

**Leicestershire
Police Authority**

Statement of Accounts

2005/06

Explanatory Foreword

Introduction

The Statement of Accounts includes a Statement on Internal Control, the Revenue Account, a Balance Sheet showing the assets owned by the Authority and its liabilities, a statement of movements in reserves and provisions, together with a cash flow statement showing the source and application of funds.

Overview of 2005/2006

There was an increase of 34 Police Community Support Officer posts during 2005/06 of which 28 were partly funded by the Leicestershire County Council.

The new Spinney Hill Park Local Policing Unit was completed and brought into full operational use.

Financing the police service

The Police Authority set a net revenue budget of £146.3m for the year. The vast majority of the financing of this budget is determined by Government, with just 26.1% met via the local precept. The Authority levied a precept of £126.04 for a Band D property, an increase of 4.9% over the previous year.

Revenue spending

The Authority achieved a managed underspend on its revenue budget of £2.391m. This was attributable to : 1) savings on Area / Departmental budgets of £0.422m, 2) corporate savings of £1.544m, and 3) a reduction in the contribution to the Insurance Provision of £0.425m arising from fewer liability claims than anticipated.

The Authority agreed to utilise the £2.391m underspend in the following areas : 1) £1m to part fund the 2006/07 budget requirement, 2) £0.456m to fund 2006/07 commitments which commenced in 2005/06, and 3) transfer the balance of £0.935m to a Budget Equalisation

Reserve to part-fund the 2007/08 budget requirement.

Reserves

The Police Fund remains unchanged at £3.581m and the Pensions (General) Reserve unchanged at £0.751m. The Capital Reserve has been reduced from £1.860m to £1.553m. A Budget Equalisation Reserve of £0.935m has been established.

Retirement Benefits

The accounting for Retirement Benefits in the 2005/06 accounts has resulted in a pension liability of £953.5m. The unfunded police officer pension scheme liability is £935.2m with the balance relating to the Local Government Pension Scheme.

Capital spending

£5.927m was spent on improving the buildings stock, investing in information technology and the vehicle fleet. This was funded by a combination of grant, asset sales, revenue and borrowing. Outstanding debt at the year end was £18.6m. A number of capital projects were undertaken during 2005/06 including general property improvements and the commencement of the implementation of the national Case & Custody system.

Outlook for 2006/2007

The Police authority has approved the 2006/07 net revenue and capital budgets of £148.3m and £5.9m respectively, and a precept of £132.33 for a Band D property, an increase of 5.0% over the previous year.

J B Rhodes
Chairman of the Police Authority

C A C Smith
Treasurer to the Police Authority

Statement of Responsibility for the Accounts

The Police Authority, the Treasurer to the Police Authority, and the Chief Constable, all have a share in the responsibility for these Accounts. (The Chief Constable's responsibility is exercised by the Force Finance Director.)

The Police Authority

The Authority is required to

- 1 manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets.
- 2 make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs.
- 3 approve the statement of accounts

The Treasurer

The Treasurer is accountable to the Police Authority, and is appointed by them to be responsible for the proper administration of the Authority's financial affairs.

The Treasurer is responsible for the preparation of the Authority's Statement of Accounts. Under the CIPFA Code of Practice on Local Authority Accounting in Great Britain, the accounts are required to present fairly the income and expenditure of the Authority, and its financial position at the end of the year.

The Chief Constable

In practice, the day to day financial management of the budget is undertaken by the Force Finance Director, who is accountable to the Chief Constable.

In consultation with the Treasurer, the Force Finance Director

- 1 selects suitable accounting policies and applies them consistently
- 2 makes judgements and estimates that are reasonable and prudent and comply with the CIPFA Code of Practice
- 3 keeps proper accounting records which are up to date
- 4 takes reasonable steps for the prevention and detection of fraud and other irregularities.

C A C Smith CPFA Treasurer
29th June 2006

Statement of Internal Control for Leicestershire Police Authority

1. SCOPE OF RESPONSIBILITY

The Leicestershire Police Authority is responsible for ensuring that business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively. Leicestershire Police Authority also has a duty 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 Leicestershire Police Authority is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of Leicestershire Police functions and which includes arrangements for the management of risk.

2. THE PURPOSE OF THE SYSTEM OF INTERNAL CONTROL

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Authority's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The system of internal control has been in place for the year ended 31 March 2006 and up to the date of approval of the statement of accounts.

3. THE INTERNAL CONTROL ENVIRONMENT

| Key Element of Internal Control | | Action |
|--|--|--|
| A. | establishing and monitoring the achievement of the Authority's objectives. | <ul style="list-style-type: none">• Agreement by Chief Constable and Police Authority of a three-year policing strategy and annual plan linked to the budget and capital programme.• Monitoring within Force at strategic, managerial and tactical levels by the Chief Officer Group, Area Commanders/Heads of Departments and supervisors respectively.• Monitoring by the Police Authority through the various Committees and Panel structures currently in place. |

| Key Element of Internal Control | | Action |
|---------------------------------|---|---|
| B. | the facilitation of policy and decision-making | <ul style="list-style-type: none"> • Determination of policies through the Force Chief Officer Group with approval or comment as required by the Authority or its Committees. (Supported by a framework of programme boards and strategic groups). • Robust systems for regular review and, as required, updating of policy. • Structured programme of policy review and reports where needed to Force Chief Officer Group and the Authority or its committees. • Scheme of delegation from Authority to Chief Constable and delegation within Force. • Scheme of delegation from Authority to Committees and to the Clerk and to the Treasurer. |
| C. | ensuring compliance with established policies, procedures, laws and regulations | <ul style="list-style-type: none"> • Review programmes carried out by External Audit/HMIC Review & Inspection Regime/Internal Audit in line with the agreed 3 year plan. • Quality Assurance audits performed within Child Protection investigations. • Consideration of reports to the Authority and its Committees and Panels by Monitoring Officer(Clerk) and Statutory Finance Officer (Treasurer). • Self Inspection reports by Areas and Departments. • Internal quality audit of Police Complaint files. • User satisfaction survey for compliance within Service Delivery Standards. • Audits and Inspections carried out by the Inspectorate function within Corporate Development. • Liaison between statutory officers and Force Senior Officers. • Use of external tax and VAT consultants. • Employment of Health and Safety professionals. Training of risk assessors. • Employment of Data Protection Professionals. Data Protection audit framework. |

| Key Element of Internal Control | | Action |
|--|---|--|
| D. | ensuring the economical, effective and efficient use of resources, and for securing continuous improvement in the way in which functions are exercised, having regard to a combination of economy, efficiency and effectiveness as required by the Best Value duty. | <ul style="list-style-type: none"> • Appointment of Internal Auditors • Best value review programme and other service improvement activity including self inspection of same. • Preparation and approval of the annual Efficiency Plan. • Use of professional purchasing officer and appropriate purchasing consortium and national contracts. |
| E. | the financial management of the Authority and the reporting of financial management | <ul style="list-style-type: none"> • Financial Regulations • Force Financial Procedures • Standing Orders relating to contracts • Scheme of financial delegation to Chief Constable and within the Force. • Consideration by the Authority, and the Finance and General Purposes Committee of reports by Treasurer, Chief Constable, internal/external audit and HMIC. • Publication of annual statement of Accounts. • Revenue and Capital Budget preparation and decision programme including work of Programme Boards, the Strategic Alignment Group and Chief Officer Group. • Monthly budget monitoring reports to all members and budget holders. • Capital Strategy incorporating Estates (including an annual inspection of all premises), IT and Fleet strategies. • Inter authority statistical comparisons. |
| F. | the performance management of the Authority and the reporting of performance management. | <ul style="list-style-type: none"> • Incorporation of agreed performance targets in annual plan. • Setting of area targets by Chief Constable. • Monitoring within Force as per item A of this table. • Monitoring by the Police Authority reviewing the Chief Constable's quarterly Performance Report at meetings of the full Authority. |

| Key Element of Internal Control | | Action |
|---------------------------------|---|---|
| G. | Embed Risk Management into the activities of the Authority and Force. | <ul style="list-style-type: none"> ▪ Risk Management championed by Deputy Chief Constable. ▪ Establishment of Force Strategic Risk Group. ▪ Identification of key risks to services is supported by a Risk Management Policy ▪ Use of Risk Frameworks by Areas and Departments ▪ A risk register has been compiled and reviewed continuously. ▪ Use of external consultants |

4. REVIEW OF EFFECTIVENESS

The Leicestershire Police Authority has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. The review of the effectiveness of the system of internal control is informed by the work of the internal auditors and the managers within the Authority and Force who have responsibility for the development and maintenance of the internal control environment, and also by comments made by the external auditors in their annual audit letter and other review agencies and inspectorates and other reports.

Key areas of review of the effectiveness of internal control can be summarised as follows:-

- Reports from the External Auditors, the Audit Commission – the 2004/5 Annual Audit Letter was considered by the Police Authority and its recommendations implemented
- Reports from HMIC
- Best Value Reviews were completed during 2005/06 in the following areas –
 - Major Crime
 - Occupational Health
- A process of policy review has been set up for all policies to be examined on a rolling programme including checks for compliance with human rights, diversity, data protection/freedom of information and other legal requirements

5. SIGNIFICANT INTERNAL CONTROL ISSUES

As a result of an Internal Audit review, a high priority recommendation was raised for a Contingency Plan to be drawn up for the Corporate Finance section that would be applied in the event of a disaster. The recommendation was accepted by the Authority with an agreed implementation date of 31st December 2006.

Chris Smith Treasurer

Matt Baggott Chief Constable

Byron Rhodes Chairman

Audit Opinion

Independent Auditor's Report to Leicestershire Police Authority

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

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

Respective Responsibilities of the Authority's Treasurer and Auditor

The Treasurer's responsibilities for preparing the financial statement in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2005 are set out in the Statement of Responsibility.

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

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

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

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

Basis of audit opinion

I conducted my audit in accordance with The Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgements made by the Authority in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

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

Auditor's Opinion

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

Mr G Patterson
District Auditor
Audit Commission
1st Floor, Bridge Business Park
Thurmaston
LEICESTER LE4 8BL

September 2006

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

Authority's Responsibilities

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

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

Auditor's Responsibilities

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

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

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

Conclusion

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

Best Value Performance Plan

I issued my statutory report on the audit of the authority's best value performance plan for the financial year 2005/06 on 18 November 2005. I did not identify any matters to be reported to the authority and did not make any recommendations on procedures in relation to the plan.

Certificate

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

Mr G Patterson
District Auditor
Audit Commission
1st Floor, Bridge Business Park
Thurmaston
LEICESTER LE4 8BL

September 2006

Statement of Accounting Policies

1. General principles

The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) in 2005, the CIPFA Code of Practice on accounting for Best Value (BVACOP) and also with guidance issued by CIPFA on the application of accounting standards (FRS's and SSAP's), relevant to Police Authorities.

2. Debtors and Creditors

Both the revenue and capital accounts are prepared on an accruals basis in accordance with FRS18. Both income and expenditure are therefore included when the sums are payable or receivable. The only exceptions to this are debt repayments and pension transfer values, which are included when they are paid / received.

In accordance with the CIPFA Code of Practice on Local Authority Accounting, accruals have also been made for capital expenditure & income.

3. Interest

Interest payable on external borrowings, and interest receivable on short-term investments, are accounted for on an accruals basis, and reflect the overall economic effect of the net borrowings.

4. Fixed Assets

All expenditure on the acquisition, creation or enhancement of fixed assets (over specified de minimis levels) is capitalised in the accounts. Expenditure on fixed assets is capitalised, provided that the fixed asset yields benefit to the Authority and the service it provides is for a period of more than one year. This excludes expenditure on routine repairs and maintenance of fixed assets which is charged directly to the revenue account.

Fixed assets are valued on the basis recommended by CIPFA and in accordance with the Statements of Asset Valuation Principles and Guidance Notes issued by the Royal Institution of Chartered Surveyors (RICS). The basis of valuation is as follows:

Tangible Fixed Assets

Land and buildings -depreciated replacement cost (DRC), reflecting their value to the Police Authority in their current use. Because of the specialist nature of these buildings, the DRC value is normally higher than open market value.

Police houses - open market value.

Vehicles, helicopter, IT and equipment valuation is based on the acquisition costs (plus the value of any work done on the asset before it goes into service), less depreciation over the expected life of the asset, modified where necessary by the judgement of the relevant expert manager.

Assets under construction are included at actual expenditure to date.

Revaluations of land and buildings are carried out at least every five years. Any material changes to the valuation of the assets will be adjusted in the interim period as they occur. Capital expenditure in-year (other than acquisitions) is reflected in asset valuations only to the extent that it adds to the value of the asset.

Any surplus or deficits arising from revaluation are credited or debited to the Fixed Asset Restatement Account except for deficits that arise from a reduction due to impairment of assets, which are debited directly to the revenue account as part of the net cost of services.

Intangible Fixed Assets

IT Software / Licences are valued on the basis of their acquisition costs, less depreciation over the expected life of the asset, modified where necessary by the judgement of the relevant expert manager

5. Depreciation

In accordance with FRS 15, land is not depreciated. Buildings are depreciated over their estimated remaining useful life as determined by the valuer on a straight-line basis. Police Houses are not depreciated as these are treated as non-depreciating assets. IT (tangible & intangible) and other equipment are depreciated over their various useful lives (usually 3-7 years) also on a straight-line basis. Vehicles are depreciated over 5 full years, 10% in the year of purchase (representing six months), 20% in years two, three, four and five, leaving a 10% residual value until disposal.

6. Capital Charges

The revenue account includes a capital charge for all fixed assets used in the provision of services. The total charge covers the annual provision for depreciation plus a capital financing charge determined by applying a specific notional rate of interest to net asset values. The notional rate of interest used is 4.95% (historic cost assets) and 3.5% (current cost assets)

External interest payable and the provision of depreciation are charged to the Asset Management Revenue Account, which is credited with capital charges to services. Capital charges therefore have a neutral impact on the amounts to be raised from local taxation.

7. Capital Receipts

Capital receipts from the disposal of assets are held in the capital reserve until such time as they are used to finance other capital expenditure. Individual receipts of less than £10,000 are credited to revenue income.

8. Redemption of Debt

The Authority is required by statute to charge 4% of the opening General Fund (GF) Capital Financing Requirement (CFR) to the revenue account each financial year. Prior to the 1st April 2004 the 4% would have been applied to the opening General Fund credit ceiling. In order to achieve stability the GF CFR, which is a new concept introduced in the Prudential Code, has been brought into line with the credit ceiling. The adjustment is a fixed transitional factor, known as adjustment 'A' in the regulations.

The difference between the 4% and amounts already charged for depreciation and impairment is disclosed separately as an appropriation to or from the Capital Financing Account.

9. Leases

The Authority has a number of operating leases in respect of property & vehicles. Expenditure under operating leases is charged to the revenue account in the period in which it is incurred.

10. Government Grants and Contributions

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

In the case of capital grants these are credited to the Capital Grants unapplied account pending its application to finance capital expenditure, when it is then transferred to the Government Grants Deferred account. Amounts are then released from this account over the life of the asset to offset any depreciation on assets financed from government grants.

11. Stocks

Stocks of uniforms, vehicle parts, vehicle fuel, stationery and other operating equipment are held. Cleaning materials and other items are fully charged to revenue in the year of purchase. Stock is valued on the basis of average cost price.

12. Reserves and Provisions

The Police Authority maintains reserves to finance expenditure on projects which will be carried out in future years, and to protect the Authority against unexpected events. In accordance with the Accounting Code of Practice, the Authority has made provisions for liabilities or losses which are likely to be incurred or certain to be incurred but with

uncertain amounts or dates on which they will arise, by charging expenditure to services in anticipation of the liability having to be met.

Details of the nature of reserves and provisions made by the Authority are set out in the notes to the accounts.

13. Investments

Investments are included in the accounts at cost price.

14. Police Pay

Police officers are paid at four weekly intervals rather than monthly. The result is that they are actually paid 13 times a year in 20 out of 21 years. In the 21st year, there are 14 payments in the 12 month period. The fourteenth is treated as a payment in advance.

15. Pensions

The cost of retirement benefits is recognised in the Net Cost of Services during the period when they are earned by employees, rather than when the benefits are actually paid as pensions in accordance with FRS17. However, the charge we are required to make against Government Grants & Council Tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out in the Consolidated Revenue Account (CRA) after Net Operating Expenditure.

16. Overheads

The accounts have been prepared in accordance with the Best Value Accounting Code of Practice (BVACOP). The BVACOP analysis on page 12 apportions support services (e.g. Human Resources and Finance) to operational areas and departments, which are subsequently analysed over the main areas of police activity (or "Domains").

17. Estimation Techniques

The following estimation techniques have been used in the accounts:

Capital Creditors – quantity surveyors estimate of the value of the work undertaken

Payroll creditors i.e. overtime – average overtime rates

FRS 17 Valuation – actuarial valuations of future pensions liabilities are provided by independent actuaries.

18. Joint Arrangements

The Police Authority has an interest in two Joint Arrangements for which it is the lead accounting authority, the East Midlands Air Support Unit (EMASU) and the East Midlands Special Operations Unit (EMSOU).

Adjustments have been made to the Balance Sheet to reflect the share of net assets controlled by the Police Authority as at 31st March 2006.

These adjustments have no affect on the overall amount to be met from government grants and Council Tax.

Leicestershire contributes 33% and 23% respectively to the net revenue budgets of the EMASU and EMSOU.

Revenue Account

Best Value Analysis

| 2004/05 Outturn £000 | | Note | Outturn 2005/06 | | |
|----------------------------|--|----------|------------------------------|-------------------------|----------------------------|
| | | | Gross Expenditure £000 | Gross Income £000 | Net Expenditure £000 |
| 76,058 | Crime | | 90,901 | (9,054) | 81,847 |
| 68,548 | Policing in the Community | | 79,039 | (7,955) | 71,084 |
| 591 | Corporate & Democratic Core | | 610 | - | 610 |
| 210 | Non distributed Costs | | 200 | - | 200 |
| 145,407 | Net Cost of Service | | 170,750 | (17,009) | 153,741 |
| 293 | Levies to National Police Services | | | | 311 |
| 351 | Seconded Officers (Net Cost) | | | | 514 |
| (827) | Interest on investments | | | | (771) |
| (4,096) | Surplus on Asset Management Revenue Account | 8 | | | (4,620) |
| 38,876 | Pensions interest cost and expected return on pensions assets | 28 | | | 44,128 |
| 180,004 | Net Operating Expenditure | 2 | | | 193,303 |
| (467) | Transfer to /(from) Revenue Reserves | 26 | | | 969 |
| 709 | Revenue funding of capital expenditure | 16 | | | 686 |
| (602) | Excess depreciation | 9 | | | (693) |
| (41,715) | Transfer from Pensions Reserve | 28 | | | (48,276) |
| 137,929 | Amount to be met from Government grants and local taxpayers | | | | 145,989 |
| | Funding: | | | | |
| (36,074) | Precept on Collection Authorities | | | | (38,558) |
| (27,784) | Revenue Support Grant | | | | (26,766) |
| (61,490) | Police Grant | | | | (65,412) |
| (12,717) | National Non-Domestic Rates | | | | (15,253) |
| (136) | (Surplus) / Deficit for the year | | | | - |

Balance Sheet

| 31 March 2005 £000 | | Note | 31 March 2006 £000 | |
|--------------------------|--|----------|-----------------------|------------------|
| | Net Fixed Assets | 15,17,18 | | |
| 1,564 | Intangible Fixed Assets | | | 1,570 |
| | Operational Tangible Fixed Assets | | | |
| 78,990 | Land and buildings | | 86,375 | |
| 6,165 | Vehicles and equipment | | 6,116 | |
| 452 | Police houses | | 299 | |
| 85,607 | | | | 92,790 |
| | Non-Operational Tangible Fixed Assets | | | |
| 375 | Assets under construction | | - | - |
| 87,546 | | | | 94,360 |
| 15 | Long term debtors | 20 | | 4 |
| 87,561 | Total Long Term Assets | | | 94,364 |
| | Current Assets | | | |
| 198 | Stocks | 19 | | 308 |
| 4,356 | Debtors | 20 | | 3,650 |
| 1,847 | Payments in advance | 21 | | 1,895 |
| 14,135 | Short term investments | 22 | | 17,150 |
| 169 | Cash in hand | | | 122 |
| 20,705 | | | | 23,125 |
| | Current Liabilities | | | |
| (7,283) | Creditors | 23 | | (7,038) |
| (510) | Short term borrowing | | | (516) |
| (671) | Receipts in advance | | | (1,134) |
| (1,813) | Cash overdrawn | | | (3,045) |
| (10,277) | | | | (11,733) |
| 10,428 | Net Current Assets | | | 11,392 |
| | Long Term Liabilities | | | |
| (11,405) | Long term borrowing | 24 | | (12,829) |
| (5,747) | Long term creditors | 23 | | (5,308) |
| (701) | Provisions | 25 | | (467) |
| (830,566) | Liability related to defined benefit schemes | 28 | | (953,511) |
| (848,419) | | | | (972,115) |
| 52 | EMASU - Share of Net Current Assets | | | 72 |
| 4 | EMSOU - Share of Net Current Assets | | | 21 |
| (750,374) | Net Liabilities | | | (866,266) |
| | Represented By : | | | |
| 38,030 | Fixed Asset Restatement Account | 30 | | 42,993 |
| 14,674 | Capital Financing Account | 31 | | 14,982 |
| 17,117 | Grants and contributions deferred | 31 | | 18,004 |
| - | Capital Receipts Reserve | 29 | | - |
| 283 | Gov't Grant / Contributions unapplied | 29 | | 172 |
| (830,566) | Pensions Reserve (FRS 17) | 28 | | (953,511) |
| 6,451 | Revenue Reserves | 26 | | 7,420 |
| 52 | EMASU - Share of Reserve | | | 72 |
| 4 | EMSOU - Share of Reserve | | | 21 |
| 3,581 | Police Fund | 27 | | 3,581 |
| (750,374) | | | | (866,266) |

Notes to the Accounts

1. Authorisation of Financial Statements

The financial statements were authorised for issue by Mr C Smith, Treasurer, on 12th June 2006

2. Subjective Analysis

| 2004/05 Outturn £000 | | Note | 2005/06 Outturn £000 |
|----------------------------|---|------|----------------------------|
| 83,981 | Police Officer pay and allowances | 3 | 87,431 |
| 27,419 | Police Staff pay and allowances | 3 | 30,314 |
| 18,160 | Police pensions | 28 | 20,276 |
| 2,839 | FRS 17 Current Cost Adjustment | | 4,148 |
| 2,101 | Other employees expenses | 4 | 1,617 |
| 3,140 | Premises | | 4,039 |
| 3,194 | Transport | 7 | 3,218 |
| 10,007 | Supplies and services | 6 | 10,486 |
| 4,887 | Agency and contracted services | 5 | 5,012 |
| 591 | Services to the Police Authority | 3,11 | 610 |
| 6,556 | Capital charges | 8 | 7,128 |
| 162,875 | Gross Operating Expenditure | | 174,279 |
| (9,656) | Income from Government Grants | | (10,780) |
| (6,301) | Income from fees and charges | | (7,130) |
| (867) | Contribution from OLA's | | (1,803) |
| (827) | Interest on investments | | (771) |
| (4,096) | Surplus on Asset Management Revenue Account | 8 | (4,620) |
| 38,876 | Pensions interest cost and expected return on pensions assets | 28 | 44,128 |
| 180,004 | Net Operating Expenditure | | 193,303 |

3a. Senior salary levels

The number of staff receiving total pay and allowances above £50,000 a year was as follows

| Band | £ | No. of staff | Band | £ | No. of staff |
|------------------|---|--------------|--------------------|---|--------------|
| 50,000 to 59,999 | | 78 | 90,000 to 99,999 | | - |
| 60,000 to 69,999 | | 15 | 100,000 to 109,999 | | 2 |
| 70,000 to 79,999 | | 11 | 110,000 to 119,999 | | 1 |
| 80,000 to 89,999 | | 3 | | | |

3b. Services to the Police Authority

The total amount of members allowances (including employers N.I) paid during 2005/06 was **£169k** (2004/05 £148k)

4. Publicity

Section 5 of the Local Government Act 1986 requires the Authority to maintain a separate account of expenditure on a wide range of publicity activities. During 2005/06 such spending totalled **£574k** (£436k in 2004/05) analysed as follows:

| 2004/05 £000 | | 2005/06 £000 |
|-----------------|---------------------------------------|-----------------|
| 213 | Staff Advertising / Recruitment | 158 |
| 10 | Other Advertising on public relations | 69 |
| 213 | Cost of staff involved in Publicity | 347 |
| 436 | Total | 574 |

5. Agency and contracted services

2005/06 agency and contracted services includes:

| 2004/05 £000 | | 2005/06 £000 |
|-----------------|---------------------------------------|-----------------|
| 2,209 | Forensic Science Service | 2,418 |
| 293 | Police National Computer (PITO) | 311 |
| 122 | East Midlands Special Operations Unit | 144 |
| 321 | East Midlands Air Support Unit. | 330 |
| 2,945 | Total | 3,203 |

6. Sponsorship

In 2005/06 a total of **£49k** (£24k in 2004/05) was raised in sponsorship. This was used to support operational activities such as St Bernards & Juniper Lodge. In addition the Authority had the use of third party vehicles at a notional value of **£107k**.

7. Local Authorities (Goods and Services) Act 1970

The authority is empowered by this Act to provide goods and services to other public bodies. The authority provided a vehicle maintenance service to both the Leicestershire & Rutland Combined Fire Authority and the National Crime Squad (NCS). Income and related expenditure from these services during 2005/06 was as follows:

| 2004/05 £000 | | 2005/06 £000 |
|-----------------|---|-----------------|
| | Leicestershire & Rutland Combined Fire Authority | |
| 10 | Income | 15 |
| 8 | Related expenditure | 14 |
| | National Crime Squad (NCS) | |
| 29 | Income | 44 |
| 19 | Related expenditure | 41 |

8. Asset Management Revenue Account

Accounting for the use of capital is governed by the CIPFA Code of Practice. The principle is that the revenue account should be charged with a provision for depreciation, (the rate at which the value of capital assets erodes over time), and an interest charge to represent the cost of borrowing or using cash. Although complex, these transactions are netted off so that the overall effect on the revenue account, and therefore on the local taxpayer, is neutral.

| 2004/05 £000 | | 2005/06 | |
|-----------------|----------------------------|---------|----------------|
| | | £000 | £000 |
| 1,001 | External Interest Payments | 971 | 5,047 |
| 3,647 | Depreciation | 4,076 | |
| (6,556) | Capital Charges | (7,128) | (9,667) |
| (2,188) | Government Grants Released | (2,539) | |
| (4,096) | Surplus on AMRA | | (4,620) |

9. Provision for Loan Repayments

The Authority is required by statute to set aside a Minimum Revenue Provision (MRP) for the redemption of external debt. The method of calculating the provision is defined by statute. The difference between the MRP / LCC debt repayments and the depreciation charge is reversed out in the appropriation section of the revenue account.

| 2004/05 £000 | | 2005/06 | |
|-----------------|--------------------------------|---------|--------------|
| | | £000 | £000 |
| 418 | Minimum Revenue Provision | 405 | 844 |
| 439 | LCC Debt Repayments | 439 | |
| 857 | Less: | | 1,537 |
| 3,647 | Depreciation already Charged | 4,076 | |
| (2,188) | Government Grants Written Down | (2,539) | |
| 1,459 | | | |
| (602) | Excess Depreciation | | (693) |

10. Related party transactions

The Authority is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Authority or to be controlled or influenced by the Authority.

Central Government has effective control over the general operations of the Authority. It is responsible for providing the statutory framework within which the Authority operates, and provides the majority of funding in the form of general or specific grants. Details of government grants are set out in a note to the Cash Flow Statement.

Members of the Authority have direct control over the Authority's financial and operating policies. Certain senior officers might also be in a position to influence significantly the policies of the Authority. No material related party transactions have been identified following consultation with members and relevant officers.

11. Disclosure of audit costs

In 2005/06 Leicestershire Police Authority incurred the following fees relating to external audit.

| 2004/05 £000 | | 2005/06 £000 |
|-----------------|---|-----------------|
| 64 | External Audit Services | 65 |
| - | Certification of grant claims and returns | - |
| 64 | Total | 65 |

12. Leases

In 2005/06 the Authority spent £331k on operating leases for property and £27k for vehicles. Outstanding commitments in respect of operating leases at 31st March 2006 are as follows:

| PROPERTY | 31 March 2006 | 31 March 2005 |
|-----------------------|----------------------|----------------------|
| Lease Ends: | £000 | £000 |
| Within 12 months | 4 | 8 |
| Between 2 and 5 years | 78 | 10 |
| More than 5 years | 249 | 249 |

| VEHICLES | 31 March 2006 | 31 March 2005 |
|-----------------------|----------------------|----------------------|
| Lease Ends: | £000 | £000 |
| Within 12 months | - | - |
| Between 2 and 5 years | 32 | - |
| More than 5 years | - | - |

The Authority also holds finance leases in respect of the land at the Spinney Hill and Shepshed LPUs. In entering into both leases, the Authority made initial lump sum payments which negated the need to make further payments to the landlords over the 99 years of the leases.

13. Police Property Act 1997

Police Authorities are required, under the Police Property Act 1997, to set aside monies received from the sale of stolen goods so that it may provide financial support to charities and other deserving organisations.

At 31st March 2006, the Authority held £15k (2004/05 £10k) within cash and creditors under the Police Property Act 1997.

14. Post Balance Sheet Events

After the Balance Sheet date of 31st March 2006 the Authority sold 95 vehicles to a Leasing Company under a Sale-and-Leaseback arrangement. The vehicles continue to be used by the Authority under an operating lease.

15a. Movement of intangible fixed assets during the year

| | |
|---|-----------------------------------|
| | Software Licenses £000 |
| Gross book value as at 1 April 2005 | 4,326 |
| Additions | 733 |
| Disposals | - |
| Re-valuations | (122) |
| Transfers | - |
| Gross book value as at 31 March 2006 | 4,937 |
| Depreciation at 1 April 2005 | 2,762 |
| Depreciation (2005/06) | 605 |
| Depreciation on assets sold | - |
| Depreciation on Revaluations | - |
| Balance as at 31 March 2006 | 3,367 |
| Net book value at 31 March 2006 | 1,570 |
| <hr/> | |
| Net book value at 31 March 2005 | 1,564 |

15b. Movement of tangible fixed assets during the year

| | Land and Buildings £000 | Police Houses £000 | Vehicles Equipment & Helicopter £000 | Assets Under Construction £000 | TOTAL £000 |
|---|------------------------------------|-------------------------------|---|---|-----------------------|
| Gross book value as at 1 April 2005 | 82,599 | 462 | 15,087 | 375 | 98,523 |
| Additions | 1,277 | - | 2,946 | 971 | 5,194 |
| Disposals | (78) | (180) | (563) | - | (821) |
| Re-valuations | 5,824 | 27 | (326) | (86) | 5,439 |
| Transfers | 1,260 | - | - | (1,260) | - |
| Gross book value as at 31 March 2006 | 90,882 | 309 | 17,144 | - | 108,335 |
| Depreciation at 1 April 2005 | 3,609 | 10 | 8,922 | - | 12,541 |
| Depreciation (2005/06) | 898 | - | 2,573 | - | 3,471 |
| Depreciation on assets sold | - | - | (467) | - | (467) |
| Depreciation on Revaluations | - | - | - | - | - |
| Balance as at 31 March 2006 | 4,507 | 10 | 11,028 | - | 15,545 |
| Net book value at 31 March 2006 | 86,375 | 299 | 6,116 | - | 92,790 |
| <hr/> | | | | | |
| Net book value at 31 March 2005 | 78,990 | 452 | 6,165 | 375 | 85,982 |

The Leicestershire County Council Estates Department has been retained on behalf of the Force to provide valuation services. It is of the opinion that an overall increase of 8.0% should be applied to the depreciated replacement cost valuations of both Land & Buildings for the period 1 April 2005 to 31 March 2006. A full revaluation was completed at 31 March 2004.

16. *Financing of capital expenditure during the year*

In accordance with the Code of Practice 2004, capital expenditure is financed on an accruals basis.

| | 2004/05 | 2005/06 |
|--|----------------|----------------|
| | £000 | £000 |
| Opening Capital Financing Requirement | 19,209 | 17,726 |
| <i>Capital Investment</i> | | |
| Operational Assets | 4,974 | 5,927 |
| <i>Sources of Finance</i> | | |
| Capital Receipts | (484) | (315) |
| Government Grants & Other Contributions | (4,407) | (3,426) |
| Revenue Contribution | (709) | (686) |
| Revenue Provision (incl MRP) | (857) | (844) |
| Closing Capital Financing Requirement | 17,726 | 18,382 |
| Explanations of movements in year | | |
| Increase in underlying need to borrow (supported by Government financial assistance) | (1,483) | 656 |
| Increase in underlying need to borrow (unsupported by Government financial assistance) | - | |
| Increase/(Decrease) in Capital Financing Requirement | (1,483) | 656 |

17. *Details of assets owned by the Police Authority*

| 31 March 2005 | | 31 March 2006 | |
|--------------------------|---|--------------------------|--|
| 18.4ha | Land | 18.4ha | |
| 27 | Police stations | 27 | |
| 1 | Custody Suite | 1 | |
| 3 | Police houses | 2 | |
| 2 | Radio aerial sites | 2 | |
| One third share | Helicopter and Hangar | One third share | |
| 491 | Vehicles (e.g. police cars, vans, etc.) | 487 | |
| 9 | EMSOU Vehicles (23% Share) | 11 | |

18. Commitments Under Capital Contracts

The following significant amounts are outstanding on capital contracts which have been entered into by the Police Authority as at the 31/03/06

| | |
|-----------------------|-------------|
| | £000 |
| Airwave Covert Radios | 517 |
| Total | 517 |

19. Stocks

| 31 March 2005 £000 | | 31 March 2006 £000 |
|--------------------------|------------------------|--------------------------|
| 118 | Police uniforms | 212 |
| 39 | Vehicle parts and fuel | 36 |
| 34 | Stationery | 54 |
| 7 | Other | 6 |
| 198 | | 308 |

20. Debtors

| 31 March 2005 £000 | | 31 March 2006 £000 |
|--------------------------|---|--------------------------|
| | Long Term Debtors <i>(amounts falling due after more than 1 year)</i> | |
| 15 | Car loans to employees | 4 |
| | Current Debtors | |
| 3,009 | Government departments | 1,984 |
| 902 | Local & Police Authorities | 1,236 |
| 431 | Sundry debtors | 426 |
| 17 | Car Loans to employees | 11 |
| (3) | Less: Provision for bad debts | (7) |
| 4,356 | | 3,650 |

21. Payments in advance

| 31 March 2005 £000 | | 31 March 2006 £000 |
|--------------------------|------------|--------------------------|
| 864 | Police Pay | 665 |

| | | |
|--------------|-------|--------------|
| 983 | Other | 1,230 |
| <u>1,847</u> | | <u>1,895</u> |

22. Short Term Investments

Short-term investments total **£17.15m** (£14.14m in 2004/05) and represents cash invested in temporary investments and short term deposits with a range of financial institutions. Interest earned is credited to the revenue account.

23. Creditors

| 31 March 2005 £000 | | 31 March 2006 £000 |
|--------------------------|---|--------------------------|
| | Long Term Creditors <i>(amounts payable after more than 1 year)</i> | |
| <u>5,747</u> | | <u>5,308</u> |
| | Current Creditors | |
| 2,505 | Government departments & Agencies | 2,593 |
| 350 | Police & Local Authorities | 227 |
| 649 | Capital Creditors | 576 |
| 1,427 | Salary & Overtime Payments | 1,501 |
| 2,352 | Sundry creditors | 2,141 |
| <u>7,283</u> | | <u>7,038</u> |

The long term creditor represents sums borrowed from Leicestershire County Council before April 1995 to finance police capital spending. This sum is repayable to LCC in annual instalments over 25 years from April 1995.

24. Long term borrowing

Post 1995 long term borrowing is with the Public Works Loan Board (PWLB)

| Debt as at 31/3/05 £000 | Maturity | Debt as at 31/3/06 £000 |
|-------------------------------|--------------------|-------------------------------|
| 77 | 1-2 years | 83 |
| 269 | 2-5 years | 291 |
| 160 | 5-10 years | 56 |
| - | 10-15 years | 1,723 |
| 10,899 | More than 15 years | 10,676 |
| <u>11,405</u> | | <u>12,829</u> |

25. Provisions, movements during the year

| Balance at 1 April 2005 £000 | Movements From £000 | To £000 | Balance at 31 March 2006 £000 |
|---------------------------------------|---------------------------|------------|--|
|---------------------------------------|---------------------------|------------|--|

| | | | | |
|--------------|------------|--------------|-----------|------------|
| Insurance | 690 | (265) | 25 | 450 |
| Other | 11 | (2) | 8 | 17 |
| TOTAL | 701 | (267) | 33 | 467 |

The insurance provision reflects the self insured part of known and potential Public and Employers liability claims.

Other provision covers small sums of money currently held by the Force, but which will be paid out in the future.

26. Revenue reserves, movements during the year

These reserves are earmarked for the specific purposes noted below:

| | Balance at 1 April 2005 £000 | Movements from To £000 | Balance at 31 March 2006 £000 | |
|-----------------------------|---|---|--|--------------|
| Pensions (Specific) | 1,489 | (283) | - | 1,206 |
| Pensions (General) | 751 | - | - | 751 |
| Budget Equalisation Reserve | - | - | 935 | 935 |
| C/Fwds (Specific) | 694 | (694) | 456 | 456 |
| C/Fwds (General) | 675 | (675) | 1,000 | 1,000 |
| Equip Replacement | 448 | (39) | 111 | 520 |
| Capital Expenditure | 1,860 | (307) | - | 1,553 |
| CSO Reserve | 325 | - | 456 | 781 |
| Fleet Insurance | 166 | (27) | 3 | 142 |
| Memorial Garden | - | (2) | 3 | 1 |
| BCU Reserve | 33 | (33) | 34 | 34 |
| Proceeds of Crime Act | 10 | (10) | 41 | 41 |
| TOTAL | 6,451 | (2,070) | 3,039 | 7,420 |

Pensions (Specific)

The pensions specific reserve reflects the liability to police officers in respect of lump sum pension payments who are entitled to retire now, but have chosen not to until a later date. From the 1st April 2006 the accounting arrangements for police pensions changed. As a result, the 'Pension Specific' reserve will no longer be required as all lump sum pension payments will be met from the new 'Pension Account'.

Pensions (General)

The general pensions reserve exists to help the Force meet future but uncertain pensions costs. These are most likely to arise from ill health retirements of police officers. The number, timing and cost of these is unpredictable and would have a direct and adverse impact on the revenue account.

Budget Equalisation Reserve

This represents revenue funds set aside to part-fund the 2007/08 revenue budget requirement.

Carry Forward (Specific)

This reserve includes those sums that the Police Authority has approved to carry forward to finance specific expenditure in 2006/07.

Carry Forward (General)

The general carry forward reserve has been utilised to part finance the 2006/07 base budget.

Equipment Replacement

This provides an element for future funding of the renewal and replacement of equipment.

Capital Expenditure

This represents contributions from revenue to fund future capital expenditure.

Community Support Officers

This provides an element for the future funding of Police Community Support Officers. Transfers to the reserve represent the savings in the Traffic Wardens budget and partnership funding in excess of the expenditure.

Fleet Insurance

The excess on the vehicle insurance policy is £10k. The reserve is to meet the cost of claims that fall below this value.

BCU Fund

This is the permitted carry forward on the Basic Command Unit Fund for 2005/06.

Proceeds of Crime Act

These are the funds awarded to the Authority by the Courts under the Proceeds of Crime Act. The Court Order determines how the funds should be utilised.

27. Police fund

The Police Fund represents the Authority's uncommitted reserves available to meet the very large demands that are occasionally made on the police service.

| | |
|-------------------------------|--------------|
| | £000 |
| Total at 1 April 2005 | 3,581 |
| 2005/06 Surplus | - |
| Total at 31 March 2006 | 3,581 |

28. Retirement Benefits

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 payments that needs to be disclosed at the time that employees earn their future entitlement.

The authority participates in two pension schemes:

- The Local Government Pension Scheme for police staff, is administered by Leicestershire County Council – this is a funded scheme, meaning that the authority and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets

- The Police Pension Scheme for police officers – this is an unfunded scheme, meaning that there are no investment assets built up to meet the pension liabilities, and cash has to be generated to meet actual pensions payments as they eventually fall due.

The cost of retirement benefits are recognised in the Net Cost of Services during the time when they are earned by employees, rather than when the benefits are actually paid as pensions. However, the charge we are required to make against Government Grants & Council Tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out in the Consolidated Revenue Account (CRA) after Net Operating Expenditure. The following transactions have been made in the CRA during the year:

| | Local Government Pension Scheme | | Police Pension Scheme | |
|---|--|-------------------------|------------------------------|-------------------------|
| | 2004/05 £000 | 2005/06 £000 | 2004/05 £000 | 2005/06 £000 |
| Net Cost Of Services | | | | |
| Current Service Cost | 2,920 | 3,300 | 20,849 | 24,024 |
| Past Service Cost | 30 | - | - | - |
| Curtailment | 180 | 200 | - | - |
| | 3,130 | 3,500 | 20,849 | 24,024 |
| Net Operating Expenditure | | | | |
| Interest Cost | 2,760 | 3,600 | 39,146 | 44,128 |
| Expected return on assets in the scheme | (3,030) | (3,600) | - | - |
| | (270) | - | 39,146 | 44,128 |
| Amounts to be met from Government Grants and Local Taxation | | | | |
| Movement on pensions reserve | 572 | (400) | (41,835) | (47,876) |
| Actual amounts charged against government grants and council tax for pensions in the year: | | | | |
| Employers' contributions payable to scheme | 2,980 | 3,100 | - | - |
| Retirement benefits payable to pensioners | - | - | 18,160 | 20,276 |

The Authority's assets and liabilities are:

| | 31 March 2005 £000 | 31 March 2006 £000 |
|--|-----------------------------------|-----------------------------------|
| Estimated liabilities in Police Officer Pension Scheme | 815,306 | 935,211 |
| Share of liabilities in Local Government Pension Scheme | 65,690 | 84,700 |
| Total Liabilities | 880,996 | 1,019,911 |
| Less: Share of assets in Local Government Pension Scheme | (50,430) | (66,400) |
| Net pension Liability | 830,566 | 953,511 |

The liabilities show the underlying commitments that the Authority has in the long run to pay retirement benefits. The total liability of £953.5m has a substantial impact on the net worth of the

authority as recorded in the balance sheet, resulting in a negative overall balance of £866.4m. However, the 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. The latest formal valuation of the Fund for the purpose of setting employers' actual contributions was as at 31 March 2004, the employers' contributions has remained at the same rate as set in the 31 March 2001 valuation.
- Finance is only required to cover police officer pensions when pensions are actually paid. The exception to this is the lump sums for officers who elect to work for more than 30 years and / or beyond 55 years of age. These are financed from the earmarked revenue reserve, Pensions (specific), which has been built up from charges to revenue at the time the officers become eligible to retire. From the 1 April 2006 the accounting arrangements for Police Pensions have changed. From 2006/07 the revenue account will be charged with a notional employer's contribution set by the Home Office. This represents the Authority's contribution to the cost of Police Pensions. Any shortfall between the employers contribution and the actual pensions paid will be met by the Home Office from 2006/07 onwards.

Liabilities have been valued on an actuarial basis using the projected unit method which assesses the future liabilities of the fund discounted to their present value (real discount rate 3.5%). The Police Scheme and the County Council fund liabilities have been valued by Mercer and Hymans Robertson respectively. Both are independent firms of actuaries.

The main assumptions used in the calculations are:

| | Local Gov't Scheme | | Police Scheme | |
|---|--------------------|------|---------------|------|
| | 2005 | 2006 | 2005 | 2006 |
| - rate of inflation | 2.9% | 3.1% | 2.9% | 2.9% |
| - rate of increase in salaries | 4.4% | 4.6% | 4.4% | 4.4% |
| - rate of increase in pensions | 2.9% | 3.1% | 2.9% | 2.9% |
| - rate for discounting scheme liabilities | 5.4% | 4.9% | 5.4% | 4.9% |

Assets in the Pension Fund administered by the County Council are valued at fair value, principally market value for investments, and consist of:

| | 31 March 2005 | | 31 March 2006 | |
|--------------------|---------------|----------------------------------|---------------|----------------------------------|
| | Value £000 | Expected Return (% per annum) | Value £000 | Expected Return (% per annum) |
| Equity Investments | 36,260 | 7.7% | 48,700 | 7.4% |
| Bonds | 7,770 | 4.8% | 10,000 | 4.6% |
| Property | 4,990 | 5.7% | 5,700 | 5.5% |
| Cash | 1,410 | 4.8% | 2,000 | 4.6% |
| | <u>50,430</u> | | <u>66,400</u> | |

The movement in the net pensions deficit for the year can be analysed as follows:

| | Local Government £000 | Police £000 | Total £000 |
|--|--------------------------------------|------------------------|-----------------------|
| Net Surplus / (deficit) at 1 April 2005 | (15,260) | (815,306) | (830,566) |
| Movements in the year: | | | |
| Current Service Cost | (3,300) | (24,024) | (27,324) |
| Contributions | 3,100 | 20,276 | 23,376 |
| Past Service costs (incl curtailment) | (200) | - | (200) |
| Net Return on assets | - | (44,128) | (44,128) |
| | (400) | (47,876) | (48,276) |
| Actuarial gains / (losses) | (2,640) | (72,029) | (74,669) |
| Discretionary Years Benefit (Police Staff) | - | - | - |
| Net Pension (deficit) at 31 March 2006 | (18,300) | (935,211) | (953,511) |

Statement of Total Movement in Reserves

| 2004/05 £000 | | 2005/06 £000 |
|-------------------------|--|-------------------------|
| 136 | Surplus / (deficit) for the year | - |
| (467) | <i>Add back:</i> Movements on Specific Revenue Reserves | 969 |
| (41,715) | <i>Deduct:</i> Appropriations from pensions reserve (FRS 17) | (48,276) |
| (165,102) | Actuarial gains and losses relating to pensions | (74,669) |
| 452 | Police Staff Discretionary Added Years Adjustment | - |
| 18 | Joint Arrangement - Movement in EMASU Reserve | 20 |
| (9) | Joint Arrangement – Movement in EMSOU Reserve | 17 |
| (206,687) | Total increase / (decrease) in revenue resources | (121,939) |
| (300) | Increase/(decrease) in usable capital receipts | - |

| | | |
|----------------|---|--------------|
| (1,766) | Increase/(decrease) in unapplied capital grant and Contributions | (111) |
| (2,066) | Total increase / (decrease) in realised capital resources (note 29) | (111) |
| 2,491 | Gains / (losses) on revaluation of fixed assets | 5,259 |
| - | Gains / (losses) due to Joint Venture adjustments | 58 |
| - | Impairment losses on fixed assets due to general change in prices | - |
| 2,491 | Total increase / (decrease) in unrealised value of fixed assets (note 30) | 5,317 |
| (276) | Value of assets sold, disposed of or decommissioned (note 30) | (354) |
| 484 | Capital Receipts set aside | 315 |
| 107 | Revenue Resources set aside | (7) |
| 2,219 | Movement on Government Grants Deferred | 887 |
| 2,810 | Total increase/(decrease) in amounts set aside to finance capital investment (note 31) | 1,195 |
| 206,365 | Increase / (decrease) on the pension reserve | 122,945 |
| 2,637 | Total recognised gains & losses | 7,053 |

Notes To The TOTAL MOVEMENT ON RESERVES STATEMENT

Note 29

Capital Receipts Reserve

This reserve is cash backed. Capital receipts from the disposal of assets are held in the capital receipts reserve until such time as they are used to finance other capital expenditure. The Authority is unable to comply with SSAP 6, as legislation does not permit gains on the sales of fixed assets to be credited to the revenue account.

Unapplied Capital Grants & Contributions

Again, a cash backed reserve to finance future capital spending. Capital grants and other contributions are credited to this account until required to finance capital expenditure.

| | Capital Receipts Reserve £000 | Unapplied capital grants & Contributions £000 |
|---|--|--|
| Movements in realised capital resources | | |
| Amounts receivable in 2005/06 | 315 | 3,315 |
| Amounts applied to finance new capital investment in 2005/06 | (315) | (3,426) |
| Total increase / (decrease) in realised capital resources in 2005/06 | - | (111) |
| Balance brought forward at 1 April 2005 | - | 283 |
| Balance carried forward at 31 March 2006 | - | 172 |

30. Fixed Asset Restatement Account

The fixed asset restatement account records the deficit or surplus arising on the revaluation of assets, and is written down by the net book value of assets as they are disposed of.

| | Fixed Asset Restatement Account £000 |
|---|---|
| Movements in unrealised value of fixed assets | |
| Gains/(losses) on revaluation of fixed assets in 2005/06 | 5,259 |
| Gains/(losses) related to Joint Arrangement adjustments 2005/06 | 58 |
| Impairment losses on fixed assets due to general changes in prices in 2005/06 | - |
| Total increase / (decrease) in unrealised capital resources in 2005/06 | 5,317 |
| Value of assets sold, disposed of or decommissioned | |
| Amounts written off fixed asset balances for disposals in 2005/06 | (354) |
| Total movement on reserve in 2005/06 | 4,963 |
| Balance brought forward at 1 April 2005 | 38,030 |
| Balance carried forward at 31 March 2006 | 42,993 |

Note 31

Capital Financing Account

The capital financing account contains the amounts which are required by statute to be set aside from capital receipts for the repayment of external loans together with the sums of capital expenditure financed from revenue and capital receipts. It also contains the difference between amounts provided for depreciation and that required to be charged to revenue to repay the principal element of external loans. It is not a cash backed reserve.

Government Grants Deferred

Capital grant and contributions used to finance capital expenditure are credited to this account. As assets are depreciated the grant / contribution is released.

| | Capital Financing Account £000 | Government Grants Deferred £000 |
|---|---|--|
| Movements in amounts set aside to finance capital investment | | |
| <i>Capital receipts set aside in 2005/06</i> | | |
| -reserved receipts | - | - |
| -useable receipts applied | 315 | - |
| Total capital receipts applied in 2005/06 | 315 | - |
| <i>Revenue resources set aside in 2005/06</i> | | |
| -capital expenditure financed from revenue | 686 | - |
| -reconciling amount for provisions for loan repayment | (693) | - |
| Total revenue resources set aside in 2005/06 | (7) | - |
| Grants applied to capital investment in 2005/06 | - | 3,426 |
| Amounts credited to the Asset Management Revenue Account in 2005/06 | - | (2,539) |
| Movement on Government Grants Deferred | - | 887 |
| Total movement on reserve in 2005/06 | 308 | 887 |
| Balance brought forward at 1 April 2005 | 14,674 | 17,117 |
| Balance carried forward at 31 March 2006 | 14,982 | 18,004 |

Note 32**Pensions Reserve (FRS 17) – Actuarial Gains & Losses**

The actuarial gains identified as movements on the Pensions Reserve in 2005/06 can be analysed into the following categories, measured as absolute amounts and as a percentage of liabilities at 31 March 2006:

| | Local Government Pension Scheme | | Police Pension Scheme | |
|---|--|----------------|------------------------------|---------------|
| | £000 | % | £000 | % |
| Differences between the expected and actual return on assets | 9,000 | 49.2% | - | - |
| Differences between the actuarial assumptions about liabilities and actual experience | 60 | 0.3% | - | - |
| Changes in the demographic and financial assumptions used to estimate liabilities | (11,700) | (63.9%) | (72,029) | (7.7%) |
| | (2,640) | (14.4%) | (72,029) | (7.7%) |
| Comparative totals for 2004/05 | (8,240) | (54.0%) | (156,862) | (19.2%) |
| Comparative totals for 2003/04 | 5,990 | 78.9% | 2,399 | 0.4% |
| Comparative totals for 2002/03 | (10,110) | (78.3%) | 40,072 | 6.9% |

Cash Flow Statement

| 2004/05 £000 | | Note | 2005/06 | |
|-----------------|--|----------|----------|----------------|
| | | | £000 | £000 |
| | Revenue cash outflows | | | |
| 131,233 | Cash paid to and on behalf of employees | | 139,299 | |
| 21,124 | Other operating cash payments | | 24,230 | |
| 152,357 | | | | 163,529 |
| | Revenue cash inflows | | | |
| (36,074) | Precepts on district councils | | (38,558) | |
| (12,717) | Non-domestic rate income | | (15,253) | |
| (27,784) | Revenue Support Grant | | (26,766) | |
| (61,490) | Government grants - Police grant | | (65,412) | |
| (8,697) | - Others | 3 | (11,927) | |
| (6,748) | Cash received for goods and services | | (8,712) | |
| (153,510) | | | | (166,628) |
| (1,153) | Revenue activities cash inflow | 2 | | (3,099) |
| | Servicing of finance | | | |
| 1,003 | Cash outflows - interest paid | | 973 | |
| (833) | Cash inflows - interest received | | (752) | |
| | Capital activities | | | 221 |
| 5,057 | Cash outflows - purchase of fixed assets | | 6,000 | |
| (184) | Cash inflows - sale of fixed assets | | (315) | |
| (1,743) | - capital grants received | 3 | (2,272) | |
| (430) | - Other Capital Income | | (1,281) | 2,132 |
| | Net cash inflow before financing | | | (746) |
| | Management of Liquid Resources | | | |
| (1,595) | Net increase / (decrease) in short term deposits | | | 3,015 |
| | Financing | | | |
| 505 | Cash outflows - loan repayments | | 510 | |
| - | Cash inflows - new loans raised | | (1,500) | (990) |
| 627 | (Increase) / Decrease in cash | 1 | | 1,279 |

Notes to the Cash Flow Statement

1. Movement in cash

| | Balance 1/4/05 £000 | Balance 31/3/06 £000 | Movement in year £000 |
|-------------------------------|---------------------------|----------------------------|-----------------------------|
| Cash overdrawn | (1,813) | (3,045) | (1,232) |
| Cash with accounting officers | 169 | 122 | (47) |
| | <u>(1,644)</u> | <u>(2,923)</u> | <u>(1,279)</u> |

2. Reconciliation of revenue account to revenue activities cash flow

| 2004/05 £000 | | 2005/06 | |
|-----------------|---|-----------------------------|-----------------------------|
| (136) | (Surplus) / Deficit for the year | £000 | £000 |
| | Non cash transactions : | | |
| (46) | Decrease / (Increase) in provisions | 234 | |
| 467 | Decrease / (Increase) in revenue reserves | (969) | |
| (9) | Decrease / (Increase) in Joint Arrangement Reserves | (37) | |
| (417) | Minimum Revenue Provision | (405) | |
| (439) | LCC Debt Repayment | (439) | |
| (709) | Contribution to capital | (686) | |
| | | <u> </u> | (2,302) |
| | Items on an accruals basis : | | |
| (496) | (Increase)/decrease in revenue creditors | 181 | |
| 1,308 | Increase/(decrease) in revenue debtors | (478) | |
| (12) | Decrease in long term debtors | (11) | |
| (85) | Increase/(decrease) in stocks | 110 | |
| 84 | (Increase)/decrease in receipts in advance | (463) | |
| (502) | Increase/(decrease) in revenue payments in advance | 48 | |
| 9 | Increase in Joint Arrangement net assets | 37 | |
| | | <u> </u> | (576) |
| | Items classified elsewhere in the cash flow statement | | |
| 833 | Investment income | | 752 |
| (1,003) | Interest paid | | (973) |
| | | <u> </u> | <u> </u> |
| (1,153) | Net cash inflow from revenue activities | | (3,099) |

3. Analysis of Government Grants

| 2004/05 | | 2005/06 | |
|---------------|------------------------------|---------|---------------|
| £000 | | £000 | £000 |
| 197 | Loan charges | 287 | |
| 429 | Rural policing | 428 | |
| 3,047 | Crime fighting fund | 5,078 | |
| 544 | Special operations | 585 | |
| 660 | DNA | 643 | |
| 831 | Community Support Officers | 1,317 | |
| 92 | Healthy Initiatives | 92 | |
| 69 | RIC Funding | 220 | |
| 94 | National Intelligence model | 94 | |
| 305 | Drug testing on charge | 453 | |
| 677 | BCU Fund | 913 | |
| 251 | Arrest Referral Scheme | - | |
| 827 | Special Priority Payments | 1,063 | |
| 584 | Others | 448 | |
| 40 | No Witness No Justice | 115 | |
| - | LCJB | 191 | |
| | | | 11,927 |
| 1,579 | Capital | 1,959 | |
| 164 | Airwave | - | |
| - | Others | 313 | |
| | | | 2,272 |
| <u>10,390</u> | Total Grants Received | | <u>14,199</u> |

East Midlands Air Support Unit

The East Midlands Air Support Unit (EMASU) is responsible for the operation of a police helicopter in Leicestershire, Northamptonshire and Warwickshire. Leicestershire acts as the lead authority.

REVENUE ACCOUNT

| 2004/05 Outturn £000 | | 2005/06 Outturn £000 |
|-------------------------------------|---|-------------------------------------|
| 263 | Employees' expenses | 294 |
| 31 | Premises | 31 |
| 499 | Transport | 505 |
| 65 | Supplies and services | 35 |
| 858 | Gross Operating Expenditure | 865 |
| (877) | Contributions from partners | (905) |
| (35) | Other income | (13) |
| (54) | (Surplus) / Deficit for the year | (53) |

Air Support Unit Reserve

| | |
|---------------------------------|------------|
| Opening Balance | 157 |
| Surplus for the year | 53 |
| Balance of Night Vision Goggles | 7 |
| Balance Carried Forward | 217 |

East Midlands Special Operations Unit

The East Midlands Special Operations Unit (EMSOU) was formed on the 1st January 2003 and is responsible for undertaking special operations across Leicestershire, Nottinghamshire, Derbyshire Lincolnshire and Northamptonshire. Leicestershire acts as the lead authority.

REVENUE ACCOUNT

| 2004/05 Outturn £000 | | 2005/06 Outturn £000 |
|----------------------------|---|----------------------------|
| 271 | Employees' expenses | 323 |
| 3 | Premises | - |
| 63 | Transport | 74 |
| 530 | Supplies and services | 502 |
| 867 | Gross Operating Expenditure | 899 |
| (329) | Other Income | (296) |
| - | Transfer to / (from) earmarked reserves | - |
| 26 | Revenue funding of capital expenditure | 9 |
| 564 | Amount to be met from Partners | 612 |
| | Finance By | |
| (530) | Contributions from partners | (687) |
| 34 | Surplus for the year | (75) |

East Midlands Special Operations Unit Reserve

| | |
|--------------------------------|-----------|
| Opening Balance | 14 |
| Transfer from Reserve | |
| Surplus for the year | 75 |
| Balance Carried Forward | 89 |