIC Citizen Focus (meets the standard);
- Neighbourhood Policing (meets the standard);
- HMIC Data Quality - Sanction Detections (fair/improving);
- HMIC Protective Service Planning (not assessed/graded);
- Joint Criminal Justice Joint Inspection - Thematic Review of Victim and Witness Experiences in Criminal Justice System (not graded);
- HMIC Phase 2 Inspection - Serious and Organised Crime (not assessed/graded) and Major Crime (exceeding the standard); and
- HMIC Phase 3 - Critical Incident, Public Order, Civil Contingency

In respect of the Phase 3 reports the HMIC have introduced a revised grading structure, with Green indicating that the Force's approach is exemplary and one from which other Forces can potentially draw beneficial lessons. Amber indicating that the Force is meeting the prescribed standard with some scope for improvement activity and Red indicating that one or more of the specific elements covered by the grading criteria has a deficiency or vulnerability. Each framework is graded under 6 headings of:-

- Strategic direction;
- Leadership and governance;
- Assessing vulnerability;
- Resourcing and structures;
- Policies and Procedures; and
- Performance review.

# Annual Governance Statement

The HMIC graded the Force in a total of 18 categories and all grades were either Green or Amber.

Following the recent Green Paper, HMIC will produce a rounded assessment of each force in England and Wales. In the public interest, HMIC will make these judgements publicly available on the HMIC web site. It has been decided by HMIs that there will be Force level judgements across the following five domains:-

- (i) Confidence;
- (ii) Local Crime and Policing;
- (iii) Protection from Serious Harm;
- (iv) Value for Money and Productivity; and
- (v) Managing the Organisation.

These judgements will be available for all 43 forces from the autumn of 2009. Prior to judgements being available, HMIC's web site will go live in May 2009 with a set of generic information covering:-

- a description of HMICs new approach to performance monitoring;
- a description of each of the five domains and the current national position; and
- a narrative for each Force covering a general assessment of their working context and specific comment on the five domain areas.

In April 2009, the Comprehensive Area Assessment (CAA) was introduced across the public sector. The CAA represents a fundamental change in the approach of public sector inspectorates. It will seek to provide a new joint assessment framework for local services. CAA will focus on the delivery of Police Authorities, Forces and partners within an area and these will be held collectively to account for their delivery of better community safety. The CAA framework will draw together evidence from a range of sources and will have 2 main elements, which will inform each other:-

- an area assessment (joint report for each area covered by an LAA)
- an organisational assessment. For police authorities this will include the Use of Resources as well as performance against APACS.

This approach to assessment will provide an increased focus on partnership working, information sharing and participative consultation. High quality community engagement will be at the heart of the CAA and will take into account how effectively the "duty to involve" has been implemented.

## 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 2008/09, 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 2008/09.

The following reviews and inspections may, potentially, impact on the Governance Framework and internal control environment during 2009/10 and beyond. The findings of these reviews and inspections will be closely monitored by both the Governance Officer Working Group and the Resources & Strategy Committee and include:-

- Police Authority Self Assessment Framework (PASAF);
- Use of Resources (URE);

## Annual Governance Statement

- Comprehensive Area Assessment (CAA); and
- the rollout of officer self-crime recording.

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.

In addition, the Authority and Chief Constable will continue to develop its Governance arrangements by:-

- introducing a Code of Corporate Governance for Merseyside Police;
- developing its partnership and collaborative working arrangements, in particular with regard to evidencing the arrangements; and
- strengthening the existing control environment within the property management system.

Progress against these issues will be reported throughout the year and form part of next year's Annual Governance Statement.

### Signed



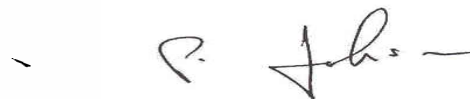
**Bill Weightman**  
Chair of Merseyside Police Authority



**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 2008 BVACOP, Police Services have been merged into one line and there are no separate mandatory or discretionary subdivisions. The figures for 2007/08 have also been merged to show a direct year-on-year comparison.

2007/08				2008/09
Net Expenditure £000		Gross Expenditure £000	Income £000	Net Expenditure £000
334,410	Police Services	379,492	(52,780)	326,712
2,782	Non-Distributed Costs	393	0	393
841	Corporate and Democratic Core	869	0	869
<b>338,033</b>	<b>Net cost of services</b>	<b>380,754</b>	<b>(52,780)</b>	<b>327,974</b>
0	Loss on the disposal of fixed assets			74
309	Secunded Officers			490
1	Total net deficit/(surplus) on trading undertakings			(25)
423	Interest payable and similar charges			710
(952)	Interest and Investment Income			(1,001)
(24,361)	Home Office Grant Payable towards retirement benefits costs			(37,103)
143,059	Pensions interest cost and expected return on pensions assets			165,257
<b>456,512</b>	<b>Net operating expenditure</b>			<b>456,376</b>
(54,147)	Precepts			(56,677)
676	(Surplus)/Deficit on Collection Fund			142
(127,674)	Specific Police Grant			(131,347)
(18,132)	Revenue Support Grant			(15,790)
(108,043)	National Non Domestic Rate income			(113,428)
<b>149,192</b>	<b>Net deficit/(surplus) for year</b>			<b>139,276</b>

## The Income and Expenditure account

### Explanation of change of accounting treatment of Home Office Grant payable towards retirement benefit costs

Within the 2007/08 Statement of Accounts, the Home Office Grant payable towards the cost of retirements benefits was included within the Police Service figure in the Income and Expenditure Account. In the Statement of Movement on the General Fund Balance the Grant was included in the "Employers contributions payable to the Pensions Account, retirement benefits payable direct to Pensioners and pensions top up grant transferred to the Pensions Fund Account" figure. Since the 2007/08 Accounts were closed, additional Guidance has been released regarding the treatment of this Grant, and the 2008/09 figures have been presented in line with this Guidance.

For comparative purposes, the 2007/08 figures have also been restated in line with this Guidance.

Whilst the changes have been made to the 2008/09 Statement of Accounts, it is important to note that the overall effect on the General Fund Balance is nil.

These changes have had the following impact on the comparative figures for 2007/08 compared to those published in the 2007/08 Statement of Accounts.

	Published Statement of Accounts 2007/08	Recognition of Home Office Grant	Comparative figures for 2007/08
	£000	£000	£000
<b><u>Income and Expenditure Account</u></b>			
Police Services	310,049	24,361	<b>334,410</b>
Home Office Grant Payable towards retirement benefits costs	0	-24,361	<b>(24,361)</b>
<b><u>Statement of Movement on the General Fund</u></b>			
Additional contribution payable to the Pension fund to balance the deficit on the Fund Account	0	24,361	<b>24,361</b>
Employer's contributions payable to the Pensions Fund and retirement benefits payable direct to Pensioners	74,949	-24,361	<b>50,588</b>
<b>General Fund Balance carried forward</b>	<b>-8,552</b>	<b>0</b>	<b>(8,552)</b>

## 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.

2007/08		2008/09
<b>Net Expenditure £000</b>	<b>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</b>	<b>Net Expenditure £000</b>
<b>149,192</b>	(Surplus)/Deficit for the year on the Income and Expenditure Account	<b>139,276</b>
<b>(151,103)</b>	Net Additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year (see note on the next page)	<b>(139,145)</b>
<b>(1,911)</b>	Increase or Decrease in General Fund Balance for the year	<b>131</b>
<b>(6,641)</b>	General Fund Balance brought forward	<b>(8,552)</b>
<b>(8,552)</b>	General Fund Balance carried forward	<b>(8,421)</b>

## Statement of Movement on the General Fund Balance

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

2007/08		2008/09	2008/09
£000		£000	£000
	<b>Amounts included in the Income and Expenditure Account but required by statute to be <u>excluded</u> when determining the Movement on the General Fund Balance for the year</b>		
-12,186	Depreciation and impairment of fixed assets	-12,502	
5,015	Government Grants Deferred amortisation	5,005	
0	Net (loss)/gain on sale of fixed assets	-74	
-220,404	Net charges made for retirement benefits in accordance with FRS 17	-222,002	
-227,575			-229,573
	<b>Amounts not included in the Income and Expenditure Account but required to be <u>included</u> by statute when determining the Movement on the General Fund Balance for the year</b>		
1,008	Minimum revenue provision for capital financing	1,008	
1,253	Capital expenditure charged in-year to the General Fund Balance	947	
24,361	Additional contribution payable to the Pension fund to balance the deficit on the Fund Account	37,103	
50,588	Employer's contributions payable to the Pensions Fund and retirement benefits payable direct to Pensioners	49,987	
77,210			89,045
	<b>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</b>		
383	Voluntary revenue provision for capital financing	383	
235	Payment of Inherited Debt	235	
-1,356	Net transfer to/(from) earmarked reserves	765	
-738			1,383
-151,103	<b>Net additional amount required to be credited to the General Fund balance for the year</b>		-139,145

## 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.

2007/08		2008/09
<b>Net Expenditure £000</b>		<b>Net Expenditure £000</b>
<b>149,192</b>	(Surplus)/Deficit for the year on the Income and Expenditure Account	<b>139,276</b>
<b>(26,086)</b>	(Surplus)/Deficit arising on revaluation of fixed assets not charged to the Income and Expenditure Account	<b>3,272</b>
<b>(393,838)</b>	Actuarial (gains)/losses on pension fund assets and liabilities	<b>(307,371)</b>
<b>(270,732)</b>	<b>Total recognised (gains)/losses for the year</b>	<b>(164,823)</b>

## 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 2007/08 has been restated to separately identify Intangible Fixed Assets and Long Term Loans have been reclassified as Deferred Liabilities in line with the requirements of the SORP.

2007/08		2008/09	2008/09	Note
<b>£000</b>		<b>£000</b>	<b>£000</b>	
<b>2,304</b>	<b>Fixed assets</b>			13, 14, 15 & 16
	<b>Intangible Fixed Assets</b>		<b>1,929</b>	
	<b>Tangible Fixed Assets</b>			
	<b>Operational assets:</b>			
<b>146,674</b>	Land and buildings		<b>140,610</b>	
<b>12,774</b>	Vehicles, plant and equipment, fixtures and fittings		<b>15,161</b>	
	<b>Non-operational assets:</b>			
<b>121</b>	Assets under construction		<b>17</b>	
<b>3,536</b>	Surplus housing		<b>2,510</b>	
<b>165,409</b>	<b>Sub total</b>		<b>160,227</b>	
<b>5</b>	Long Term Debtors		<b>0</b>	21
<b>165,414</b>	<b>Total Long Term assets</b>		<b>160,227</b>	
	<b>Current assets:</b>			
<b>1,026</b>	Stocks	802		
<b>17,373</b>	Debtors	27,149		22
<b>662</b>	Investments	2,845		
<b>53</b>	Imprests	51		
<b>0</b>	Cash	0	<b>30,847</b>	
<b>184,528</b>	<b>Total assets</b>		<b>191,074</b>	
	<b>Current liabilities:</b>			
<b>0</b>	Short Term Loans	(4,500)		
<b>(22)</b>	Unapplied capital grant	0		
<b>(22,857)</b>	Creditors	(31,377)		23
<b>-86</b>	Cash Overdrawn	(6)	<b>(35,883)</b>	
<b>161,563</b>	<b>Total assets less current liabilities</b>		<b>155,191</b>	
<b>(4,230)</b>	Deferred liabilities		<b>(3,995)</b>	25
<b>(3,964)</b>	Provision - insurance		<b>(5,123)</b>	27
<b>(17,917)</b>	Government grants deferred account		<b>(18,257)</b>	
<b>(2,431,945)</b>	Liability related to defined benefit pension scheme		<b>(2,259,486)</b>	38
<b>(2,296,493)</b>	<b>Total net assets /(liabilities)</b>		<b>(2,131,670)</b>	
	<b>Financed by:</b>			
<b>86,059</b>	Capital Adjustment account		<b>80,975</b>	15
<b>25,964</b>	Revaluation Reserve		<b>22,636</b>	28
<b>1,896</b>	Usable Capital Receipts reserve		<b>2,038</b>	20
<b>(2,431,945)</b>	Pensions Reserve FRS 17		<b>(2,259,486)</b>	38
<b>789</b>	Pensions Reserve		<b>823</b>	29
<b>12,192</b>	Earmarked Reserves (excluding Pensions)		<b>12,923</b>	29
<b>8,552</b>	General Balances		<b>8,421</b>	
<b>(2,296,493)</b>	<b>Total net worth</b>		<b>(2,131,670)</b>	

## 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.

2007/08		2008/09
£000		£000
	<b><u>Revenue activities</u></b>	
335,840	Cash paid to and on behalf of employees	362,371
53,032	Other operating costs	53,430
-60	Rents	-67
-53,471	Council tax income (precepts)	-56,535
-108,043	Non-domestic rate income	-113,428
-18,132	Revenue support grant	-15,790
-184,676	Other Government grants	-193,159
-33,462	Charges for services and other cash receipts	-37,686
-8,972	<b>Revenue activities net cash flow</b>	-864
	<b><u>Returns on Investments and Servicing of Finance</u></b>	
434	Interest paid	710
-904	Interest received	-1,010
	<b><u>Capital activities</u></b>	
8,524	Purchase of fixed assets	8,728
-50	Sale of fixed assets	-216
-4,224	Capital grants received	-5,344
-5,192	<b>Net cash flow before financing</b>	2,004
	<b><u>Management of Liquid Resources</u></b>	
-1,053	Net increase/(decrease) in investments	2,183
6,100	Net increase/(decrease) in short term loans	-4,500
	<b><u>Financing</u></b>	
235	Repayment of long term loan (deferred liability)	235
90	<b>Net cash (inflow)/outflow</b>	-78
	<b>Increase/decrease in cash and cash equivalents</b>	
92	(Increase)/decrease in cash	-80
-2	(Increase)/decrease in petty cash	2
90	<b>Net (increase)/decrease in cash and cash equivalents</b>	-78

# Notes to the Core Financial Statements

## NOTES TO THE INCOME AND EXPENDITURE ACCOUNT

### 1. Leased assets - rentals

All lease rentals are charged to the Income and Expenditure Account and relate to Property Leases. No provision is made for outstanding lease commitments which are payable in future years. The value of assets and related liabilities are not shown in the Balance Sheet.

2007/08		2008/09
£000		£000
	<b>Expenditure</b>	
206	Leases expiring within 1 year	478
577	Leases expiring within 2 - 5 years	791
324	Leases expiring after 5 years	378
<b>1,107</b>	<b>Expenditure total</b>	<b>1,647</b>

Figures for 2007/08 have been restated to show Leased Assets costs in accordance with the SORP.

### 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 2008/09 appears below:

2007/08		2008/09
£000		£000
	<b>Expenditure</b>	
28	Recruitment advertising	43
165	Other advertising	244
1,122	Other publicity	1,078
<b>1,315</b>	<b>Expenditure total</b>	<b>1,365</b>

### 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 2009.

### 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 2008/09 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 2008/09 this amounted to £152,720 (2007/08: £142,354). The Authority's contribution towards the overall cost of the Underwater Search Unit in 2008/09 was £217,987 (2007/08: £201,761)

## Notes to the Core Financial Statements

### NOTES TO THE INCOME AND EXPENDITURE ACCOUNT

#### 5. Pensions

All details on Pensions are shown in the Notes to the Pensions Fund Account (pages 55-60).

#### 6. Remuneration of employees and members allowances

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

2007/08		2008/09
253	£50,000 - £60,000	293
32	£60,001 - £70,000	22
24	£70,001 - £80,000	36
13	£80,001 - £90,000	10
2	£90,001 - £100,000	5
3	£100,001 - £110,000	3
1	£110,001 - £120,000	0
0	£120,001 - £130,000	0
1	£130,001 - £140,000	0
1	£140,001 - £150,000	1
0	£150,001 - £160,000	0
0	£160,001 - £170,000	0
1	£170,001 - £180,000	0
0	£180,001 - £190,000	0
0	£190,001 - £200,000	1
<b>331</b>		<b>371</b>

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 £233,604 (2007/08: £227,588).

#### 7. Audit Costs

2007/08		2008/09
<b>£000</b>		<b>£000</b>
75	Fees payable to the Audit Commission in respect of Financial Statements	76
25	Fees payable to the Audit Commission for the Police Use of Resources and Whole of Government Accounts	26
<b>100</b>	<b>Total</b>	<b>102</b>

## 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.

2007/08		2008/09
£000		£000
80	Expenditure	0
-29	Income	-20
-51	Transfer of surplus/(deficit) to earmarked reserves	20
0	<b>Total</b>	0

As at the 31st March 2009 there is also £16,821 of stock remaining (£28,000 as at 31st March 2008) 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 2009 the Authority had outstanding long term external loans of £3.995m (2007/08: £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.

2007/08		2008/09
£000		£000
	<b>Actual repayments</b>	
235	External debt	235
1,391	Minimum Revenue Provision (Includes voluntary contribution)	1,391
1,626		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 Cash Flow Statement (Page 53).

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

2007/08		2008/09
<b>£000</b>		<b>£000</b>
13,343	Wirral MBC Precept	13,928
11,838	Sefton MBC Precept	12,451
15,860	Liverpool City Council Precept	17,202
7,046	St.Helens MBC Precept	7,440
5,384	Knowsley MBC Precept	5,656
11,967	Merseyside Superannuation Fund (Wirral MBC)	11,446
202	Underwater Search & Marine Unit (Cheshire Police) - expenditure	218
-142	Underwater Search & Marine Unit (Cheshire Police) - income	(153)
1,735	Knowsley MBC - Police Authority costs	1,718
<b>67,233</b>		<b>69,906</b>

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, and successfully won a retendering exercise in 2007 to extend the contract.

2007/08		2008/09
<b>£000</b>	<b>Expenditure</b>	<b>£000</b>
1,497	Employees	1,533
65	Cleaning & domestic services	64
5	Other supplies and services	8
26	Support services	25
<b>1,593</b>		<b>1,630</b>
<b>-1,592</b>	Contract receipts	<b>-1,655</b>
<b>1</b>	<b>Net (surplus)/deficit</b>	<b>-25</b>

#### 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

	Intangible Fixed Assets	Tangible Fixed Assets			Non Operational Assets		Total
		Land & Buildings	Plant & Equipment	Vehicles & Helicopter	Assets under construction	Surplus Land & Buildings	
	£000	£000	£000	£000	£000	£000	£000
<b>Value as at 1st April 2008</b>	0	150,556	31,128	17,874	121	3,536	<b>203,215</b>
Additions	1,065	365	4,794	4,610	0	0	<b>10,834</b>
Transfers from work in progress	0	0	0	104	-104	0	<b>0</b>
Revaluations	0	-873	0	0	0	8	<b>-865</b>
Impairment	-955	-7,691	-1,082	-115	0	-1,034	<b>-10,877</b>
Disposals		0	0	-2,195	0	0	<b>-2,195</b>
Transfers to Intangible Fixed Assets	9,285	0	-9,285	0	0	0	<b>0</b>
Fixed Asset Adjustment**	-218	0	-70	0	0	0	<b>-288</b>
<b>Gross Value as at 31st March 2009</b>	<b>9,177</b>	<b>142,357</b>	<b>25,485</b>	<b>20,278</b>	<b>17</b>	<b>2,510</b>	<b>199,824</b>
<b>Depreciation as at 1st April 2008</b>	<b>0</b>	<b>-3,882</b>	<b>-24,142</b>	<b>-9,782</b>	<b>0</b>	<b>0</b>	<b>-37,806</b>
Depreciation written off - revaluations	0	2,270	0	0	0	0	<b>2,270</b>
Depreciation written off - impairment	866	1,560	299	103	0	0	<b>2,828</b>
Depreciation for year	-1,133	-1,695	-3,574	-2,466	0	0	<b>-8,868</b>
Disposals	0	0	0	1,979	0	0	<b>1,979</b>
Transfers to Intangible Fixed Assets	-6,981	0	6,981	0	0	0	<b>0</b>
<b>Depreciation as at 31st March 2009</b>	<b>-7,248</b>	<b>-1,747</b>	<b>-20,436</b>	<b>-10,166</b>	<b>0</b>	<b>0</b>	<b>-39,597</b>
<b>Net book value as at 31st March 2009</b>	<b>1,929</b>	<b>140,610</b>	<b>5,049</b>	<b>10,112</b>	<b>17</b>	<b>2,510</b>	<b>160,227</b>
<b>Net book value as at 31st March 2008 as reported in 2007/8 Statement of Accounts</b>	<b>0</b>	<b>146,674</b>	<b>6,986</b>	<b>8,092</b>	<b>121</b>	<b>3,536</b>	<b>165,409</b>
Transfer to Intangible Fixed Assets	2,304	0	-2,304	0	0	0	<b>0</b>
<b>Restated Net Book Value as at 31 March 2008</b>	<b>2,304</b>	<b>146,674</b>	<b>4,682</b>	<b>8,092</b>	<b>121</b>	<b>3,536</b>	<b>165,409</b>

\*In order to comply with the SORP, in the current financial year expenditure on assets that do not have physical substance but are identifiable and controlled by the Authority (e.g. software licences) have been separately identified as Intangible Fixed Assets. In the 2007/8 Statement of Accounts these assets were reported within Plant & Equipment. A transfer has been made out of Plant and Equipment and into Intangible Fixed Assets to reflect the gross book value and accumulated depreciation of these assets as at 31 March 2008.

\*\*The Fixed Asset Adjustment relates to the write off of IT support and maintenance costs which had previously been capitalised.

## Notes to the Core Financial Statements

### NOTES TO THE BALANCE SHEET

#### 14. Capital Financing

2007/08	Capital Financing	2008/09
<b>£000</b>		<b>£000</b>
4,224	Government Grants received in year	5,344
766	Government Grants Brought Forward	0
2,423	Borrowing	4,516
1,253	Revenue Financing & Financing From Reserves	974
<b>8,666</b>	<b>Total Capital Financing</b>	<b>10,834</b>

#### 15. Capital Adjustment Account

The Capital Adjustment Account was created on 1st April 2007. The opening balance at this date consisted of the balances on the Fixed Asset Restatement Account and the Capital Financing Account.

The Capital Adjustment Account 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.

2007/08	Capital Adjustment Account	2008/09
<b>£000</b>		<b>£000</b>
<b>90,279</b>	<b>Opening Balance</b>	<b>86,059</b>
	<b>Sources of Finance</b>	
5,015	Amortisation of Government Grant Deferred	5,005
1,253	Revenue financing & financing from reserves	974
1,008	Minimum Revenue Provision	1,008
383	Voluntary Revenue Provision	383
235	Repayment for inherited debt	235
<b>98,173</b>		<b>93,664</b>
	<b>Cost of Acquiring, Creating or Enhancing Assets</b>	
(12,186)	Depreciation & Impairment for year	(12,502)
260	Difference between current cost and historic cost depreciation	318
(188)	Adjustments for disposals and transferred assets	(505)
<b>86,059</b>	<b>Balance Carried Forward</b>	<b>80,975</b>

## Notes to the Core Financial Statements

### NOTES TO THE BALANCE SHEET

#### 16. Information on assets held

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

	2007/08	2008/09
	No.	No.
<b>Non-operational</b>		
Surplus housing	18	18
Other surplus non operational property*	1	1
Land plots*	3	3
<b>Operational</b>		
Force Headquarters	1	1
Police Training Centres	2	2
Police stations/Custody Suites*	44	44
Retained housing	7	7
Medical Examination Centres	1	1
Vehicles	958	1032

\*The number of assets for 2007/08 have been restated to account for a misclassification between operational and non operational assets, the number of Police Stations owned and to provide information on land plots held.

#### 17. Capital Financing Requirement

2007/08	Capital; Expenditure & Financing	2008/09
<b>£000</b>		<b>£000</b>
<b>34,671</b>	<b>Opening Capital Financing Requirement</b>	<b>35,468</b>
	<b>Capital Investment</b>	
8,666	Operational assets	10,834
	<b>Sources of Finance</b>	
(4,990)	Government Grants	(5,344)
(1,253)	Revenue financing & financing from reserves	(974)
(1,391)	Minimum Revenue Provision	(1,391)
(235)	Repayment for inherited debt	(235)
<b>35,468</b>	<b>Closing Capital Financing Requirement</b>	<b>38,358</b>
	<b>Explanation of movements in year</b>	
797	Increase in underlying need to borrow (supported by Government financial assistance)	2,890
<b>797</b>	Increase in Capital Financing Requirement	<b>2,890</b>

# Notes to the Core Financial Statements

## NOTES TO THE BALANCE SHEET

### 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, however a review for impairment is necessary if events or changes in circumstances indicate that the carrying value of the fixed asset may not be recoverable. In response to the general decline in property prices resulting from current economic conditions, in 2008/09 all operational buildings and all surplus housing properties were revalued. The valuations were made 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. The impairment review reduced the valuation of properties valued at Depreciated Replacement Cost (DRC) by 3.5% and the valuation of properties valued at Open Market Value by 25%. The majority of properties are valued at DRC.

Depreciation has been provided for over their useful economic life and impairment has also been accounted for when there has been capital expenditure incurred that has not directly led to an increase in the value of the asset.

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 2009 the Authority had entered into the following capital contracts:-

- Installation of Mobile Data terminals - the total value of the Contract is £424,860 of which £212,430 had been spent at 31st March 2009.
- Serious Offender Management System - the total value of the Contract is £275,000 of which £191,000 had been spent at 31st March 2009.
- Facial Imaging Airlock System - the total value of the Contract is £134,000 of which £63,130 had been spent at 31st March 2009.
- WTSL Metal Deposition Machine - the total value of the Contract is £111,500 of which £36,948 had been spent at 31st March 2009.

## Notes to the Core Financial Statements

### NOTES TO THE BALANCE SHEET

#### 20. Capital receipts

2007/08		2008/09
£000		£000
1,846	<b>Unapplied receipts:</b> Balance brought forward at 1st April	1,896
	<b>Receipts during the year:</b>	
2	Sale of Police Buildings	0
48	Sale of Police houses	0
0	Sale of vehicles	142
50	<b>Total capital receipts during the year</b>	142
0	<b>Less:</b> Financing of capital expenditure	0
1,896	<b>Capital receipts unapplied at 31st March</b>	2,038

#### 21. Long term debtors

2007/08		2008/09
£000		£000
5	Car loans to employees	0
5	<b>Total long term debtors</b>	0

#### 22. Debtors

2007/08		2008/09
£000		£000
12,310	Government departments	21,622
2,778	Other local authorities	3,169
1,659	Sundry debtors	1,247
670	Prepayments	1,120
(44)	Provision for bad debts	(9)
17,373	<b>Total debtors</b>	27,149

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 2009 the provision for bad debts was £9,277 (2007/08: £44,456)

## Notes to the Core Financial Statements

### NOTES TO THE BALANCE SHEET

#### 23. Creditors

2007/08		2008/09
<b>£000</b>		<b>£000</b>
<b>(680)</b>	Government Departments	<b>(1,133)</b>
<b>(6,442)</b>	HM Revenue & Customs	<b>(5,855)</b>
<b>(1,766)</b>	Other Local Authorities	<b>(2,108)</b>
<b>(13,969)</b>	Sundry creditors	<b>(22,281)</b>
<b>(22,857)</b>	<b>Total external creditors</b>	<b>(31,377)</b>

#### 24. Cash

As at 31st March 2009 the Force held a total of £3,294,459 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. Deferred Liabilities

The figure for deferred liabilities relates to inherited debt administered by Wirral Metropolitan Borough Council. This debt has been reclassified as a deferred liability from a long term loan in the 2007/8 Statement of Accounts. 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 £1.610m 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

2007/08		2008/09
<b>Insurance</b>		<b>Insurance</b>
<b>£000</b>		<b>£000</b>
<b>(4,072)</b>	Balance b/f	<b>(3,964)</b>
<b>(1,354)</b>	Contributions in year (including Interest)	<b>(2,422)</b>
<b>2,058</b>	Expenditure	<b>2,309</b>
<b>(1,288)</b>	Transfers to/(from) Earmarked Reserve	<b>-1,046</b>
<b>692</b>	Release to Revenue	<b>0</b>
<b>(3,964)</b>	Balance c/f	<b>-5,123</b>

In 2008/09 the Authority made a contribution of £2.422m to the insurance provision (including interest of £0.258m). 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 takes account of the 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 underprovided for and subsequently transferred £1.046m to the Provision from the earmarked Insurance Reserve, thus ensuring that the provision was in line with the estimated value of present obligations, in accordance with the requirements of FRS12.

## Notes to the Core Financial Statements

### NOTES TO THE BALANCE SHEET

#### 28. Revaluation Reserve

2007/08		2008/09
£000		£000
0	Balance as at 1st April	25,964
25,949	Revaluation of Operational Buildings	1,397
275	Revaluation of Non-Operational Buildings	8
0	Impairment losses on Operational Buildings	-4,140
0	Impairment losses on Non-Operational Buildings	-275
(260)	Depreciation on Revaluation	-318
<b>25,964</b>	<b>Balance at 31st March</b>	<b>22,636</b>

The Revaluation Reserve was 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 Revaluation Reserve.
- Disposals - Any revaluation gains in the Revaluation Reserve for assets disposed of are transferred to the Capital Adjustment Account.
- 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.

## Notes to the Core Financial Statements

### NOTES TO THE BALANCE SHEET

#### 29. Statement of total movement on reserves

	Balance as at 1 April 2008	Contrib- utions to reserves	Contrib- utions from reserves	Balance as at 31 March 2009
<b>Details of movement in Earmarked Reserves</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>	<b>£000</b>
Helicopter Reserve	95	426	-286	235
Internal Trading Reserve	165	25	0	190
Earmarked Capital Reserve	2,123	0	0	2,123
Airwave Reserve	754	0	-711	43
Carryover Reserve	934	1,294	-934	1,294
PCSO Reserve	2,745	400	-672	2,473
Other Reserves	414	177	-45	546
Section 152 Reserve	416	424	-170	670
Target Hardening Reserve	332	150	-47	435
Police Property Act Fund	115	376	-28	463
Earmarked Pensions Reserve	789	34	0	823
Restructure Reserve	2,000	0	0	2,000
Estate Strategy Reserve	0	1,783	0	1,783
Additional Officer Reserve	385	0	-385	0
Insurance Reserve	1,714	0	-1,046	668
	<b>12,981</b>	<b>5,089</b>	<b>-4,324</b>	<b>13,746</b>

## Notes to the Core Financial Statements

### NOTES TO THE BALANCE SHEET

#### 30. Financial Instruments

Financial assets and financial liabilities represented by loans and receivables 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.

Their fair value can be assessed by calculating the present value of the cash flows that will take place over the remaining term of the instruments under the following assumptions:

- no early repayment or impairment is recognised
- where an instrument will mature in the next 12 months, Balance Sheet carrying amount is assumed to approximate fair value
- the fair value of trade receivables and payables are assumed to be the invoiced or billed amount

The table below outlines the fair value of assets and liabilities as at 31 March 2009.

	31 March 2009		31 March 2008	
	Fair Value Disclosure	Balance Sheet Disclosure	Fair Value Disclosure	Balance Sheet Disclosure
	£000	£000	£000	£000
<b>Financial Assets</b>				
Short Term Investments	2,845	2,845	662	662
<b>Total</b>	<b>2,845</b>	<b>2,845</b>	<b>662</b>	<b>662</b>
<b>Financial Liabilities</b>				
<b>Borrowing repayable within 12 months:</b>				
London Borough of Croydon	(4,500)	(4,500)	-	-
Bank overdraft	(6)	(6)	(86)	(86)
<b>Total</b>	<b>(4,506)</b>	<b>(4,506)</b>	<b>(86)</b>	<b>(86)</b>

The carrying value of financial assets and financial liabilities is deemed to be a reasonable approximation of fair value due to the short term nature of these instruments which are held for short term financing purposes.

The Authority's activities expose it to a variety of financial risks:

- credit risk - the possibility that other parties may fail to pay amounts due
- liquidity risk - the possibility that the Authority might not have funds available to meet its commitments to make payments
- market risk - the possibility that financial loss might arise for the Authority as a result of changes in such measures as interest rates or stock market movements

The treasury management function for Merseyside Police Authority is undertaken by Knowsley MBC Treasury Management section.

## Notes to the Core Financial Statements

### NOTES TO THE BALANCE SHEET

#### 30. Financial Instruments cont'd.

##### **Credit Risk**

Credit risk arises from the short term lending of surplus funds to banks and financial institutions as well as credit exposure to customers. The Authority has adopted CIPFA's Code of Practice for Treasury Management and this is enshrined in its own Financial regulations. This code includes key controls in respect of investment and borrowing in line with CIPFA's Prudential Code. The amounts owed to the 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 repaid. The Authority provides for bad debts each year, as at 31 March 2009 the provision was £9,277.

##### **Liquidity Risk**

The Authority produces cash flow projections on a regular basis to mitigate the risk that the Authority will not be able to meet its commitments and payments. The projections allow for cash management including the repayment profile of any borrowings. Knowsley MBC Treasury Management Section are able to secure access to overdraft facilities and short term borrowing through Money Markets on behalf of the Authority.

##### **Market Risk**

###### Interest Rate Risk

The carrying value of financial assets and financial liabilities reported in the Balance Sheet is deemed to be a reasonable approximation to fair value and therefore the Authority is not exposed to increases/decreases in the fair value of financial instruments as a result of interest rate movements. Investments and borrowings held in the balance sheet are at fixed interest rates and therefore the Authority is not exposed to movements in interest payable/receivable on investments and borrowings.

###### Foreign Exchange Risk

The Authority has no financial assets or liabilities denominated in foreign currencies and thus has no exposure to loss arising from movements in exchange rates.

## Notes to the Core Financial Statements

### NOTES TO THE CASH FLOW STATEMENT

#### 31. Analysis of Government Grants

2007/08 £000		2008/09 £000
	<b>Revenue Grants</b>	
(127,674)	Police specific revenue grant	(131,347)
(18,132)	Revenue support grant	(15,790)
-5,099	Terrorism grant	(5,312)
(9,499)	Crime fighting fund grant	(9,499)
(5,217)	Other minor grants	(5,582)
-24,624	Pensions Top-Up grant	(27,155)
(1,751)	DNA grant	(1,751)
(254)	Loan charges grant	(199)
(6,845)	Community Support Officers	(8,809)
(1,392)	Basic Command Unit Grants	(1,184)
(2,321)	Special Priority Payments Grant	(2,321)
(202,808)		(208,949)
	<b>Capital Grants</b>	
(4,224)	Capital Grants	(5,344)
(207,032)	<b>Total</b>	(214,293)

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

2007/08 £000		2008/09 £000	2008/09 £000
-1,911	<b>(Surplus)/deficit for the year</b>		131
	<b>Non-cash transactions</b>		
-1,626	Capital charges	(2,574)	
-1,253	Financing of capital expenditure	(2,342)	
1,356	Contribution to/from reserves	1,334	
1,708	Contribution to provisions	145	(3,437)
	<b>Accruals basis</b>		
-2,710	(Reduction)/increase in debtors	9,750	
89	Increase/(reduction) in stock	(224)	
-5,095	(Increase)/reduction in creditors	(7,384)	2,142
	<b>Interest</b>		
-434	Interest paid	(710)	
904	Interest received	1,010	300
-8,972	<b>Revenue activities net cash flow</b>		-864

## Notes to the Core Financial Statements

### NOTES TO THE CASH FLOW STATEMENT

#### 33. Analysis of Movement in Net Debt

	Balance 1st April 2008	Cash Flow Changes	Balance 31 March 2009
	£000	£000	£000
<b>Movements in cash</b>			
Bank Overdraft	(86)	80	(6)
Imprests	53	(2)	51
	<b>(33)</b>	<b>78</b>	<b>45</b>
Short Term Borrowing	-	(4,500)	(4,500)
Deferred Liabilities	(4,230)	235	(3,995)
Temporary Investments	662	2,183	2,845
<b>Movement in Net Debt</b>	<b>(3,601)</b>	<b>(2,004)</b>	<b>(5,605)</b>

The cash flow changes in respect of short term borrowing and temporary investments reconcile to the Management of Liquid Resources section of the Cash Flow Statement.

#### 34. Reconciliation of Net Cash Flow to Movement in Net Debt

	2008/09
	£000
<b>Increase in Cash (from Cash Flow Statement)</b>	<b>78</b>
<b>Short Tem Borrowing</b>	
Cash inflow from new borrowing	-4,500
<b>Deferred Liabilities</b>	
Cash used for Transferred Debt Repayment	235
<b>Current Investments</b>	
Cash decrease due to increase in investments	2,183
<b>Increase in Net Debt</b>	<b>(2,004)</b>

## Pensions Fund Account

This account reflects the Pensions arrangements from 1st April 2008 to 31st March 2009. The pension transactions are split between two separate accounts. The pensions fund account records all the transactions which are re-imbursed through the top up grant from the Home Office. The remainder of the expenditure resides with the Police Authority.

2007/08		2008/09
<b>£000</b>	<b>Pensions Fund Account</b>	<b>£000</b>
	<b>Income</b>	
	<b>Contributions Receivable</b>	
-35,447	Police Employers Pension Contribution Income	-36,128
-14,862	Employees Pension Contributions	-14,813
-820	Employees Pension Contributions (9.5% scheme)	-1,369
	<b>Other</b>	
-448	Police Transfer Value Receivable	-1,109
-1,115	Capital Equivalent Income - Ill Health Pensions	-551
<b>-52,692</b>	<b>Total Income</b>	<b>-53,970</b>
	<b>Expenditure</b>	
	<b>Benefits Payable</b>	
62,000	Police Pensions	66,453
1,240	Police Ill Health Commutations	581
13,238	Police Ordinary Commutations	23,074
167	Police Death in Service Grant	964
	<b>Other</b>	
408	Police Transfer Value Payable	
<b>77,053</b>	<b>Total Expenditure</b>	<b>91,072</b>
24,361	<b>Net Amount Payable/(Receivable) before top-up grant</b>	37,102
-24,361	Additional contribution from the Police Authority	-37,102
<b>0</b>	<b>Net Amount Payable/(Receivable)</b>	<b>0</b>

2007/08		2008/09
<b>£000</b>	<b>Net Assets Statement</b>	<b>£000</b>
	<b>Net Current Assets and Liabilities</b>	
	<b>Creditors/Receipts in Advance</b>	
-1,098	Unpaid Pension Benefits	-3,264
0	Employers Contributions Received in Advance	0
0	Employees Contributions Received in Advance	0
	<b>Debtors/Prepayments</b>	
1,098	Amount owing to Pension Fund for Unpaid Pension Benefits (Top Up Grant)	3,264
0	Pensions paid in advance	0
<b>0</b>	<b>Total Net Assets</b>	<b>0</b>

In order to comply with the requirements of the SORP, the Net Assets Statement has been brought into balance with a transfer from the General Fund for the additional Pensions Top Up Grant of £3.264m (2007/08: £1.098m).

## Notes to the Pensions Fund Account

### PENSIONS FUND ACCOUNT NOTES

#### 35. 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 £16.182m (2007/08: £15.682m) contributions have been netted off against retirement benefits payable to pensioners.

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 38.

#### 36. 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 £7.766m in 2008/09 (£9.021m in 2007/08), the fall primarily being a result of the Employers Contribution being reduced from 16% in 2007/08 to 13.7% in 2008/09.

## Notes to the Pensions Fund Account

### PENSIONS FUND ACCOUNT NOTES

#### 37. 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 08 £000	31 Mar 09 £000	31 Mar 08 £000	31 Mar 09 £000
<b>Net Cost of Services:</b>				
Current Service Cost	7,963	8,722	66,600	47,630
Past service cost	2,482	33	300	360
<b>Net Operating Expenditure</b>				
Interest Cost	11,018	14,549	142,180	161,380
Expected Return on assets	-10,139	-10,672		
<b>Net Charge to the Income and Expenditure Account</b>	<b>11,324</b>	<b>12,632</b>	<b>209,080</b>	<b>209,370</b>
<b>Statement of Movement in the General Fund Balance</b>				
Reversal of net charges made for retirement benefits in accordance with FRS17	-11,324	-12,632	-209,080	-209,370
<b>Actual amount charged against revenue for pensions in the year:</b>				
Employers contributions payable to the scheme	9,021	7,843		
Actual amounts charged to revenue - retirement benefits paid to pensioners and employers contributions payable to the scheme			41,818	42,144

Note 39 contains details of the assumptions made in estimating the figures included in this note.

## Notes to the Pensions Fund Account

### PENSIONS FUND ACCOUNT NOTES

#### 38. 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-08	31-Mar-09	31-Mar-08	31-Mar-09	31-Mar-08	31-Mar-09
Estimated Liabilities in scheme	<b>(234,565)</b>	<b>(194,398)</b>	<b>(2,354,380)</b>	<b>(2,202,120)</b>	<b>(2,588,945)</b>	<b>(2,396,518)</b>
Estimated assets in scheme	<b>157,000</b>	<b>137,032</b>	<b>0</b>	<b>0</b>	<b>157,000</b>	<b>137,032</b>
Net Liability	<b>(77,565)</b>	<b>(57,366)</b>	<b>(2,354,380)</b>	<b>(2,202,120)</b>	<b>(2,431,945)</b>	<b>(2,259,486)</b>

The liabilities show the underlying commitments that the Authority has in the long-run to pay retirement benefits. The total liability of £2,259m has a substantial impact on the net worth of the Authority as recorded in the Balance Sheet, resulting in a negative overall balance of £2,132m. 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 28th February 2009.

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

## Notes to the Pensions Fund Account

### PENSIONS FUND ACCOUNT NOTES

#### 39. Pension Liabilities contd.

The main assumptions used in their calculations have been:

	Local Government		Police	
	Pension Scheme		Pension Scheme	
	31-Mar-08	31-Mar-09	31-Mar-08	31-Mar-09
Rate of inflation	3.6%	3.3%	3.7%	3.0%
Rate of increase in salaries	4.9%	4.6%	5.2%	4.5%
Rate of increase in pensions	3.6%	3.3%	3.7%	3.0%
Rate for discounting scheme liabilities	6.1%	7.1%	6.9%	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	
	31.03.08	31.03.08	31.03.09	31.03.09		
	%	£000	%	%	£000	%
Equity investments	7.5%	90,275	57.5%	7.5%	73,449	53.6%
Government bonds	4.6%	25,277	16.1%	4.0%	24,255	17.7%
Other bonds	6.1%	9,263	5.9%	6.0%	6,578	4.8%
Property	6.5%	13,659	8.7%	6.5%	12,744	9.3%
Cash/Liquidity	5.3%	7,065	4.5%	0.5%	5,755	4.2%
Other	7.5%	11,461	7.3%	7.5%	14,251	10.4%
<b>Total</b>		<b>157,000</b>	<b>100.0%</b>		<b>137,032</b>	<b>100.0%</b>

The asset values in the Local Government Pension Scheme were calculated as at 28th February 2009. No adjustment was made for March 2009. A deduction of 0.2% in respect of expenses is made in calculating the expected return for the year.

#### 40. Pensions Reserve

2007/08		2008/09
£000		£000
-2,680,328	<b>Balance as at 1st April</b>	-2,431,945
	<b>Appropriations (to)/from Revenue:</b>	
-220,404	Reversal of Net Charges made for retirement benefits in accordance with FRS17	-222,002
74,949	Employer's contributions payable to the Pensions Account and retirement benefits payable direct to pensioners & Top Up Grant	87,090
393,838	Actuarial Gains and Losses	307,371
-2,431,945	<b>Balance carried forward 31st March</b>	-2,259,486

## Notes to the Pensions Fund Account

### PENSIONS FUND ACCOUNT NOTES

#### 41. Pensions Reserve continued

Actuarial Gains & Losses on Pension Reserve										
	2004/05		2005/06		2006/07		2007/08		2008/09	
	£000	%	£000	%	£000	%	£000	%	£000	%
<b>Local Government Scheme</b>										
Difference between the expected and actual return on assets	5,121	4.9	17,561	12.9	-45	0.0	-14,890	0.0	-39,784	29.0
Differences between actuarial assumptions about liabilities and actual experience	2,917	1.8	-5,522	2.8	0	2.8	-7,046	0.0	2,123	1.5
Changes in the demographic and financial assumptions used to estimate liabilities	<u>-31,803</u>	20.0	<u>-18,610</u>	9.5	<u>12,486</u>	6.2	<u>-5,048</u>	6.2	<u>62,649</u>	32.2
	<u>-23,765</u>		<u>-6,571</u>		<u>12,441</u>		<u>-26,984</u>		<u>24,988</u>	
<b>Police Pension Scheme</b>										
Difference between the expected and actual return on assets	0		0		0		0		0	
Differences between actuarial assumptions about liabilities and actual experience	5,690	0.3	31,480	1.2	57,240	2.2	-20,088	0.9	19,780	1.0
Changes in the demographic and financial assumptions used to estimate liabilities	<u>-419,870</u>	18.8	<u>-391,720</u>	14.4	<u>170,200</u>	6.5	<u>440,910</u>	18.7	<u>262,603</u>	11.9
	<u>-414,180</u>		<u>-360,240</u>		<u>227,440</u>		<u>420,822</u>		<u>282,383</u>	
<b>Total Actuarial Gains and Losses</b>	<u><u>-437,945</u></u>		<u><u>-366,811</u></u>		<u><u>239,881</u></u>		<u><u>393,838</u></u>		<u><u>307,371</u></u>	

## Financially Accountable Unit (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 2007/08	Summary level	Probable Outturn 2008/09	Final Outturn 2008/09
<b>£000</b>		<b>£000</b>	<b>£000</b>
16,273	<b>Strategic Development</b>	20,164	18,865
	<b>Citizen Focus</b>		
9,562	Citizen Focus	8,692	8,759
7,281	Call Handling	7,120	7,048
16,843		15,812	15,807
	<b>Administrative Support</b>		
12,694	Personnel and Development	10,733	10,613
26,116	Resources Directorate	27,853	28,866
38,810		38,586	39,479
	<b>Operations</b>		
156,728	Basic Area Operations	160,422	159,365
2,967	Area Co-ordination	3,867	3,630
137	Special Constabulary	181	170
800	Community Relations	664	624
160,632		165,134	163,789
	<b>Operational Support</b>		
32,406	Operational Support	34,412	34,503
17,948	Crime and Intelligence	18,700	17,781
15,403	Force Crime Operations Unit	16,289	16,084
65,757		69,401	68,368
568	<b>Operational Contingency Fund</b>	515	515
2,037	<b>Police Authority Support Unit</b>	2,206	2,082
	<b>Non Rechargeable Financing Items &amp; Levies</b>		
41,818	Police pensions	43,268	42,144
308	Attachments	255	490
1,616	Forcewide services	3,134	3,221
202	Underwater Search Unit	219	218
2,023	Costs of Capital	3,465	3,819
(1,991)	Income	(4,215)	(2,805)
780	PNC charges	868	868
44,756		46,994	47,955
345,676	<b>Net expenditure carried forward</b>	358,812	356,860

## Financially Accountable Unit (FAU) Outturn statement

Outturn 2007/08	Summary level	Probable Outturn 2008/09	Final Outturn 2008/09
345,676	<b>Brought Forward</b>	358,812	356,860
0	<b>Contingency for Pay &amp; Prices</b>	319	0
755	<b>Provision for Police Reform Pay and Conditions</b>	-28	0
423	<b>Interest Payable</b>	382	711
	<b>Income</b>		
-442	Interest and investment income	-876	-1,338
<b>346,412</b>		<b>358,609</b>	<b>356,233</b>
	<b>Appropriations</b>		
-885	Net carry over from previous year	-934	-934
934	Net carry over to next year	834	1,294
-7,171	Reversal of Depreciation & Government Grants released	-8,613	-8,967
1,626	Minimum Revenue Provision & Payment for MRDF	1,626	1,626
3,183	Contribution to/(from) General Balances	46	547
0	Contribution to/(from) PCSO Reserve	-1,166	-672
0	Contribution to Estate Strategy Reserve	1,150	1,432
-1,992	Contribution to/(from) Pensions Reserve	0	0
-500	Contribution to/(from) Insurance Reserve	0	0
-241	Contribution to/(from) Additional Officer Reserve	-313	-313
<b>341,366</b>	<b>Total Net Expenditure to be met from Government Grants and Taxation</b>	<b>351,239</b>	<b>350,246</b>
	Less: Specific Home Office Revenue Grants:		
-127,674	General Police Grant	-131,347	-131,347
-34,045	Specific Grants	-34,139	-33,147
-18,132	Revenue support grant	-15,790	-15,790
-108,044	Business rate income	-113,428	-113,427
676	(Surplus)/Deficit on collection fund	142	142
<b>-54,147</b>	<b>PRECEPT REQUIREMENTS</b>	<b>-56,677</b>	<b>-56,677</b>
0	<b>(Surplus)/deficit for the year to General Balances</b>	0	0
-6,641	<b>General revenue balance brought forward</b>	-8,552	-8,552
-3,183	Contribution to/(from) revenue	95	-547
626	Transfer to/(from) Additional Officer Reserve	-72	-72
0	Transfer to Estate Strategy Reserve	350	350
646	Transfer to Restructure Reserve	0	0
0	Transfer to PCSO Reserve	400	400
0	Overspend Carryover	-834	0
0	Reversal of 2007/8 Carry Forward	934	0
<b>-8,552</b>	<b>General revenue balance carried forward</b>	<b>-7,679</b>	<b>-8,421</b>

## Glossary of Terms

### **ACTUARIAL GAIN OR LOSS**

The change in actuarial deficits or surpluses that arise because either events have not coincided with the actuarial assumptions made for the last valuation (experience gains or losses), or because the actuarial assumptions have changed).

### **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.

### **CURRENT SERVICE COST (PENSIONS)**

This measures the increase in the present value of pensions liabilities generated in the financial year by employees. It is an estimate of the true economic cost of employing people in the financial year, earning service that will eventually entitle them to the receipt of a lump sum and pension when they retire.

### **DEBTORS**

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

### **DEFERRED LIABILITY**

Liabilities which by arrangement are payable over a period of time.

### **DEPRECIATION**

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

### **EXPECTED RATE OF RETURN ON PENSIONS ASSETS**

This is a measure of the average rate of return expected on the investment assets held by the scheme for the year. It is not intended to reflect the actual realised return on the scheme, but a longer-term measure, based on the value of assets at the start of the year and an expected return factor.

## Glossary of Terms

### **FAIR VALUE**

The amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

### **FINANCIAL INSTRUMENT**

This is any contract that gives rise to a financial asset of one entity and a financial liability of another. The term covers both financial assets such as loans receivable and liabilities such as borrowings.

### **FINANCIALLY ACCOUNTABLE UNIT (FAU)**

A Financially Accountable Unit (FAU) is a unit of the Devolved Financial Management structure to which Budgets are allocated, and against which Income and Expenditure is charged. Each FAU has a Budget Holder responsible for managing that Budget.

### **IMPAIRMENT**

A reduction in the value of a fixed asset below its carrying amount on the balance sheet.

### **INTANGIBLE FIXED ASSETS**

These are fixed assets such as software licences that do not have physical substance but are identifiable and controlled through legal or custody rights.

### **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.

### **PAST SERVICE COST (PENSIONS)**

These costs represent the increase in liabilities arising from decisions taken in the current year to improve retirement benefits, but whose financial effect is derived from years of service earned in earlier years.

### **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.