

## **Report of the Chief Executive to the Chair and Members of the Police Authority Executive**

**4<sup>th</sup> June 2009**

**Executive and Presenting Officer: Mr J McCarthy, Chief  
Executive**

**Status: For Approval**

**Title: Statement of Accounts 2008/09 (Subject to Audit)**

### **1 Purpose**

- 1.1 Under the Account and Audit Regulations 2003, local authorities, including police authorities, are required to receive and approve the Statement of Accounts for 2008/09 before the end of June 2009.
- 1.2 The Draft Statement of Accounts have been the subject of a detailed Members Briefing on 19<sup>th</sup> May 2009 and were approved with a minor change to the Annual Governance Statement by the Audit and Internal Control Panel on 28<sup>th</sup> May 2009. Following Members approval today and subsequent signing by the Chairman, the Chief Executive and Chief Constable the Accounts are to be presented for Audit by the District Auditor and public inspection.

### **2 Recommendations**

Members are asked to agree the Statement of Accounts as attached and to note:

- 2.1 The detailed accounting policies as set out in the Statement of Accounts on pages 13 to 18 inclusive, which the Authority has followed in producing these accounts.
- 2.2 The analytical review of the accounts, contained with the body of this report and specifically within paragraphs 3.4 to 3.9 below, provided to facilitate Member scrutiny of the accounts.

### 3 Reasons

- 3.1 The role of the Audit and Internal Control Panel in reviewing the statement of accounts is set out in Appendix D of the Code of Corporate Governance and includes – *"To review the Annual Statement of Accounts. Specifically to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the authority"*. No amendments have been made to the accounts as a result of this meeting.
- 3.2 The statement of accounts appended to this paper details, on pages 13 to 18 inclusive, the Accounting Policies that the Force has used during 2008-9. There have been no significant changes to these policies since 2007-8.
- 3.3 A review of the 5 Core Statements within the Statement of Accounts has been undertaken with the following areas noted for Members information:
- 3.4 Income and Expenditure Account (Page 20)  
Policing Services costs are £122,547k in 2008-9, these are in comparison to £127,398k in 2007-8. A fairer comparison is to remove the impact of the adjustments required in relation FRS17 which determines the accounting and charges required for pension benefits and for which the Authority has no real control over. The following table sets out this position and shows an overall increase in the amount spent on Policing Services of 4.6%:

<b><u>Movement on Policing Services</u></b>	2007-8	2008-9	%age increase
	£k	£k	
Policing Services as per Statement of Accounts	127,398	122,547	
FRS 17 technical pensions adjustments	-7,370	2,967	
Policing Services (excluding FRS 17 adjustments)	<b>120,028</b>	<b>125,514</b>	<b>4.6%</b>

- 3.5 Statement of Movement on General Fund (Page 21)  
The deficit on the Income and Expenditure Account of £28,919k, whilst technically an accurate picture of the resources generated and consumed by the Authority in the year, does not show how the balance of resources generated/consumed in the year links in with statutory requirements for raising Council Tax. This is the requirement of this statement. It takes the deficit on the Income and Expenditure Account and removes those items not chargeable against council tax. The end result of which is an overspend of £2,598k for the year and a corresponding reduction in the General Fund of the Authority. This is consistent with the plans approved by the Authority at the start of the 2008-9 financial year and the agreed in year adjustments. The expectation was that there would be a £2,623k contribution from the general fund to the 2008-9 budget, after allowing for £750k to be retained for supporting the Air Support Unit in future years.
- 3.6 Statement of Total Recognised Gains and Losses (Page 22)

The requirement of this statement is to demonstrate how the movement in Net Worth in the Balance Sheet is identified to the Income and Expenditure Account surplus/deficit and to other unrealised gains and losses.

The biggest movement within this statement and ultimately on the balance sheet relates to the actuarial gains within the Pension funds as determined on a FRS17 basis.

### 3.7 Balance Sheet (Page 23)

- Fixed Assets have increased by £6.3m as a result of the following:

<b>Movement on Fixed Assets</b>	<b>£m</b>
Capital Expenditure	10.3
Depreciation	-2.9
Disposals	-0.3
Revaluations	-0.8
<b>Total Movement</b>	<b>6.3</b>

- Debtors have increased by £5.0m. This is due to the fact that the Home Office owes Cleveland Police Authority £5.4m as at 31<sup>st</sup> March 2009 in relation to Police Pension payments that the Authority has made but for which the Home Office will reimburse us. The reimbursement only occurs once a year, on the 1<sup>st</sup> July, and is then only 80% of the amount expected to fall due during the year, with the remaining 20% being paid on the 1<sup>st</sup> July the following year. The Debtor is in part higher due to the retaining of this 20%. Another contributing factor is that changes, previously made in relation to the amounts paid in Lump Sums for Police Officers on retirement, have been back dated further than originally expected which increased costs by £1.1m. The Force was also expecting to make more Medical/Injury Retirements during 2008-9 than it actually did. The amount of Grant we initially indicated we needed from the Home Office to balance our Pension Fund for 2008-9 was based on the Authority putting £1m more into the Pension Fund in terms of Medical/Injury Pensions than we actually did. Consequently the amount owed to us by the Home Office is higher than we could have anticipated.
- Creditors are higher by £0.8m which is primarily on the back on the increased Pension Lump Sums mentioned above not having been paid to the Police Officers as at the 31<sup>st</sup> March 2009. They will be paid on the 1<sup>st</sup> June 2009 which was the first available Pensions payroll after the changes that impacted on the Lump Sums had been made by the Government.
- Whilst the 'Net Worth' of the Authority is showing an overall negative balance of £617,496k this is as a result of the large liability showing on the Pension Fund of £631,996k. Once this liability is removed, and it is not unreasonable to do this given that this liability is effectively under written by the Government, then the Net Worth would show as £14,500k in comparison to £16,523k in 2007-8.

### 3.8 Cash Flow Statement (Page 24)

The Cash Outflows for 2008-9 were £147.4m which is an increase of £5.8m on 2007-8 and links back to the increased expenditure on Policing Services (excluding FRS 17) mentioned in 3.4 above of £5.5m.

The investments of the Authority have decreased by £8.8m during the year from £20.0m in 2007-8 to £11.2m in 2008-9. This is noticeable both on the Balance Sheet and within the Cash Flow Statement. The reason for this reduction is in part to do with the reduction of available cash given the £4.2m adverse movement on Debtors/Creditors that is discussed in 3.7 above. The remaining £4.6m reduction, along with £2.4m of additional borrowing, lower Cash Balances of £1m, and Capital Grants of £2.4m combine to fund the £10.4m of Capital Expenditure that occurred during the year.

- 3.9 Members attention is also brought to the Earmarked Reserves noted on page 40 of the Statement of Accounts along with the descriptions of the reserves that follow on pages 41-43. These are in line with Members approvals during 2008-9 or the continuation of prior year approvals.

## **4 Implications**

### **4.1 Finance**

There are no additional financial implications flowing from the process of preparing the statement of accounts. The financial position overall is as reported by the in year budgetary control reports.

### **4.2 Diversity & Equal Opportunities**

There are no diversity implications.

### **4.3 Sustainability**

The report is part of a series aimed at setting and monitoring a sustainable financial position for the Authority.

### **4.4 Risk**

The potential risks from non compliance with statutory requirements and codes of practice are mitigated by the established budget process and the existing arrangements for the annual closure of accounts .

## **5 Conclusion**

The role of the Audit and Internal Control Panel in reviewing the statement of accounts is set out in Appendix D of the Code of Corporate Governance and includes:

To review the Annual Statement of Accounts and specifically to consider whether appropriate accounting policies have been followed and whether there are concerns arising from the financial statements or from the audit that need to be brought to the attention of the authority.

The role of the Authority is to approve the Statement of Accounts, subject to the results of the scrutiny undertaken by the Audit and Internal Control Panel, and its recommendations.

**Joe McCarthy**  
**Chief Executive**