

# Statement of Accounts

## 2008 - 2009

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# Foreword

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## General

This Statement of Accounts records the expenditure and income of the Kent Police Authority (KPA) during the financial year 2008/09 and its financial position at the 31 March 2009. The accounts have been prepared in accordance with the 'Code of Practice on Local Authority Accounting', which is the relevant 'Statement of Recommended Practice' (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). The Authority's 'Annual Governance Statement', which is produced for the second time this year, and broadens the coverage of the previous Statement of Internal Control to enforce all of the organisation's key governance processes and safeguards is published as a separate document. The Auditor's Report appears at p6 and the Summary of Accounting Policies at p9.

The main Financial Statements comprise:

- Income and Expenditure Account with explanatory notes– p12  
(A record of income and expenditure both by 'Best Value' categories of activity, and by type of spending)
- Statement of Movement on the General Fund and a note providing a Reconciliation to the Statement of Movement on General Reserves – p13  
(These are statements required by the SORP to explain the deficit showing on the face of the Income and Expenditure account)
- Statement of Total Recognised Gains and Losses p14  
(a statement required by the SORP to reconcile the movement on the Balance Sheet)
- The Balance Sheet with explanatory notes– p15  
(A statement of the overall financial position in terms of assets and liabilities as at 31 March 2009)
- Cash Flow Statement with explanatory notes – p16  
(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 2008/09 provided for net expenditure of £266.8m. In the event, actual net expenditure was £266.1m, representing an underspend of £0.7m. This level of underspending is similar to that which was anticipated at the time of setting the Revenue Budget for 2009/10, 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 for the time being to rise to £6.0m. This is over 2% of net revenue expenditure, which is the agreed KPA policy, but potential future requirements coming from the economic downturn mean this level of reserves is unlikely to be sustainable. 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 £1,464m far exceeds its total assets. Including a smaller deficit on the mainly funded Local Government Scheme for Police Staff, total pension

liabilities are £1,513m. Set against £177m of Accounting reserves, £10m capital and £21m of Usable Reserves, the Balance Sheet Accounting Deficit is £1,305m.

During the year, the net charge made to the revenue account for retirement benefits was £106.9m. 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 £124.3m for the year, despite the favourable outcome against planned budget. This position is replicated in Police Authorities across the country.

In previous years the revenue statement has shown more detail against the net cost of police. The table below shows how the cost of policing was previously broken down and is reproduced here because although it is no longer required as part of the main accounts, I feel that it does give a good indication of where the money is spent.

Previous Year Net Expenditure		Gross Expenditure	Gross Income including specific grants	Net Expenditure
£'000		£'000	£'000	£'000
	<b>Crime</b>			
18,551	Reducing Crime	20,339	(2,580)	17,759
144,133	Investigating Crime	171,821	(24,971)	146,850
	<b>Policing in the Community</b>			
111,591	Promoting Public Safety	129,021	(21,078)	107,943
29,230	Assistance to the Public	49,665	(19,631)	30,034
329	<b>National Police Services Undertaken Locally</b>	230	(33)	197
100	<b>Non Distributed Costs (FRS 17 Yearend only)</b>	2,409	0	2,409
1,054	<b>Corporate &amp; Democratic Core</b>	1,415	(26)	1,389
3,550	<b>Pensions</b>	2,969	(3)	2,966
308,538	<b>Net Cost of Police Services</b>	377,869	(68,322)	309,547

The main underspends in the year arose from vacancies being held on police staff due to back office reviews and police pay being a different mix than originally budgeted. These underspends were partly offset by overspends within the contingency fund set aside for major operations and transport costs due to the increased fuel costs.

At the time of the failure of the four Icelandic Banks on 8<sup>th</sup> October 2008, the Authority held deposits in three of these in the total sum of £11.1m out of the total bank deposits of around £60m. Whilst it is now expected that the majority of this sum will ultimately be recovered, there are clearly lessons to be learned from a governance perspective arising from these events. All the Authority's cash balances are managed by Kent County Council (KCC), though administered entirely separately. KCC were in turn advised by Treasury Specialists.

Following the events of October 2008, a much more cautious approach has been taken to sovereign risks. However, the important lesson to be learned from a governance perspective is the need for greater attention being paid to important decisions being made on the Authority's behalf, even where these are being managed by acknowledged specialists in their field. In this spirit, the Treasury now monitors all deposits on a weekly basis and is in regular contact with KCC concerning them.

## 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 2008/09 was £5.614m as follows:

<u>Nature of Expenditure</u>	£m
Estates	1.238
IT	1.203
Vehicles/Equipment	<u>3.173</u>
Total	<u>5.614</u>

<b>Major Acquisitions and Disposals 2008/09</b>	<b>(£'000)</b>
<b>Acquisitions</b>	
Vehicle Replacement Programme	<b>2,021</b>
Plant & Equipment Replacement Programme	<b>376</b>
Servers Replacement Programme	<b>302</b>
Front Office Improvements	<b>230</b>
<b>Disposals 2008/09</b>	<b>(£'000)</b>
<u>Non-Operational Property</u>	
4 Durlock Avenue, Ramsgate	<b>300</b>
Sussex End, Eridge Road, Tunbridge Wells	<b>300</b>
Carlton House, Brenchley Road	<b>200</b>
92 Church Road, Folkestone	<b>175</b>

## Summary

The outlook for Police Authority funding in the medium term is not favourable, and this presents KPA with serious challenges. Government spending plans for the service now cover the period up to 2010/11, and these offer no prospect of any real funding growth against a background of increasing demands arising from changing demographic and social patterns. 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 outcome of spending against budget in 2008/09 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 focusing on our performance in managing our

finances against the real parameters set for us. In this latter respect, 2008/09 represented another successful year.

## **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 three 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 2009. 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**

# **Independent auditor's report to the Members of Kent Police Authority**

## **Opinion on the financial statements**

I have audited the accounting statements, the police pension fund accounting statements and related notes of Kent Police Authority for the year ended 31 March 2009 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, Statement of Movement on the General Fund Balance, Balance Sheet, Statement of Total Recognised Gains and Losses, Cash Flow Statement, and the related notes. The police pension fund accounting statements comprise the Fund Account, the Net Assets Statement and the related notes. The financial statements and police pension fund accounting statements have been prepared under the accounting policies set out within them.

This report is made solely to the members of Kent Police Authority in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

## ***Respective responsibilities of the Treasurer and auditor***

The Treasurer's responsibilities for preparing the financial statements, including the police pension fund accounting statements, in accordance with applicable laws and regulations and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities.

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

I report to you my opinion as to whether the accounting statements, the police pension fund accounting statements and related notes present fairly, in accordance with applicable laws and regulations and the Code of Practice on Local Authority Accounting in the United Kingdom 2008:

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

I review whether the governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. I report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the governance statement covers all risks and controls. Neither am I required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

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

## ***Basis of audit opinion***

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

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

## ***Opinion***

In my opinion:

- The accounting statements and related notes present fairly, in accordance with applicable laws and regulations and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Authority as at 31 March 2009 and its income and expenditure for the year then ended; and
- The police pension fund accounting statements present fairly, in accordance with the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2007, the financial transactions of the police pension fund during the year ended 31 March 2009 and the amount and disposition of the fund's assets and liabilities as at 31 March 2009, other than liabilities to pay pensions and other benefits after the end of the scheme year.

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

### ***Authority's Responsibilities***

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

### ***Auditor's Responsibilities***

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

## ***Conclusion***

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for police authorities specified by the Audit Commission and published in May 2008 and updated in February 2009, and the supporting guidance, I am satisfied that, in all significant respects, Kent Police Authority made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009.

## **Certificate**

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

Darren Wells  
District Auditor  
16 South Park  
Sevenoaks  
Kent  
TN13 1AN

31 July 2009

# 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 2009 for goods received or services rendered during the financial year 2008-2009 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, proceeds of crime, desktop migration, PFI residual value, financial instruments adjustment account 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 a minimum of 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.

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.

Intangible assets such as software held on the Authority's Balance Sheet incorporate the capitalised development costs directly contributing to the usefulness and value of the asset and include project management, consultancy and data migration.

## 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; the profit or loss made on disposal of a fixed asset representing the difference between the sale proceeds and carrying value on the balance sheet and any impairments.

## **Deferred Charges**

Deferred charges are written off in the year in which they are incurred unless there is some ongoing benefit to the Authority.

## **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 motorcars 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 Revaluation Reserve, the Capital Adjustment Account and the Government Grants Deferred Account. None of these accounts represent resources that are available for use by the Police Authority.

The Revaluation Reserve records unrealised revaluation gains (since 1<sup>st</sup> April 2007) from holding fixed assets.

The Capital Adjustment Account provides a balancing mechanism between the different rates at which assets are depreciated under the SORP and are financed through the capital controls system.

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. Purchases of motor vehicles are treated as capital within the Authority's accounts even if they fall below the above de-minimus level.

## **Revaluations and Disposals**

The 2008 SORP does not permit revaluations on assets at the point of their disposal. Income from the sale of fixed assets is taken to the Capital Receipts Reserve and is available to support the Authority's capital programme, the net book value of the asset is charged to the Capital Adjustment Account and the gain or loss is recorded in the Income and Expenditure Account. The basic calculation for the gain or loss is the difference between the sale proceeds and the net book value.

## **Private Finance Initiative (PFI)**

The Authority has entered into two separate long-term contractual agreements under PFI, one in 2004 and the other in 2006. In both cases the contractor is responsible for the new Police Stations (Medway and North Kent) for 30 years.

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 contracts provide for the transfer of assets to the Authority at the completion of the contract for nominal consideration. The accounts reflect the accumulated cost of the residual value of the assets from the start of the contracts.

## Income and Expenditure Account

Previous Year Net Expenditure £'000s	Notes	Gross Expenditure £'000s	Gross Income £'000s	Net Expenditure £'000s
<b>308,538</b>	<b>Net cost of Police Services</b>	<b>377,869</b>	<b>(68,322)</b>	<b>309,547</b>
2,469 (132) (3,815) 87,570 <b>394,630</b>	(Profit) / loss on disposal of fixed assets Seconded Officers Interest and Investment Income Pension Interest Cost & Expected Return on Assets 18 <b>Net Operating Expenditure</b>	984	(1,148)	(317) (164) (3,170) 96,810 <b>402,706</b>
(75,351) (115,010) (11,036) (65,762) <b>127,471</b>	Precept Income Government Grants Revenue Support Grant National Non-Domestic Rates <b>Deficit for the Year</b>			(79,647) (121,020) (9,498) (68,231) <b>124,310</b>

## Statement of Movement on the General Fund Balance

	<b>2008/09 (£'000)</b>	<b>2007/08 (£'000)</b>
Deficit for the year on the Income & Expenditure Account	124,310	127,471
Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Fund	<u>(124,968)</u>	<u>(127,677)</u>
Increase in General Fund Balance for the year	(658)	(206)
General Fund Balance brought forward	<u>(5,336)</u>	<u>(5,130)</u>
General Fund Balance carried forward	<u>(5,994)</u>	<u>(5,336)</u>

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

	<b>2008/09 (£'000)</b>	<b>2007/08 (£'000)</b>
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	(13,843)	(11,190)
Government grants deferred amortisation	2,888	2,853
Net gain / loss on sale of fixed assets	317	(2,469)
Net charges made for retirement benefits in accordance with FRS 17	(106,933)	(118,082)
Difference between statutory debits and credits and amounts recognised as income and expenditure in relation to financial instruments	(1,876)	0
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	0	0
Capital expenditure charged in-year to the General Fund Balance	77	78
<b>Transfers to or from the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year</b>		
Contributions to Earmarked Reserves	7,673	6,641
Contributions from Earmarked Reserves	(13,270)	(5,508)
Net additional amount required by statute and non-statutory proper practices to be debited or credited to the Fund	<u>(124,968)</u>	<u>(127,677)</u>

## Statement of Total Recognised Gains and Losses

	<b>2008/09 (£'000)</b>	<b>2007/08 (£'000)</b>
Deficit for the year on the Income & Expenditure Account	124,310	127,471
(Surplus) deficit arising on the revaluation of fixed assets	(10,694)	(7,896)
(Surplus) deficit arising on revaluation of available-for-sale financial assets	(197)	(72)
	<u>(23,398)</u>	<u>(356,600)</u>
Actuarial gains/(losses) on pension fund assets and liabilities	<u>90,016</u>	<u>(237,097)</u>
Total recognised (gains)/losses for the year		

# Balance Sheet

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

	Notes	31 March 2009		31 March 2008	
		£'000	£'000	£'000	£'000
<b>Fixed Assets:</b>					
Land and Buildings		153,040		146,480	
Vehicles, Plant & Equipment	10	17,153		19,607	
Intangible Assets		5,934		7,889	
Non-Operational Assets		20,613		21,631	
Assets under Construction		9		151	
			196,749		195,758
Investments at cost			13		13
Long-term Debtors	11		1,999		973
<b>Total Long-Term Assets</b>			<b>198,761</b>		<b>196,744</b>
<b>Current Assets:</b>					
Stocks and Work in Progress		222		317	
Amounts owed to the Authority by debtors	12	20,205		14,483	
Short-term investments	19	39,119		49,734	
Cash and Bank balances		<u>174</u>		<u>573</u>	
			59,720		65,107
<b>Less: Current Liabilities</b>					
Amounts owed by the Authority to creditors	13		(27,606)		(25,706)
			<b>230,875</b>		<b>236,145</b>
<b>Total Assets less Current Liabilities</b>	14		(1,705)		(1,566)
Insurance Provision	15		(933)		(1,011)
Finance Lease			(20,606)		(19,456)
Government Grant Deferred Account	18		<u>(1,512,652)</u>		<u>(1,429,117)</u>
Long-term Pension Creditor			<b><u>(1,305,021)</u></b>		<b><u>(1,215,005)</u></b>
<b>Total Assets less Liabilities</b>					
<b>Taxpayers Equity in Kent Police Accounting Reserves</b>	20	17,593		7,272	
Revaluation Reserves		<u>158,918</u>		<u>169,101</u>	
Capital Adjustment Account			<b>176,511</b>		<b>176,373</b>
<b>Usable Reserves</b>		2,735		2,735	
Usable Capital Receipts Reserve		7,413		5,170	
General Capital Reserve	20	15,752		24,509	
Earmarked Revenue Reserves		(1,513,426)		(1,429,128)	
Other Reserves		5,994		5,336	
General Revenue Reserve			<b>(1,481,532)</b>		<b>(1,391,378)</b>
			<b><u>(1,305,021)</u></b>		<b><u>(1,215,005)</u></b>
<b>Total Equity</b>					

I confirm that the Authority approved these accounts.

Signed on behalf of the Kent Police Authority:.....

Chair of the meeting approving the accounts:

Date:

# Cash Flow Statement

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

		<b>31 March 2009</b>		<b>31 March 2008</b>	
		<b>(£'000)</b>		<b>(£'000)</b>	
	<b>Notes</b>				
<b><u>Revenue Activities</u></b>					
<b>Cash Outflows</b>					
Employee costs		275,967		266,314	
Other operating costs		64,949		55,144	
<b>Cash Inflows</b>					
Precepts on Collection funds		(79,647)		(75,351)	
National Non-Domestic Rate income		(68,231)		(65,762)	
Revenue Support Grant		(9,498)		(11,036)	
Police Grant		(109,442)		(105,763)	
Other government grants		(38,687)		(37,637)	
Cash received for goods and services		(22,648)		(25,839)	
Other revenue income		<u>(1,613)</u>		<u>(1,548)</u>	
<b>Net cash flow revenue activities</b>	21		<b>11,149</b>		<b>(1,478)</b>
<b><u>Servicing of Finance</u></b>					
<b>Cash Outflow</b>					
Interest element of finance lease rental		59		59	
<b>Cash Inflow</b>					
Interest received		(2,728)		<u>(3,814)</u>	
<b>Net Cash Flow Servicing of Finance</b>			<b>(2,669)</b>		<b>(3,755)</b>
<b><u>Capital Activities</u></b>					
<b>Cash Outflow</b>					
Purchase of fixed assets		5,886		8,949	
<b>Cash Inflows</b>					
Sale of fixed assets		(1,680)		(2,212)	
Capital grants received		(3,520)		(3,520)	
Capital contributions received		<u>(546)</u>		<u>(244)</u>	
<b>Net cash flow capital activities</b>			<b>140</b>		<b>2,973</b>
<b><u>Management of Liquid Resources</u></b>					
Net increase (decrease) in short-term investment	19		<b>(8,299)</b>		<b>2,046</b>
<b><u>Financing</u></b>					
<b>Cash Outflow</b>					
Capital element of finance lease rental			—		<u>78</u>
<b>Decrease (increase) in cash</b>	22		<b><u>78</u></b>		<b><u>(136)</u></b>
			<b><u>399</u></b>		

# Notes to the Core Financial Statements

## 1. Summary Income and Expenditure Account

This summary shows the total revenue expenditure and income for 2008-2009.

		Year ended 31 March 2009		Year ended 31 March 2008	
Expenditure	Notes	(£'000)	(£'000)	(£'000)	(£'000)
<b>Employee Costs</b>					
Pay allowances and training	2	245,607		235,811	
Pensions - Police and Police Staff	3	2,824		2,822	
FRS 17		<u>48,740</u>		<u>67,607</u>	
<b>Other Running Costs</b>			297,171		306,240
Premises		19,778		14,055	
Transport		7,540		7,577	
Supplies and Services		30,984		28,843	
Third Party Payments		10,106		7,261	
Depreciation	10	12,060		9,494	
Impairment Losses		4,102		1,696	
Government Grants deferred credits		<u>(2,888)</u>		<u>(2,853)</u>	
			<u>81,682</u>		<u>66,073</u>
<b>Total Gross Expenditure</b>			<b>378,853</b>		<b>372,313</b>
<b>Income</b>					
Reimbursements & Contributions		(63,171)		(57,761)	
Sales		(32)		(147)	
Fees and Charges		(4,654)		(4,451)	
Other Income		(1,613)		(1,548)	
<b>Total Income</b>			<b><u>(69,470)</u></b>		<b><u>(63,907)</u></b>
<b>Net Expenditure</b>			<b>309,383</b>		<b>308,406</b>

This note shows the net expenditure subjectively. The income and expenditure account on page 12 analyses the net expenditure over Best Value category as per the CIPFA Code of Practice, which is analysed in detail in the Foreword to the accounts.

## 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	
	2008/09	2007/08
50,000 - 59,999	384	328
60,000 - 69,999	42	51
70,000 - 79,999	19	15
80,000 - 89,999	7	8
90,000 - 99,999	3	2
100,000 - 109,999	3	2
110,000 - 119,999	1	1
120,000 - 129,000	0	0
130,000 – 139,999	1	0
140,000 – 149,999	0	1
150,000 – 159,999	1	0

## 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.

	2008/09 £'000	2007/08 £'000
Police Staff Retirement Enhancements	0	0
Police Staff Redundancy Payments	0	29
Police Staff Pension Enhancements	23	45
Officers Annual Pension and Commutations Payments	157	78
Officers Contributions	0	0
Net value of Officers Transfer values	0	0
Officers Pension Contribution Refunds	0	0
Officers Injury & Ill Health payments	2,481	2,517
Officers 30+ Scheme	163	153
	<b>2,824</b>	<b>2,822</b>

## Police Officers

In April 2006 the new Police Pensions scheme came into force and the employers contributions are transferred into the fund are 24.2%. Employers pension contributions and Employees contributions are paid into the new pension fund.

## Pensions Fund Account

	<b>Year to 31/03/09 (£'000)</b>
<b><u>Income</u></b>	
Officers contributions	13,151
Employers contributions	29,337
Transfers in	774
Capital-equivalent charge payments for ill-health early retirements	258
<b><u>Expenditure</u></b>	
Pension payments	(42,396)
Refund of pension contributions	(13)
Transfers out	(722)
Commutations	(11,966)
<b>Sub Total for year before transfer from Police Fund</b>	<b>(11,578)</b>
Transfer from Police Fund	11,578
<b>Net Amount receivable</b>	<b>0</b>

Prior to 2006 the Police Authority was responsible for paying the pensions of officers who retired from the Force on a pay-as-you-go basis. Officer's contributions were paid into the Authority's operating account from which the pension payments were made. Funding towards this from Central Government was made via the Principal Police Grant.

As from 1<sup>st</sup> 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 2009 a debtor of £4.4m 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 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 2008/09 (2007/08) the Police Authority paid an employer's contribution of £9.3m, (£7.9m) including £0.02m (£0.04m) one-off lump sum payments, into the Kent County Council Superannuation Fund, representing 15.3% (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 2008 and alterations to the contributions made were necessary as shown above. 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 2008/09 (2007/08) these amounted to £0.0m (£0.0m).

The capital cost of discretionary increases in pension payments was £23k (£45k) 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 £231,185.30 (£202,437) was paid in 2008/09 (2007/08) for members' allowances and expenses.

## 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 £2.024m (£1.978m).

## 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. The Police Authority's expenditure on publicity in 2008/09 was:

	<b>2008/09</b>	<b>2007/08</b>
	<b>(£'000)</b>	<b>(£'000)</b>
Staff advertising/recruitment	214	622
Other	115	143
<b>TOTAL</b>	<b>329</b>	<b>765</b>

The Authority has reviewed its recruitment advertising methodology and significantly reduced the budget and expenditure as a result. Expenditure on other publicity in 2008/09 and 2007/08 relates to the Community Engagement campaign and emphasis on consultation for Neighbourhood Policing and Citizen Focus.

## 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 Chief Executive has written to all members and there are no related party transactions to disclose in 2008/09.

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 (£122k). 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 2008/09 the following fees were incurred relating to external audit and inspection, carried out by our appointed external auditors, the Audit Commission:

	<b>2008/09</b>	<b>2007/08</b>
	<b>(£'000)</b>	<b>(£'000)</b>
Fees payable in respect to External Audit Fees	94	96
Fees payable in respect of PFI Opinion Fee	0	0
Fees payable to the Audit Commission in respect of other Services	1	2
<b>TOTAL</b>	<b>95</b>	<b>98</b>

## 9. Prior Period Adjustments

There are no prior period adjustments necessary to the 2007/08 Statement of Accounts.

## 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 01.04.08	21,992	133,523	59,147	14,772	22,778	151	252,363
Additions	0	0	4,100	528	76	910	5,614
Disposals	0	0	(1,566)	(131)	(976)	(1,052)	(3,725)
Transfers	0	0	(15)	0	15	0	0
Revaluations	751	6,233	0	0	4	0	6,988
Gross book value as at 31.03.09	22,743	139,756	61,666	15,169	21,897	9	261,240
Accumulated depreciation	0	(9,035)	(39,543)	(6,884)	(1,144)	0	(56,606)
Depreciation in Year	0	(3,604)	(6,068)	(2,388)	0	0	(12,060)
Impairments for 2008/09	(174)	(352)	0	0	(205)	0	(731)
Depreciation on assets sold	0	0	1,098	0	65	0	1,163
Depreciation on write-offs	0	0	0	37	0	0	37
Depreciation on revalued assets	0	3,706	0	0	0	0	3,706
<b>Net book value as at 31.03.09</b>	<b>22,569</b>	<b>130,471</b>	<b>17,153</b>	<b>5,934</b>	<b>20,613</b>	<b>9</b>	<b>196,749</b>

Purchased intangible assets are non-financial fixed assets that do not have physical substance but are identifiable i.e. software licences, consultancy and project management costs used to bring software systems into use for the Authority. These are depreciated over the life of the software systems.

## Statement Of Physical Assets Owned By The Authority As At 31 March 2009

<b>Operational</b>	<b>2008/09</b>	<b>2007/08</b>
Force Headquarters	1	1
Transport Services – Finance Lease	1	1
Housing used as dwellings	69	69
Kent Police College	1	1
Houses used as offices	16	16
Police Stations	28	28
VI Suite	9	9
Garage Blocks	3	3
<b>Non Operational</b>		
Houses	25	29
Police Stations	6	6
PFI Land	2	2
Garage Blocks	0	0
<b>Vehicles</b>	<b>1,438</b>	<b>1,172</b>

### Basis Of Valuation

A rolling programme of valuation reviews has been implemented where 20% of the Police Authority's property assets portfolio is selected each year. The valuation this year has been valued as at 1 April 2008 prices.

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 2009. 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 impairments have been charged to the Income and Expenditure where building work has been required to comply with current legislative requirements or maintain the use for which the building is intended. Short life assets such as vehicles, plant and equipment are included at historical cost as a proxy for current value.

### Capital Expenditure 2008-2009

Items of capital expenditure during the year were:

	<b>2008/09 (£'000)</b>	<b>2007/08 (£'000)</b>
Major IT / Communication schemes	1,203	2,479
Various building works	1,238	1,371
Land & building acquisition	0	250
Vehicles	2,459	2,682
Plant & equipment	714	1,867
<b>Total</b>	<b>5,614</b>	<b>8,649</b>

### Financing Of Capital Expenditure 2008-2009

	<b>2008/09 (£'000)</b>	<b>2007/08 (£'000)</b>
Capital receipts	1,680	4,750
Capital contributions	466	565
Capital grant	3,520	3,520
Revenue contributions	219	78
Increase in capital creditors	(271)	(264)
<b>Total</b>	<b>5,614</b>	<b>8,649</b>

### Future Capital Expenditure Commitments

At 31 March 2009 capital expenditure to be incurred in 2009/10 and later years includes the following major projects:

	<b>(£'000)</b>
IT various projects	3,813
Building works	5,808
Vehicles, plant and equipment	4,973

## 11. Amounts Owed To The Authority By Long Term Debtors

<b>Long Term Debtors:</b>	<b>At 31/03/2009 (£'000)</b>	<b>At 31/03/2008 (£'000)</b>
Current value of Police Loans	586	462
PFI Long Term Debtor	1,394	478
Car loans	19	33
<b>Total</b>	<b>1,999</b>	<b>973</b>

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.

The Authority is required to adjust the carrying value of the above loan under FRSs 25, 26 and 29 relating to Financial Instruments to reflect the value of the loan at today's prices. This calculation has been undertaken using a prudent interest rate of 3.5%. Further notes around the Authority's Financial Instruments are contained in note 23.

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 2008/09 was £3.0m. The Authority received credits from the Home Office to the value of £2.2m.

The Authority entered into a further long-term contractual agreement under PFI in 2006 for the provision of a police station at North Kent. The term of the arrangement is also 30 years. The unitary charge for 2008/09 was £4.75m against which the Authority received credits from the Home Office of £3.1m.

### **PFI Long Term Debtor**

The Authority will acquire, for nominal consideration, the residual value of the PFI contracts at Medway and North Kent Police Stations at the end of the contracts. The residual value of the assets 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.

## 11. Amounts Owed To The Authority By Other Debtors

<b>Other Debtors:</b>	<b>At 31/03/2009 (£'000)</b>	<b>At 31/03/2008 (£'000)</b>
Staff advances	111	1
Government Depts	13,992	6,760
Payments in advance	1,233	1,202
General debtors	4,701	5,984
Other local authorities	168	536
<b>Total</b>	<b>20,205</b>	<b>14,483</b>

The increase in debtors with Government Departments is comprised of a pensions debtor of £4.4m and £3.2m due from the Home Office to assist with the cost of policing the Climate Camp in August 2008.

## 12. Amounts Owed By The Authority To Creditors

	<b>At 31/03/2009 (£'000)</b>	<b>At 31/03/2008 (£'000)</b>
Receipts in advance	2,282	2,325
Government Departments	33	142
General creditors	23,758	22,156
Other local authorities	1,533	1,083
<b>Total</b>	<b>27,606</b>	<b>25,706</b>

## 14. Insurance Provision

	<b>2008/09 (£'000)</b>	<b>2007/08 (£'000)</b>
Balance at 1 April	1,566	1,788
Income	902	594
Expenditure	(763)	(816)
<b>Balance at 31 March</b>	<b>1,705</b>	<b>1,566</b>

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 2009 is £0.51m. The capital element of this lease has been provided for as follows:

	<b>2008/09 (£'000)</b>	<b>2007/08 (£'000)</b>
Balance at 1 April	1,011	1,089
Expenditure	(78)	(78)
<b>Balance at 31 March</b>	<b>933</b>	<b>1,011</b>

In 2008/09 (2007/08) the Authority spent £0.137m (£0.137m) on finance leases. Outstanding commitments at 31 March 2009 are as follows:

	<b>£'000</b>
2009-10	137
2011 – 2015	684
2016 onwards	821

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 20.

## 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 need to be disclosed at the time that employees earn their future entitlement.

The authority participates in two pension schemes:

- The Local Government Pension Scheme for 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

The Authority recognise the cost of retirement benefits in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However, the charge the Authority is 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	
	2008/2009 (£'000)	2007/2008 (£'000)	2008/2009 (£'000)	2007/2008 (£'000)
<i>Net cost of Services:</i>				
current service costs	6,650	9,660	40,300	57,100
Past service costs	1,790	-	-	100
Curtailments and Settlements	-	20	-	-
<i>Net Operating Expenditure:</i>				
• Interest cost less expected return on assets in the scheme	1,710	(230)	95,100	87,800
<i>Net Charge to the Income and Expenditure Account</i>	10,150	9,450	135,400	145,000
<i>Statement of Movement in the General Fund Balance</i>				
• Reversal of net charges made for retirement benefits in accordance with FRS 17	(10,150)	(9,450)	(135,400)	(145,000)
Actual amount charged against the General Fund Balance for pensions in the year:				
• Employers' contributions payable to scheme	9,270	7,873	29,337	28,495

## 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	
	2008/2009 (£'000)	2007/2008 (£'000)	2008/2009 (£'000)	2007/2008 (£'000)	2008/2009 (£'000)	2007/2008 (£'000)
Estimated liabilities in scheme	(168,970)	(168,100)	(1,428,500)	(1,379,100)	(1,597,470)	(1,547,200)
Valuation adjustment – affecting opening asset valuation	640	-	-	-	640	-
Estimated assets in scheme	120,230	140,760	-	-	120,230	140,760
Cum. adj. to pension liability to recognise diff between Actuarial cont and actual	263	133	(36,315)	(22,810)	(36,052)	(22,677)
Net asset/(liability)	(47,837)	(27,207)	(1,464,815)	(1,401,910)	(1,512,652)	(1,429,117)

The liabilities show the underlying commitments that the authority has in the long run to pay retirement benefits. The total liability of £1,513m has a substantial impact on the net worth of the authority as recorded in the balance sheet, resulting in a negative overall balance of £1,305m. 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 LLP 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 2009.

The main assumptions used in their calculation have been:

	2008/09	2007/08
Rate of inflation	3.1%	3.6%
Rate of increase on salaries	4.6%	5.1%
Rate of increase in pensions	3.1%	3.6%
Rate for discounting scheme liabilities	6.9%	6.9%

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 £120.2m for the fund as a whole at 31 March 2009 (£140.8m at 31 March 2008). The Fund's assets consist of the following categories, by proportion of the total assets held by the Fund:

	Long-term return %	31 March 2009 %	31 March 2008 %
Equity Investments	7.0	66	69
Bonds	5.4	17	14
Property	4.9	9	11
Other Assets	4.0	8	6
		100	100

## 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.

	<b>2008/09 (£'000)</b>	<b>2007/08 (£'000)</b>
Balance at 1 April	49,734	47,688
Increase / (decrease) in year	(8,297)	2,046
Impairment	(2,318)	0
<b>Balance at 31 March</b>	<b>39,119</b>	<b>49,734</b>

Early in October 2008, the Icelandic banks Landsbanki, Kaupthing and Glitnir collapsed and the UK subsidiaries of the banks, Heritable and Kaupthing Singer and Friedlander went into administration. The authority had £11.1m deposited across three of these institutions, with varying maturity dates and interest rates as follows:

<b>Bank</b>	<b>Date Invested</b>	<b>Maturity Date</b>	<b>Amount Invested (£'000)</b>	<b>Interest Rate</b>	<b>Carrying Amount (£'000)</b>	<b>Impairment (£'000)</b>
Glitnir	28/08/08	26/11/08	2,000	6.00%	2,071	163
Heritable	30/09/08	24/10/08	2,000	6.15%	2,061	637
Heritable	25/09/08	12/12/08	1,200	6.18%	1,238	383
Landsbanki	30/09/08	24/10/08	2,000	6.15%	2,061	401
Landsbanki	18/09/08	16/01/08	1,000	6.00%	1,032	195
Landsbanki	08/02/08	06/02/09	2,900	5.40%	3,079	540
<b>Total</b>			<b>11,100</b>		<b>11,542</b>	<b>2,318</b>

All monies within these institutions are currently subject to the respective administration and receivership processes. The amounts and timing of payments to depositors such as the authority will be determined by the administrators / receivers.

The current situation with regards to recovery of the sums deposited varies between each institution. Based on the latest information available the authority considers that it is appropriate to consider an impairment adjustment for the deposits, and has taken the action outlined below. As the available information is not definitive as to the amounts and timings of payments to be made by the administrators / receivers, it is likely that further adjustments will be made to the accounts in future years.

These figures are based on the position as at the 31 March. The situation is still very fluid and will be for some time. Since the balance sheet date there have been further developments but the impact of these is not material so no adjustment has been made, particularly as there are likely to be additional developments over the next couple of months/years.

### **Glitnir Bank hf**

Glitnir Bank hf is an Icelandic entity. Following steps taken by the Icelandic Government in early October 2008 its domestic assets and liabilities were transferred to a new bank (new Glitnir) with the management of the affairs of Old Glitnir being placed in the hands of a resolution committee. Old Glitnir's affairs are being administered under Icelandic law. Old Glitnir's latest public presentation of its affairs was made to creditors

on 6 February 2009 and can be viewed on its website. This indicates that full recovery of the principal and interest to 14 November 2008 is likely to be achieved. Recovery is subject to the following uncertainties and risks:

- Confirmation that deposits enjoy preferential creditor status which is likely to have to be tested through the Icelandic courts.
- The impact of exchange rate fluctuations on the value of assets recovered by the resolution committee and on the settlement of the authority's claim, which may be denominated wholly or partly in currencies other than sterling.
- Settlement of the terms of a 'bond' which will allow creditors of old Glitnir to enjoy rights in New Glitnir.

The authority has therefore decided to recognise an impairment based on it recovering the full amount of principal and interest up to 14 November 2008 in the future. The impairment therefore reflects the loss of interest to the authority until the funds are repaid.

Failure to secure preferential creditor status would have a significant impact upon the amount of the deposit that is recoverable. The total assets of the bank only equate to 40% of its liabilities, assuming that the Bond remains at its current estimated value. Therefore, if preferential creditor status is not achieved the recoverable amount may only be 40p in the £.

No information has been provided by the resolution committee about the timing of any payments to depositors. Since the value of deposits is small compared to the total asset value of the bank, in calculating the impairment the authority has therefore made an assumption that the repayment of priority deposits will be made by 31 March 2010.

Recoveries are expressed as a percentage of the authority's claim in the administration, which it is expected may validly include interest accrued up to 14 November 2008.

### **Heritable Bank**

Heritable bank is a UK registered bank under Scots law. The company was placed in administration on 7 October 2008. The creditor progress report issued by the administrators Ernst and Young, dated 17 April 09 outlined that the return to creditors was projected to be 80p in the £ by end 2012 with the first dividend payment of 15p in the £ due in the summer of 2009. The authority has therefore decided to recognise an impairment based on it recovering 80p in the £. It is anticipated that there will be some front loading of these repayments and that a final sale of assets will take place after the books have been run down to the end of 2012. Therefore in calculating the impairment the Authority has made the following assumptions re timing of recoveries:

July 2009 – 15%  
July 2010 – 30%  
July 2011 – 15%  
July 2012 – 10%  
July 2013 – 10%

Recoveries are expressed as a percentage of the authority's claim in the administration, which includes interest accrued up to 6 October 2008.

### **Landsbanki**

Landsbanki Islands hf is an Icelandic entity. Following steps taken by the Icelandic Government in early October 2008 its domestic assets and liabilities were transferred to a new bank (new Landsbanki) with the management of the affairs of Old Landsbanki being placed in the hands of a resolution committee. Old Landsbanki's affairs are being administered under Icelandic law. Old Landsbanki's latest public presentation of its affairs was made to creditors on 20 February 2009 and can be viewed on its website. This and other relevant information indicates that recovery of between 90-100 % could be achieved, and the authority has taken a mid point position and assumed recovery at 95% by 2012. The authority has therefore decided to recognise an impairment based on it recovering 95p in the £.

Recovery is subject to the following uncertainties and risks:

- Confirmation that deposits enjoy preferential creditor status which is likely to have to be tested through the Icelandic courts.

- The impact of exchange rate fluctuations on the value of assets recovered by the resolution committee and on the settlement of the authority's claim, which may be denominated wholly or partly in currencies other than sterling.
- Settlement of the terms of a 'bond' which will allow creditors of old Landsbanki to enjoy rights in New Landsbanki.
- The impact (if any) of the freezing order made by the UK Government over Landsbanki's London branch assets.

Failure to secure preferential creditor status would have a significant impact upon the amount of the deposit that is recoverable. The total assets of the bank only equate to one third of its liabilities, assuming that the Bond remains at its current value. Therefore, if preferential creditor status is not achieved the recoverable amount may only be 33p in the £.

No information has been provided by the resolution committee about the timing of any payments to depositors. Because it is anticipated that all the assets of Landsbanki Islands will need to be realised to repay priority creditors, settlement in a single sum is unlikely. Therefore, in calculating the impairment, the authority has used the estimated repayment timetables for Heritable and KS&F as a basis for its assumption about the timing of recoveries. It is therefore assumed that the repayment will be split roughly evenly between March 2010, December 2010, December 2011 and December 2012.

Recoveries are expressed as a percentage of the authority's claim in the administration, which it is expected may validly include interest accrued up to 14 November 2008 [maturity date if earlier].

The impairment loss recognised in the Income and Expenditure Account in 2008/09, £2.3m, has been calculated by discounting the assumed cash flows at the effective interest rate of the original deposits in order to recognise the anticipated loss of interest to the authority until monies are recovered.

Adjustments to the assumptions will be made in future accounts as more information becomes available.

The Authority has taken advantage of the Capital Finance Regulations to defer the impact of the impairment on the General Fund, and a sum of £2.3m has been transferred to the Financial Instruments Adjustment Account.

To mitigate the risk of potential future losses on investments the Authority has agreed to invest only in UK banks, building societies and the Debt Management Office.

## 20. Statement of Total Movements in Reserves

	Accounting Reserves		
	Capital Adjustment Account (£'000)	Revaluation Reserve (£'000)	Total (£'000)
Notes	1	2	
Balance as at 01.04.2008	169,101	7,272	176,373
Unrealised gain (loss) from revaluation of fixed assets	378	10,321	10,699
Value of Fixed Assets consumed	(15,207)	0	(15,207)
Resources used to fund Capital Expenditure	4,646	0	4,646
<b>Balance as at 31.03.09</b>	<b>158,918</b>	<b>17,593</b>	<b>176,511</b>

	Usable Capital Reserves			
	Usable Capital Receipts (£'000)	Capital Grant Reserve (£'000)	General Capital Reserve (£'000)	Total (£'000)
Notes	1		2	
Balance as at 01.04.2008	2,735	0	5,169	7,904
Receipts & Transfers During Year	0	3,520	2,321	5,841
Proceeds of disposals	1,680	0	0	1,680
Financing of Fixed Assets	(1,680)	(3,520)	(77)	(5,277)
<b>Balance as at 31.03.09</b>	<b>2,735</b>	<b>0</b>	<b>7,413</b>	<b>10,148</b>

	Usable Revenue Reserves			
	Earmarked Revenue Reserves (£'000)	Other Reserves (£'000)	General Revenue Reserve (£'000)	Total (£'000)
Notes	1	2	3	
Balance as at 01.04.2008	<b>24,509</b>	<b>(1,429,128)</b>	<b>5,336</b>	<b>(1,399,283)</b>
Transfers During Year	(8,757)	(84,298)	658	(92,397)
<b>Balance as at 31.03.09</b>	<b>15,752</b>	<b>(1,513,426)</b>	<b>5,994</b>	<b>(1,491,680)</b>

## Accounting Reserves

### 1. Capital Adjustment Account

The Capital Adjustment Account accumulates the write down of the historical cost of fixed assets as they are consumed by depreciation and impairments or written off on disposal. This is offset by the resources that have been set aside to finance capital expenditure.

### 2. Revaluation Reserve

The Revaluation Reserve records the accumulated gains on the fixed assets held by the authority arising from increases in value, as a result of inflation or other factors (to the extent that these gains have not been consumed by subsequent downward movement in value).

## 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

	<b>Balance at 1 April 2008 (£'000)</b>	<b>Income (£'000)</b>	<b>Expenditure (£'000)</b>	<b>Balance at 31 March 2009 (£'000)</b>
Budget Equalisation	5,889	6,000	(4,389)	7,500
Insurance	12,510	0	(6,138)	6,372
Invest to Save	2,823	673	(2,965)	531
Budget Roll-forward	1,740	3,700	(5,440)	0
Proceeds of Crime	404	736	(785)	355
Desk Top Replacement	1,143	0	(149)	994
	<b>24,509</b>	<b>11,109</b>	<b>(19,866)</b>	<b>15,752</b>

## 2. Other Reserves

	<b>Balance at 1 April 2008 (£'000)</b>	<b>Income (£'000)</b>	<b>Expenditure (£'000)</b>	<b>Balance at 31 March 2009 (£'000)</b>
PFI Residual Value	478	916	0	1,394
FRS 17 Pension Liability	(1,429,117)	0	(83,535)	(1,512,652)
Financial Investments Adjustment Account	(489)	931	(2,610)	(2,168)
	<b>(1,429,128)</b>	<b>1,847</b>	<b>(86,145)</b>	<b>(1,513,426)</b>

### **Budget Equalisation**

This reserve had been set up to provide for anticipated budget shortfalls over the next three years.

### **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. The Force has agreed to recommendations coming from a review of support services, which is expected to save in the region of £1.5m.

### **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 four-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.

### **Budget Roll-Forward**

The Force has transferred a proportion of the year's underspend to this reserve in order to fund projects that either straddle financial years or will not start until 2009/10 despite being approved in 2008/09.

### **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.

### **Financial Instruments Adjustment Account**

This provides a balancing mechanism between the historic value of a long-term loan held by Kent Police and its discounted current value. This links to the surplus arising on the available for sale financial assets in the Statement of Total Recognised Gains and Losses.

The impairment on Icelandic bank is also shown here in line with Local Authority Accounting Panel Bulletin 82 published in May 09.

### **3. General Revenue Reserve**

The General Revenue Reserve is set at a minimum of 2% of net revenue expenditure.

## 21. Reconciliation Of Surplus To Revenue Cash Flow

	2008-09 (£'000)	2007-08 (£'000)
<b>(Surplus)/Deficit</b>	124,310	127,471
<b>Non-cash transactions:</b>		
Depreciation and impairments	(13,843)	(11,190)
Government grants deferred amortisation	2,888	2,853
Net gain / loss on sale of Fixed Assets	317	(2,469)
net charges made for retirement benefits in accordance with FRS 17	(106,933)	(118,082)
net transfer to insurance provisions	(138)	222
Icelandic Bank Impairment	(2,318)	
<b>Items on an accruals basis</b>		
(increase)/decrease in revenue creditors	(2,366)	(2,606)
increase/(decrease) in stocks	(96)	(89)
increase (decrease) in debtors	6,778	(1,343)
<b>Items shown later in the cash flow statement: Add</b>		
Servicing of finance	2,668	3,755
<b>Net cash flow from revenue activities</b>	<b>11,267</b>	<b>(1,478)</b>

## 22. Analysis Of Cash Balances

	Balance 1 April 2008 (£'000)	Balance 31 March 2009 (£'000)	Movement In The Year (£'000)
<b>Decrease (Increase) in cash</b>	<b>573</b>	<b>174</b>	<b>399</b>

## 23. Financial Instrument

The term financial instrument refers to any contract that gives rise to a financial asset or liability within an authority. For Kent Police this includes loans (explained in note 11), temporary investments, trade debtors and creditors as well as the Insurance Provision and Finance Lease.

### Financial Instruments Balances

The borrowings and investments disclosed in the Balance Sheet are made up of the following categories of financial instruments.

At 31/03/08			At 31/03/09	
Long Term £'000	Current £'000		Long Term £'000	Current £'000
(2,577)	(25,706)	Financial liabilities at amortised cost	(2,638)	(27,606)
0	0	Financial liabilities at fair value through profit and loss	0	0
<b>(2,577)</b>	<b>(25,706)</b>	<b>Total Borrowings</b>	<b>(2,638)</b>	<b>(27,606)</b>
495	14,483	Loans and receivables	605	20,205
0	49,734	Available-for-sale financial assets	-	39,119
0	0	Unquoted equity investments at cost	-	-
<b>495</b>	<b>64,217</b>	<b>Total Investments</b>	<b>605</b>	<b>59,324</b>

### Financial Instruments Gains / Losses

The gains and losses recognised in the Income and Expenditure Account and STRGL in relation to financial instruments are made up as follows:

	Financial Liabilities	Financial Assets		Total
	Liabilities measured at amortised cost	Loans and receivables	Available-for-sale assets	
	£'000	£'000	£'000	£'000
Interest expense	(77)	0	0	(77)
Loss on derecognition	0	0	0	0
Impairment losses	0	0	0	0
<b>Interest payable and similar charges</b>	<b>(77)</b>	<b>0</b>	<b>0</b>	<b>(77)</b>
Interest income	0	3,170	0	3,170
Gains on derecognition	0	0	0	0
<b>Interest and investment income</b>	<b>0</b>	<b>3,170</b>	<b>0</b>	<b>3,170</b>
Gains on revaluation	0	197	0	197
Losses on revaluation	0	0	0	0
Amounts recycled to the I&E Account after impairment	0	0	0	0
<b>Surplus arising on revaluation of financial assets</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>0</b>
	0	0	0	0
<b>Net gain/(loss) for the year</b>	<b>(77)</b>	<b>3,367</b>	<b>0</b>	<b>3,290</b>

# 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.

## **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.

## **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.