

Statement of Accounts

2006 - 2007

	Page
Foreword	2
Statement of Responsibilities	5
Statement on the System of Internal Control	6
Auditors Report to the KPA	11
Accounting Policies	14
Income and Expenditure Account	17
Statement of Movement on the General Fund	18
Statement of Total Recognised Gains and Losses	19
Balance Sheet	20
Cash Flow Statement	21
Notes to the Core Financial Statements	22
Glossary of (Accounting) Terms	40
CIPFA Best Value Accounting Code of Practice Terms	41

Foreword

General

This Statement of Accounts records the expenditure and income of the Kent Police Authority (KPA) during the financial year 2006/07 and its financial position at the 31 March 2007. The accounts have been prepared in accordance with the 'Code of Practice on Local Authority Accounting' (SORP) and the 'Best Value Accounting Code of Practice' published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

The document begins with a statement of the responsibilities of the Authority and the Treasurer in relation to the management and reporting arrangements for the Authority's resources (p5). This is followed by a detailed description of the System of Internal Control which has operated during the year, including areas identified for further development (p6), the Auditors' Report (p11), and a summary of Accounting Policies (p14).

The main Financial Statements comprise:

- ❖ Income and Expenditure Account with explanatory notes– p17
(A record of income and expenditure both by 'Best Value' categories of activity, and by type of spending. This statement has changed for 2006/07 due to changes in the SORP and the old Asset Management Revenue Account has been dispensed with along with notional interest charges. These changes have led to small prior period adjustments having to be made - p26)
- ❖ Statement of Movement on the General Fund and note of reconciling items for statement of movement on general reserves – p18
(These are new statements required by the SORP to reconcile the deficit showing on the face of the Income and Expenditure account)
- ❖ Statement of Total Recognised Gains and losses
(a new statement required by the SORP to reconcile the movement on the Balance Sheet)
- ❖ The Balance Sheet with explanatory notes– p20
(A statement of the overall financial position in terms of assets and liabilities as at 31 March 2007)
- ❖ Cash Flow Statement with explanatory notes – p21
(An analysis of cash inflows and outflows during the year, reconciling opening and closing balances)

The Revenue (Income and Expenditure) Account

The Kent Police Authority Revenue Budget for 2006/07 provided for net expenditure of £247.3m, adjusted to £247.5m following confirmation of the outturn position for 2005/06. In the event, actual net expenditure was £243.8m, representing an underspend of £3.7m. This level of underspending is similar to that which was anticipated at the time of setting the Revenue Budget for 2007/8, and will be utilised on a planned basis to ease the expected burden of less favourable grant settlements over the next three to five years. Note 1 to the accounts shows the net expenditure in a format that I feel is useful for members although it is not required in the SORP

The final position on Revenue Spending against Budget for the year was, therefore, a satisfactory and favourable one. It has permitted the General Fund Reserve to remain at £5.1m or 2% of net revenue expenditure in line with agreed KPA policy, whilst identified future liabilities (except pensions) are fully covered by separate earmarked Reserves.

However accounting standards require that the total future liabilities for the cost of pension payments to past and present employees are fully reflected in the Balance Sheet, and that their change during the year is reflected in the Income and Expenditure Account. Since the national Police Officers' pension scheme is not

backed by any investments, the KPA's future pension liability of £1,628m far exceeds its total assets. Including a smaller deficit on the mainly funded Local Government Scheme for Police Staff, total pension liabilities are £1,668m. Set against £31m of Usable Reserves, the Balance Sheet Accounting Deficit is £1,637m.

During the year, the net charge made to the revenue account for retirement benefits was £116.8m. This, together with notional depreciation charges for the use of assets which are already fully funded, means that the required form of Income and Expenditure Accounts shows a deficit of £119.5m for the year, despite the favourable outcome against planned budget. This position is replicated in Police Authorities across the country.

The main underspends in the year were due to the availability of the Medway PFI being later than budgeted, income from the accelerated recruitment of PCSO, increased interest income due to lower capital expenditure than expected and police pay being a different mix than originally budgeted. These underspends were offset by overspends within the contingency fund set aside for major operations and the Force Communication Centre

Capital

The KPA has a 5-year medium term capital programme that is supported by the Estate and Information Systems Strategies and a vehicle renewal programme. The 5-year programme is funded from capital grants, capital receipts and revenue account contributions. Capital expenditure during 2006/07 was £9.343m as follows:

<u>Nature of Expenditure</u>	£m
Estates	1.344
IT	4.972
Vehicles/Equipment	<u>3.027</u>
Total	<u>9.343</u>

There was a revaluation of a proportion of the property portfolio as described later. The balance sheet value of land and buildings increased by a total of £2.7m for operational and non-operation property.

Major Acquisitions and Disposals 2006/07	Total (£'000)
Acquisitions	
Airwave Hardware	411
Airwave Software System	398
Sprint 2 Network Hardware	379
ANPR Hardware	356

Disposals 2006/07	Total (£'000)
<u>Operational Property</u>	
98 High Street, Wilmington, Kent	265
230 Shornecliff Road, Folkestone, Kent	181
Former Personnel Offices	2,750
<u>Non Operational Property</u>	
West Malling Police Station	318
24 Thornam Road	88

Summary

The outlook for Police Authority funding in the medium term is not favourable, and this presents KPA with serious challenges. However, a combination of effective systems of internal control and budget monitoring, and a coherent medium term plan, leave the Authority in a relatively robust financial position to address these challenges. The favourable outturn of spending against budget in 2006/07 has contributed to this position.

Whilst the current 'unfunded' Police Officer pension arrangements continue, Annual Financial Statements will always show large and increasing Balance Sheet deficits. It is right that we are required to be transparent about these deficits, but we should not let this distract us from focussing on our performance in managing our finances against the real parameters set for us.

Statement of Responsibilities for The Statement Of Accounts

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. That officer is the Treasurer of the KPA;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- ensure that the statement of accounts is prepared in accordance with the Accounts and Audit Regulations 2003 and to approve the accounts within four months of the end of the period to which they relate.

The Treasurer's Responsibilities

The Treasurer is responsible for the preparation of the Authority's statement of accounts which, in terms of the CIPFA Code of Practice on Local Authority Accounting in Great Britain ('the Code'), is required to present fairly the financial position of the authority at the accounting date and its income and expenditure for the year ended 31 March 2007. The Treasurer is also responsible for certifying the accounts as correct before being presented for approval by this Authority.

In preparing this statement of accounts, I have:

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that were reasonable and prudent;
- complied with the Code;
- kept proper accounting records which were up to date;
- taken reasonable steps for the prevention and detection of fraud and other irregularities.



David Lewis BA MPhil CPFA
Treasurer to the Police Authority
Gail House, Maidstone

Statement on the System of Internal Control

SCOPE OF RESPONSIBILITY

The Kent Police Authority and Chief Constable are responsible for ensuring that their 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. Kent Police 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 Kent Police Authority and Chief Constable are also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of Kent Police functions and which includes arrangements for the management of risk.

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 Kent Police'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 within Kent Police for the year ended 31 March 2007 and up to the date of approval of the annual report and accounts.

THE INTERNAL CONTROL ENVIRONMENT

Aspects of Internal Control	Controls in place
1. Establishing and monitoring the achievement of the Authority's objectives	<ul style="list-style-type: none"><li data-bbox="826 1688 1407 1787">• Agreement by Chief Constable and Authority of three-year policing strategy and annual plan linked to budget and capital programme<li data-bbox="826 1818 1407 1975">• Monitoring within Force at strategic, managerial and tactical levels by Chief Officer team, Force Performance Committee, Area Commanders/Heads of Directorate and supervisors respectively<li data-bbox="826 2007 1407 2101">• Monitoring by Authority through Audit and Finance, Human Resources and Policing Performance Committees

<p>2. The facilitation of policy and decision-making</p>	<ul style="list-style-type: none"> • Determination of policies through Force Planning Committee with approval or comment as required by the Authority or its Committees and inclusion in Force Orders • Robust systems for regular review and, as required, updating of policy • Structured programme of policy review and reports where needed to Force Planning Committee and Authority or its Committees • Scheme of delegation from Authority to Chief Constable and delegation within Force • Annual Review of Code of Corporate Governance (specific internal audit report)
<p>3. Ensuring compliance with established policies, procedures, laws and regulations</p>	<ul style="list-style-type: none"> • Development of self-inspection and effective deployment of Force's internal audit teams and processes • Reports to Authority Audit and Finance and Professional Standards Committees • Review programmes HMIC/Internal Audit and other regulatory bodies • Consideration of reports to Authority and its Committees by Monitoring Officer (Chief Executive) and Statutory Finance Officer (Treasurer) • Liaison between statutory officers and Force leads (DFA/Head of Organisation and Development/Head of Legal) • Formal process as for managing migration to compliance with mandatory NCPE codes of practice and guidance • Annual review of Force's Business continuity arrangements (report to Audit & Finance Committee)

<p>4. Identifying, assessing and managing the risks to the Authority's objectives – including how risk management is embedded in the activity of the Authority, how leadership is given to the risk management process, and how staff are trained or equipped to manage risk in a way appropriate to their Authority and duties</p>	<ul style="list-style-type: none"> • Work of the Authority Audit & Finance Committee in reviewing audit activity, risk management and project review • Risk based internal audit programme • Continuous review by Force Risk Management Committee (Planning Committee) and Force Risk Management Adviser • Presentation to Police Authority on Risk Management June 2006 • Quarterly revision of Force Risk Registers at strategic, tactical and project levels • The allocation of specific responsibilities on the Chief Officer team and Heads of Directorates • Review of HR Committee of Police Authority Governance arrangements under health and safety
<p>5. Ensuring the economical, effective and efficient use of resources, and for securing continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness as required by the Best Value duty</p>	<ul style="list-style-type: none"> • Best value review programme and other service improvement activity • Joint budget review group and budget preparation programme • Monitoring by Force/Audit & Finance Committee of implementation of external report recommendation
<p>6. The financial management of the Authority and the reporting of financial management</p>	<ul style="list-style-type: none"> • Financial Regulations • Scheme of financial delegation to Chief Constable and within Force • Consideration by Authority Audit & Finance Committee of reports by Treasurer, Force monitoring reports, internal/external reports and project review • Publication of annual report and accounts
<p>7. The performance management of the Authority and the reporting of performance management</p>	<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 1 of this table. • Monitoring by Authority Policing Performance Committee

<p>8. The maintenance of professional standards</p>	<ul style="list-style-type: none"> Monitoring by Professional Standards Committee of performance and adherence to codes of conduct
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REVIEW OF EFFECTIVENESS

The Kent Police Authority and Chief Constable have 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 executive managers within the Authority who have responsibility for the development and maintenance of the internal control environment, and also by comments made by the external auditors and other review agencies and inspectorates in their annual audit letter and other reports.

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

- Fundamental reviews of the methods and nature of policing in Kent (2015); and a comprehensive review of support services
- Reports from our External Auditors, PWC – the 2005/06 Management Letter was considered by the Audit & Finance Committee and recommendations implemented
- Opinion by our Internal Auditors, Bentley Jennison – a report on internal control was submitted to the Audit & Finance Committee in March 2007. This was in addition to the normal programme of audits;
- The conduct of inspections and provision of reports to promote efficiency and effectiveness of policing to ensure that:

Agreed standards are achieved and maintained
Good practice is recognised
Performance is improving

- Efficiency Reviews were undertaken during 2006/07 covering Project 2015, the Best Value Review of Support Services, the Best Value Review of Roads Policing, post implementation review of the Kent Student Officer Programme and the post implementation review of Fleet Co-ordinators
- Review of project control by Audit and Finance Committee – consideration was given to post implementation reviews including vehicle fleet mergers
- External Audit reviews covering Police Use of Resources
- Home Office review covering ABC
- Consideration by Audit and Finance Committee of business continuity
- A process of policy review has been set up for all polices to be reviewed on a rolling programme including checks for compliance with human rights, diversity, data protection/freedom of information and other legal requirements;
- Annual Review of Risk Management by the Audit and Finance Committee;

- Risk based internal audit programme including reviews of corporate governance, risk management and financial systems
- Review programme by External Auditors

AREAS FOR IMPROVEMENT WITHIN INTERNAL CONTROL

Set out below are specific areas of internal control which are currently being improved:-

- Establishment of duties/responsibilities of Police Authority/Force under Health and Safety legislation
- Review of register of interests in Force
- The further development of government protocols in relation to partnerships e.g. CDRPs. An initial assessment will be done by Internal Audit and appropriate action taken.

This Statement of Internal Control was adopted by the Audit & Finance Committee at its meeting on 14 March 2007.

A handwritten signature in black ink that reads "Ann Barnes". The signature is written in a cursive, flowing style.

Chair of the KPA

Independent Auditors' Report to the members of Kent Police Authority

We have audited the financial statements of Kent Police Authority for the year ended 31 March 2007 under the Audit Commission Act 1998. The financial statements comprise the Income and Expenditure Account, the Statement of Movement on the General Fund Balance, the Statement of Total Recognised Gains and Losses, the Balance Sheet, the Cash Flow Statement and the related notes. The financial statements have been prepared under the accounting policies set out within them.

Respective Responsibilities of the Treasurer and Auditors

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

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

This report, including the opinion, has been prepared for and only for Kent Police Authority's Members as a body in accordance with the Audit Commission Act 1998 and for no other purpose as set out in paragraph 36 of the Statement of Responsibilities of Auditors and of Audited Bodies, prepared by the Audit Commission. We do not, in giving this opinion, accept or assume responsibility for any other purpose or to any other person to whom this report is shown or into whose hands it may come save where expressly agreed by our prior consent in writing.

We report to you our opinion as to whether the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006, the financial position of the Authority and its income and expenditure for the year.

We review whether the Statement on Internal Control reflects the Council's compliance with CIPFA's guidance "The Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulations 2003" published on 2 April 2004. We report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider whether the Statement on Internal Control covers all risks and controls. Neither are we required to form an opinion on the effectiveness of the Council's corporate governance procedures or its risk and control procedures.

We read the other information published with the financial statements and consider whether it is consistent with the audited financial statements. This other information comprises only the explanatory foreword. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the financial statements. Our responsibilities do not extend to any other information.

Basis of audit opinion

We conducted our audit in accordance with the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission, which requires compliance with International Standards on Auditing (United Kingdom 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.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us 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 our opinion, we evaluated the overall adequacy of the presentation of the information in the financial statements.

Opinion

In our opinion the financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006, the financial position of Kent Police Authority as at 31 March 2007 and its income and expenditure and cash flows for the year then ended.

Best Value Performance

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



PricewaterhouseCoopers LLP

London

Date 28th September 2007

Notes:

- (a) The maintenance and integrity of the Kent Police Authority website is the responsibility of the Authority; the work carried out by the auditors does not involve consideration of these matters and, accordingly, the auditors accept no responsibility for any changes that may have occurred to the financial statements since they were initially presented on the website.
- (b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.

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

We are 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 us to report to you our conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. We report if significant matters have come to our attention which prevent us from concluding that the Authority has made such proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

We are 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:

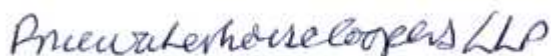
- ❖ certifying that we have done so;
- ❖ stating whether we believe that the plan has been prepared and published in accordance with statutory requirements set out in section 6 of the Local Government Act 1999 and statutory guidance; and
- ❖ where relevant, making any recommendations under section 7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

Conclusion

We have undertaken our audit in accordance with the Code of Audit Practice and we are satisfied that, having regard to the criteria for principal local authorities specified by the Audit Commission and published in December 2006, in all significant respects, Kent Police Authority made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ended 31 March 2007

Certificate

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



PricewaterhouseCoopers LLP
London

Date 28th September 2007

Accounting Policies

General

The accounts of the Police Authority have been compiled in accordance with the Code of Practice on Local Authority Accounting issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). Separate accounts are maintained for capital and revenue transactions.

Basis on which debtors and creditors at year-end are included in the accounts

The Police Authority's revenue and capital accounts are kept on an income and expenditure basis. In order to account for expenditure attributable to the financial year, sums paid after 31 March 2007 for goods received or services rendered during the financial year 2006-2007 have been included in the accounts. Similarly, sums known to be due to the Authority during the year are entered in the accounts. Where actual amounts are not known estimated sums have been included.

Reserves

The Police Authority maintains reserves that are either earmarked for specific purposes or held to meet unforeseen or emergency expenditure. Earmarked reserves include those established for the budget equalisation, insurance liabilities, invest to save initiatives, PFI Residual Value, Proceeds of Crime, Desktop Migration and FRS 17 current and future liability.

The Authority also maintains a General Reserve to meet unforeseen or emergency expenditure that cannot be contained within the approved budget. This has been maintained at 2.0% of net budgeted expenditure.

Provisions

An insurance provision is maintained to cover future expenditure on insurance claims that are outstanding but which cannot yet be determined precisely.

Investments

All investments shown in the Balance Sheet have been recorded in the accounts at cost.

Fixed Assets

All expenditure on the acquisition, creation or enhancement of fixed assets has been capitalised on an accruals basis. Operational assets have been included in the Balance Sheet at the lower of net current replacement cost or net realisable value in existing use. Non-operational assets have been included in the Balance Sheet at the lower of net current replacement cost or net realisable value.

The majority of asset values used in the accounts are based upon valuations as at 1 April 2004. Additions since that date are valued at the date of acquisition.

All assets held at current value are subject to revaluation at intervals not exceeding five years. As part of this process, properties are being valued on a regular annual programme where a proportion (approximately 20% by number) is valued in each year.

Depreciation

Assets other than land and non-operational assets are being depreciated on a straight-line basis over their useful economic lives. Assets that are revalued have the depreciation brought forward written out and are then depreciated on a straight-line basis over the remainder of their useful lives at the revalued amount.

Straight-line rather than reducing balance depreciation methodology is utilised by Kent Police as it provides a more realistic illustration of the use and consumption of each asset.

Capital Charges

The capital charges made to revenue equate to the depreciation based on the revalued amount at which the fixed asset is included in the Balance Sheet. A substantial change introduced by the 2006 SORP is the removal of the requirement to charge notional interest. Consequently, the notional interest capital charges have been eliminated along with the Asset Management Revenue Account (AMRA).

Deferred Charges

Deferred charges are written off in the year in which they are incurred unless there is some ongoing benefit to the Authority. The dismantling of the AMRA means the accounting treatment has changed for 2006/07. The government grants deferred are now credited direct to the relevant service revenue account, instead of to the defunct AMRA.

Work in Progress

Work in progress is included in the accounts at a valuation based on cost price.

Stocks and Stores

Where stocks are maintained and recorded they are shown in the Balance Sheet at the lower of cost or net realisable value.

Accounting for Value Added Tax

VAT is separately accounted for in accordance with Statement of Standard Accounting Practice (SSAP) 5 and is not included as income or expenditure of the Police Authority except where it is not recoverable. For example, on the purchase of motor cars where there is an element of private use by staff.

Government Grants

Government grants are accounted for on an accruals basis and income has been credited in the case of revenue grants to the revenue account or in the case of capital grants to a government grants deferred account. Amounts are released from the government grants deferred account to offset any provision for depreciation charged to the revenue account in respect of assets to which the grants relate.

Pensions

Police

In April 2006 the new Police Pensions scheme came into force. The pension costs are recognised in the Authority's income and expenditure account in accordance with the relevant accounting standard (FRS 17). In accordance with statutory provisions, an adjustment is made in the Statement of Movement on the General Fund Balance to reduce the amount charged to the amount payable to the police pension fund. Police Pension Fund Regulations 2007 (SI 2007 No 1932) control the transactions that are posted to the Pension Fund to make a transfer at the year end to balance any deficit (or to take the credit for any surplus). The Home Office then pay the top-up grant for the deficit to the Police Fund (or receive any surplus amount from the Police Fund). The Regulations override the SORP's provisions which presume that top-up grant would be payable directly to the Pension Fund.

Police Staff

Many of the Police Authority's non-uniformed employees contribute to the Local Government Pension Scheme managed by Kent County Council.

The pension costs are recognised in the Authority's income and expenditure account in accordance with the relevant accounting standard (FRS 17). In accordance with statutory provisions, an adjustment is made in the Statement of Movements on the General Fund Balance to reduce the amount charged 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.

Capital Accounting Reserves

The Police Authority has three capital accounts; namely the Fixed Asset Restatement Account, the Capital Financing Account and the Government Grant Deferred Account. None of these accounts represent resources that are available for use by the Police Authority.

The Fixed Asset Restatement Account reflects the difference between the current value of the Authority's assets held and the value of those assets when they were initially valued on 1 April 1994. This reserve is subsequently written down by the value of any disposals made in the year or increased to reflect revaluations.

The Capital Financing Account represents amounts transferred from revenue resources or capital receipts used to finance capital expenditure on fixed assets and certain other capital finance transactions.

The Government Grant Deferred Account represents the deferred credits to be released to revenue to offset the depreciation that might be charged on the assets.

De Minimis Level

The Police Authority has approved a de minimis level of £12,000 for the acquisition, renewal, or replacement of buildings, plant, machinery or other equipment to count as prescribed capital expenditure. A de minimis level of £10,000 is used for vehicles.

Revaluations and Disposals

With regard to disposals, income from the sale of fixed assets is taken to the Capital Receipts Reserve and is available to support the capital programme.

The 2006 SORP requires that the gains and losses on disposal of fixed assets be calculated for the disclosure in the Income and Expenditure Account. The objective is to show gains and losses measured against the current value of the assets. The sale of the asset is the best evidence of its current value, and therefore where there is a substantial difference between the carrying value of an asset in the balance sheet and sale proceeds, the accounting requirement is to revalue the asset to recognise the new evidence. Consequently, gains will only arise in the rare circumstance that the Authority sells an asset for more than it is really worth, and losses may only rise in situation where an asset has been sold for less than market value.

Private Finance Initiative (PFI)

In 2004 the Authority entered into a long-term contractual agreement under PFI whereby the contractor is responsible for the new Medway Police Station for 30years.

Such PFI schemes are required to meet the conditions set out in FRS 5 and professional advice has been provided on the accounting treatment for this. The contract provides for the transfer of assets to the Authority at the completion of the contract for a nominal consideration. The accounts reflect the accumulated cost of the residual value of the assets from the start of the contract.

Income and Expenditure Account

Previous Year Net Expenditure £'000s	Notes	Gross Expenditure £'000s	Gross Income £'000s	Net Expenditure £'000s
	<u>Expenditure</u>			
16,676	Reducing Crime	20,580	(2,056)	18,524
121,814	Investigating Crime	161,421	(27,080)	134,341
104,964	Promoting Public Safety	130,605	(18,698)	111,907
27,505	Assistance to the Public	37,125	(11,089)	26,036
650	Non Distributed Costs (NDC)	400		400
759	Corporate and Democratic Core	1,104	(6)	1,098
400	National Police Services Undertaken Locally	426	(58)	368
272,768	Net Cost of Police Services	351,661	(58,987)	292,674
34,520	Police and Police Staff Pension	3,250	(4)	3,246
104	Seconded Officers	2,124	(2,276)	(152)
307,392	Net Expenditure	357,035	(61,267)	295,768
(2,662)	Interest and Investment Income			(3,068)
69,989	Pension Interest Cost & Expected Ret on Assets			80,640
374,719	Net Operating Expenditure			373,340
(67,055)	Precept Income			(71,094)
(111,363)	Government Grants			(109,581)
(52,096)	Revenue Support Grant			(11,835)
(25,994)	National Non-Domestic Rates			(61,311)
118,211	Deficit for the Year			119,519

Statement of Movement on the General Fund Balance

	2006/07 (£'000)	2005/06 (£'000)
Deficit for the year on the Income & Expenditure Account	119,519	118,211
Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund	(119,519)	(118,211)
Increase in General Fund Balance for the year	-	-
General Fund Balance brought forward	5,130	5,130
General Fund Balance carried forward	5,130	5,130

Note of Reconciling Items for the Statement of Movement on the General Fund Balance

	2006/07 (£'000)	2005/06 (£'000)
Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement in the General Fund Balance for the year		
Depreciation and impairment of fixed assets	(10,526)	(9,968)
Government grants deferred amortisation	3,326	6,311
Net gain/loss on sale of fixed assets	-	-
Net charges made for retirement benefits in accordance with FRS 17	(116,786)	(115,269)
Amounts not included in the Income and Expenditure Account but required to be included by statute when determining the movement on the General Fund Balance for the year		
Minimum revenue provision for capital financing	-	-
Capital expenditure charged in-year to the General Fund Balance	78	3,325
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		
Contributions to Earmarked Reserves	10,438	15,023
Contributions from Earmarked Reserves	(6,049)	(17,633)
Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund	(119,519)	(118,211)

Statement of Total Recognised Gains and Losses

	2006/07 (£'000)	2005/06 (£'000)
Deficit for the year on the Income & Expenditure Account	119,519	118,211
Surplus (deficit) arising on the revaluation of fixed assets	(6,626)	5,134
Adjustment required to prior year due to change in pension arrangements	-	(29,969)
Actuarial (gains)/losses on pension fund assets and liabilities	<u>(129,550)</u>	<u>279,148</u>
Total recognised (gains)/losses for the year	<u>(16,657)</u>	<u>372,524</u>

Balance Sheet

The Balance Sheet shows the financial position of the Police Authority at the end of the year.

	Notes	31 March 2007		31 March 2006	
		£'000	£'000	£'000	£'000
Fixed Assets:					
Land and Buildings		155,912		158,237	
Vehicles, Plant and Equipment		18,997		19,363	
Intangible Assets		1,828		2,319	
Non-Operational Assets		8,732		9,217	
Assets under Construction	10	1,884		1,690	
			187,353		190,826
Investments at cost			13		13
Long-term Debtors	11		<u>1,252</u>		<u>1,283</u>
Total Long-Term Assets			188,618		192,122
Current Assets:					
Stocks and Work in progress		406		372	
Amounts owed to the Authority by debtors	12	15,275		11,715	
Short-term investments	19	47,688		39,887	
Cash and Bank balances		<u>701</u>		<u>1,429</u>	
			64,070		53,403
Less: Current Liabilities					
Amounts owed by the Authority to creditors	13	(22,637)		(20,877)	
Cash balances overdrawn		(264)		(135)	
			<u>(22,901)</u>		<u>(21,012)</u>
Total Assets less Current Liabilities			229,787		224,513
Insurance Provision	14		(1,788)		(1,974)
Finance Lease	15		(1,089)		(1,167)
Government Grant Deferred Account			(17,544)		(15,899)
Long-Term Pension Creditor	18		<u>(1,667,635)</u>		<u>(1,680,400)</u>
Total Assets less Liabilities			<u>(1,458,269)</u>		<u>(1,474,927)</u>
Taxpayers Equity in Kent Police:					
Accounting Reserves					
Fixed Asset Restatement Account	20	118,009		120,300	
Capital Financing Account	20	<u>50,959</u>		<u>54,285</u>	
			168,968		174,585
Usable Reserves					
Usable Capital Receipts Reserve	20	6,244		1,123	
General Capital Reserve	20	3,672		3,305	
Earmarked Revenue Reserves	20	25,233		21,330	
Other Reserves	20	(1,667,516)		(1,680,400)	
General Revenue Reserve	20	5,130		5,130	
			(1,627,237)		(1,649,512)
Total Equity			<u>(1,458,269)</u>		<u>(1,474,927)</u>

I confirm that the Authority approved these accounts.



Signed on behalf of the Kent Police Authority:.....
 Chair of the meeting approving the accounts: Date: 27th June 2007

Cash Flow Statement

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

		31 March 2007 (£'000)	31 March 2006 (£'000)
	Notes		
<u>Revenue Activities</u>			
Cash Outflows			
Employee costs		254,355	249,780
Other operating costs		51,728	45,984
Cash Inflows			
Precepts on Collection funds		(71,094)	(67,055)
National Non-Domestic Rate income		(61,311)	(25,994)
Revenue Support Grant		(11,835)	(52,096)
Police Grant		(103,071)	(111,363)
Other government grants		(39,748)	(13,801)
Cash received for goods and services		(16,117)	(24,445)
Other revenue income		<u>(1,876)</u>	<u>(2,167)</u>
Net cash flow revenue activities	21	1,031	(1,157)
<u>Servicing of Finance</u>			
Cash Outflow			
Interest element of finance lease rental		59	59
Cash Inflow			
Interest received		<u>(3,068)</u>	<u>(2,662)</u>
Net Cash Flow Servicing of Finance		(3,009)	(2,603)
<u>Capital Activities</u>			
Cash Outflow			
Purchase of fixed assets		8,846	17,950
Cash Inflows			
Sale of fixed assets		(9,040)	(3,203)
Capital grants received		(3,522)	(3,283)
Capital contributions received		<u>(1,327)</u>	<u>(2,166)</u>
Net cash flow capital activities		(5,043)	9,298
<u>Management of Liquid Resources</u>			
Net increase (decrease) in short-term investment	19	7,801	(7,603)
<u>Financing</u>			
Cash Outflow			
Capital element of finance lease rental		<u>77</u>	<u>77</u>
Decrease (increase) in cash	22	<u>857</u>	<u>(1,988)</u>

Notes to the Core Financial Statements

1. Summary Income and Expenditure Account

This summary shows the total revenue expenditure and income for 2006-2007.

Expenditure	Notes	Year ended 31 March 2007		Year ended 31 March 2006	
		(£'000)	(£'000)	(£'000)	(£'000)
Employee Costs					
Pay allowances and training	2	222,482		208,770	
Pensions - Police and Police Staff	3	3,246		34,578	
FRS 17		<u>70,960</u>		<u>51,730</u>	
Other Running Costs			296,688		295,078
Premises		10,299		8,452	
Transport		8,115		7,412	
Supplies and Services		27,529		26,441	
Third Party Payments		7,204		6,507	
Depreciation	10	10,526		9,968	
Government Grants deferred credits		<u>(3,326)</u>		<u>(6,311)</u>	
			<u>60,347</u>		<u>52,469</u>
Total Gross Expenditure			357,035		347,547
Income					
Reimbursements & Contributions		(54,996)		(33,728)	
Sales		(219)		(395)	
Fees and Charges		(4,176)		(3,865)	
Other Income		<u>(1,876)</u>		<u>(2,167)</u>	
Total Income			(61,267)		(40,155)
Net Expenditure			295,768		307,392

This note shows the net expenditure subjectively. The income and expenditure account on page 14 analyses the net expenditure over Best Value category as per the CIPFA Code of Practice.

2. Employment Costs

In accordance with the Accounts and Audit Regulations 2003 the Authority has a specific requirement to disclose the number of employees whose taxable remuneration falls within certain brackets. Accordingly the number of employees whose remuneration, excluding pension contributions was £50,000 or more in bands of £10,000 was:

Remuneration Band (£)	Number of Employees	
	2006/07	2005/06
50,000 - 59,999	343	276
60,000 - 69,999	59	49
70,000 - 79,999	23	17
80,000 - 89,999	5	6
90,000 - 99,999	2	2
100,000 - 109,999	4	2
110,000 - 119,999		-
120,000 - 129,000		-
130,000 - 139,999		-
140,000 - 149,999		1
150,000 - 159,999	1	-

3. Pension Costs

The pension related costs charged to the income and expenditure account in addition to the FRS 17 calculated costs for police officers and staff are shown below.

	2006/07 £'000	2005/06 £'000
Police Staff Retirement Enhancements	150	46
Police Staff Redundancy Payments	1	27
Police Staff Pension Enhancements	211	56
Officers Annual Pension and Commutations Payments	0	47,211
Officers Contributions	0	(12,095)
Net value of Officers Transfer values	0	(720)
Officers Pension Contribution Refunds	0	53
Officers Injury & Ill Health payments	2,784	0
Officers 30+ Scheme	100	0
	3,246	34,578

Police Officers

In April 2006 the new Police Pensions scheme came into force and the employers contributions into the fund are 24.6%. Employers pension contributions for both Police and Employees are paid into the new pension fund.

Pensions Fund Account

	Year to 31/03/07 (£'000)
<u>Income</u>	
Officers contributions	12,474
Employers contributions	27,951
Transfers in	1,177
Capital-equivalent charge payments for ill-health early retirements	555
<u>Expenditure</u>	
Pension payments	(36,738)
Refund of pension contributions	(30)
Transfers out	(839)
Commutations	(11,060)
Sub Total for year before transfer from Police Fund	(6,510)
Transfer from Police Fund	6,510
Net Amount receivable	-

In previous years the Police Authority was responsible for paying the pensions of officers who retired from the Force on a pay-as-you-go basis. Officers contributions were paid into the Authorities operating account from which the pension payments were made. Funding towards this from Central Government was made via the Principal Police Grant.

As from 1st April 2006 officers contributions and a new employer's contribution have been paid into a pension account from which the pension payments are made. The account is funded from the Authority Income & Expenditure account, but the Home Office covers this expenditure if the contributions are insufficient to meet the cost of pension payments (any surplus would be recouped by the Home Office). As such the pension element of the Principal Police Grant has been removed. It should be noted that this method of accounting for the pension payment is not in line with the SORP but does comply with regulations

For the year ended 31 March 2007 a debtor of £3.027m was created for the Home Office top-up that would be required to reduce the Authority's final deficit on the fund to nil. No investment assets are held as part of this fund.

The accounting policies used to in calculating the Pensions Fund Account are those that are applicable to the accounts as a whole.

The funds financial statements do not take account of liabilities to pay pensions and other benefits after the period end.

Police Staff Employees

In 2006/07 (2005/06) the Police Authority paid an employer’s contribution of £7.2m, (£6.5m) including £0.2m (£0.1m) one-off lump sum payments, into the Kent County Council Superannuation Fund, representing 13.8% (13.8%) of pensionable pay. The employer’s contribution rate is determined by the Fund’s actuary.

An actuarial valuation was carried out as at 31 March 2005 and no alterations to the contributions currently made were necessary. In addition the Police Authority is responsible for all pension payments relating to added years benefits it has awarded, together with the related increases. In 2006/07 (2005/06) these amounted to £0.1m (£0.0m), representing 0.30% (0.10%) of pensionable pay.

The capital cost of discretionary increases in pension payments was £211k (£56k) in the year and there were no payments still being made with regard to earlier years. Further information can be found in Kent County Council’s Superannuation Fund’s Annual Report that is available upon request from the Investment Section, County Hall, Maidstone, Kent, ME14 1XQ

4. Members’ Allowances and Expenses

A total of £200,164 (£141,340) was paid in 2006/07 (2005/06) for members’ allowances and expenses. The increase relates to revised allowances that were approved at the December 2005 KPA meeting.

5. Local Authority (Goods and Services) Act 1970

Under the Local Authority (Goods and Services) Act the Police Authority provides professional services to other public bodies, including Kent County Council, HM Prisons and other Police Forces. Income from the provision of professional services amounted to £1.929m (£1.522m).

6. Publicity

Publicity is defined by the Local Government Act 1986 as any communication, in whatever form, addressed to the public and will include staff advertising costs. A number of areas are exempt from inclusion in the accounts, eg statutory publications and publicity approved by or on behalf of the Chief Constable. The Police Authority’s expenditure on publicity in 2006/07 was:

	2006/07	2005/06
	(£'000)	(£'000)
Staff advertising/recruitment	483	467
Other	17	2
TOTAL	500	469

7. Related Party Transactions

Financial Reporting Standard (FRS) 8 requires the Authority to disclose all material related party transactions.

There are 9 members of the Kent Police Authority who are members of Kent County Council and Medway Unitary Authority. The Clerk has written to all members and there are no related party transactions to disclose in 2006/07.

The Authority has business relationships with the Government and a number of other public organisations, such as local authorities in Kent mainly Kent County Council (£123k). The force also has business relationships with the Home Office, the Office of the Deputy Prime Minister in the form of grants and other funding included in the accounts.

8. Audit Costs

In 2006/07 the following fees were incurred relating to external audit and inspection, carried out by our appointed external auditors, PWC:

	2006/07	2005/06
	(£'000)	(£'000)
Fees payable in respect to External Audit Fees	79	73
Fees payable in respect of PFI Opinion Fee	4	-
Fees payable to PWC in respect of other Services	2	-
TOTAL	85	73

9. Prior Period Adjustment

	Consolidated Revenue Account in 05/06 Statement of Accounts (£'000)	Removal of capital financing charges & finance lease (£'000)	Relocation of government grants deferred credits (£'000)	Pension Contribution (£'000)	2005/06 comparatives in Income and Expenditure Account (£'000)
Net Cost of Police Services	292,304	(6,784)	(6,302)	(6,450)	272,768
Net Expenditure	326,937	(6,784)	(6,311)	(6,450)	307,392
Net Operating Expenditure (after depreciation)	371,201	-	-	(6,450)	364,751

10. Fixed Assets

	Land (£'000)	Buildings (£'000)	Vehicles, Plant and Equipment (£'000)	Intangible (£'000)	Non - Operational Assets (£'000)	Assets under Construction (£'000)	Total (£'000)
Gross book value at 01.04.06	23,980	145,100	49,326	5,795	9,314	1,690	235,205
Additions	2	645	5,937	228	99	2,432	9,343
Disposals	(820)	(6,654)	(1,482)	0	(1,473)	0	(10,429)
Transfers	0	0	179	0	(179)	0	0
Revaluations	601	5,295	0	0	1,068	(2,238)	4,726
Gross book value as at 31.03.07	23,763	144,386	53,960	6,023	8,829	1,884	238,845
Accumulated depreciation	0	(10,842)	(29,963)	(3,476)	(97)	0	(44,378)
Depreciation in Year	0	(3,728)	(6,079)	(719)	0	0	(10,526)
Depreciation on assets sold	0	410	1,079	0	0	0	1,489
Depreciation on revalued assets	0	1,923	0	0	0	0	1,923
Net book value as at 31.03.07	23,763	132,149	18,997	1,828	8,732	1,884	187,353

Purchased intangible assets are non-financial fixed assets that do not have physical substance but are identifiable ie software licences that last the duration of the asset's useful life.

The disposals of vehicles, plant and equipment includes a figure of £625k relating to the reconciliation of the general ledger to records held within the Transport department.

Non-operational assets as at 31 March 2007 include £99k expenditure on plant and equipment, which is mainly for the Medway PFI variations which will significantly enhance the standard of this asset.

Statement Of Physical Assets Owned By The Authority As At 31 March 2007

Operational	2006/07	2005/06
Force Headquarters	1	1
Engineering Services – Finance Lease	1	1
Housing used as dwellings	97	99
Kent Police College	1	1
Houses used as offices	20	21
Police Stations	31	31
VI Suite	9	9
Garage Blocks	4	4
Non Operational		
Houses	16	17
Police Stations	3	4
PFI Land	1	1
Garage Blocks	0	0
Vehicles (with purchase price >£10k)	560	534

Basis Of Valuation

A complete valuation of the Police Authority's property assets was carried out by Messrs Wilks Head Eve, Chartered Surveyors, with all land and buildings being valued as at 1 April 2004. In addition, a rolling programme of valuation reviews has been implemented where 20% of the portfolio will be selected each year. The valuation this year is the second phase and the sample has been valued as at 1 April 2006.

The assets were valued in accordance with the Statement of Asset Valuation Practice and Guidance Notes of the Royal Institution of Chartered Surveyors (RICS) and with the requirements of the Chartered Institute of Public Finance and Accountancy (CIPFA). In accordance with RICS/CIPFA guidelines, all properties were inspected though not necessarily internally.

The Authority categorised all properties as being either *operational* or *non-operational*; the valuers then further classified them as either *specialised* or *non-specialised*.

Properties regarded by the Authority as *operational* were valued on the basis of Existing Use Value or (where this could not be assessed due to lack of market for the subject asset) by Depreciated Replacement Cost. The Existing Use Value is now used rather than Open Market Value, which has been used in prior years, as the CIPFA prescribed basis of valuation has been amended alongside the working practices of RICS professionals. These values do not, therefore, bear any relationship to the prices that could be realised on disposal of those assets. Only properties regarded by the Authority as *non-operational* were valued on the basis of Market Value.

Buildings under construction are included at cost as at 31 March 2007. The sources of information and assumptions made in producing the various valuations are set out in the valuation certificate and report produced by Wilks Head Eve.

All buildings have been assessed in the year and no impairments were found. Short life assets such as vehicles, plant and equipment are included at historical cost as a proxy for current value.

Capital Expenditure 2006-2007

Items of capital expenditure during the year were:

	2006/07 (£'000)	2005/06 (£'000)
Major IT / Communication schemes	4,972	7,443
Various building works	1,237	3,888
Land & building acquisition	106	1,719
Vehicles	2,058	1,338
Plant & equipment	970	1,293
Total	9,343	15,681

Financing Of Capital Expenditure 2006-2007

	2006/07 (£'000)	2005/06 (£'000)
Capital receipts	3,796	3,203
Capital contributions	1,450	6,905
Capital grant	3,522	3,283
Revenue contributions	78	4,559
Increase in capital creditors	497	(2,269)
Total	9,343	15,681

Future Capital Expenditure Commitments

At 31 March 2007 contractually committed capital expenditure to be incurred in 2007/08 and later years includes the following major projects:

	(£'000)
IT various projects	3,590
Building works	4,321
Vehicles, plant and equipment	13,459

11. Amounts Owed To The Authority By Long Term Debtors

Long Term Debtors:	At 31/03/2007 (£'000)	At 31/03/2006 (£'000)
Police loans	1,074	1,229
PFI Long Term Debtor	119	-
Car loans	59	54
Total	1,252	1,283

During 1999/2000 Police pay was changed from four weekly to monthly. To ensure that officers did not suffer because of the change, a loan of 13 days pay was provided. This loan is repayable at the latest when officers leave the force.

In 2004 the Authority entered into a long-term contractual agreement under PFI. The term of the PFI scheme is 30 years and is for the provision of a new police station at Medway. The unitary charge for 2006/07 was £1.1m. The Authority received credits from the Home Office to the value of £0.8m.

PFI Long Term Debtor

As part of the Authority's PFI contract for Medway Police Station, the Authority will acquire the residual value of the assets at the end of the contract for nominal consideration. The residual value of the asset has been calculated at 50% of the contract price and will be accumulated over the remaining contract period. This is offset by an equal PFI residual value reserve.

12. Amounts Owed To The Authority By Other Debtors

Other Debtors:	At 31/03/2007 (£'000)	At 31/03/2006 (£'000)
Staff advances	159	12
Government Depts	6,057	3,317
Payments in advance	4,324	3,308
General debtors	4,351	4,640
Other local authorities	384	438
Total	15,275	11,715

Government Dept Debtors were higher in 2006/07 due to the outstanding pension top-up, which is part of the new pension arrangements. One months pension payment is included as a payment in advance in 2005/06, however this was not required in 2006/07.

13. Amounts Owed By The Authority To Creditors

	At 31/03/2007 (£'000)	At 31/03/2006 (£'000)
Receipts in advance	3,188	1,232
Government Depts	324	610
General creditors	18,593	18,706
Other local authorities	532	329
Total	22,637	20,877

Receipts in advance were higher in 2006/07 due to a legacy from a deceased person, a Home Office grant for the recruitment of PCSOs by July 2007 and rewards money from Securitas.

14. Insurance Provision

	2006/07 (£'000)	2005/06 (£'000)
Balance at 1 April	1,974	2,226
Income	701	949
Expenditure	(887)	(1,201)
Balance at 31 March	1,788	1,974

Established to provide cover internally against various specified risks, namely property, combined liability and motor insurance claim. No amounts remain unfunded and as such excluded from the provision. The majority of claims will be settled within one year, however some claims can take up to five years to be fully discharged.

15. Finance Lease

The finance lease on the Transport building was entered into in June 2000 and has a term of 21 years. This building is used for the servicing and repair of the Authority's vehicles. Historic cost for the building was £1.6m and cumulative depreciation to 31 March 2007 is £0.4m. The capital element of this lease has been provided for as follows:

	2006/07 (£'000)	2005/06 (£'000)
Balance at 1 April	1,167	1,244
Expenditure	(78)	(77)
Balance at 31 March	1,089	1,167

In 2006/07 (2005/06) the Authority spent £0.137m (£0.137m) on finance leases. Outstanding commitments at 31 March 2007 are as follows:

	£'000
2007 – 2008	137
2008 – 2012	547
2013 onwards	1,231

The finance lease is treated as an asset and only the interest element is charged to revenue.

16. Reserves

The reserves of the Authority have been presented to show a clear distinction between Accounting Reserves (now renamed accounts for clarity), which cannot be used to support expenditure, and Usable Reserves. Details of movements on these reserves are shown in note 23.

17. Contingent Liability

There are no contingent liabilities.

18. Accounting For Retirement Benefits – FRS 17

Participation in Pensions Schemes

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 committed to make the 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 civilian employees, administered by Kent 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 pensions liabilities with investment assets
- The Police Pensions Scheme for police officers – this is an unfunded scheme, meaning that there are no investment assets built up to meet the pensions liabilities, and cash has to be generated to meet actual pensions payments as they eventually fall due.

Transactions Relating to Retirement Benefits

We 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 we are required to make against council tax is based on the cash payable in the year, so the real cost of retirements is reversed out in the Statement of Movement in the General Fund Balance. The following transactions have been made in the Income and Expenditure Account and Statement of Movement in the General Fund Balance during the year:

Income and Expenditure Account	Local Government Pension Scheme		Police Pensions Scheme	
	2006/2007 (£'000)	2005/2006 (£'000)	2006/2007 (£'000)	2005/2006 (£'000)
<i>Net cost of Services:</i>				
current service costs	9,860	7,280	60,700	43,800
Past service costs	-	150	400	500
<i>Net Operating Expenditure:</i>				
• Interest cost less expected return on assets in the scheme	140	890	80,500	69,100
<i>Net Charge to the Income and Expenditure Account</i>	10,000	8,320	141,600	113,400
<i>Statement of Movement in the General Fund Balance</i>				
• Reversal of net charges made for retirement benefits in accordance with FRS 17	(10,000)	(8,320)	(141,600)	(113,400)
Actual amount charged against the General Fund Balance for pensions in the year:				
• Employers' contributions payable to scheme	6,864	6,450	27,951	-

Assets and Liabilities in Relation to Retirement Benefits

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

	Local Government Pension Scheme		Police Pensions Scheme		Total	
	2006/2007 (£'000)	2005/2006 (£'000)	2006/2007 (£'000)	2005/2006 (£'000)	2006/2007 (£'000)	2005/2006 (£'000)
Estimated liabilities in scheme	(187,230)	(182,070)	(1,617,700)	(1,631,200)	(1,804,930)	(1,813,270)
Estimated assets in scheme	147,200	132,870	-	-	147,200	132,870
Adj. to pension liability to recognise diff between Actuarial cont and actual			(9,905)		(9,905)	
Net asset/(liability)	(40,030)	(49,200)	(1,627,605)	(1,631,200)	(1,667,635)	(1,680,400)

The liabilities show the underlying commitments that the authority has in the long run to pay retirement benefits. The total liability of £1,658m has a substantial impact on the net worth of the authority as recorded in the balance sheet, resulting in a negative overall balance of £1,431m. 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
- Finance is only required to be raised to cover police pensions when the pensions are actually paid.

Basis for Estimating Assets and Liabilities

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. Both the Police Scheme and the County Council Fund liabilities have been assessed by Hymans Robertson an independent firm of actuaries, estimates for the County Council Fund being based on the latest full valuation of the scheme as at 31 March 2007.

The main assumptions used in their calculation have been:

	2006/07	2005/06
Rate of inflation	3.2%	3.1%
Rate of increase on salaries	4.7%	4.6%
Rate of increase in pensions	3.2%	3.1%
Rate for discounting scheme liabilities	5.4%	4.9%

The Police Pension Scheme has no assets to cover its liabilities. Assets in the County Council Pension Fund are valued at fair value, principally market value for investments, totalling £147.2m for the fund as a whole at 31 March 2007 (£132.9m at 31 March 2006). The Fund's assets consist of the following categories, by proportion of the total assets held by the Fund:

	Long-term return %	31 March 2007 %	31 March 2006 %
Equity Investments	7.8	70	71
Bonds	4.9	13	12
Property	5.8	10	9
Other Assets	4.9	7	8
		100	100

Actuarial Gains and Losses

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

	2002/03		2003/04		2004/05		2005/06		2006/07	
	£000s	%	£000s	%	£000s	%	£000s	%	£000s	%
Differences between the expected and actual return on assets	(19,110)	(34.2)	10,053	13.4	3,808	3.8	20,390	15.3	(920)	(0.6)
Differences between actuarial assumptions about liabilities and actual experience	230	0.2	(61)	(0.1)	5,636	3.9	(198)	(0.1)	130	0.1
Changes in the demographic and financial assumptions used to estimate liabilities	0	0	0	0	(25,837)	(18.0)	(23,440)	(12.9)	13,040	7.0
	(18,880)		9,992		(16,393)		(3,248)		(12,250)	

19. Short-term Investments

This amount represents short term and overnight deposits lodged with a range of financial institutions to earn interest. Kent County Council manages these investments for the Authority.

	2006/07 (£'000)	2005/06 (£'000)
Balance at 1 April	39,887	47,490
Increase in year	7,801	(7,603)
Balance at 31 March	47,688	39,887

20. Statement of Total Movements in Reserves

	Accounting Reserves		
	Fixed Asset Restatement Account (£'000)	Capital Financing Account (£'000)	Total (£'000)
	1	2	
Notes			
Balance as at 01.04.2006	120,300	54,285	174,585
Minimum Revenue Provision Adjustment	-	(10,526)	(10,526)
Grants & Contributions released	-	3,326	3,326
Unrealised gains (loss) from revaluation of fixed assets	1,713	-	1,713
Cost of value of assets disposed of	(4,004)	-	(4,004)
Financing of Fixed Assets	-	3,796	3,796
Additional Capital Expenditure to be financed	-	78	78
Balance as at 31.03.07	118,009	50,959	168,968

	Usable Capital Reserves			
	Usable Capital Receipts (£'000)	Capital Grant Reserve (£'000)	General Capital Reserve (£'000)	Total (£'000)
	1		2	
Notes				
Balance as at 01.04.2006	1,123	-	3,305	4,428
Receipts & Transfers During Year	1,327	3,522	445	5,294
Proceeds of disposals	9,040	-	-	9,040
Financing of Fixed Assets	(5,246)	(3,522)		(8,768)
Additional Capital Expenditure to be financed	-	-	(78)	(78)
Balance as at 31.03.07	6,244	-	3,672	9,916

Notes	Usable Revenue Reserves			
	Earmarked Revenue Reserves (£'000) 1	Other Reserves (£'000) 2	General Revenue Reserve (£'000) 3	Total (£'000)
Balance as at 01.04.2006	21,330	(1,680,400)	5,130	(1,653,940)
Transfers During Year	3,903	12,884	-	16,787
Balance as at 31.03.07	25,233	(1,667,516)	5,130	(1,637,153)

Accounting Reserves

1. Fixed Asset Restatement Account

The Fixed Asset Restatement Account is debited or credited with the deficits or surpluses that arise on the revaluation of fixed assets as well as being written down by the net book value of assets when they are disposed of. The account cannot be used to support spending.

2. Capital Financing Account

The Capital Financing Account contains the amount of capital expenditure that has been financed from revenue and capital receipts. It also contains the difference between the Minimum Revenue Provision and depreciation and also the release of government grant from the Government Grants Deferred Account. The account cannot be used to support spending.

Usable Capital Reserves

1. Usable Capital Receipts

The use of capital receipts is regulated by the Local Government and Housing Act 1989 and they can only be used to finance capital expenditure.

2. General Capital Reserve

This reserve has been built up from revenue contributions and is available to fund capital expenditure.

Usable Revenue Reserves

1. Earmarked Revenue Reserves

	Balance at 1 April 2006 (£'000)	Income (£'000)	Expenditure (£'000)	Balance at 31 March 2007 (£'000)
Budget Equalisation	5,266	6,657	(3,833)	8,090
Insurance	8,993	2,475	-	11,468
Invest to Save	6,177	-	(2,216)	3,961
Proceeds of Crime	294	277	-	571
Desk Top Replacement	600	543	-	1,143
	21,330	9,952	(6,049)	25,233

2. Other Reserves

	Balance at 1 April 2006 (£'000)	Income (£'000)	Expenditure (£'000)	Balance at 31 March 2007 (£'000)
PFI Residual Value	-	119	-	119
FRS 17 Pension Liability	(1,680,400)	12,765	-	(1,667,635)
	(1,680,400)	12,884	-	(1,667,516)

Budget Equalisation

This reserve had been set up to provide for anticipated budget shortfalls over the next three years. It will also be used to cover future costs of the £53m Securitas robbery (Operation Deliver).

Insurance

This reserve has been set up to provide for any additional insurance costs falling on the Authority over and above those already specifically provided for.

Invest to Save

This reserve will be used to fund Invest to Save initiatives and was increased in the year to take into account the need to complete projects funded by the 2004/05 underspend. The Force has recently approved the amalgamation of our BCU's reducing the number to six, it has also agreed to recommendations coming from a review of support services, which is expected to save in the region of £1.5m from 2007/08. It has been recognised that there will be a significant cost associated with these projects and an additional sum of £4m has been included within this reserve.

Proceeds of Crime

This reserve shows the amount the Force has received from the Government as a proportion of the assets seized under the Proceeds of Crime Act 2002. It has been agreed that this money will be used to fund additional resources to increase asset seizures.

Desk Top Replacement

The Force has a 4-year replacement program for desktop computers. This reserve has been set up to ensure that the revenue account is not affected by the large variances in the number of computers required each year.

FRS 17 Pension Liability

Full disclosure of FRS 17 is now made on the face of the Summary Revenue Account and Balance Sheet. This reserve shows the gross liability of future Force pension costs.

PFI Residual Value Reserve

This recognises the estimated residual value of the Medway Police Station that will transfer to the authority at the end of the contract. The value is accumulated over the life of the contract.

3. General Revenue Reserve

The General Revenue Reserve is set at 2% of net revenue expenditure. The net expenditure for 2007- 08 is £257.9m, which would result in a reserve of £5.1m.

21. Reconciliation Of Surplus To Revenue Cash Flow

	2006-07 (£'000)	2005-06 (£'000)
(Surplus)/Deficit	119,519	118,211
Non-cash transactions:		
Depreciation	(10,526)	(9,968)
Government grants deferred amortisation	3,326	6,311
net charges made for retirement benefits in accordance with FRS 17	(116,786)	(115,269)
net transfer to insurance provisions	186	252
Items on an accruals basis		
(increase)/decrease in revenue creditors	(1,241)	(3,176)
increase/(decrease) in stocks	34	(77)
increase (decrease) in debtors	3,510	(44)
Items shown later in the cash flow statement: Add		
Servicing of finance	3,009	2,603
Net cash flow from revenue activities	1,031	(1,157)

22. Analysis Of Cash Balances

	Balance 1 April 2006 (£'000)	Balance 31 March 2007 (£'000)	Movement In The Year (£'000)
Cash overdrawn	(135)	(264)	129
Cash and bank	1,429	701	728
Decrease (Increase) in cash	1,294	437	857

Glossary of Terms

Budget

A statement defining the Authority's policy over a specified period and expressed in financial or other terms.

Debtors

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

Capital charges

A charge made to the revenue account for capital assets used in the delivery of service. The charge comprises two elements; a financing charge that is based on the value that the asset is held at in the Balance Sheet, and a depreciation charge for all assets except land.

Capital expenditure

Expenditure on the provision and improvement of permanent assets such as land, buildings, vehicles and major items of equipment.

Capital receipts

Money obtained on the sale of a capital asset with a de minimis level of £6,000.

Credit arrangements

An arrangement other than borrowing where the use of capital asset is acquired and paid for over a period of more than one year. The main types of credit arrangements are leases of buildings, land and equipment.

Creditors

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

Employee expenditure

The salaries and wages of employees together with national insurance, superannuation and all other pay-related allowances. Training expenses and professional fees are also included.

Government grants

Part of the cost of the service is paid for by central government from its own tax income. Specific grants are paid by the Home Office to the Authority towards both revenue and capital expenditure.

Long-term debtors

Amounts due to the Authority where payment is to be made by instalments over a pre-determined period of time in excess of one year.

Minimum Revenue Provision

The amount that the Authority is required to charge to the revenue account each year for the repayment of debt. As the Authority is debt free the MRP requirement is nil.

Precept

The levying of a rate by one Authority that is collected by another. The Authority precepts upon the district/unitary council's collection funds for its income.

Provision

An amount set aside to provide for a liability which is likely to be incurred but the exact amount and the date on which it will arise is uncertain.

Revenue expenditure

Expenditure to meet the continuing cost of services including wages and salaries, purchase of materials and capital financing charges.

Revenue reserves

Accumulated sums that are maintained either to be earmarked for specific liabilities (e.g. pensions, budget roll forward etc.), or generally held to meet unforeseen or emergency expenditure (e.g. General Reserve).

CIPFA Best Value Accounting Code of Practice Terms

Reducing Crime

Community Safety Teams and Force Intelligence Bureau.

Investigating Crime

Specialist Units involved with the investigation of crime including surveillance and covert teams.

Promoting Public Safety

Local reactive policing and public order.

Assistance to the Public

Visibility, reassurance and community policing

Non Distributed Costs

Past Service Pension Costs (FRS 17)

Corporate and Democratic Core

- All aspects of Kent Police Authority Members' activities including officer time spent providing appropriate advice and support for them.
- Activities, which provide the infrastructure, which allows services to be provided and the information required for public accountability.

National Police Services Undertaken Locally

Protection and security of VIPs such as politicians, diplomats and royalty.

Pensions

All pension transactions relating to the unfunded police officer pension scheme.

Seconded Officers

Costs incurred for staff from other Forces doing work for Kent, offset by our officers doing work for other Forces.

Unapportionable Overheads

Additional costs of the funded civilian pension scheme.