

DERBYSHIRE POLICE AUTHORITY

STATEMENT OF ACCOUNTS

2006/07

**DERBYSHIRE POLICE AUTHORITY
STATEMENT OF ACCOUNTS
YEAR END 31/03/07**

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EXPLANATORY FOREWORD

Introduction

We have pleasure in presenting the Statement of Accounts for 2006/07 for the Derbyshire Police Authority. The intention of the Statement of Accounts is to give the reader an overall perspective of the finances of the Derbyshire Police Authority. The 2006 Statement of Recommended Practice (SORP) makes a number of changes to the requirements for the 2006/07 accounts. This has also meant that the 2005/06 accounts have been restated.

Background

The Police Authority incurs both revenue and capital expenditure.

Broadly the Income and Expenditure account relates to revenue expenditure and income in respect of items consumed in the year. By far the largest element of the Income and Expenditure account is the Chief Constable's operational budget, which relates to the cost of day to day activities of the Police Service in Derbyshire. The revenue expenditure is funded by Central Government Grants (Revenue Support Grant and Home Office Grant), and National Non Domestic Rates (NNDR i.e. Business Rates) which are distributed to Police Authorities through the Formula Grant Distribution system, plus Council Tax set by the Authority. This can be supplemented by utilising accumulated balances.

Capital Expenditure relates broadly to expenditure on assets, which have a life beyond one year, mainly building improvement works, IT and vehicles. The Home Office supports the Capital Programme of the Authority through a combination of grant and borrowing through Supported Capital Expenditure. The Authority can also use revenue and utilise income from the sale of assets to support capital expenditure subject to Government rules. Under the Prudential Code the Authority can also borrow beyond Supported Capital Expenditure to meet service delivery objectives as long as it is affordable, prudent and sustainable.

The 2006 SORP makes a number of changes to the requirements for the 2006/07 accounts. The required primary financial statements have changed. The changes aim to bring the accounts more into line with the format used in commercial and other sectors. The Consolidated Revenue Account is replaced by an Income and Expenditure Account and a Statement of Movement on the General Reserve Balance. The Statement on Total Movement in Reserves is replaced by a Statement of Total Recognised Gains and Losses (STRGL). The order of the statements and notes has been standardised. The SORP requires the core statements to be presented together followed by their supporting notes and supplementary statements.

To assist the reader an explanation of the various sections contained within the Statement of Accounts is set out below:

- Introduction by the Treasurer
 - This provides a brief background to the Authority's budget for 2006/07, the final outturn position and an assessment of the Authority's financial prospects.
- Statement of Accounting Policies
 - The Statement of Accounting Policies, which supports the accounts, identifies the accounting practices adopted in the preparation of the accounts. Other notes are provided to explain further the information given. Wherever possible the accounts and statements have been prepared in accordance with the Code of Practice on Local Authority Accounting for Great Britain published in 2006. Where full compliance has not been achieved this is referred to in the accompanying notes.

- Income and Expenditure Account
 - The purpose of this account is to give a summary of the resources generated and consumed by the Force and Authority in the year.
- Statement of the Movement on the General Reserve Balance
 - This shows the reconciliation of how the balance of resources generated/consumed in the year links in with statutory requirements for raising council tax, taking into account the use of reserves built up in the past and contributions to reserves earmarked for future expenditure.
- Capital Expenditure and Financing Statement
 - The Capital Expenditure and Financing Statement shows how capital expenditure links to the Prudential Code and the movement in the Capital Financing Requirement.
- Balance Sheet
 - This shows the Police Authority's financial position as at the 31st March 2007 and identifies the balances and reserves at the Authority's disposal at that date. It also summarises the fixed and net current assets employed in carrying out the Authority's functions and its long-term liabilities.
- Statement of Total Recognised Gains and Losses
 - This demonstrates how the movement in net worth in the Balance Sheet relates to the Income and Expenditure Accounts surplus/deficit and to other unrealised gains and losses.
- Cashflow Statement
 - This statement summarises the cash received and payments made by the Authority arising from transactions with third parties for revenue and capital purposes during 2006/07.
- Notes to Core Accounts
 - This section provides notes to the core accounts prescribed by the Code of Practice.
- Supplementary Account – Pension Fund Account
 - The funding arrangements for the police officers pension scheme changed on 1 April 2006. Each individual Police Authority is required by legislation to operate a Pension Fund and the amounts that must be paid into and paid out of the Pension Fund are specified by regulation. This account shows the transactions of the Pension Fund.
- Definition of Terms
 - Wherever possible the use of technical phraseology has been avoided. However, the Statement of Accounts does contain some local government terminology and a glossary is provided which aims to simplify and explain such terminology.

Other changes to the requirements of the Statement of Accounts include

- There is no longer a requirement to make a capital financing charge to services. Because this is a change in accounting policy, the prior year comparatives have been restated to remove the charge from the Income and Expenditure Account. As a result, there is no equivalent to the Asset Management Revenue Account (AMRA) which formerly existed in the Consolidated Revenue Account.

- The new Income and Expenditure format requires information to be disclosed which was not previously visible in the statement of accounts. Notably, the gain/loss on disposal of fixed assets is disclosed on the face of the Income and Expenditure Account.

TREASURER'S INTRODUCTION

Background

Revenue Budget 2006/07

The Police Authority set a budget for 2006/07 of £145.3million, an increase of 4.2% over 2005/06. Funding of £145.3million set out in the accounts, was the total of Police Specific Grant, National Non-Domestic Rates (NDR), Revenue Support Grant (RSG) and Council Tax.

The National Funding Formula was changed for 2006/07 which recognises that Derbyshire Police Authority needed further funding of £5.485m per annum, however this has not been implemented in full which means that the Authority will not benefit until at least 2008/09.

Despite a disappointing settlement the Authority maintained funding for 2,072 Police Officers and set aside £0.9m to assist with progressing workforce modernisation issues and increased resources to deal with major and cross border crime. The national settlement also included central grant to part fund an increase of Police Community Support Officers to 160 during the year to help deliver Neighbourhood Policing. In order to fund the spending pressures savings of £2.421m were identified including the phasing of Police Officer recruitment.

The consequential Council Tax for an average band D dwelling increased by 4.75% to £135.15, compared with £129.02 in 2005/06.

Revenue Expenditure 2006/07

The Income and Expenditure Account shows a deficit of £65.03m in 2006/07 compared to £45m in 2005/06. This mainly reflects the increase in the costs of the pension accounts future benefits. However, this account excludes any actuarial gains where the actuary considers that there may have been a reduction in the Authorities pension liabilities. These gains total some £104m. Gains and Losses are now brought together in a new Statement of Total Recognised Gains and Losses which show a net gain of £38.22m. The Income and Expenditure account is in a format to bring the accounts into line with commercial and other sectors. The Statement of Movement of the General Reserve Balance reconciles the Income and Expenditure Account to the Statutory Requirements for raising council tax. This shows contributions totalling £3.1m to a number of earmarked reserves (see reconciling note to Statement of Movement of the General Reserve Balance). The intended use of these Reserves is detailed within the accounts. The level of the Authority's General Reserve has been maintained at £3m in 2006/07.

The Income and Expenditure account for 2006/07 continues in its twin format. The 'subjective' format, which shows expenditure, split between Employees, Premises costs, Transport costs, and so on; and the 'objective' format for the police service which shows expenditure over 4 main categories: reducing crime, investigating crime, promoting public safety and assistance to the public.

The required breakdown of the Authority's expenditure is part of the government's Best Value Accounting Code of Practice (BVACOP) requirements for local government. The aim is for there to be the greatest possible consistency and comparability in financial information published by Police Authorities.

Capital Expenditure 2006/07

Capital expenditure in the year was £5.91million (£7.43million in 2005/06), financed by a mixture of capital grant, borrowing, contributions from revenue, reserves and capital receipts.

Capital expenditure can be analysed as follows:-

	£m
Electrical Rewire of BDHQ	0.36
Other Building works	0.93
Crime System	0.40
Office Automation	0.47
Altvave	0.56
Other IT and communications	0.58
Vehicles	1.53
Equipment	1.08
Total	5.91

Impact of FRS17

The Accounts for 2006/07 continues the full implementation of FRS17 on *Retirement Benefits*. The main effect of this is the recognition of the net liability and the inclusion of a pensions reserve in the balance sheet with associated entries in the Income and Expenditure Account for movements in the liability relating to the employee pension schemes in which the Authority participates (with reconciling entries in the Statement of Movement on the General Reserve back to the true cost of pensions for purposes of grant and local taxation).

FRS17 notes are also included on pages 33 to 37 of the accounts.

Annual Report

An annual report will be published separately.

Graham Hunt
Treasurer

Date June 2007

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

The Authority's Responsibilities

The Authority is required:

- to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of these affairs. In this Authority that officer is the Treasurer to the Derbyshire Police Authority;
- to manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets; and
- to approve the statement of accounts

The Treasurer's Responsibilities

The Treasurer is responsible for the preparation of the Authority's Statement of Accounts which, in terms of the CIPFA/LASACC Code of Practice on Local Authority Accounting in the United Kingdom ("the Code of Practice") requires him to present fairly the financial position of the Authority at 31 March 2007 and its income and expenditure for the year ended 31 March 2007.

In preparing this Statement of Accounts the Treasurer has:-

- selected suitable accounting policies and then applied them consistently;
- made judgements and estimates that are reasonable and prudent; and
- complied with the Code of Practice.

The Treasurer has also:-

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

TREASURER'S CERTIFICATE

I certify that the Statement of Accounts presents fairly the financial position of the Derbyshire Police Authority as at 31 March 2007, and that in all material respects police grant has been applied to the purposes intended by Parliament.

Graham Hunt
Graham Hunt
Treasurer

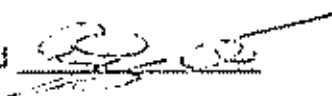
Date: 15th June 2007

STATEMENT OF ACCOUNTS 2006/07

CHAIRMAN'S APPROVAL

I certify that the Statement of Accounts 2006/07 have been approved by the Finance, Estates and Property Committee on the 26 June 2007 in accordance with section 3 of the Accounts and Audit Regulations 2003.

Signed



Dated 26.06.07

Glenys Goucher
Finance, Estates and Property Committee Chairman

STATEMENT ON INTERNAL CONTROL

1. Scope of Responsibility

The Police Authority and Chief Constable are responsible for ensuring that its 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. The Police Authority also has a duty under the Local Government Act 1999 to deliver services to clear standards, covering both cost and quality by the most effective, economic and efficient means available.

From 1 April 2005 there is a requirement to demonstrate a 3% efficiency improvement each year by, for example, introducing better procedures, working practices or more effective technology. At least 1.5% of this must be cashable. This is an increase from the 2% per annum target, which operated previously.

In discharging these responsibilities, the Police Authority is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the Police Authority's functions and which includes arrangements for the management of risk.

2. The Purpose of the System of Internal Control

The system of internal control is designed to manage risk in a balanced and effective manner, acknowledging that an element of risk is inevitable if policies, aims and objectives are to be achieved. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Police Authority's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised.

The next section outlines the internal control environment in which the Police Authority and Force operates and reviews the effectiveness of these controls. This system of internal control has been in place for the year ended 31 March 2007 and up to the date of approval of the annual statement of accounts.

3. The Internal Control Environment

The key elements of control are described below:

(a) The Police Authority sets out its objectives through a number of Plans, the most significant being the Annual Policing Plan, together with action plans arising from Best Value reviews and HMIC inspections and the plans for revenue and capital expenditure as set out in the annual precept report.

(b) Derbyshire Police Authority, in consultation with the Chief Officers of the Force, sets objectives for the year which meet the requirements of the National Policing Plan and take account of the views of the community. These objectives are used to direct resources and manage activity. Priorities for Derbyshire Police Authority for 2006/07 were: -

- To provide citizen focussed policing
- To improve the quality of investigations
- To manage resources effectively
- To redirect resources to frontline service delivery
- To reduce overall crime as measured by the British Crime Survey (BCS) by 15% by 2007/08 (based on 2002/03 results) and by more in high crime areas
- To bring more offences to justice
- To provide every area in England and Wales with a dedicated, visible, accessible and responsive neighbourhood policing team
- To tackle serious and organised crime including improved intelligence and information sharing between partners
- To protect the county from both terrorism and domestic extremism

The activities of the Force are further governed by the Vision, corporate values, principles and behaviours that have been agreed by Derbyshire Police Authority and the Force.

Derbyshire Police Authority produces an annual Policing Plan to establish the targets and aspirations of the Authority for the year ahead. At the end of the year an Achievement Plan is produced that measures the Authority's performance in these key areas.

The Police Authority receives regular reports by the Chief Constable, Clerk and Treasurer on the implementation of these objectives, financial management and emerging issues.

The Policing Plan is supplemented by a range of policies and processes to support the operation of the Authority, including Standing Orders relating to the business of the Authority and a Code of Conduct for Members.

- (c) The financial management of the Police Authority is overseen by the Finance, Estates and Property Committee. The financial management is integrated with and influenced by many of the above processes, and includes processes for forward planning of expenditure and resources; budget consultation, setting and monitoring; and completion of final accounts, all aimed to be accurate, informative and timely. The Police Authority also has in place financial regulations designed to support sound financial management policies and procedures, and adherence thereto, and also to reflect the Police Authority's current political and management structure and business activities.
- (d) The Best Value and Audit Committee scrutinises the financial performance of the Force and how effectively it delivers value for money. In order to ensure compliance with policies, procedures and statutory requirements, the Police Authority has a range of controls and processes in place, as set out below. These processes also assist the Authority to ensure the economical, effective and efficient use of resources, and to secure continuous improvement in exercising its functions, providing for an effective performance management and reporting process.

4. Review of Effectiveness of Internal Controls

Control	Review of Effectiveness
<p>Internal Audit provide independent and objective assurances across the whole range of the Authority's activities.</p>	<p>The External Auditor has confirmed that they are able to place reliance on the work of Internal Audit.</p> <p>The Annual Audit Plan was considered and agreed by the Best Value, Audit & Scrutiny Committee on 14 September 2006, following a joint planning exercise with Internal and External Audit, and input from the Head of Professional Standards and consultation with the Treasurer and Director of Finance and Administration.</p> <p>For 2006/07, based on the work it has undertaken, in the opinion of Derbyshire Audit Services, the overall adequacy and effectiveness of the internal control environment was "considered to be adequate to ensure satisfactory performance".</p>
<p>External Audit provide a further source of assurance by reviewing and reporting upon the Police Authority's internal control processes and matters relevant to their statutory functions and codes of practice.</p>	<p>The Authority has continued to maintain an efficient final accounts closedown process including the provision of good quality working papers to support the financial statements. The Statement of Accounts was presented and approved by the Authority in advance of the statutory deadline of 30 June. An unqualified opinion on the 2005/06 accounts was issued on 28 September 2006. Action has been taken during the year to address weaknesses in Contract Management in Estates.</p>
<p>HMIC Baseline Assessments</p>	<p>The HMIC assessed in the 2006 report that Derbyshire Constabulary is generally good or stable in the assessed categories. An Action Plan has been developed to track areas for improvement and work in progress identified within the Report.</p>
<p>Police Use of Resources (PURE)</p>	<p>The assessment for Internal Control under this new regime gave a score of 3, which indicates that the Authority are "performing well" in this area. The PURE assessment gave an overall score of 3, which confirms that financial management arrangements and associated systems are "performing well".</p>
<p>Risk Management arrangements are in place with the objective of ensuring that the risks facing the Authority in achieving its objectives are evaluated, regularly reviewed and mitigation strategies developed.</p>	<p>The Chief Officers of the Force, in consultation with members, have developed a strategic risk management strategy. The Strategic Risk Register was first considered by the Audit & Finance Committee on 12 July 2005. It was noted that the Register will be kept under review by the Strategic Risk Management Group, which meets three times a year and includes member representation. This is done in consultation with Divisional Commanders and Heads of Departments.</p> <p>As part of the budget setting process, an exercise was undertaken to assess the Force's Strategic Risk Register indicating how the budget proposals assisted in addressing the Top 11 Strategic Risks.</p> <p>In addition, for all major projects the PRINCE project management methodology is adopted. This includes the maintenance of a risk register for each project and at programme level.</p> <p>Insurance policies and funds are in place and are regularly reviewed to ensure the Police Authority is adequately safeguarded.</p>

Control	Review of Effectiveness
<p>Provision of effective, efficient and responsive system of financial management systems.</p>	<p>Financial monitoring reports are considered by the Finance, Estates and Property Committee and by the Force Management Group and Force Policy Group.</p> <p>Regular monitoring updates are supplied to devolved budget holders.</p> <p>The Force has strengthened the reassurance process by seeking positive responses on questions of internal control from all senior managers of the Force.</p> <p>Financial Regulations - were fully reviewed in 2004/05 and were approved by the Police Authority on 20 January 2005.</p> <p>The Constabulary holds the Chartermark Award.</p>
<p>Codes of practice are issued by external bodies in respect of the Authority's services and processes, with which the Authority is expected to comply.</p>	<p>The Authority has complied with the 2003 CIPFA Code relating to Capital Finance & Treasury Management. (Approved by the Police Authority on 13 February 2007).</p> <p>The role of Standards Committee is to promote and maintain standards of conduct by members and co-opted members.</p> <p>The Authority adopted the Code of Conduct for Members in 2002. The Standards Committee keeps it under review and is responsible for members' training on conduct issues. Two of the five members of the committee are independent members appointed for a four-year term. It is chaired by an independent member and an independent member would chair any investigation panel if a complaint of misconduct fails to be dealt with by the Authority. So far none have.</p> <p>Since 2002 the Government and the Standards Board for England have been working towards devolution of standards issue to Councils. Regulations now provide for local investigation and local determination of cases. The Local Government and Public Involvement in Health Bill would take this further with local referral of cases for investigation instead of referral by the Standards Board for England. The Standards Committee are preparing for this.</p>
<p>Performance monitoring processes are in place to measure progress against objectives and to provide for remedial action where appropriate.</p>	<p>Agreed performance targets are included within the annual Policing Plan and are monitored through the year by the Police Authority and the chief officers. These are agreed at a series of meetings between the Police Authority and Force Executive and in liaison with partners.</p> <p>The External Auditors commented in their Annual Audit Letter for 2005/06 that "the Authority has further developed its performance planning framework during the year".</p> <p>The Police Standards Unit judged that we are compliant in relation to the national crime recording standard.</p>
<p>Continued implementation of best value reviews and related improvement plans.</p>	<p>The Police Authority is no longer required to conduct Best Value Reviews, however, all ongoing reviews are being completed and implemented with progress being reported to the Best Value, Audit & Scrutiny Committee.</p> <p>The Force has introduced a system of focussed BCU inspections as a means of seeking continuous improvement.</p>

Control	Review of Effectiveness
	<p>The efficiency planning process is well embedded and the Force continues to exceed its efficiency savings target at the same time as improving its performance. The efficiency savings targets are 3% for 2006/07, including 1.5% cashable. Quarterly monitoring is provided to HMIC throughout the year.</p> <p>The Reform and Delivery project, chaired by the Chief Constable, continues to drive out further efficiency improvements and cashable savings for the future.</p> <p>The Force has been commissioned to undertake witness simulation work by the Office of Criminal Justice Reform. This will create an end-to-end model of criminal justice processes to identify efficiency, effectiveness and economy opportunities.</p>
<p>Delivery of services by trained, skilled and experienced personnel.</p>	<p>The Police Authority has demonstrated its commitment through IIP accreditation and the adoption of the PDR scheme, which identifies training needs.</p> <p>In October 2006 the HMIC graded Derbyshire as GOOD and STABLE in Resource Management.</p>

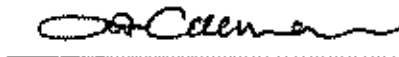
5. Significant Internal Control Issues

There are no significant internal control issues at present. However, it is recognised that developments and increases in partnership and regional collaboration working require careful control, so as to appropriately minimise risk.

The Financial Regulations were last comprehensively reviewed in 2004/05 and it is timely to review them during 2007/08.

In accordance with the Accounts and Audit (Amendment) (England) Regulations 2006 that a specific review be conducted of the effectiveness of its systems of internal audit during 2007/08.

Signed 
 Chairman of the Police Authority

Signed 
 Chief Constable



Independent auditors' report to Derbyshire Police Authority

Opinion on the financial statements

We have audited the financial statements and the police pension fund accounting statements of Derbyshire Police Authority for the year ended 31 March 2007 under the Audit Commission Act 1998. The financial statements comprise the Explanatory Foreword, Income and Expenditure Account, Balance Sheet, Statement of Total Recognised Gains and Losses, Cash Flow Statement and the related notes. The police pension fund accounting statements comprise the Fund Account 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 Derbyshire Police Authority, as a body, in accordance with Part II of the Audit Commission Act 1998. Our audit work has been undertaken so that we might state to Derbyshire Police Authority, as a body, those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Derbyshire Police, as a body, for our audit work, for this report, or for the opinions we have formed.

Respective responsibilities of the Treasurer and auditors

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

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

We report to you our opinion as to whether the financial statements and the police pension fund accounting statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2006:

- 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.

We review whether the Statement on Internal Control reflects compliance with CIPFA's guidance 'The Statement on Internal Control in Local Government: meeting the requirements of the Accounts and Audit Regulations 2003' issued in 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, nor have we considered, whether the Statement on Internal Control covers all risks and controls. We are also not required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

Basis of audit opinion

We conducted our audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and judgments 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 also evaluated the overall adequacy of the presentation of 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 the Authority as at 31 March 2007 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 2006, the financial transactions of the police pension fund during the year ended 31 March 2007 and the amount and disposition of the fund's assets and liabilities as at 31 March 2007, other than liabilities to pay pensions and other benefits after the end of the scheme year.

KPMG LLP

KPMG LLP
Chartered Accountants
Birmingham
27 September 2007



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 performance improvement observations 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, in all significant respects, Derbyshire Police Authority made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2007.

Best Value Performance Plan

We issued our statutory report on the audit of the Authority's Best Value Performance Plan for the financial year 2006/07 on 30 November 2006. We did not identify any matters to be reported to the Authority and did not make any performance improvement observations on procedures in relation to the Plan.

Certificate

The audit cannot be formally concluded and an audit certificate issued until we have completed our consideration of matters brought to our attention by local authority electors. We are satisfied that these matters do not have a material effect on the financial statements.

KPMG LLP

KPMG LLP
Chartered Accountants
Birmingham
27 September 2007

STATEMENT OF ACCOUNTING POLICIES

General Principles

The Police Authority's accounts have been prepared in accordance with the accounting principles contained within the Code of Practice on Local Authority Accounting in the United Kingdom 2006 issued by the Chartered Institute of Public Finance & Accountancy (CIPFA) and the Statement of Recommended Practice (SORP) on the application of Financial Reporting Standards (FRS's). Unless otherwise indicated the accounting practices adhere to the fundamental concepts contained in FRS18.

The 2006 SORP makes a number of changes to the requirements for the 2006/07 accounts. The changes in summary are

- The required primary financial statements have changed. The changes aim to bring the accounts more into line with the format used in commercial and other sectors. The Consolidated Revenue Account is replaced by an Income and Expenditure Account and a Statement of Movement on the General Reserve Balance. The Statement on Total Movement in Reserves is replaced by a Statement of Total Recognised Gains and Losses (STRGL). The order of the statements and notes has been standardised, the SORP requires the core statements to be presented together followed by their supporting notes and supplementary statements.
- There is no longer a requirement to make a capital financing charge to services. Because this is a change in accounting policy, the prior year comparatives have been restated to remove the notional interest charge from the Income and Expenditure Account. As a result, there is no equivalent to the Asset Management Revenue Account (AMRA) which formerly existed in the Consolidated Revenue Account. Amortisation of Government grants deferred were previously posted to AMRA these are now included within the gross operating expenditure.
- The new Income and Expenditure format requires information to be disclosed which was not previously visible in the statement of accounts. Notably, the gain/loss on disposal of fixed assets is disclosed on the face of the Income and Expenditure Account. For Derbyshire Police there were no material gains and losses on assets.

Debtors & Creditors

The accounts have been prepared on an accruals basis in accordance with the Code of Practice and FRS 18 and provisions for sums due to or owed by the Police Authority are included in the accounts where the cash had not actually been received or paid during the year. Income has only been included in the accounts when it can be realised with reasonable certainty.

Provisions

Provisions are required for liabilities that have been incurred, but are of uncertain timing or amount. There are three criteria:

- a) the authority has a present obligation (legal or constructive) as a result of a past event;
- b) it is more likely than not that money will be needed to settle the obligation; and
- c) a reliable estimate can be made of the amount of the obligation.

Details of provisions held at 31st March 2007 are shown in Note 28 to the accounts.

Reserves & Balances

In accordance with the Code of Practice the Police Authority's reserves are analysed between those reserves which are 'earmarked' for specific purposes and those reserves which are available to generally support the budget. The intended use of 'earmarked' reserves is shown in Note 33 to the accounts.

Certain reserves/accounts are kept to manage the accounting processes for tangible assets (Fixed Asset Restatement Account, Capital Financing Account) and retirement benefits (Pensions Reserve FRS17). These do not represent usable resources for the Authority.

Overheads and Support Services

The costs of overheads and support services are charged to those that benefit from the supply or service in accordance with the costing principles of the CIPFA Best Value Accounting Code of Practice 2006. The full cost of overheads and support services are shared between users in proportion to the benefits received, with the exception of:

- Corporate and Democratic Core – costs relating to the authority's status as a democratic organisation.
- Non Distributed Costs – the cost of discretionary benefits awarded to employees retiring early.

These two cost categories are accounted for as separate headings in the Income and Expenditure Account (Objective Analysis), as Net Cost of Services.

Government Grants & Contributions

Whether paid on account, by instalments or in arrears, Government Grants and third party contributions and donations are recognised as income at the date that the authority satisfies the conditions of entitlement to the grant/contribution and there is reasonable assurance that the monies will be received.

Revenue grants are credited to the Income and Expenditure Account in the same period as the expenditure to which they relate. Grants to cover general expenditure (eg Revenue Support Grant) are credited to the foot of the Income and Expenditure Account after Net Operating Expenditure.

Capital grants and contributions are also accounted for on an accruals basis. Where the acquisition of fixed assets is financed wholly or partly by a Government Grant or other contribution the amount of grant or contribution is credited initially to the Government grants deferred account and released to Income and Expenditure Account over the useful life of the asset to match the depreciation charge on the asset to which it relates.

In order to match the Authority's depreciation policy amortisation of grants commences in the financial year following that in which they are received.

Pensions

The Authority participates in 2 different pension schemes:

a) Police Officers

This scheme is unfunded. This means it provides pensions and other retirement benefits for employees based on final salaries but there are no investment assets built up to meet the pensions liabilities.

The funding arrangements for the police officers pension scheme changed on 1 April 2006. Before April 2006 each Police Authority was responsible for paying the pensions of its former employees on a pay as you go basis, from April 2006 there is a new employer's contribution instead (24.6% of pensionable salary) which is charged to the Income and Expenditure Account.

Each individual Police Authority is required by legislation to operate a Pension Fund Account and the amounts that must be paid into and paid out of the Pension Fund are specified by regulation. This account is shown on page 47. Officer's contributions and the new employer's contribution will be paid into the pensions account from which pension payments will be made. This will be topped up as necessary by the Home Office if the contributions are insufficient to meet the cost of pensions payments. Any surplus will be recouped by the Home Office. Injury awards and ill health retirements will continue to be paid from the Authority's Income and Expenditure Account.

b) Other Employees

Other employees, subject to certain qualifying criteria, are eligible to join the Local Government Pension Scheme administered by Derbyshire County Council. It is a funded scheme. Pensions and other retirement benefits, based on final salaries, are paid from the fund. Employers and employees make regular contributions into the fund so that the liabilities are paid for evenly over the employment period. Actuarial valuations of the fund are undertaken every three years to determine the contributions rates needed to meet its liabilities.

The Accounts show the full implementation of FRS17 on *Retirement Benefits*. The main effect of this is the recognition of the net liability and a pensions reserve in the balance sheet and entries in the Income and Expenditure Account for movements in the liability relating to the employee pension schemes in which the Authority participates (with reconciling entries in the Statement of Movement on the General Reserve Balance back to the true cost of pensions for the purposes of grant and local taxation).

The Discount Rate for Defined Benefit Pension Scheme Liabilities is based on the 'current rate of return on a high quality corporate bond of equivalent currency and term to the scheme liabilities', which is often referred to as AA Corporate Bond Rate.

Notes on Pensions are included on pages 33 to 37 of the accounts.

Value Added Tax (VAT)

Income and expenditure excludes any amounts related to VAT, as all VAT collected is payable to HM Revenue and Customs and all VAT paid is recoverable from them.

Fixed Assets - Intangible

Expenditure on assets that do not have physical substance but are identifiable and controlled by the Authority (eg software licences), are capitalised when it will bring benefits to the Authority for more than one financial year. The balance is amortised to the revenue account over the economic life of the investment to reflect the pattern of consumption of benefits. Amortisation, as with depreciation, commences in the financial year following that in which they are received. Intangible assets are capitalised at cost.

Fixed Assets - Tangible

Expenditure on the acquisition, creation or enhancement of tangible fixed assets is capitalised on an accruals basis, provided that it yields benefits to the Authority and the services it provides are for more than one financial year.

Land, operational properties and other operational assets are included in the balance sheet at the lower of net current replacement cost and net realisable value. Operational assets can either be specialised or non specialised. Non specialised assets are valued at Existing Use Value. Specialised Assets, where there is no particular market or demand for their specific use, are valued at Depreciated Replacement Cost (DRC).

Non operational assets and assets surplus to requirements are included in the balance sheet at net realisable value. These assets are valued at Market Value. Police Houses which are used for residential purposes and are not being used in pursuit of the strategy or service objectives of the Authority have been classed as non operational. Surplus properties are those assets held for disposal.

No allowance in the valuation is made for any costs of sale or any liability for taxation, including VAT, which may arise upon a disposal.

Vehicles, IT and Communications equipment and other equipment have been valued at historic cost net of depreciation or net current replacement cost.

Furniture is included in the accounts at 5% of the operational buildings value.

Capital Receipts

Capital receipts from the disposal of assets are treated in accordance with the provisions of the Local Authorities (Capital Finance and Accounting) Regulations 2003. Amounts in excess of £10,000 received from disposals are credited to the Usable Capital Receipts reserve, which can be used to finance new capital investment or set aside to reduce the Authority's borrowing.

When an asset is disposed of or decommissioned, the value of the asset in the balance sheet is written off to the Fixed Asset Restatement Account.

Depreciation

The Depreciation policy of the Authority is such that a charge is made for all fixed assets which have a finite useful life. Depreciation is calculated on a straight line basis as follows:-

Land	Nil
Vehicles	Over the life of the asset (3-10 years)
IT/Communications Equipment	Over the life of the asset (2-10 years). Majority of assets are 5 or 7 years
Operational Buildings	Over the life of the asset (10-50 years). Majority of assets are 40 years.
Non Operational Buildings	Nil
Surplus properties	Nil

It is the Authority's policy not to charge depreciation in the year of acquisition but a full year's charge is made in the year of disposal.

Capital Charges

There is no longer a requirement to make a capital financing charge to services. Depreciation continues to be charged to the income and expenditure account but there is no longer a notional interest charge. Because this is a change in accounting policy, the prior year comparatives have been restated to remove the interest from the Income and Expenditure Account.

Depreciation is reversed out through the Statement of Movement on the General Reserve Balance.

Asset Management Revenue Account (AMRA)

Under the 2006 SORP there is no longer a requirement for an Asset Management Revenue Account, these entries are now posted to the Income and Expenditure Account and the Statement of Movement on the General Reserve Balance.

Redemption of Long Term Borrowing

In accordance with the requirements of Local Authorities (Capital Finance and Accounting) Regulations 2003 the Authority is required to set aside a Minimum Revenue Provision (MRP) for the repayment of debt equal to 4% of the Capital Financing Requirement at the beginning of the year. This is charged to the Statement of Movement on the General Reserve Balance.

Installments of principal repayments are charged through the statutory MRP of 4%. The Authority also makes additional voluntary repayments.

Leasing Charges

The Authority holds various assets under operating leases/ hire purchase agreements. The annual rentals are charged to revenue. The value of assets and related liability for future rental are not shown in the Balance sheet.

Temporary Investments

The Police Authority invests its surplus cash in temporary investments and short term deposits with a range of banks and financial institutions. This is in line with the annual Treasury Management Strategy which sets out those institutions which are approved for investing temporary cash surpluses and applies a ceiling for individual investments. The investments are recorded in the accounts at cost.

Interest on Balances

During the year surplus cash was invested externally and the interest earned credited to the Income and Expenditure account.

Stocks & Stores

A central store for uniform and stationery and printing materials exists at Police HQ. Values included in the accounts in respect of the items held at the financial year end are shown in the accounts at the lower of cost or net realisable value.

Comparison with Previous Years

The 2006/07 Statement of Accounts reflects the financial position of Derbyshire Police Authority. To assist the reader the financial statements provide a comparison with the 2005/06 accounts.

Private Finance Initiative (PFI)

The Authority has entered into two PFI arrangements, Ilkeston Police Station and D Divisional HQ at Derby. The first affected the accounts from 1998/99, the second from 2000/01. Both have a continuing commitment by the Authority for 30 years. On the basis of the advice from the Accounting Standards board (ASB) and Treasury Taskforce Guidance there is no direct impact on the balance sheet of the Authority. The revenue commitment is given in a note to the Accounts.

North Midland Helicopter Support Unit (NMHSU)

The NMHSU is based at Derbyshire's Police Headquarters. The accounts for the NMHSU are included as part of Derbyshire's accounts. The unit is a consortium funded on a 50:50 split basis by Derbyshire & Nottinghamshire forces. This split is based on a set number of flying hours by each force. If a force exceeds this set number of hours a charge is made for excess hours. Reimbursement from the Nottinghamshire Force is made quarterly in arrears.

As the NMHSU is a joint venture with Nottinghamshire Police, the helicopter and hangar assets have been included in the balance sheet (fixed assets) as 50% owned by Derbyshire Police.

East Midlands Special Operations Unit (EMSOU)

Derbyshire is part of a joint venture with the East Midland forces for special operations. EMSOU was formed on the 1 January 2003 and is responsible for undertaking special operations across Leicestershire, Nottinghamshire, Derbyshire, Lincolnshire and Northamptonshire. Leicestershire acts as lead Authority. Derbyshire make an annual contribution to the unit which is included in the Income and Expenditure Account. The contribution in 2006/07 was £263,780. A share of the assets of EMSOU have been included in the balance sheet from 2006/07, this share is 22% based on the current resourcing model for the unit.

Derbyshire Police Authority
Income & Expenditure Account for Year Ended 31 March 2007
Subjective Analysis

Restated Actual Expenditure 2005/06 £'000		Actual Expenditure 2006/07 £'000
	Gross Expenditure	
78,997	Police Pay & Allowances	76,135
30,570	Police Staff Pay & Allowances	(Note 15) 34,894
449	Other Pay and Allowances	387
662	Other Employee expenses	911
25,250	Police Pensions (Current Cost) plus injury costs	(Note 15) 35,314
7,054	Premises	7,395
3,992	Transport	3,037
12,337	Supplies & Services	13,782
2,740	Agency & Contracted Services	2,435
0	Central, Departmental & Technical Support	0
3,204	Depreciation & Debt Financing	3,571
(1,920)	Govt Grants Deferred Amortisation	(1,056)
(1,890)	Non Distributed Costs	(Note 15) 230
<u>102,589</u>	Gross Operating Expenditure	<u>177,645</u>
(19,424)	Income from fees & charges	(Note 10) (20,524)
143,145	Net Cost of Services	157,121
0	Contribution to pension fund account in respect of deficit on the account	5,930
0	Loss on the disposal of fixed assets	0
	Levies to national police services	
300	- Police National Computer	321
63	Seconded Officers - net cost	121
0	(Surpluses)/deficits on trading undertakings not included in Net Cost of Services	0
622	Interest payable and similar charges	545
(1,810)	Interest & Investment income	(Note 3) (2,269)
48,652	Pension interest cost and expected return on pensions assets	(Note 15) 54,517
<u>190,872</u>	Net Operating Expenditure	<u>218,287</u>
0	Non Specific Government Grant (pensions top up grant)	(5,930)
(25,905)	Revenue Support Grant	(6,693)
(63,188)	Police Grant	(60,658)
(5)	Other Grants	(7)
(15,860)	Non domestic rate income	(34,072)
(40,933)	Precepts	(43,306)
(145,889)		(151,261)
44,983	(SURPLUS) / DEFICIT FOR THE YEAR	65,026

2005/06 £	Statement of Movement on the General Reserve Balance	2006/07 £
<u>34,983</u>	(Surplus)/Deficit for the year on the Income & Expenditure Account	<u>65,026</u>
(44,983)	Net additional amount required by statute and non-statutory proper practices to be debited or credited to the General Reserve Balance for the year	(Note 1) (65,026)
0	Decrease/increase in General Reserve Balance for the Year	0
3,000	General Reserve Balance brought forward	<u>3,000</u>
<u>3,000</u>	General Reserve Balance carried forward	<u>3,000</u>

Derbyshire Police Authority
Income & Expenditure Account for Year Ended 31 March 2007
Objective Analysis

Restated Actual Expenditure 2005/06 £'000		Actual Expenditure 2006/07 £'000
	Gross Expenditure	
9,523	Reducing Crime	5,548
75,592	Investigating Crime	80,179
85,115	Total Crime	85,727
40,644	Promoting Public Safety	46,413
18,416	Providing Assistance	23,715
50,059	Total Policing in the Community	70,128
807	Corporate and Democratic Core	1,036
(1,896)	Non Distributed Costs (Note 15)	230
<hr/>		<hr/>
143,145	Net Cost of Services	157,121
0	Contribution to pension fund account in respect of deficit on the account	5,930
0	Loss on the disposal of fixed assets	0
	Levies to national police services	
300	- Police National Computer	321
63	Seconded Officers - net cost	121
0	(Surpluses/deficits on trading undertakings not included in Net Cost of Services)	0
522	Interest payable and similar charges	545
(1,810)	Interest & Investment income (Note 3)	(2,269)
48,662	Pension interest cost and expected return on pensions assets (Note 15)	54,517
<hr/>		<hr/>
190,872	Net Operating Expenditure	216,287
0	Non Specific Government Grant (pensions top up grant)	(5,930)
(25,005)	Revenue Support Grant	(6,693)
(63,166)	Police Grant	(60,656)
(5)	Other Grants	(2)
(15,860)	Non domestic rate income	(34,672)
(40,933)	Precepts	(43,306)
<hr/>		<hr/>
(145,889)		(151,201)
<hr/>		<hr/>
44,993	(SURPLUS) / DEFICIT FOR THE YEAR	65,028

Capital Expenditure and Financing Statement

	2006/07 £'000
Opening Capital Financing Requirement	10,138
<i>Capital Investment</i>	
Operational assets	5,242
Non-operational assets	14
Intangible assets	658
Total Capital Investment	5,914
<i>Sources of finance</i>	
Capital receipts	(1,885)
Government Grants and Contributions	(909)
Revenue Provision (NB: includes MRP)	(2,700)
Closing Capital Financing Requirement	10,558
Explanation of movements in the year	
Increase in underlying need to borrow (supported by Government financial assistance)	420
Increase in underlying need to borrow (unsupported by Government financial assistance)	-
Increase/(decrease) in Capital Financing Requirement	420

**Derbyshire Police Authority
Balance Sheet**

As at 31/03/06		Notes	As at 31/03/07
£'000			£'000
	Fixed Assets		
587	Intangible Fixed Assets	(18)	1,078
38,344	Tangible Fixed Assets	(19) - (20)	37,329
38,931	Total Fixed Assets		38,407
<u>36</u>	Long Term Debtors	(23)	<u>22</u>
38,967	TOTAL LONG TERM ASSETS		38,429
	Current Assets		
30,093	Temporary Investments	(24)	36,631
512	Cash		407
363	Stocks & Stores		331
<u>6,103</u>	Debtors <i>(includes payments in advance)</i>	(25)	<u>19,337</u>
43,671			47,766
	Current Liabilities		
(455)	Short Term Borrowing (PWLB under 1 year)	(26)	(404)
(8,188)	Creditors <i>(includes receipts in advance)</i>		(9,501)
(661)	Other liabilities		(707)
<u>(2,518)</u>	Cash Overdrawn		<u>(2,189)</u>
(11,822)			(12,891)
31,849	NET CURRENT ASSETS		34,875
<u>0</u>	NET CURRENT ASSETS (EMSOU)	(19) - (20)	<u>78</u>
70,816	TOTAL ASSETS		73,382
	Long Term Liabilities		
(8,518)	Long Term Borrowing	(26)	(8,850)
(1,165)	Deferred Liabilities	(27)	(1,094)
(1,165)	Insurance Provisions	(28)	(018)
(4,475)	Government Grants - Deferred Account	(32)	(4,030)
0	Government Grants - Deferred Account (EMSOU)	(19) - (20)	(211)
(4,770)	Govt. Grants Unapplied		(6,284)
<u>(1,150,234)</u>	Pensions Liability (FRS17)	(16)	<u>(1,110,180)</u>
(1,170,327)			(1,140,673)
<u>(1,105,511)</u>	TOTAL ASSETS LESS LIABILITIES		<u>(1,067,291)</u>
	Financed By:		
0	Reserves (EMSOU)	(19) - (20)	146
210	Fixed Asset Restatement Account	(29)	(2,533)
24,108	Capital Financing Account	(30)	20,073
0	Useable Capital Receipts Reserve	(31)	0
3,000	General Reserves / Balances	(35)	3,000
23,405	Earmarked Reserves	(33, 35, 36)	25,209
<u>(1,150,234)</u>	Pensions Reserve (FRS17)	(10)	<u>(1,119,180)</u>
<u>(1,105,511)</u>	TOTAL NET WORTH		<u>(1,067,291)</u>

Statement of Total Recognised Gains and Losses

	2006/07 £'000
(Surplus)/Deficit for year on Income and Expenditure Account	65,026
Loss arising on revaluation of Fixed Assets	729
Actuarial (Gains)/Losses on pension fund assets/liabilities	(103,925)
Any other Gains and Losses	(50)
Total Recognised (Gains)/Losses for the year	(38,220)

Cash Flow Statement

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

2005-06 £'000s	Revenue Activities		2006-07 £'000s
	<i>Expenditure</i>	<i>Notes</i>	
133,592	Cash paid to & on behalf of Employees		139,219
<u>27,222</u>	Other Operating costs		<u>28,217</u>
160,814			167,436
	<i>Income</i>		
(40,933)	Council Tax Income		(41,306)
(15,860)	Non Domestic rate Income		(34,672)
(25,005)	Revenue Support Grant		(8,093)
(79,045)	Police and Other Govt Grants		(76,912)
(3,057)	Cash rec'd for Goods & Services		(3,000)
<u>(1,846)</u>	Other revenue cash payments/income		<u>(1,815)</u>
(168,676)			(167,284)
(5,862)	Revenue Activities Net Cash Flow	(37)	152
	Returns on Investments and Servicing of Finance		
	<i>Expenditure</i>		
522	Interest Paid		536
	<i>Income</i>		
(1,817)	Interest Received		(2,220)
	Capital Activities		
	<i>Expenditure</i>		
7,045	Purchase of fixed assets		6,304
	<i>Income</i>		
(1,050)	Sale of fixed assets		(1,903)
(2,882)	Capital Grants received		(2,648)
0	Other Capital Cash Income / Payments		<u>0</u>
<u>(3,940)</u>			<u>(4,551)</u>
<u>(4,057)</u>	Net cash (inflow)/ outflow before financing		<u>212</u>
	Management of Liquid Resources		
5,490	Net increase/decrease in short term deposits		(62)
	Financing		
	<i>Expenditure</i>		
407	Repayment of Loans		555
	<i>Income</i>		
(975)	New loans raised		(975)
(10)	Loans repaid - long term debtors		(14)
<u>951</u>	(Increase) / Decrease in cash	(42)	<u>(284)</u>

Notes to the Accounts

Note 1 Note of Reconciling Items for the Statement of Movement on General Reserve Balance

The Statement below reconciles items for the Statement of Movement on the General Reserve Balance.

2005/06 £000		2006/07 £000
	Amounts included in the Income & Expenditure Account but required by statute to be excluded when determining the Movement on the General Reserve Balance for the year	
	- Amortisation of intangible fixed assets	(167)
(3,403)	- Depreciation and impairment of fixed assets	(3,510)
1,926	- Government Grants Deferred Amortisation	1,056
	- Write down of deferred charges financed from capital	-
	- Net loss on sale of fixed assets	-
<u>(75,812)</u>	- Net charges made for retirement benefits in accordance with FRS17	<u>(83,064)</u>
(77,289)		(95,685)
	Amounts not included in the Income & Expenditure Account but required to be included by statute when determining the Movement on the General Reserve Balance for the year	
386	- Minimum Revenue Provision for capital financing	406
743	- Capital expenditure charged in year	863
<u>25,657</u>	- Employer's contributions payable to the pensions account and retirement benefits payable direct to pensioners	<u>26,187</u>
26,780		27,456
	Transfers to or from the General Reserve Balance that are required to be taken into account when determining the Movement on the General Reserve Balance for the year	
111	- Voluntary Revenue Provision for capital financing	150
<u>5,400</u>	- Net transfer to or from earmarked reserves	<u>3,053</u>
<u>5,520</u>		<u>3,203</u>
<u>(44,983)</u>	- Net additional amount required to be credited to the General Reserve balance for the year	<u>(65,028)</u>

Note 2 Minimum Revenue Provision

The Local Authorities (Capital Finance and Accounting) Regulations 2003 requires the Authority to set aside an amount from revenue each year to provide for the repayment of external loans. This amount is the Minimum Revenue Provision (MRP). This is calculated by applying specific percentage rates (currently 4%) to the authority's Capital Financing Requirement at the beginning of the year. In 2006/07 the MRP is £405,531 (£386,404 in 2005/06).

The Code of Practice 2006 imposes a disclosure requirement different from previous years. Formerly, the provision for depreciation was netted off the MRP, with the difference being a charge or credit to the Consolidated Revenue Account. MRP is now required to be disclosed separately in the note of reconciling items for the Statement of Movement on the General Reserve Balance (see note 1).

Note 3 Interest on Temporary Investments

Net interest on investments of £2,268,413 was received during 2006/07 (£1,810,394 in 2005/06).

Note 4 Members' Allowances

The total of members' allowances paid in 2006/07 was £219,396 (£204,866 in 2005/06). A list of individual payments is available for public inspection.

Note 5 Publicity

Set out below, under the requirements of Section 5(1) of the Local Government Act 1986, is the Authority's expenditure on publicity.

	2005/06 Actual Expenditure £	2006/07 Actual Expenditure £
Recruitment Advertising	46,014	108,378
Other advertising	21,615	72,664
TOTAL	67,629	181,042

Note 6 Local Authority Goods & Services Act 1970

Under the Local Authority Goods & Services Act 1970 the Authority received £91,310 income in relation to the provision of training to other public bodies. (£8,474 in 2005/06)

Note 7 Finance and Operating Leases

Equipment

The SORP requires that where hire purchase contracts bear the characteristics of an operating lease they should be accounted for in the same way as operating leases and disclosed in the Accounts. The Authority has a contract for Hired Photocopiers which was effective from December 2004 for five years. In 2006/07 £51,774 was spent on rental payments. The Authority also makes rental payments for Livescan units (an electronic system for taking fingerprints), this was originally piloted at Ripley custody unit but has now been rolled out across the Force under a five year contract. In 2006/07 £47,800 was spent on rental payments.

Land and Buildings

The Authority leases a number of buildings, which have been accounted for as an operating lease. In 2006/07, £287,915 was paid for lease of land and buildings. The majority of these leases are less than £10,000 per annum. Leases greater than £10,000 are:-

Ashbourne Police Station	20 years effective from April 1991	£20,000 pa
St Katherine's House, Derby	10 years effective from May 2004	£29,570 pa
Cardinal Square, Derby	15 years effective from November 2005	£124,000 pa
Merodith House, Ripley	10 years effective from November 2004	£54,000 pa

Authority as Lessor

The Authority acts as lesser for a number of Police Houses/offices, rent received for these in 2006/07 was £3,425. The gross value of the police house assets is £239,000, the assets are non operational so are not depreciated.

A further £395 was received for the rental of a car park, £25,000 for St.Katherines House and £149,198 was received for mast rental.

Note 8 PFI Commitments

The Authority has signed two Private Finance Initiative (PFI) project agreements:-

On 23 December 1997 an agreement for the provision of a new serviced police station at Ilkeston was signed. The estimated capital value of this scheme was £3million. The arrangement is for 30 years starting October 1998 until September 2028. The building was occupied from October 1998 when payments commenced. The amount paid in 2006/07 was £421,125 (£412,362 in 2005/06). Future payments will be linked to the movement in inflation.

The future payments required under the Ilkeston PFI agreement (excluding inflation) are:

2007/08	£ 424,914
2008/2009 to 2012/2013	£2,124,570
2013/2014 to 2017/2018	£2,124,570
2018/2019 to 2022/2023	£2,124,570
2023/2024 to 2027/2028	£2,124,570
April to September 2028	£ 212,457

The Authority receives Special Grant towards the financing of the Ilkeston PFI scheme. Grant of £348,190 was received in 2006/07. The difference in grants received and actual payments plus current value of savings on the original station (£50,200) plus a contribution of £600 plus interest in the year has been transferred to the Ilkeston PFI Reserve. This reserve is to fund future PFI payments and enables the net costs to be spread evenly over the contract period.

On 26 February 1999 an agreement for the provision of a new fully serviced Divisional Headquarters and City Section Station at Derby was signed. The estimated capital value of this scheme was £16.4million. The arrangement is for 30 years starting 18 December 2000 until 17 December 2030. The building was occupied from 18 December 2000 when payments commenced. The amount paid in 2006/07 was £3,050,388 (£2,988,268 in 2005/06). Future payments will be linked to the movement in inflation and elements of the fee will be benchmarked every five years.

The future payments required under the Derby PFI agreement (excluding inflation) are:

2007/2008	£ 3,140,069
2008/2009 to 2012/2013	£15,700,343
2013/2014 to 2017/2018	£15,700,343
2018/2019 to 2022/2023	£15,700,343
2023/2024 to 2027/2028	£15,700,343
2028/2029 to December 2030	£ 8,517,430

The Authority receives Special Grant towards the financing of the Derby PFI scheme. Grant of £2,386,585 was received in 2006/07. The difference in grants received and actual payments plus current value of savings on the original Full Street headquarters (£197,700), plus a contribution of £441,000 plus interest has been transferred to the Derby PFI Reserve. This reserve is to fund future PFI payments and enables the net costs to be spread evenly over the contract period.

For both schemes, the method of payment for grant changed in 2005/06 to an annuity basis (the same amount of grant will be received each year in future). This change meant less grant will be received in the first few years but more grant overall will be received. This has subsequently led to a lower contribution required from the Police Authority over the remaining life of the schemes. In 2006/07 the contribution on the Derby PFI increased due to higher energy prices.

Note 9 Officers Emoluments

A requirement of the 2003 Accounts and Audit Regulations is that the number of employees whose remuneration, excluding pension contributions, was £50,000 or more in bands of £10,000 is disclosed. These are as follows:

Remuneration Band	No. Of Employees 2005/06	No. Of Employees 2006/07
£50,000 - £59,999	30	44
£60,000 - £69,999	16	7
£70,000 - £79,999	3	10
£80,000 - £89,999	0	2
£90,000 - £99,999	3	0
£100,000-£109,999	0	2
£110,000-£119,999	1	0
£120,000-£129,999	0	0
£130,000-£139,999	0	1
TOTAL	53	66

Note 10 Special and Specific Grants

Income from fees and charges in 2006/07 included Special and Specific Grants from central government totalling £15.3m. These were as follows:-

GRANTS	2005/06 £	2006/07 £
ODPM Grants		
Private Finance Initiative - Ilkeston	348,190	348,190
Private Finance Initiative - Derby	2,386,585	2,386,585
	2,734,775	2,734,775
Home Office Grants		
Crime Fighting Fund - Additional Officers	4,544,440	4,544,440
Rural Policing *	409,869	409,869
National Airwaves Project	357,000	-
Police National Case Preparation/Custody System/Corporate Database/IMPACT DNA Expansion *	766,511	796,582
Safety Camera Project	1,233,849	1,227,318
Police Standards Unit Grant	133,406	61,606
Grant towards specific operations	78,313	78,803
Financial Investigator post	32,480	14,268
Occupational Health	87,070	18,420
Network Investigator	53,267	25,933
Grant towards GB Summit	560,500	-
Football Policing Initiative	85,650	54,008
NIM analyst funding	61,287	-
BCU Funding	770,739	762,154
Special Priority Payment Grant *	920,975	1,469,415
Neighbourhood Policing Grant	1,022,600	1,966,664
Specials Co-ordinator	85,119	68,530
Financial Investigation Doctrine Pilot	-	87,549
Initial Police Learning & Development Programme Grant	-	252,000
Security Grant	-	128,228
East Midlands Development Agency - Business Crime Reduction	-	43,303
Amending Report Grant	-	292,132
Other Home Office Grants	10,636	6,396
	11,482,931	12,335,503
GOEM Grants		
Crime Reduction/Partnership Development	12,568	25,850
Criminal Justice Grants		
Criminal Justice Board & No Witness No Justice	103,286	203,507
TOTAL	14,423,558	15,299,735

*From 2006/07 Rural Policing, DNA Expansion and Special Priority Payment Grant have been put together under one grant (Additional Role Grant) to give police authorities more control over how they may be used. For ease of comparison these have been split in the above table.

Note 11 Gifts and Sponsorship

The Police & Magistrates Court Act 1994 permits the Police Authority to accept gifts of money, and gifts or loans of other property. This can supplement Policing Activities. In accordance with the Financial Management Code of Practice a Register of such items is maintained. In 2006/07 the amount 'gifted' to the Force under this scheme was £942 compared to £13,402 for 2005/06.

Note 12 Air Support Unit

The North Midlands Helicopter Support Unit (NMHSU) is based at Derbyshire's Police Headquarters. The unit is a consortium funded on a 50:50 split basis by Derbyshire & Nottinghamshire forces. This is based on a set number of flying hours by each Force. In 2005/06 and 2006/07 the Nottinghamshire force exceeded this set number of hours and under NMHSU policy were required to pay more. This is reflected in the accounts. The Derbyshire contribution for 2006/07 amounted to £479,240.

North Midlands Helicopter Support Unit Statement of Accounts			
£			£
2005/06	Expenditure		2006/07
9,352	Employee Related Expenditure		13,932
17,959	Premises		18,790
481,157	Transport Related Expenses		554,133
275,005	Supplies & Services		300,437
143,735	Capital Financing Costs		137,331
<u>927,208</u>			<u>1,024,623</u>
	Less Income		
-	Sponsorship		-
22,352	Other		40,393
<u>22,352</u>			<u>40,393</u>
904,856	Not Expenditure		984,230
	Funded By:		
422,434	Derbyshire Constabulary		479,240
482,422	Nottinghamshire Constabulary		504,990
<u>904,856</u>			<u>984,230</u>

Note 13 Related Party Transactions

Chief Officers and Members have no related party transactions.

Amounts received from Central and Local Government are treated as related party transactions. Details of the sums received can be found in Note 10 to the Accounts.

Transactions with Derbyshire County Council are treated as related party transactions. In 2006/07 £1.89m (£1.68m in 2005/06) was spent on services provided by Derbyshire County Council. The main contracts in 2006/07 being the vehicle maintenance contract, financial and legal contracts, and advertising and publicity.

In 2006/07 income of £84,450 (£95,003 in 2005/06) was received from Derbyshire County Council. The majority of the income in both years was for a contribution towards the employment cost of Partnership Analysts.

Note 14 External Audit Fees

External Audit is carried out by KPMG LLP under the Audit Commission's Code of Audit Practice in accordance with section 5 of the Audit Commission Act 1998.

The Audit Fee for 2006/07 was £102,158 (£84,575 in 2005/06). Detailed below:-

	2005/06	2006/07
	£	£
Use of Resources	22,000	24,000
Accounts audit	47,000	47,000
	69,000	71,000
Grant Claims & returns (estimate)	3,000	4,000
Other audit work	12,575	27,158
TOTAL	<u>84,575</u>	<u>102,158</u>

The fees for other audit work payable in 2006/07 related to reviews of Community Security Policy and of procedures in the Estates Section.

Note 15 Accounting for Pension Costs

As part of the terms and conditions of employment of its officers and other employees, the Authority offers retirement benefits. Although these benefits will not actually be payable until employees retire, the Authority has a commitment to make payments which 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 (LGPS)** for the Authority's police staff is a defined benefit scheme. It is a funded scheme which is administered by Derbyshire County Council. Pensions and other retirement benefits, based on final salaries, are paid from the fund. Employers and employees make regular contributions into the fund so that the liabilities are paid for evenly over the employment period. Actuarial valuations of the fund are undertaken every three years to determine the contributions rates needed to meet its liabilities. The 2006/07 employer contribution of £4.148m representing 16.1% of gross pay was based on a valuation undertaken at 1 April 2004. This is in line with pension costs necessary to be provided in accordance with FRS17 "Retirement Benefits".

In addition to contributions to the Pension fund the Police Authority is responsible for compensation payments in the form of "added years" awarded on premature retirement. In 2006/07 these amounted to £0.028m.

Further information can be found in the County Council's Pension Fund Statement of Accounts, which is available upon request from Derbyshire County Council.

- the **Police Pension Scheme** for uniformed police officers is an unfunded single employer defined benefit scheme. This means it provides pensions and other retirement benefits for employees based on final salaries but there are no investment assets built up to meet the pensions liabilities.

From April 2006 the method of financing Police Officers pensions changed. A new Pensions Account was set up from April 2006. Officer's contributions and a new employer's contribution are paid into the pensions account from which pension payments are made. This will be topped up as necessary by the Home Office if the contributions are insufficient to meet the cost of pensions payments. Any surplus will be recouped by the Home Office. In 2006/07 a Top up grant of £5,030,095 was received from the Home Office. In 2006/07, employers' contributions amounted to £15,828,665, representing 24.6% of pensionable salary. The contribution rate will be kept under review by the Home Office, and may be adjusted depending on the "top-up grant" experience. In addition, a payment into the Pensions Fund Account to reimburse the costs of benefits becoming payable early due to ill-health retirement must be made by the Authority. In 2006/07, a payment of £252,335 was made. Injury awards and ill health retirements will continue to be paid from the Police Authority's Income and Expenditure Account. The Pensions Fund Account is shown on page 47.

Under FRS 17 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 retirement benefits is reversed out in the Statement of Movement in the General Reserve Balance. The following transactions have been made in the Income and Expenditure Account and the Statement of Movement on the General Reserve Balance during the year:-

	Local Government Pension Scheme £000		Police Pension Scheme £000	
	2005/06	2006/07	2005/06	2006/07
Net Cost of Services				
• current service cost *	3,766	4,497	25,200	33,820
• past service cost/curtailments	79	140	20	90
• past service gain #	(1,095)	-	-	-
Net Operating Expenditure				
• Interest cost	4,784	5,261	47,690	53,890
• Expected return on assets in the schema	(3,822)	(4,634)	-	-
Net Charge to the Income and Expenditure Account	2,812	5,264	73,000	87,800
Statement of Movement in the General Reserve Balance				
• Reversal of net charges made for retirement benefits in accordance with FRS17	2,812	5,264	73,000	87,800
Actual amount charged against the General Reserve Balance for pensions in the year				
• Employers' contributions payable to schema plus added years	3,794	4,170	-	22,011
• Retirement benefits payable to pensioners			21,863	-

*For the LGPS the current service cost is within the Police Staff Pay and Allowances figure on page 22. For the Police Pension scheme in 2006/07 the figure in the Income and Expenditure Account is the current service cost of £33,820,000 plus injury costs of £1,493,866.

#The provisions of the LGPS were changed by the introduction of the Local Government Pension Scheme (Amendment) Regulations 2006. This allowed members to take a higher lump sum than the standard '3/80ths' basis by commuting part of their pension. It is less costly for the scheme to provide the lump sum than the pension, so to the extent that members take up the option it will reduce the employers' pension costs. An assumption has been made on this and the saving has been put through as a 'past service gain'.

Note 16 Pension Scheme Liabilities

Note 15 above contains details of the Authority's participation in the Local Government Pensions Scheme (administered by Derbyshire County Council) and the Police Pension Scheme in providing Police staff and uniformed officers with retirement benefits.

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

	Local Government Pension Scheme £000		Police Pension Scheme £000		Total Pension Schemes £000	
	31/03/06	31/03/07	31/03/06	31/03/07	31/03/06	31/03/07
Estimated Liabilities in schema	(105,492)	(107,026)	(1,124,120)	(1,092,079)	(1,229,612)	(1,200,005)
Estimated Assets in schema	73,378	60,819	-	-	73,378	60,819
Net asset / (liability)	(32,114)	(27,107)	(1,124,120)	(1,092,079)	(1,156,234)	(1,119,186)

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

	Local Government Pension Scheme (LGPS)	Police Pension Scheme	Total Pension Schemes
	£'000	£'000	£'000
Surplus/(Deficit) as at 1 April 2006	(32,114)	(1,124,120)	(1,156,234)
Current Service Cost	(4,497)	(33,820)	(38,317)
Employer Contributions	4,176	22,911	26,187
Past Service/Curtailment/Settlement cost	(140)	(50)	(230)
Past Service Gain	-	-	-
Net Interest/Return on Assets	(627)	(53,890)	(54,517)
Actuarial Gain/Loss *	6,095	97,830	103,925
Surplus/(Deficit) as at 31 March 2007	(27,107) †	(1,092,079) †	(1,119,186)

* Note 17 gives more information on the Actuarial Gain/Loss

Within the creditors figure in the balance sheet, £139,265 has been accrued for employees pension contributions and £373,230 for employer's contributions for the LGPS.

The liabilities show the underlying long term commitments that the Authority has to pay retirement benefits. The total liability of £1,119m has a substantial impact on the net worth of the authority as recorded in the balance sheet, resulting in a negative overall balance of £1,067m for the authority. However, statutory arrangements for funding the deficit mean that the financial position of the Authority remains stable:-

- 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.
- As stated in note 15, the method of financing Police Officers pensions changed from April 2006. These changes along with the fact that the employer contribution rate will be assessed every three years to ensure that it accurately reflects the cost of the scheme creates a more stable environment for Police Officer pensions.

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. Under the projected unit method, the current service cost will increase as the members of the scheme approach retirement for the local government and police pensions scheme.

The Police officer scheme has been assessed by the Government Actuary Department (GAD) and the local government scheme has been assessed by Mercer Human Resource Consulting Limited, 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 2004.

The main assumptions used in their calculations have been:-

	Local Government Pension Scheme		Police Pension Scheme	
	£000		£000	
	2005/06	2006/07	2005/06	2006/07
Rate of inflation	2.9%	3.1%	3.2%	3.4%
Rate of increase in salaries	4.4%	4.6%	4.7%	4.9%
Rate of increase in pensions	2.9%	3.1%	3.2%	3.4%
Rate for discounting scheme liabilities	4.9%	5.4%	4.9%	5.4%
Take up option to convert annual pension into retirement grant	50%	50%	-	-

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, and consist of the following categories, by proportion of the total assets held by the fund:-

	Assets at 31 March 2006		Assets at 31 March 2007	
	£000	%	£000	%
Equities	52,025	70.9	58,028	71.8
Government Bonds	10,640	14.5	12,123	15.0
Other Bonds	1,394	1.9	1,374	1.7
Property	3,742	5.1	4,283	5.3
Cash/Liquidity	5,577	7.6	5,011	6.2
Other	0	0	0	0
Total	73,378		80,819	

The expected rate of return on assets was as follows:-

	2005/06	2006/07
	%	%
Equities	7.0	7.5
Government Bonds	4.3	4.7
Other Bonds	4.9	5.4
Property	6.0	6.5
Cash/Liquidity	4.5	5.25
Other	N/A	N/A

The market value of total fund assets was £2,933million as at 31 December 2006 compared to £1,806 million as at 31 December 2005.

Note 17 Actuarial Gains and Losses

The pensions reserve (FRS 17) 2006/07 is shown in the Statement of Movements in Reserves at note 35 on page 43. The actuarial gains identified as movements on the Pension Reserve can be analysed into the following categories, measured as absolute amounts and as percentage of assets or liabilities at 31 March. The SORP requires that comparisons be made for the previous 4 years.

Local Government Pension Scheme Movement in Reserves:

	Local Government Pension Scheme									
	2002/03		2003/04		2004/05		2005/06		2006/07	
	£000's	%	£000's	%	£000's	%	£000's	%	£000's	%
Differences between the expected and actual returns on assets(% of assets)	(11,000)	30.8	5,562	11.8	2,121	3.8	10,320	14.1	(230)	0.3
Differences between actuarial assumptions about liabilities and actual experience					4,358	6.0	(3,010)	2.9		
Changes in the demographic, financial and other assumptions used to estimate liabilities					(17,963)	20.7	(9,450)	9.0	6,331	5.9
Total gain/(loss)	(11,000)		5,562		(11,484)		(2,180)		6,095	

Police Pensions Scheme Movement in Reserves :

	Police Pension Scheme									
	2002/03		2003/04		2004/05		2005/06		2006/07	
	£000's	%	£000's	%	£000's	%	£000's	%	£000's	%
Differences between actuarial assumptions about liabilities and actual experience	8,120	1.7	(38,140)	5.3	(990)	-	(17,290)	1.5	23,800	2.2
Changes in the demographic, financial and other assumptions used to estimate liabilities			(132,390)	19.7	(106,660)	19.0	(174,200)	9.0	74,030	6.8
Total gain/(loss)	8,120		(108,530)		(167,650)		(191,400)		97,830	

Note 18 Fixed Assets – Intangible Assets

Intangible assets is expenditure on software licences. The main purchases in 2006/07 being microsoft office licences and software for the crime system and call centre upgrade.

	Purchased Software Licences £'000
Balance at 1 April 2006	507
Expenditure in year	658
Written off to revenue in year	(167)
Balance at 31 March 2007	1078

Note 19 Fixed Assets – Tangible Assets

In accordance with the Code of Practice, fixed assets at 31st March 2007 have been classified and valued in accordance with the policy set out in the accounting policies.

	Operational Land & Buildings	Vehicles, Plant, Furniture Equipment	Non Operational Land & Buildings	Surplus Assets	Joint Venture EMSOU	TOTAL
	£000	£000	£000	£000	£000	£000
Gross Book Value at 1 April 2006	24,856	16,526	650	2,735		44,977
Adjustment for joint venture (*)		(298)				(298)
Additions	1,131	4,111	14	0		5,256
Disposals	0	(128)	0	(1,885)		(2,013)
Transfers	0	0	(230)	230		0
Revaluations	(1,000)	(15)	(14)	300		(729)
Gross Book Value at 31 March 2007	24,987	20,198	630	1,380		47,195
Depreciation at 1 April 2006	(995)	(5,838)	0	0		(6,833)
Depreciation for Year	(510)	(2,991)	0	0		(3,510)
Depreciation at 31 March 2007	(1,514)	(8,829)	0	0		(10,343)
Net Book Value as at 31 March 2007	23,473	11,557	630	1,380	279	37,329

Valuation of Assets

All fixed assets were revalued as at April 1st 2004.

The valuations for land and buildings were made in accordance with the Appraisal and Valuation Manual published by the Royal Institution of Chartered Surveyors. Valuations were carried out by Andrew Martin BSc MRICS and Roger Smalley BSc MRICS, Valuers, Lambert Smith Hampton.

The basis of valuation is shown in the Statement of Accounting Policies (page 19).

Vehicle information has been taken from the Vehicle Fleet Information System and IT and Communications information has been provided by the Information Services Department.

NMHSU is a joint venture with Nottinghamshire Police, these assets are shown as 50% owned by Derbyshire Police.

In March 2006 government grant was received by Derbyshire Police Authority towards specialist equipment for EMSOU, the assets were accounted for in 2005/06. This has been removed from the asset statement (*) along with the corresponding grant in the Government grants deferred account. Instead the balance sheet shows a share of all the EMSOU Assets (including the above mentioned). EMSOU is a joint venture with the other East Midland Forces. Derbyshire has a 22% share (25% pre 2004/05) of the assets apportioned on the basis of the current resourcing model for the unit.

EMSOU	Total £'000	Derbyshire Share £'000
Fixed Assets	1,268	278.96
Net Current Assets	353	78.08
Total Net Assets	1,621	357.04
Represented by		
EMSOU Reserve	353	78.08
Capital Financing Account	307	67.54
Gov't Grants Deferred	961	211.42
	1,621	357.04

The above information has been included in Derbyshire Police's Balance Sheet.

Additions in Year

This relates to capital expenditure in the year excluding intangible assets expenditure which is shown in note 18.

Note 20 Fixed Assets Held by the Police Authority

A brief analysis of the Authority's principal assets is set out below:

	31/03/06	31/03/07
Main & Divisional Headquarters	4	4
Section Stations	20	20
Police Houses	8	5
Child Protection Units	3	3
Community Offices & Others	24	22
Radio Masts	3	3
Vehicles	418	534
Helicopter	1(50%)	1 (50%)
EMSOU		22% of assets

Note 21 Capital Commitments

Major contracts which have started and are still ongoing are:-

Electrical Rewire of 'B' Divisional HQ – This contract was signed in March 2006, work commenced in April 2006 and is due to finish in June 2007. The total budget for this project is £0.496m, £0.403 has been spent up to 31 March 2007 and a further £0.93m is allocated in 2007/08.

Crime System – a contract was signed for a new crime system in 2004/05. The total budget for this scheme was £1.5m, £1.173m has been spent up to 31 March 2007 and £0.071m was used towards the call centre upgrade. The scheme went live July 2006 but there are still a significant number of change requests to be processed which will be met from the £0.255m remaining allocation. Any remaining monies will be used for a further module for Protected Services.

Note 22 Finance Leases

The value of assets held under finance leases for 2006/07 is nil.

Note 23 Long Term Debtors

This balance represents car loans outstanding. Car Loans due for repayment within one year are shown as short term debtors, those equated to £173 in 2006/07 (£1,936 in 2005/06).

The car loan scheme was suspended in 2005/06 following changes to the Consumer Credit Act and a reduction in the number of applications to the scheme.

Note 24 Temporary Investments

The Police Authority invests its surplus cash in temporary investments and short term deposits with a range of banks and financial institutions.

Note 25 Debtors

The level of debt outstanding during 2006/07 was analysed and it was decided that it would be prudent to increase the bad debt provision to £20,000 after taking account of the current year's write-offs. Provision for bad debt is netted off the debtors figure.

Note 26 Long Term Borrowing

Long term loans of £975,000 have been raised during 2006/07. The lender is the Public Works Loan Board (PWLB) with the advances incurring an interest rate of 4.05%.

Long term borrowing is repayable as follows.

Maturing within:	
1 - 2 years	493,763
2 - 5 years	1,314,021
5 - 10 years	2,133,980
10 years or more	5,037,833
Total	8,980,197

The amount repayable within 1 year is £493,763 – this is shown as short term borrowing in the accounts.

Note 27 Deferred Liabilities

These represent the balance of loans outstanding as at 31 March 1995 which were transferred to the new Police Authority as established under the Police and Magistrates' Court Act 1994. The loans are administered by Derbyshire County Council on behalf of the Police Authority. Repayments of £80,945 were made in 2006/07.

Note 28 Insurance Provisions

Liability - This provision was established to meet liability claims which are not covered by external insurers. The balance reflects the claims handlers estimate of claims outstanding to 31 March 2006 plus an estimate for claims for 2006-07 based on the claims history over the last eleven years. Under FRS12 a provision should be made for any liabilities of uncertain timing or amount that have been incurred. The provision is for events that are more likely than not to occur. For this reason a provision of £576,000 is required.

Vehicle - The vehicle insurance policy was renewed in August 2003. From this date the Authority took over the responsibility of its Third Party Claims. This provision has been established to meet Third Party claims which are not covered by external insurers.

	Liability	Vehicle	Total
	£000	£000	£000
Opening Balance	714	451	1,165
Provision in Year	73	58	131
Expenditure on Claims in year	(211)	(167)	(378)
Balance Carried Forward	<u>576</u>	<u>342</u>	<u>918</u>

Note 29 Fixed Asset Restatement Account

The balance represents the difference between the historic cost and the current valuation of the Authority's assets. The reserve is written down by the net book value of assets disposed of and movements on revaluations.

	£000
Opening Balance	210
Less: Revaluations	(730)
Disposals	(2,013)
Balance C/Fwd	<u>(2,533)</u>

Note 30 Capital Financing Account

The capital financing account represents amounts which are required to be set aside from revenue resources or capital receipts to finance expenditure on fixed assets or for the repayment of external loans and certain other capital financing transactions. It provides a mechanism between the different rates at which assets are depreciated under the SORP and are financed through the capital controls system.

	£000	£000
Balance as at 1 April 2006		24,108
Movements in 2006-07		
Capital receipts set aside		0
Capital Financing - useable capital receipts	1,885	
- revenue contributions	663	
- reserves	1,292	
- grants amortisation	<u>1,055</u>	5,060
Depreciation and amortisation		(3,677)
MRP		400
Additional Voluntary Set Aside		<u>150</u>
Total		<u>28,073</u>

Note 31 Useable Capital Receipts Reserve

The useable capital receipts reserve represents the capital receipts available to support additional capital expenditure in future years.

	£000
Opening balance	0
Receipts in year:	1,885
	<u>1,885</u>
Less:	
Capital receipts used	1,885
	<u>0</u>
Balance Carried Forward	<u>0</u>

Note 32 Government Grants - Deferred

Capital Grants are accounted for using a deferred credit method. Assets are capitalised at gross cost. Grants are credited to a government grants deferred account and released to the Income and Expenditure Account over the life of the relevant asset to match any charges for depreciation.

	£000
Opening Balance	(1,475)
Grants/contributions received	(909)
Amortisation of Government Grants	1058
Adjustment for EITSOJ grant	299
Balance C/Fwd	<u>(1,030)</u>

Note 33 Earmarked Capital and Revenue Reserves (Total £25,209,100)

Devolved Budget Commitments £2,825,400

This balance represents the underspendings on devolved budgets for 2006/07 which have been earmarked to carry forward to meet commitments in 2007/08.

Operational Priorities Reserve £2,377,300

This balance has been accumulated to assist with urgent operational needs. As at 31 March 2007 £0.925m has been committed to identified areas, leaving £1.452m available to meet further priority issues.

Operational Funding Reserve £6,760,000

This amount has been identified by the force's medium-term financial planning process as being required to meet a 'funding gap' in the revenue budget between 2007/08 and 2010/11.

PFI Reserve - Ilkeston £1,259,000

This reserve represents the difference in grants received and actual payments for Ilkeston PFI plus savings on the original station plus a contribution of £600 plus interest in the year. This reserve is to fund future PFI payments and enables the net costs to be spread evenly over the contract period.

PFI Reserve - Derby DHQ £4,443,600

This reserve represents the difference in grants received and actual payments for the Derby DHQ PFI, plus savings on the original Full Street headquarters, plus a contribution of £444,000 plus interest. The reserve is to fund future PFI payments and enables the net costs to be spread evenly over the contract period.

Capital Reserve £4,471,200

This reserve was created from Force underspendings. The reserve is used to support the Force's Capital Programme.

IT/IS Reserve £150,000

This reserve was created from underspendings on IT. The reserve will be used for network routers in the force's Capital Programme in 2007/08.

Pensions Reserve £1,000,000

This reserve is to meet any future pension liabilities accruing to the force from ill-health or injury-related retirements.

Insurance Reserve £1,721,700

This reserve is for future insurance liabilities not covered by the provision. The insurance excess on liability claims increased in 2005/06 from £25,000 to £100,000 so the reserve could be used for any large claims.

Helicopter Reserves

Helicopter Reserve £67,100

This represents Derbyshire's share of underspendings on the North Midlands Helicopter Support Unit which has been earmarked to carry forward to meet commitments in 2007/08.

Helicopter Debt Charges Reserve £133,800

A loan of £457,000 was taken out in 2003/04 for the purchase of the helicopter. This is payable on maturity in April 2028. This reserve is to meet the cost of this loan in 2028 in order to equalise the debt charges to the North Midlands Helicopter Support Unit.

Note 34 Euro Costs

At this stage the Authority have not evaluated potential costs that could be incurred in the event of the UK converting to the Euro. No provision is made in the accounts for 2006/07.

The current Financial system introduced in October 2002 incorporates accounting for the Euro as part of its standard functionality.

Note 15 Statement of Movement in Reserves

Revenue Reserves

	General Reserves		Completed Returns Reserves		Pensions Reserve FRS 17		TOTAL REVENUE RESERVES	
	£	€	£	€	£	€	£	€
Opening Balance	3,059,000		21,752,347	(4,168,334,245)			(2,131,452,844)	
Net surplus (deficit) - Year	0		818,216	(6,819,221)			(6,001,005)	
Transfer between Reserves	0		(2,022,022)	0	0		(2,022,022)	
Unrealised (gross)/Net revaluation of land assets FRS 17	0		22,229	(5,622,000)			(5,599,771)	
Cost or value of assets transferred	0		0	0	0		0	
Income by year	0		0	0	0		0	
Financing of fixed assets	0		0	(22,070)	0		(22,070)	
Balance at 31st March 2022	3,059,000		20,537,863	(4,178,154,647)	0		(4,033,317,742)	

Capital Reserves

	Fixed Asset Revaluation Account		Capital Financing Account		Usable Capital Receipts		Joint Venture EUSOJ Returns		Capital Gains - Reserves *		Additional Vehicles Reserves *		Fixed Accommodation Reserves *		ISIF Reserves		TOTAL CAPITAL RESERVES	
	£	€	£	€	£	€	£	€	£	€	£	€	£	€	£	€	£	€
Opening Balance	707,232		24,126,123	0	1,272,916		174,670	45,074	45,074		45,074		45,074		45,074		21,898,772	
Net surplus (deficit) - Year	0		0	0	2,374,181		0	0	0		0		0		0		2,374,181	
Transfer between Reserves	0		0	0	2,022,000		0	0	0		0		0		0		2,022,000	
Unrealised (gross)/Net revaluation of land assets FRS 17	(779,423)		0	0	0		0	0	0		0		0		0		(779,423)	
Cost or value of assets transferred	0		0	0	0		0	0	0		0		0		0		(2,072,864)	
Income by year	0		0	0	0		0	0	0		0		0		0		0	
Financing of fixed assets	0		1,764,374	(1,225,203)	0		(181,470)	(40,211)	(40,211)		(40,211)		(40,211)		0		(1,192,372)	
Balance at 31st March 2022	(72,191,073)		26,072,287	0	4,071,203		0	0	0		0		0		152,070		24,324,772	

* = Estimated Capital Reserve

The Statement explains the movements between Revenue and Capital Reserves.

Note 30 Statement of Movement in Earmarked Reserves

The statement of movement in earmarked reserves gives a breakdown of the changes that occurred on each reserve in 2006/07

	General Carry-Fwd Reserve	ISHT Reserve	Helicopter Reserve	Helicopter Debt Charges Reserve	Force Accommodation Reserve	Operational Priorities Reserve	Operational Funding Reserve	Additional Vehicles Reserve	Capital Reserve	PFI Helston Reserve	Debt PFI Reserve	Insurance Reserve	Pensions Reserve	TOTAL EARMARKED RESERVES
	£	£	£	£	£	£	£	£	£	£	£	£	£	£
Opening Balance	2,105,300	150,000	89,215	95,345	60,074	5,369,527	6,324,000	130,670	1,732,914	1,216,071	4,259,291	1,321,000	1,000,000	23,405,014
Budgeted Charges	(2,010,100)			6,213		(531,200)		58,600	563,600	43,600	154,800	421,000		(1,297,207)
Allocations (payments) (over)/underspends	2,735,400								1,611,581	(1,511)	25,406	(20,300)		4,350,656
Allocations from HHSU				32,220										32,220
Transfers between reserves						(2,451,000)	436,000		2,025,000					0
Funding of Capital Expenditure			(22,070)		(60,074)			(107,470)	(1,014,800)					(1,251,513)
Balance at 31st March 2007 Totals	2,825,400	150,000	67,145	133,764	0	2,377,327	6,760,000	0	4,477,205	1,250,960	4,443,587	1,721,700	1,000,000	25,209,100

Notes to Cash Flow Statement

Note 37 Reconciliation of Not Surplus to Cash inflow from Revenue Activities

	£000	£000
Authority Surplus		0
Contributions to reserves/other non cash items		3,748
Decrease in stock	32	
Increase in revenue creditors	1,607	
Increase in revenue debtors	<u>(4,371)</u>	(2,732)
Financing Items within revenue		(1,168)
Revenue Activities Net Cash Flow		<u><u>(152)</u></u>

Note 38 Movement in Financing

	As at 31/03/06 £000	As at Movement 31/03/07 £000	£000
Long Term Borrowing	(6,519)	(8,960)	(462)
Creditors-borrowing repayable within one year	(455)	(494)	(39)
	<u>(6,973)</u>	<u>(9,454)</u>	<u>(501)</u>
Deferred Liabilities	(1,165)	(1,084)	81
Long Term Debtors - loans repaid	36	22	(14)
	<u>10,102</u>	<u>10,530</u>	<u>(434)</u>

Note 39 Movement in Liquid Resources

	As at 31/03/06 £000	As at Movement 31/03/07 £000	£000
Temporary Investments	36,693	36,631	(62)

Note 40 Movement in Cash

	As at 31/03/06 £000	As at Movement 31/03/07 £000	£000
Cash	(2,006)	(1,722)	284

Note 41 Movement in Other Current Assets

	As at 31/03/06 £000	As at Movement 31/03/07 £000	£000
Stock	383	331	(32)
Debtors	6,103	10,337	4,234
Creditors and Other Liabilities	(8,849)	(10,208)	(1,359)
Short term Borrowing	(455)	(494)	(39)
	<u>(2,828)</u>	<u>(34)</u>	<u>2,804</u>

Note 42 Reconciliation of 2006/07 Movement in Cash to the Movement in Debt

	2006/07	
	£000	£000
Increase in cash per Cash Flow Statement		(284)
Plus		
Revenue Activities	(152)	
Capital Activities	(1,753)	
Servicing of Debt	1,593	(212)
		<u>(406)</u>
Movement in Net Debt		
Management of Liquid Resources	(62)	
Financing	(434)	
		<u>(496)</u>

Pension Fund Account

	2006/07 £'000
Contributions Receivable :	
Employer	(15,829)
Employer - Ill Health Capital Credit	(252)
Employee - Existing Scheme	(7,000)
Employee - New Scheme	(70)
Transfers In :	
Transfer values receivable	(345)
Benefits Payable :	
Pensions	21,405
Commutations and lump sum retirement benefits	7,604
Lump sum death benefits	53
Payments to and on account of leavers :	
Refunds of contributions	12
Transfer values payable	352
Sub-total : Net amount payable for the year	5,930
Contribution from Police Fund Income and Expenditure Account in respect of deficit	5,930
Net amount payable/receivable for the year	<u>0</u>

Notes to the Pension Fund Account

Note 1 Police Pensions Fund Account

The Police pension scheme is unfunded. This means it provides pensions and other retirement benefits for employees based on final salaries but there are no investment assets built up to meet the pensions liabilities.

The funding arrangements for the Police Pension Scheme changed on 1 April 2006. Each individual Police Authority is required by legislation to operate a Pension Fund Account and the amounts that must be paid into and paid out of the Pension Fund are specified by regulation.

Before April 2006 each Police Authority was responsible for paying the pensions of its former employees on a pay as you go basis, from April 2006 there is a new employer's contribution instead (24.6% of pensionable salary) which is charged to the Income and Expenditure Account. Employers contributions along with officers contributions are paid into the pensions fund account from which pension payments are made.

Under the new arrangements the Pension Fund Account balances to nil at the year end by either receiving a contribution to or from the Police Fund Income and Expenditure Account. In 2006/07 a contribution of £5.9m was received, this being equivalent to the pension top-up grant received from the Home Office in 2006/07.

Injury awards and ill health retirements are not part of the Pensions Fund Account and will continue to be paid from the Authority's Income and Expenditure Account.

Note 2 Pension Fund Liabilities

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

Note 3 Accounting Policies

Accounting policies conform to those set out in the Statement of Accounts (page 17 to 21).

DEFINITIONS

Accounting Period

The period of time covered by the accounts, normally a period of twelve months commencing on 1 April.

Accruals

The concept that income and expenditure are recognised as they are earned or incurred, not as money is received or paid.

Agency Arrangements

Services which are performed by, or for, another Authority or public body where the agent is reimbursed for the cost of work done.

Budget

A statement of the Authority's (financial) plans for a specific period of time. A budget is prepared and approved by the Police Authority prior to the start of the financial year. The Authority's budget is prepared on an out-turn basis which means that increases for pay and prices during the financial year are contained within the total budget figure.

Capital Expenditure

Expenditure on the acquisition of a fixed asset or expenditure which adds to the life or value of an existing fixed asset.

Capital Financing Account

This account represents amounts set aside from revenue resources or capital receipts to finance expenditure on fixed assets or for the repayment of external loans and certain other capital financing transactions. It provides a balancing mechanism between the different rates at which assets are depreciated under the SORP and are financed through the capital controls system.

Capital Financing Requirement

The Capital Financing Requirement represents capital expenditure financed by external debt and not by capital receipts, revenue contributions, capital grants or third party contributions at the time of spending. It measures the Authority's underlying need to borrow for a capital purpose.

Capital Receipts

Proceeds from the sale of an asset which may be used to finance new capital expenditure or to repay outstanding loan debt as laid down within rules set by Central Government.

CIPFA

The Chartered Institute of Public Finance and Accountancy. This is the main professional body for accountants working in the public services.

Contingency

The sum of money set aside to meet unforeseen expenditure.

Contingent Liabilities

A potential liability at the balance sheet date when the accounts are submitted for approval. The liability will be included in the balance sheet if it can be estimated with reasonable accuracy otherwise the liability will be disclosed as a note to the accounts.

Corporate and Democratic Core

Costs relating to the Authority's status as a multi-functional, democratic organisation.

Creditors

Amounts owed by the Police Authority for work done, goods received or services rendered which have not been paid for by the end of the financial year.

Debtors

Sums of money due to the Authority for work done or services supplied but not received at the end of the financial year.

Deferred Charges

Deferred charges represent expenditure that may be capitalised but does not result in the creation of tangible assets owned by the Authority.

Deferred Liabilities

Liabilities which by arrangement are payable beyond the next year at some point in the future or paid off by an annual sum over a period of time.

Depreciation

The measure of the wearing out, consumption, or other reduction in the useful economic life of a fixed asset, whether arising from use, the passing of time or obsolescence through technological or other changes.

Financial Regulations

A written code of procedures approved by the Authority and intended to provide a framework for the proper financial management of the Authority. The financial regulations are supported by detailed financial instructions.

Fixed Assets - Tangible

Tangible assets that yield benefits to the Authority for a period of more than one year.

Fixed Assets - Intangible

Under FRS 10 (Goodwill and Intangible Assets), intangible assets are defined as 'non financial fixed assets that do not have physical substance but are identifiable and are controlled by the entity through custody or legal rights', for example, software licences.

Fixed Asset Restatement Account

This represents principally the balance of the surpluses or deficits arising on the periodic revaluation and disposal of fixed assets.

Formula Grant Distribution System

A mechanism by which Central Government determines how much Revenue Support Grant, Home Office Police Grant and Business Rates each local authority should receive in a given year to provide a common level of service. For the police service it is principally based on the resident and daytime populations, plus relevant socio-economic characteristics, for the area covered by an authority.

Government Grants Deferred Account

The balance of grants applied to the financing of fixed assets, awaiting amortisation to the Income and Expenditure Account to match depreciation on relevant assets.

Leasing

A method of financing capital expenditure where a rental charge is paid for a specified period of time. There are two main types of leasing arrangements:-

- (a) finance leases which transfer all of the risks and rewards of ownership of a fixed asset to the lessee and such assets are included within the fixed assets in the balance sheet.
- (b) Operating leases where the ownership of the asset remains with the leasing company and the annual rental is charged direct to the revenue account.

Minimum Revenue Provision

The minimum amount which must be charged to the revenue account each year and set aside for provision for credit liabilities, presently 4% of the capital financing requirement.

Non Distributed Costs

The cost of discretionary benefits awarded to employees retiring early.

Notional Interest

The element of the capital charge which reflects the amount of capital tied up in fixed assets.

Precept

The method by which the Police Authority obtains the income it requires from council tax via the appropriate authorities.

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.

Prudential code

The Code developed by CIPFA that sets out a framework for self-regulation of capital spending, in effect allowing authorities to invest in capital projects which best meet their service delivery objectives as long as they are affordable, prudent and sustainable. The code came into force from 1 April 2004 and is incorporated into the Local Government Act 2003 and associated regulations.

Receipts and payments

Amounts actually paid or received in a given accounting period irrespective of the period for which they are due.

Reserves

Emarked reserves are amounts set aside for a specific purpose in one financial year and carried forward to meet expenditure in future years. General reserves are accumulated balances generally available to support revenue or capital spending.

Standing Orders

The set of rules adopted by the Authority which enables the procedures by which the Authority should conduct its business.

Supported Capital Expenditure

The amount of borrowing which is supported by Central Government through the revenue funding formula.