



SOUTH YORKSHIRE  
POLICE  
AUTHORITY

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# **STATEMENT OF ACCOUNTS**

**2006/2007**

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## **EXPLANATORY FOREWORD**

### **1. Explanation of Financial Statements**

The Authority's Accounts for the year 2006/07 consist of the following Core Financial Statements: -

- the ***Income and Expenditure Account*** which is a summary of the resources generated and consumed by the Authority in the year
- the ***Statement of Movement on the General Fund Balance*** which reconciles the surplus or deficit on the Income and Expenditure Account with the statutory requirements for raising council tax and the resultant movement in the General Fund Balance
- the ***Statement of Total Recognised Gains and Losses*** which demonstrates how the movement in net worth in the Balance Sheet reconciles to the Income and Expenditure Account surplus / deficit and to other unrealised gains or losses
- the ***Balance Sheet*** which sets out the financial position of the Authority at 31 March 2007
- the ***Cash Flow Statement*** which summarises the inflows and outflows of cash arising from transactions with third parties for revenue and capital purposes.

These Accounts are supported by the ***Statement of Responsibilities***, the ***Statement of Accounting Policies*** and the ***Notes to the Accounts***. A ***Statement on Internal Control*** is also included within the Accounts which sets out the framework within which the Authority's internal control is managed and reviewed.

In addition, there is a supplementary accounting statement for the ***Pension Fund Account*** which shows the transactions, as determined by regulation, for the two Police Pension Schemes (1987 and 2006). The funding arrangements for the Police Pension Schemes changed on 1 April 2006. Under the new arrangements, the schemes remain unfunded but the Authority no longer meets pensions costs directly on a pay-as-you-go basis but now pays an employer contribution, based on a percentage of pay, into the Pension Fund. Any deficit on the Fund is met by a specific grant from the Government each year.

### **2 Change to the Format of the Accounts**

There has been a change to the format of the Accounts for 2006/07. The Consolidated Revenue Account and the Statement of Total Movement on Reserves have been replaced with three new statements: the Income and Expenditure Account, the Statement of Movement on the General Fund Balance and the Statement of Total Recognised Gains and Losses. The order of the statements have also been amended, with the core financial statements now being grouped together followed by the Notes to the Accounts. As a result of these changes, the Accounts for 2005/06 have been restated to follow the new format.

### **3. Changes in Accounting Policies**

The Authority has adopted three significant new accounting policies in the Accounts for 2006/07 relating to the way in which fixed assets are accounted for:

- capital financing charges for the use of fixed assets are no longer made to service revenue accounts
- credits for government grants deferred are now posted to service revenue accounts rather than credited as a corporate income item
- gains or losses on the disposal of fixed assets are recognised on the Income and Expenditure Account.

Further information on the changes is included within the Accounting Policies relating to Fixed Assets, Charges to Revenue and Capital Grants and Contributions.

Comparative figures for 2005/06 have been restated to take account of the new policies. The changes are explained in the Accounting Policies and within the Notes to the Accounts.

#### 4. Revenue Budget

The Authority received a Government funding settlement of £187.5m for 2006/07. However the Authority was notified that it was required to repay approximately £2.1m of the grant that it had received in previous years due to corrections in data errors. This reduced available funding to £185.4m. The Authority set an original budget in February 2006 of £233.1m and to fund this level of spending, the Authority approved a contribution of £3.9m from general reserves and a further £0.6m from earmarked reserves.

Service expenditure increased during the year but this was matched by an increase in income as the Authority was successful in attracting additional grant funding. However by the end of the year, actual expenditure for the year was £227.9m, a net underspending of £5.2m from the Budget. Underspendings relating to devolved budgets and funding for capital schemes have been contributed to earmarked reserves to fund the related expenditure when it is incurred in 2007/08 or beyond. The contributions to and from earmarked reserves are set out in more detail in the Notes to the Accounts. Following these adjustments with reserves, the Authority was able to reduce the sums drawn from general reserves to £1.363m.

The main components of the budget for 2006/07 and how these compare with actual expenditure are set out below:

	<b>Original Budget £000</b>	<b>Actual £000</b>
Expenditure on Services	251,782	255,429
Capital Financing Costs	3,673	5,811
Income	(22,382)	(33,351)
	<u>233,073</u>	<u>227,889</u>
Appropriations to/(from) Earmarked Reserves	(633)	1,978
<b>Met from Government Grant / Local Taxpayer</b>	<b>232,440</b>	<b>229,867</b>
<b>Sources of Finance</b>		
Police Grant	(97,003)	(97,003)
General Government Grant	(12,638)	(12,638)
Non-Domestic Rates Redistribution	(75,782)	(75,782)
Council Tax Payers	(43,081)	(43,081)
<b>Total Financing</b>	<b>(228,504)</b>	<b>(228,504)</b>
<b>Contribution (from) / to General Reserves</b>	<b>(3,936)</b>	<b>(1,363)</b>

## 5. Where the Money Comes From

An analysis of the Authority's funding and income is:

	%
Government Grants (including specific grants)	51.0
Non-Domestic Rates	28.8
Council Tax Payers	16.4
Income from fees, charges and interest	3.3
Contribution from General Reserves	0.5
	<u>100.0</u>

## 6. What the Money is Spent On

An analysis of the Authority's expenditure is:

	%
Employees	82.8
Operating costs	14.2
Capital financing costs	2.2
Contribution to reserves	0.8
	<u>100.0</u>

## 7. General and Earmarked Reserves

The actual movements in reserves are detailed in the Notes to the Accounts and are summarised below:

	1 April 2006 £000	Movement in Year £000	31 March 2007 £000
<b>Earmarked Reserves</b>	8,370	1,977	10,347
<b>General Reserves</b>	15,677	(1,363)	14,314
	<u>24,047</u>	<u>614</u>	<u>24,661</u>

## 8. Capital Expenditure

The Authority spent £11.856m on capital expenditure in 2006/07. A sum of £4.9m was spent improving the Authority's buildings, which included £2.2m on a dedicated Scientific Support building and £0.7m on the commencement of a scheme to provide new Professional Standards accommodation. A further £2.056m was spent on new vehicles and £4.9m on information, communications and operational equipment.

Capital expenditure was financed by a combination of internal resources such as capital receipts, direct revenue funding and capital reserves, with the balance from external borrowing. An analysis of capital financing and long term borrowing is given in the Notes to the Accounts.

## **9. Retirement Benefits**

The Authority participates in three pension schemes which are accounted for in line with FRS17, which is further explained in the Accounting Policies and Notes to the Accounts. This means that the Authority must include the commitment to pay future retirement benefits as a liability on its Balance Sheet.

The inclusion of this estimated liability of £1,796.2m in the Balance Sheet has a substantial impact on the net worth of the Authority; however statutory arrangements for funding the deficit mean that the financial position of the Authority remains healthy. More detail is provided in the Notes to the Accounts.

## **10. Financial Prospects**

The Authority continues to maintain a strong and stable financial base. This provides resilience and the capacity to undertake a development programme financed partly from reserves in the initial period, but covered by planned efficiency savings in the long term.

Structural changes in the service could have a significant impact on future finances. Although the Government has abandoned its proposals for enforced mergers, it is promoting proposals for inter-force collaboration, and encouraged the service to adopt innovative approaches such as shared services.

Financial prospects for the next public spending round are tightly constrained. The service could receive annual increases of as low as 2% after the Government's targets for cashable efficiencies have been taken into account. The successful achievement of the Government's targets will depend very heavily on pay strategies for the next two years. If pay awards exceed the Government's assumptions, the Police Service may find itself cornered by a combination of increasing demands and capped grant and council tax funding. In this situation it is important for any public authority to have flexibility and resilience within its financial base. The action to reduce costs of service which has been taken during the 2005/06 and 2006/07 budget years has helped to reduce the base spending requirement and made the medium term budget strategy – which includes investment in local and regional services – viable. Reserve levels are adequate for the future, but as the current budgetary risk assessments show, could be vulnerable if the Authority faced one or more major incidents, or if the Government public spending assumptions proved not to be achievable.

The Authority has striven to protect uniformed establishment levels, and has also invested heavily in Police Community Support Officers and other civilian support. This has had the effect of boosting front line resources. If the financial situation were to tighten so that the Authority needed to take action within its budget, it is almost inevitable there would be some impact on establishments. However, the performance on efficiency improvements over the last seven years has been highly impressive, and the Force is skilled at redeploying resources to maximise capacity and performance.

## **11. Further information about the accounts is available from:**

The Clerk and Treasurer,  
South Yorkshire Police Authority,  
18 Regent Street,  
Barnsley,  
S70 2HG.

## **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 those affairs. In this Authority, that officer is the Clerk and Treasurer;
- manage its affairs to secure economic, efficient and effective use of resources and safeguard its assets;
- approve the Statement of Accounts.

**I confirm that these Accounts were approved at the Authority meeting held on the 28 September 2007.**

**Signed on behalf of the Police Authority by the Chair of the meeting approving the Accounts:**



**Date 28 September 2007**

### **The Clerk and Treasurer's Responsibilities**

The Clerk and Treasurer is responsible for the preparation of the Authority's Statement of Accounts in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom ('the Code').

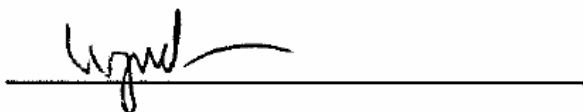
In preparing this Statement of Accounts, the Clerk and Treasurer has:

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

The Clerk and Treasurer has also:

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

**I certify that the attached Statement of Accounts presents fairly the financial position of the Authority at 31 March 2007 and its income and expenditure for the year then ended.**



**Date 28 September 2007**

**W. J. Wilkinson CPFA, Clerk and Treasurer**

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

### **Opinion on the financial statements**

I have audited the financial statements and the police pension fund accounting statements of South Yorkshire 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, the Net Assets Statement and the related notes. The financial statements and police pension fund accounting statements have been prepared under the accounting policies set out within them.

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

### **Respective responsibilities of the Clerk and Treasurer and auditor(s)**

The Clerk and 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.

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

I report to you my opinion as to whether the financial statements 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.

I 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. I report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information I am aware of from my audit of the financial statements. I am not required to consider, nor have I considered, whether the statement on internal control covers all risks and controls. I am also not required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

## **Basis of audit opinion**

I conducted my audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the financial statements. It also includes an assessment of the significant estimates and 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.

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

## **Opinion**

In my opinion:

- The financial statements present fairly, in accordance with applicable laws and regulations and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 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.



*Sue Sunderland*  
*District Auditor*  
*28 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***

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

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

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

### ***Conclusion***

I have undertaken my audit in accordance with the Code of Audit Practice and having regard to the criteria for police authorities specified by the Audit Commission and published in December 2006, I am satisfied that, in all significant respects, South Yorkshire 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***

I issued my statutory report on the audit of the authority's best value performance plan for the financial year 2006/07 on 18 December 2006. I did not identify any matters to be reported to the authority and did not make any recommendations on procedures in relation to the plan.

**Certificate**

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

A handwritten signature in black ink, appearing to read 'Sue Sunderland', written in a cursive style.

*Sue Sunderland*  
*District Auditor*  
*28 September 2007*

# **SOUTH YORKSHIRE POLICE AUTHORITY STATEMENT ON INTERNAL CONTROL 2006/07**

## **SCOPE OF RESPONSIBILITY**

1. The South Yorkshire Police Authority is 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 and effectively. The Authority also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness. The Authority works closely with local partners within South Yorkshire, and is a member of the Joint Police Authorities Committee for Yorkshire and Humberside. The aims of the Committee are to promote and develop joint working within the region on both operational policing and support services.
2. In discharging this overall responsibility the Authority is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the Authority's functions and which includes arrangements for the management of risk.

## **THE PURPOSE OF THE SYSTEM OF INTERNAL CONTROL**

3. The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives. It can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Authority's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.
4. The system of internal control described has been in place within the Authority for the year ended 31 March 2007 and up to the date of the approval of the annual report and accounts, except where stated otherwise.

## **THE INTERNAL CONTROL ENVIRONMENT**

5. The Police Reform Act 2002 put a statutory requirement on the Home Secretary to issue a National Policing Plan; the plan is updated annually, and communicates the priorities, expectations and targets for policing throughout England and Wales. The Act requires local police forces and authorities to produce strategic policing plans (these set out medium and long term strategies and targets over a three year period), as well as producing annual local policing plans that contain detailed implementation of strategies and targets for the relevant year of the three year strategy plan.
6. The South Yorkshire Strategic Plan is updated every year and sets out:
  - the Joint Vision of South Yorkshire Police and South Yorkshire Police Authority;
  - Agreed responsibilities of South Yorkshire Police Authority and the Chief Constable, and includes the national and local priorities on which South Yorkshire Police promise to focus their efforts;
  - Delivery methods and Key Activity areas.

The priorities specified in the Strategic Plan are supported by the results of local consultation.

7. The annual South Yorkshire Local Policing Plan reflects the priorities and objectives set out in the South Yorkshire Strategic Plan. It is supported by a number of strategies and covers:

- Performance and targets
- Resources
- Consultation
- Best Value Reviews
- Partnership arrangements
- Race Equality and Diversity schemes and strategies
- Assessment and Inspection of the South Yorkshire Police Force
- Implementation of the National Policing Model

District and Department Service Plans take account of strategic priorities and objectives.

During 2006/7 the delivery, monitoring and auditing of activity directed at the achievement of priorities and objectives was undertaken through:

- The Authority, its Committees and their work programmes
- Service Improvement Board
- Risk Management Board (a joint Force/Authority group with member involvement)
- The Authority's Chairs' Group
- Chief Officer liaison between the Force and the Joint Secretariat
- The internal South Yorkshire Police business planning process
- External validation by the Audit Commission, Home Office and Her Majesty's Inspectorate

8. The internal control environment spans the whole range of the Authority's activities and therefore includes those controls designed to:

- establish and monitor achievement of the Authority's objectives and priorities
- facilitate policy and decision making
- ensure compliance with established policies, procedures, laws and regulations
- identify, assess and manage the risks to achieving the Authority's objectives
- ensure the economical, effective and efficient use of resources
- provide appropriate financial management of the Authority and the reporting of financial management
- ensure adequate management and reporting of performance.

## **REVIEW OF EFFECTIVENESS**

9. The Authority has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. The review of the effectiveness of the system of internal control is informed by the work of the following:

- Internal auditors
- the Authority's statutory officers being the Chief Executive and Treasurer and the Deputy Clerk and Monitoring Officer
- managers within the Authority and Service who have the responsibility for the development and maintenance of the internal control environment

- an officer working group tasked with coordinating the annual review process.

Details of the review and emerging findings were reported to the Audit Committee in May 2007.

10. The review is also informed by comments made by External Audit in their Annual Audit Letter and other reports, and by reports of other review agencies and inspectorates.
11. The Authority has maintained, developed and reviewed its system of internal control in a number of ways during 2006/7. In particular:
  - 11.1 The Authority's business management arrangements were restructured during 2005/6, and the last financial year has been a period of consolidation and fine tuning:
    - Improved performance reports, supported by member briefings
    - A more involved role for Police Authority members in the Police Force's corporate health check scheme
    - A review of risk management arrangements, which has led to more integration with the Business Change process, and a closer involvement by members. Both developments help link the strategic policy, planning, performance and control processes
  - 11.2 The structure of 3 main committees reporting to the Authority serves its purpose of focusing on the key functional areas of business. Issues which cut across the three committees are coordinated by the Chairs Group, which also oversees Authority level priorities and the resourcing of the work programme. During 2006/7, a free-standing Audit Committee was established to provide the necessary independent monitoring.
  - 11.3 The role of the Service Improvement Board (SIB), which was established specifically to coordinate work on effectiveness and business change, is currently under review and its role – or that of the body which may replace it in the Authority's structure – could be directed more towards the Authority based improvement areas identified by the new Authority. During 2006/7, the SIB continued with its original role; joint chairmanship of the SIB, and linked membership between the SIB and the Business Change Directorate, maintained the required coordination in this area.
  - 11.4 The Authority has continued the process of constructing a comprehensive governance structure which brings together all the management, control and procedural processes into a single framework. This will continue in 2007/8. Developing the framework in this way helps raise awareness of the need for coordinated governance processes covering all aspects of the Authority's management.

#### 11.5 **Internal Financial Control**

The system of internal financial control operated by the Authority is based on a framework of regular management information, financial regulations, financial procedures (including segregation of duties), management supervision, and a system of delegation and accountability. The Chief Executive and Treasurer is the Authority's professional advisor on financial matters and has certain statutory duties. The Director of Finance and Administration is responsible to the Chief Constable for all financial activities undertaken within the Force. Whilst there is a clear separation of duties between these officers, they work closely together to deliver the Authority's financial strategy and management arrangements. Development and maintenance of the system is undertaken by managers within the Authority and the Service. In particular the system includes:

- regular reviews of periodic and annual financial reports which indicate financial performance against the forecasts
- setting targets to measure financial and other performance
- the preparation of regular monitoring reports which indicate actual expenditure against the forecasts
- comprehensive budget setting processes
- affordable and sustainable medium term financial plans supporting the delivery of the Authority's objectives
- compliance with treasury management and accounting codes of practice and financial reporting standards
- compliance with prudential code guidelines
- efficiency plans

During the year, the District Auditor issued an unqualified opinion on the Authority's Statement of Accounts for 2005/06.

## 11.6 Internal Audit

Internal Audit is an integral part of the Authority's internal control arrangements. The role, responsibility and objectives of Internal Audit are specified in the Authority's Financial Regulations. The Clerk and Treasurer has delegated responsibility, under the Accounts and Audit Regulations (as amended from time to time), to maintain a continuous, adequate and effective internal audit of the Authority's accounting, financial and other processes.

Internal Audit reports to management to address any identified weaknesses in the internal control arrangements. The plan of work, progress against the plan and an annual report, including the Chief Internal Auditor's report on the internal control arrangements, are submitted to the Clerk and Treasurer and to the Audit Committee.

The Chief Internal Auditor has issued the following opinion:

On the basis of the systems reviewed and reported on during the year it is considered that the overall **financial control environment is of a good standard** but other controls related to the Authority's governance arrangements need to be strengthened in the following areas:

- The reporting of risks to the Authority and members involvement in the process;
- The regular updating and publication of the Authority's anti-fraud and corruption strategy and whistle blowing policy; and
- The regular reporting of progress on the SIC action plan to the Audit Committee.

## 11.7 External Audit

The External Auditor (Audit Commission) agrees the audit plan with the Authority. The matters arising out of the work are reported to Members in two reports: the Annual Governance Report, which summarises the conclusions from the review of the Authority's financial statements and assesses whether the Authority has made proper arrangements for securing economy, efficiency and effectiveness in its use of resources; and the Annual Audit Letter which summarises the key issues from the work during the year.

The Annual Governance Report was presented to the Authority in September 2006 and confirmed the intention to issue:

- an unqualified opinion on the 2005/06 accounts; and
- a qualified opinion on the use of resources on the grounds of weaknesses in internal control arrangements, particularly in three areas – the absence of an Audit Committee; Force procedure notes for key financial systems having gaps or in need of updating; and governance arrangements around partnerships needing strengthening.

The Annual Audit Letter was presented to the Authority in December 2006 and raised issues relating to the medium term financial plan and activity based costing. It also highlighted the use of resources issues included in the Annual Governance Report along with the need to embed risk management in the Authority's processes.

The Audit Committee has received progress reports on issues raised in the Annual Governance Report (February 2007) and in the Annual Audit Letter (June 2007).

11.8 Progress made during the year on the internal control issues raised in 2005/06 includes:

- **Corporate Governance** - an updated Code has been approved
- **Risk Management** – a joint Authority and Force Strategy has been approved
- **Intelligence Handling and Management** – Phase 1 of the MOPI guidance has been delivered
- **Police National Computer Compliance** – a “Green” assessment achieved
- **Disciplinary Procedures** – Guidance for Support Staff issued

## **SIGNIFICANT INTERNAL CONTROL ISSUES**

12. Issues identified for inclusion on the 2006/07 fall into two categories.

- Items included on the 2005/06 SIC or action list which have not been fully completed as at 31 March 2007
- New issues arising out of the latest review

13. The table below details further actions that will be undertaken in 2007/08 to address any outstanding issues from 2005/06 and any new areas for improvement identified in the review of 2006/07. A more detailed action plan with deadlines and responsibilities will be developed and monitored by the officer working group and the Audit Committee.

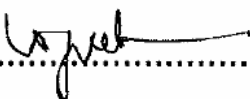
Internal Control Issue	Action required in 2007/08
<p><b>Corporate Governance – brought forward from 2005/06</b></p> <ul style="list-style-type: none"> <li>Develop a partnership framework for governance and evaluation of Partnership arrangements</li> <li>Review and update the Authority Scheme of Delegation</li> </ul>	<p>Framework to be developed and implemented</p> <p>Scheme of delegation to be updated and approved</p>
<p><b>Risk Management – brought forward from 2005/06</b></p> <p>Clarify the role of members in risk management issues including the further development of the link member role</p>	<p>Enhancement of Member role needs to be developed</p>
<p><b>Business Continuity Plans – brought forward from 2005/06</b></p> <p>Comprehensive business continuity plans are not in place for all areas of activity.</p>	<p>Produce full business continuity plans</p>
<p><b>Outstanding Weekly Leave – brought forward from 2005/06</b></p> <p>The control of annual leave and overtime as a consequence of operational need. This has resulted in a significant potential liability if officers opt for payment rather than time off.</p>	<p>Targets have been set to reduce this liability over a number of years. Continue to monitor through Corporate Health Checks</p>
<p><b>Code of Conduct for Support Staff – brought forward from 2005/06</b></p> <p>There is a requirement to produce a Code of Conduct for support staff.</p>	<p>Draft a Code of Conduct for Support Staff for approval</p>
<p><b>Code of Corporate Governance</b></p> <ul style="list-style-type: none"> <li>The review of and monitoring compliance with the Code is not yet fully embedded</li> <li>Specific governance training for members and key officers is to be developed</li> </ul>	<p>Review and reporting process to be developed</p> <p>Member training programme to be developed and consideration of governance training for key officers and of general staff awareness programme</p>
<p><b>Committee charged with governance responsibilities</b></p> <p>Whilst the Audit Committee has now been set up, the role has not yet been fully developed during 2006/07</p>	<p>Assess Audit Committee against CIPFA toolkit</p> <p>Develop reporting arrangements including progress on the SIC action plan</p>

Internal Control Issue	Action required in 2007/08
<p><b>A review of Financial Regulations</b> This is required and amendments are needed to take account of partnership arrangements and delegated budgeting.</p>	<p>Full review of Financial Regulations to be completed</p>
<p><b>Asset Management Strategy</b> There is a requirement to produce an overall strategy for Asset Management</p>	<p>Asset Management Strategy to be produced</p>
<p><b>Policy Management</b> There is a need to ensure an audit of effective and timely policy review is included within corporate systems</p>	<p>Corporate Health check process to be amended to include examination of policy review actions</p>

**Signed:**

Chair of the Audit Committee:  .....

Chief Constable:  .....

Clerk and Treasurer:  .....

# **STATEMENT OF ACCOUNTING POLICIES**

## **1. General Principles**

The Statement of Accounts summarises the Authority's transactions for 2006/07 and its position at the year-end of 31 March 2007. It has been prepared in accordance with the *Code of Practice on Local Authority Accounting in the United Kingdom: A Statement of Recommended Practice (SORP)*, issued by the Chartered Institute of Public Finance and Accountancy (CIPFA), which is recognised by statute as representing proper accounting practice. The accounting convention adopted is historical cost, modified by the revaluation of certain categories of tangible fixed assets.

## **2. Accruals of Income and Expenditure**

The revenue accounts of the Authority are maintained on an accruals basis, which means that sums due to or from the Authority during the year are included, whether or not the cash has actually been received or paid in the year. In particular:

- Where income and expenditure has been recognised but cash has not yet been received or paid, a debtor or creditor for the relevant amount is included in the Balance Sheet. Where it is doubtful that debts will be settled, the balance of debtors is written down and a charge made to revenue for the income that might not be collected.
- Supplies are recorded as expenditure when they are consumed. Where there is a gap between the date supplies are received and their consumption, they are carried as stocks on the Balance Sheet.
- Fees, charges and rents due from customers are accounted for as income at the date the Authority provides the relevant goods or services.
- Interest payable on borrowings and receivable on investments is accounted for in the year to which it relates.
- Income and expenditure is credited or debited to the revenue account, unless it properly represents capital receipts or capital expenditure.

## **3. Provisions**

In accordance with proper accounting practice, provisions are made where an event has taken place that gives the Authority an obligation that probably requires settlement by a transfer of economic benefits, but where the amount and timing of the transfer is uncertain.

Provisions are charged to the revenue account when the Authority becomes aware of the obligation, based on the best estimate of the likely settlement. When payments are eventually made, they are charged to the provision set up in the Balance Sheet. Provisions are reviewed at the end of each financial year and if it becomes likely that a transfer of economic benefits will not be required, the provision is reversed and credited back to revenue.

Details of provisions held by the Authority are given in the Notes to the Accounts.

## **4. Reserves**

The Authority sets aside specific amounts as reserves for future policy purposes or to cover contingencies. Reserves are created by appropriating amounts in the Statement of Movement on the General Fund Balance which are then carried forward on the Balance Sheet. When expenditure to be financed from a reserve is incurred, it is charged to revenue as part of Net Cost of Services in the Income and Expenditure Account. The reserve is then appropriated back into the General Fund Balance

statement so that there is no net charge against council tax for the expenditure in that year.

The earmarked reserves maintained by the Authority are shown in more detail in the Notes to the Accounts. Certain other reserves are kept to manage the accounting processes for tangible fixed assets and retirement benefits and they do not represent usable resources for the Authority. These reserves are explained elsewhere in the Accounting Policies and Notes to the Accounts.

## **5. Revenue Government Grants and Contributions**

Government grants and third party contributions are recognised as income when the related expenditure for which the grant is given has been incurred and the Authority satisfies the conditions of entitlement to the grant or contribution, giving a reasonable assurance that the monies will be received. Revenue grants are matched in service revenue accounts with the service expenditure to which they relate. Grants to cover general expenditure, for example Police Grant and Revenue Support Grant, are credited to the foot of the Income and Expenditure Account after Net Operating Expenditure.

## **6. Retirement Benefits**

The Authority participates in three pensions schemes:

- there are two Police Pension Schemes (1987 and 2006) – these are unfunded schemes, which means that there are no investment assets built up to meet the pensions liabilities. Prior to the 1 April 2006, the Authority was responsible for paying the pensions of its former employees on a pay-as-you-go basis. However, the funding arrangements changed on 1 April 2006 and the Authority is now required by legislation to operate a Pension Fund with the amounts that must be paid into or out of the Pension Fund being specified by regulation. The Authority no longer meets pensions expenditure directly and instead pays an employer's pension contribution, based on a percentage of pay, into the Pensions Fund. The Authority then receives a top-up grant from the Government equal to the sum by which the amount payable for pensions from the Pension Fund exceeds the amount receivable from the Authority into the Pension Fund. The Pension Fund is shown separately in the Accounts.
- the Local Government Pension Scheme for civilian employees, administered by the South Yorkshire Pensions Authority - this is a funded scheme, which means that the Authority and employees pay contributions into a fund, calculated at a level intended to balance the pensions liabilities with investment assets.

The pensions costs included in the Income and Expenditure Account have been determined and accounted for in accordance with FRS17 Retirement Benefits. FRS17 requires the recognition of the net pensions asset or liability, matched by a pensions reserve, in the Balance Sheet, and entries in the Income and Expenditure Account representing movements in the asset / liability during the year. The overall amount to be met from Government grants and local taxpayers is unchanged however, as an appropriation to or from the pensions reserve, which replaces the notional sums for retirement benefits with the actual pensions costs, is done within the Statement of Movement on the General Fund Balance.

## **7. VAT**

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

## 8. Overheads and Support Services

The costs of overheads and support services are charged to divisions of service in proportion to the benefits received in accordance with the costing principles of the CIPFA's *Best Value Accounting Code of Practice*. The exceptions to this are:

- Corporate and Democratic Core – costs relating to the democratic processes of the Authority and other corporate costs
- Non distributed costs – past service pensions charges and costs relating to non operational assets.

These two cost categories are accounted for as separate headings in the Income and Expenditure Account as part of Net Cost of Services.

## 9. Intangible Fixed Assets

Expenditure on assets that do not have physical substance but are identifiable and controlled by the Authority, such as software licences, is capitalised if it will bring benefit to the Authority for more than one year. The balance is subsequently amortised to revenue over the useful economic lives of the intangible assets.

## 10. Tangible Fixed Assets

Tangible fixed assets are assets that have physical substance and are held for use in the provision of services or for administrative purposes on a continuing basis.

### **Recognition**

Expenditure on the acquisition, creation or enhancement of tangible fixed assets which provide benefit for more than one year, is capitalised on an accruals basis in the Accounts, except for small items of equipment that are regarded as de minimis and charged to revenue. Expenditure on repairs that maintains but does not enhance the value of existing assets is charged to revenue as it is incurred.

### **Measurement**

Tangible fixed assets are initially measured at cost and then carried in the Balance Sheet using the following measurement bases:

#### *Operational Assets*

- Land and operational buildings are included in the Balance Sheet at the lower of net current replacement cost or net realisable value in existing use
- Other operational assets, such as vehicles, computers and equipment, are included in the Balance Sheet at historical cost as a proxy for current replacement cost

#### *Non-Operational Assets*

- Assets which are surplus to requirements are included in the Balance Sheet at the lower of net current replacement cost or net realisable value.
- Assets under construction are included at actual cost.

Land and building assets are revalued at least once every five years in accordance with the Practice statements in the Appraisal and Valuation Standards issued by the Royal Institution of Chartered Surveyors. Any material changes to asset valuations are adjusted in the interim period as they occur. Increases in valuations are matched by credits to the Fixed Asset Restatement Account to recognise unrealised gains.

### **Impairment**

Reductions in asset values are charged to the relevant service revenue account if there has been a clear consumption of economic benefits or otherwise written off to the Fixed Asset Restatement Account.

### ***Disposals***

When an asset is disposed of, the value of the asset in the Balance Sheet is written off to the Income and Expenditure Account, together with the credit from the receipt from the disposal, as part of the gain or loss on disposal. This is a change in accounting policy required by SORP 2006.

However receipts from disposals in excess of £10,000 are categorised as capital receipts and are required to be credited to the Usable Capital Receipts reserve, via an appropriation from the Statement of Movement on the General Fund Balance. The Usable Capital Receipts reserve can only be utilised either to finance new capital investment or to reduce the Authority's borrowing requirement and when sums are utilised for this purpose they are subsequently transferred to the Capital Financing Account.

The written off value of disposals is not a charge against council tax, as the cost of fixed assets is fully provided for under separate arrangements for capital financing. Amounts are therefore appropriated to the Capital Financing Account from the Statement of Movement on the General Fund Balance.

### ***Depreciation***

Depreciation is provided on all assets with a determinable finite life, other than non-operational assets under construction, by allocating the value of the asset in the Balance Sheet on a straight-line basis over the periods expected to benefit from their use as follows:

- Buildings 10 – 80 years
- Vehicles (dependent on type) 2 – 7 years
- Equipment 3 – 10 years
- Helicopter 12 years

## **11. Capital Grants or Contributions**

Any grants or contributions received that are identifiable to fixed assets with a finite useful life are credited to the Government Grants Deferred account when they are utilised to finance capital expenditure. The balance is now released to the relevant revenue service account within Net Cost of Services, rather than as a general income item within Net Operating Expenditure as in previous years, to offset depreciation charges made for the related assets.

General capital grants, or specific grants received which cannot be identified to depreciating assets, are written off directly to the Income and Expenditure Account. This is a change in accounting policy from previous years, and figures for 2005/06 have been restated to take account of the change.

## **12. Charges to Revenue**

Revenue accounts are debited with the following amounts to record the real cost of holding fixed assets during the year:

- Depreciation attributable to the assets used
- Impairment losses attributable to the clear consumption of economic benefits on tangible fixed assets used
- Amortisation of intangible fixed assets attributable to the service.

In accordance with SORP 2006, the Authority is no longer required to include a capital financing charge to service revenue accounts as in previous years.

The Authority is not required to raise council tax to cover depreciation, impairment losses or amortisations. However it is required to make an annual provision from

revenue to contribute towards the reduction in its overall borrowing requirement (equal to 4% of the Capital Financing Requirement). The Authority is also charged with the principal element of Transferred Debt taken over from the former South Yorkshire County Council, and managed by Rotherham MBC on its behalf, which is outside the calculation of minimum revenue provision. Depreciation, impairment losses and amortisations are therefore replaced by the minimum revenue provision and the Transferred Debt repayment in the Statement of Movement on the General Fund Balance, by way of an adjusting transaction with the Capital Financing Account.

### **13. Leases**

#### ***Finance Leases***

The Authority accounts for leases as finance leases when substantially all the risks and rewards of ownership relating to the leased asset transfer to the Authority. Rental payments under finance leases are apportioned between the finance charge, which is debited to Net Operating Expenditure in the Income and Expenditure Account, and a charge for the acquisition of the interest in the asset, which reduces the liability to pay future rentals.

Fixed assets recognised under finance leases are accounted for using the policies applied generally to tangible fixed assets, subject to depreciation being charged over the leased term if this is shorter than the asset's estimated useful life.

#### ***Operating Leases***

Leases that do not meet the definition of finance leases are accounted for as operating leases. Rentals payable are charged to revenue on a straight line basis over the term of the lease, generally meaning that rentals are charged when they become payable.

### **14. Repurchase of Borrowing**

Gains or losses on the repurchase or early settlement of borrowing are credited or debited to Net Operating Expenditure in the Income and Expenditure Account in the year undertaken. However, where the repurchase has taken place as part of the restructuring of the loan portfolio with substantially the same overall effect when viewed as a whole, gains or losses are recognised on the Balance Sheet and written down to revenue on a straight line basis over the term of the replacement loan.

### **15. Investments**

Investments are shown in the Balance Sheet at cost, and consist of deposits of temporary surplus funds with banks and similar institutions.

### **16. Stocks**

Stock is included in the Balance Sheet at the lower of cost or net realisable value.

## INCOME AND EXPENDITURE ACCOUNT

The Income and Expenditure Account summarises the resources that have been generated and consumed in providing services and managing the Authority during the year. It includes all day-to-day expenses and related income on an accruals basis, as well as transactions measuring the value of fixed assets actually consumed and the real projected value of retirement benefits earned by employees in the year.

<b>2005/06</b>		<b>Gross</b>	<b>2006/07</b>	<b>Net</b>	<b>Note</b>
<b>Net</b>		<b>Expenditure</b>	<b>Income</b>	<b>Expenditure</b>	
<b>Expenditure</b>		<b>£000</b>	<b>£000</b>	<b>£000</b>	
<b>£000</b>					
87,498	Crime	106,834	(9,592)	97,242	
145,920	Policing in the Community	178,535	(19,277)	159,258	
1,875	National Police Services Undertaken Locally	991	(409)	582	
165	Emergency Planning	162	-	162	
1,368	Corporate and Democratic Core	1,449	-	1,449	
(2,796)	Non Distributed Costs	999	-	999	
<b>234,030</b>	<b>Net Cost of Services</b>	<b>288,970</b>	<b>(29,278)</b>	<b>259,692</b>	
492	Levies to National Police Services			535	
-	(Gain) / Loss on Disposal of Fixed Assets			(34)	
2,338	Interest Payable and Similar Charges			2,241	
(2,111)	Interest and Investment Income			(2,199)	
-	Contribution to Pension Fund Account in respect of deficit			6,480	
79,226	Pensions Interest Cost and Expected Return on Pensions Assets			89,813	2 (b)
<b>313,975</b>	<b>Net Operating Expenditure</b>			<b>356,528</b>	
	<i>Sources of Finance</i>				
(40,696)	Precept Demanded from Collection Fund			(43,081)	
(173,116)	General Government Grant			(117,419)	
(20,676)	Non-Domestic Rates Redistribution			(75,782)	
<b>79,487</b>	<b>Deficit for Year</b>			<b>120,246</b>	

## STATEMENT ON THE MOVEMENT OF THE GENERAL FUND BALANCE

The Income and Expenditure Account shows the Authority's actual financial performance for the year, measured in terms of the resources consumed and generated. However, the Authority is required to raise council tax over a different accounting basis, the main differences being:

- Capital investment is accounted for as it is financed, rather than when the fixed assets are consumed
- Retirement benefits are charged as amounts become payable to pension funds and pensioners, rather than as future benefits are earned.

The General Fund Balance compares the Authority's spending against the council tax that it raised for the year, taking into account the use of reserves built up in the past and contributions to reserves earmarked for future expenditure.

This reconciliation statement summarises the differences between the outturn on the Income and Expenditure Account and the General Fund Balance.

<b>2005/06</b>		<b>2006/07</b>	<b>Note</b>
<b>£000</b>		<b>£000</b>	
79,487	(Surplus) / Deficit on the Income and Expenditure Account	120,246	
(81,067)	Net Additional Amount required by statute and non-statutory proper practices to be debited or credited to the General Fund Balance for the year	(118,883)	<i>See Next Page</i>
<b>(1,580)</b>	<b>(Increase)/Decrease in General Fund Balance for the year</b>	<b>1,363</b>	
(14,097)	General Fund Balance Brought Forward	(15,677)	
<b>(15,677)</b>	<b>General Fund Balance Carried Forward</b>	<b>(14,314)</b>	

**RECONCILING ITEMS FOR STATEMENT OF MOVEMENT IN GENERAL FUND BALANCE:**

<b>2005/06</b>		<b>2006/07</b>
<b>£000</b>		<b>£000</b>
	<b>Amounts included in the Income and Expenditure Account but required by statute to be excluded when determining the Movement on General Fund Balance for the year</b>	
(149)	Amortisation of Intangible Fixed Assets	(336)
(5,455)	Depreciation / Impairment of Fixed Assets and De Minimis capital expenditure	(7,358)
690	Government Grants Deferred Amortisation	1,082
10,080	Capital Grants	2,747
-	Net Gain / (Loss) on Sale of Fixed Assets	34
(123,706)	Net Charges for Retirement Benefits in accordance with FRS17	(153,153)
<b>(118,540)</b>		<b>(156,984)</b>
	<b>Amounts not included in the Income and Expenditure Account but required to be included by statute when determining the Movement on General Fund Balance for the year</b>	
2,234	Minimum Revenue Provision and Transferred Debt repayment	2,112
2,064	Capital Expenditure charged in-year to General Fund Balance	1,429
200	Insurance Settlements	207
37,162	Employer's contributions payable to the Pension Funds and retirement benefits payable direct to pensioners	32,376
<b>41,660</b>		<b>36,124</b>
	<b>Transfers to or from the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year</b>	
-	Voluntary Revenue Provision for Capital Financing	-
(4,187)	Net Transfer to / (from) Earmarked Reserves	1,977
<b>(4,187)</b>		<b>1,977</b>
<b>(81,067)</b>	<b>Net Additional Amount required to be credited to the General Fund Balance for the year</b>	<b>(118,883)</b>

## **STATEMENT OF TOTAL RECOGNISED GAINS OR LOSSES**

This statement brings together all the gains or losses of the Authority for the year and shows the aggregate increase or decrease in its net worth. In addition to the surplus or deficit on the Income and Expenditure Account, it includes gains and losses relating to the revaluation of fixed assets and re-measurement of the net liability to cover the cost of retirement benefits.

<b>2005/06</b>		<b>2006/07</b>	
<b>£000</b>		<b>£000</b>	<b>Note</b>
79,487	Deficit for the year on the Income and Expenditure Account	120,246	
(3,290)	Surplus arising on Revaluation of Assets	(1,051)	21
281,258	Actuarial (gains) / losses on Pension Fund Assets and Liabilities	(164,088)	2 (e)
-	Other Pensions Fund Gains	(6,480)	2 (f)
<b><u>357,455</u></b>	<b>Total Recognised (Gains) / Losses for the Year</b>	<b><u>(51,373)</u></b>	<b>20</b>

## BALANCE SHEET

31 MARCH 2006 £000	31 MARCH 2007	£000	£000	Note
656 Intangible Fixed Assets			830	7
<b>Tangible Fixed Assets</b>				
<i>Operational Assets</i>				
42,607 -Land and Buildings		44,473		
13,367 -Vehicles, Plant and Equipment		13,247		
<i>Non Operational Assets</i>				
1,769 -Under Construction/Surplus to Requirement		4,441	62,161	8
<b>58,399 Total Fixed Assets</b>			<b>62,991</b>	
19 Long-Term Debtors		6		15
2,482 Deferred Premiums on early repayment of debt		2,378	2,384	14
<b>60,900 Total Long-Term Assets</b>			<b>65,375</b>	
<b>Current Assets</b>				
1,077 Stocks		970		
14,056 Debtors		16,876		15
34,253 Temporary Investments		36,309		
110 Cash and Bank		116	54,271	
<b>110,396 Total Assets</b>			<b>119,646</b>	
<b>Current Liabilities</b>				
(316) Short Term Borrowing/Deferred Liabilities		(826)		
(14,469) Creditors		(16,151)		16
(902) Bank Overdraft		(2,964)	(19,941)	
<b>94,709 Total Assets less Current Liabilities</b>			<b>99,705</b>	
(30,680) Long Term Borrowing			(32,130)	17
(14,279) Deferred Liabilities			(12,388)	18
(5,372) Provisions			(6,615)	19
(5,059) Government Grants Deferred Account			(5,659)	
(3,804) Government Grants Unapplied			(5,816)	
(1,845,957) Pensions Liability			(1,796,166)	2 (c)
<b>(1,810,442) Total Assets less Liabilities</b>			<b>(1,759,069)</b>	
<b>Financed by:</b>				
(7,069) Fixed Asset Restatement Account			(6,753)	20/21
18,537 Capital Financing Account			19,189	20/22
- Usable Capital Receipts			-	20/23
8,370 Earmarked Reserves			10,347	20/24
(1,845,957) Pension Reserve			(1,796,166)	2(c)/20
15,677 General Fund Balance			14,314	20
<b>(1,810,442) Total Net Worth</b>			<b>(1,759,069)</b>	

## CASH FLOW STATEMENT

2005/06	2006/07		Note
£000	£000	£000	
<b>Revenue Activities</b>			
<i>Cash Outflows</i>			
219,776	224,242		
36,606	37,373	261,615	
<i>Cash Inflows</i>			
(40,696)	(43,081)		
(20,676)	(75,782)		
(60,739)	(12,638)		
(125,796)	(127,230)		29
(8,095)	(7,074)	(265,805)	
<b>380</b>		<b>(4,190)</b>	<b>26</b>
<b>Net Cash Inflow/(Outflow) from Revenue Activities</b>			
 <b>Returns on Investments and Servicing of Finance</b>			
<i>Cash Outflows</i>			
2,928	1,591		
126	70		
<i>Cash Inflows</i>			
(2,266)	(2,229)	(568)	
 <b>Capital Activities</b>			
<i>Cash Outflows</i>			
9,307	12,160		
<i>Cash Inflows</i>			
(452)	(548)		
(4,948)	(6,472)		29
-	-	5,140	
<b>5,075</b>		<b>382</b>	
<b>Net Cash (Inflow)/Outflow Before Financing</b>			
 <b>Management of Liquid Resources</b>			
(4,884)		2,056	27/28
 <b>Financing</b>			
<i>Cash Outflows</i>			
287	316		27/28
936	752		
<i>Cash Inflows</i>			
(1,500)	(1,450)	(382)	27/28
<b>(86)</b>		<b>2,056</b>	<b>27/28</b>
<b>(Increase)/Decrease in Cash</b>			

## **NOTES TO THE CORE FINANCIAL STATEMENTS**

### **1. Prior Period Adjustments**

The Authority has restated its Accounts for 2005/06 to reflect the new format required from 2006/07 onwards. In addition, the Authority has adopted several significant new accounting policies in 2006/07 that impact on the comparative figures for 2005/06 in the Income and Expenditure Account:

- (a) Capital financing charges for the use of fixed assets are no longer made to service revenue accounts.

*This has reduced Net Cost of Services in 2005/06 by £2.044m.*

- (b) Credits for government grants deferred are now posted to service revenue accounts rather than credited as a corporate income item.

*This has reduced Net Cost of Services in 2005/06 by £0.690m.*

- (c) Government grants utilised to fund capital expenditure are credited to the Income and Expenditure Account if they cannot be identified to specific depreciating assets.

*Specific government grants of £0.955m have been credited to Net Cost of Services. General government grants have been increased by £9.125m of which £8.034m was included within the opening balance of Government Grants Deferred Account.*

- (d) Gains and losses on disposal of fixed assets are recognised in the Income and Expenditure Account.

*No impact for 2005/06.*

- (e) Charges included for insurance settlements have been removed from Net Cost of Services.

*This has reduced Net Cost of Services by £0.200m.*

- (f) There has been a change in the methodology of cost allocation used to arrive at the service costs in the Income and Expenditure Account, calculated in accordance with the Best Value Accounting Code of Practice (BVACOP). In prior years, data from a two week activity sampling of police officers time has been used to allocate the costs of high volume, mixed role policing units between the service heads. The principal objective of the activity sampling exercise is to provide data for the Activity Based Costing (ABC) return which is submitted annually to the Home Office. ABC and BVACOP are increasingly divergent reporting methods. To address this divergence, activity data has not been used as a method of cost allocation for the 2006/07 figures.

Costs are now allocated to the appropriate division of service by reference to the cost centre and activity code on which they are recorded within the financial ledger. For policing units which undertake a mixed role costs have been allocated according to the primary objective of the unit rather than by the detail of the activity they undertake.

2005/06 figures have been restated to reflect the change in method. As these mixed role officers do not fit within one of the four discretionary service divisions, reporting has had to be reduced to the two mandatory service divisions.

*This has resulted in an increase of £48.2m in Policing in the Community matched by a compensating decrease in Crime.*

All of the above changes to the Income and Expenditure Account are reversed out through the Statement of the Movement on the General Fund Balance, and so have had no impact on the overall financial position of the Authority.

The impact on the 2005/06 comparable figures compared with those included in the 2005/06 Statement of Accounts are summarised in the following table (only those figures that have changed are shown):

	2005/06 Consolidated Revenue Ac	Change due to Costing Method	Change in Accounting Policies	2005/06 Restated Income & Expenditure Account
	£000	£000	£000	£000
Crime	137,297	(48,191)	(1,608)	87,498
Policing in the Community	100,060	48,191	(2,331)	145,920
Non Distributed Costs	(2,846)	-	50	(2,796)
<b>Impact on Net Cost of Services</b>	<b>234,511</b>	<b>-</b>	<b>(3,889)</b>	<b>230,622</b>
Asset Management Revenue Ac	(1,237)	-	1,237	-
Loss Premature Repayment of Debt	90	-	(90)	-
Interest Payable / Similar Charges	-	-	2,338	2,338
<b>Impact on Net Operating Cost</b>	<b>233,364</b>	<b>-</b>	<b>(404)</b>	<b>232,960</b>
<b>General Government Grant</b>	<b>(163,991)</b>	<b>-</b>	<b>(9,125)</b>	<b>(173,116)</b>

## 2. Pensions Costs and Injury Awards

### (a) *Participation in Pensions Schemes*

As part of the terms and conditions of employment of its employees, the Authority offers retirement benefits. Although these benefits will not actually be payable until employees retire, the Authority has a commitment to make the payments and this needs to be disclosed at the time that employees earn their future entitlement.

The Authority participates in three pensions schemes as explained in the Accounting Policies: there are now two separate Pension schemes for police officers (1987 and 2006) and the Local Government Pension Scheme (LGPS) for support staff, administered by the South Yorkshire Pensions Authority.

Injury awards are payable irrespective of whether a police officer is a member of the Pension Scheme and new tax rules from 1 April 2006 prevents injury awards from being part of pension scheme regulations. Injury awards have been moved into a separate Police Compensation Scheme and under the new pensions financial arrangements they must be paid from the Authority's operating account and not the Pension Fund Account. The injury awards have been accounted for as part of the FRS17 adjustments and information relating to these injury awards are disclosed separately in the following notes.

### (b) *Transactions in Pensions Schemes*

The cost of retirement benefits is recognised 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 required against council tax is based on the cash payable in the year, so the real cost of retirement benefits is reversed out of the Income and Expenditure Account in the Statement of Movement in the General Fund Balance.

The following transactions have been made in the Income and Expenditure Account and Statement of Movement in General Fund Balance during the year:

Police Pension Scheme	LGPS		Police Pension Schemes		Comp Scheme	LGPS
			1987	2006		
2005/06		2006/07				
£000	£000		£000	£000	£000	£000
<b>INCOME AND EXPENDITURE ACCOUNT</b>						
<i>Net Cost of Services</i>						
41,783	5,543	Current Service Cost	54,420	830	-	7,169
10	(2,856)	Past Service Cost	-	-	630	291
<i>Net Operating Expenditure</i>						
77,940	6,437	Interest Cost	87,690	40	1,230	7,127
-	(5,151)	Expected Return on Assets in the Scheme	-	-		(6,274)
<b>119,733</b>	<b>3,973</b>	<b>Net Charge to Income and Expenditure Ac</b>	<b>142,110</b>	<b>870</b>	<b>1,860</b>	<b>8,313</b>
<b>TOTAL</b>	<b>123,706</b>					<b>153,153</b>
<b>STATEMENT OF MOVEMENT IN GENERAL FUND BALANCE</b>						
<i>Reversal of Net Retirement Benefits Charges in accordance with FRS17</i>						
(119,733)	(3,973)		(142,110)	(870)	(1,860)	(8,313)
<b>TOTAL</b>	<b>(123,706)</b>					<b>(153,153)</b>
<i>Actual Amount for pensions charged against Council Tax</i>						
-	4,367	Employer's Contributions	25,894	399	-	4,880
32,795	-	Retirement Benefits payable to Pensioners	-	-	1,203	-
<b>TOTAL</b>	<b>37,162</b>					<b>32,376</b>

**(c) Assets and Liabilities in relation to Retirement Benefits**

The underlying assets and liabilities attributable to the Authority are as follows:

Police Pension Scheme	LGPS		Police Pension Schemes		Comp Scheme	LGPS
			1987	2006		
31 March 2006		31 March 2007				
£000	£000		£000	£000	£000	£000
(1,804,569)	(141,887)	Estimated liabilities	(1,733,983)	(3,110)	(24,540)	(147,479)
-	100,499	Estimated assets	-	-	-	112,946
<b>(1,804,569)</b>	<b>(41,388)</b>	<b>Net Liability</b>	<b>(1,733,983)</b>	<b>(3,110)</b>	<b>(24,540)</b>	<b>(34,533)</b>
<b>TOTAL</b>	<b>(1,845,957)*</b>				<b>TOTAL</b>	<b>(1,796,166)</b>

\*The liability outstanding for 31 March 2006 has been increased by £0.076m from that shown in the Accounts in 2005/06 to reflect the new requirement to take into account employer's contributions outstanding at the end of the year in determination of the liability.

The liabilities in the above table show the underlying commitments that the Authority has in the long-term to pay retirement benefits. The total liability of £1,796m has a substantial impact on the net worth of the Authority recorded in the Balance Sheet, resulting in a negative overall balance of £1,759m. However, statutory arrangements for funding the deficit mean that the financial position of the Authority remains healthy:

- the deficit on the Local Government Scheme will be made good by increased contributions over the remaining working life of employees, as assessed by the scheme actuary
- finance is only required to be raised to cover police pensions when the pensions are actually paid.

**(d) Basis for Estimating Assets and Liabilities**

Liabilities have been assessed on an actuarial basis using the projected unit method, which is an estimate of the pensions that will be payable in future years dependent on assumptions on mortality rates, employee turnover and salary levels, discounted to their present value.

The liabilities of the Police Pension and Compensation Schemes have been assessed by the Government Actuary's Department (GAD). The latest full available valuation of the Local Government Pension Scheme Fund was at 31 March 2004, and this has been updated by Mercer Human Resource Consulting Ltd, an independent firm of actuaries, in order to assess the liabilities as at 31 March 2007.

The main assumptions in the calculations are set out below.

Police Pension Scheme	LGPS		Police Pension / Comp Schemes	LGPS
2005/06			2006/07	
%	%		%	%
3.2	2.9	Rate of Inflation	3.4	3.1
4.7	4.65	Rate of Increase in Salaries	4.9	4.85
3.2	2.9	Rate of Increase in Pensions	3.4	3.1
N/A	50%	Take up of option to convert annual pension into retirement grant	N/A	50%
4.9	4.9	Rate for Discounting Scheme Liabilities	5.4	5.4

The Police Pension Scheme has no assets to cover its liabilities. Assets in the South Yorkshire Pension Fund are valued at fair value, principally market value for investments, and consist of the following categories, by proportion of assets held in the Fund:

31 March 2006 % of Assets		31 March 2007 % of Assets	Long Term Return %
64.9	Equity Investments	65.9	7.5
15.1	Government Bonds	14.9	4.7
7.8	Other Bonds	6.8	5.4
10.7	Property Assets	11.7	6.5
1.5	Other Assets	0.7	5.25

### (e) Actuarial Gains and Losses

The actuarial losses and gains identified as movements on the Pension Reserve in 2006/07 can be analysed into the following categories for both the Police Pension Scheme and the Local Government Pension Scheme. These are measured as absolute amounts and as a percentage of assets or liabilities at 31 March 2007, with comparable figures for 31 March 2003 to 31 March 2006.

	2002/03		2003/04		2004/05		2005/06		2006/07	
	£000	%	£000	%	£000	%	£000	%	£000	%
<b><i>Differences between actuarial assumptions about liabilities and actual experience</i></b>										
1987 Police Pension Scheme	20,000	2.4	(5,530)	0.5	26,940	1.9	870	0.05	34,220	2.0
2006 Police Pension Scheme	-	-	-	-	-	-	-	-	(1,880)	60.5
Police Comp Scheme	-	-	-	-	-	-	-	-	510	2.1
LGPS	-	-	-	-	120	0.1	(2,223)	1.6	-	-
<b><i>Changes in the demographic and financial assumptions used to estimate liabilities</i></b>										
1987 Police Pension Scheme	-	-	(211,430)	19.0	(280,420)	19.5	(279,711)	15.5	119,490	6.9
2006 Police Pension Scheme	-	-	-	-	-	-	-	-	390	12.5
Police Comp Scheme	-	-	-	-	-	-	-	-	1,070	4.4
LGPS	-	-	-	-	(23,868)	21.0	(13,953)	9.8	9,351	27.1
<b><i>Differences between expected and actual return on assets</i></b>										
LGPS	(14,999)	29.5	7,704	11.7	3,863	5.0	13,759	13.7	937	2.7
<b>TOTAL</b>	<b>5,001</b>		<b>(209,256)</b>		<b>(273,365)</b>		<b>(281,258)</b>		<b>164,088</b>	

### (f) Other Pensions Fund Gains

The pensions liability has been reduced by the Government grant receivable of £6.480m. This has been treated as Pension Fund Gains in the Statement of Total Recognised Gains or Losses.

### 3. Publicity

Under Section 5(1) of the Local Government Act 1986, the Authority is required to keep a separate account of its expenditure on publicity. In 2006/07, the Authority incurred £0.173m mainly on advertising for recruitment of staff (£0.236m in 2005/06).

### 4. Members' Allowances

The total sum paid to members specifically for allowances in 2006/07 was £0.108m (£0.106m in 2005/06). The allowances are initially paid to members by their respective District Councils and then subsequently recharged to the Authority.

## 5. Officers' Emoluments

The number of employees whose remuneration in 2006/07 was £50,000 or more, excluding pension contributions, was:

2005/06 Number	£	2006/07 Number
33	50,000 - 59,999	47
21	60,000 - 69,999	16
5	70,000 - 79,999	7
1	80,000 - 89,999	1
1	90,000 - 99,999	1
2	100,000 - 109,999	-
-	110,000 - 119,999	1
1	120,000 - 129,999	1

## 6. Audit Costs

The Authority has paid its external auditors, the Audit Commission, the following fees:

2005/06 £	2006/07 £
84,930 External Audit Fees	88,100
2,453 Certification of Grant	3,467
- Statutory Inspection	7,550
- Other	24,150
<b>87,383</b>	<b>123,267</b>

## 7. Intangible Fixed Assets

2005/06 £000	Software Licences	2006/07 £000
233	Balance at 1 April	656
573	Expenditure in year	695
	- Disposal	(78)
(150)	Written off to revenue in year	(443)
<b>656</b>	<b>Balance at 31 March</b>	<b>830</b>

Intangible assets are written off to revenue on a straight line basis over their expected useful lives which vary from 3 to 10 years depending on the asset.

## 8. Tangible Fixed Assets

The movement in tangible fixed assets during the year can be summarised as follows:

	Operational Assets		Non-Operational Assets		Total
	<i>Land &amp; Buildings</i>	<i>Vehicles &amp; Equip</i>	<i>Under Construction</i>	<i>Surplus</i>	
	£000	£000	£000	£000	£000
<b>Gross Book Value 1 April 2006</b>	<b>44,155</b>	<b>28,355</b>	<b>920</b>	<b>901</b>	<b>74,331</b>
Additions	3,756	6,378	1,141	-	11,275
Disposals	(419)	(4,992)	-	(62)	(5,473)
Revaluations/Restatements					
- Change in valuation	3,799	-	-	743	4,542
- Restatements	(3,756)	(2,705)	-	-	(6,461)
Reclassification	(958)	-	(920)	1,878	-
<b>Gross Book Value 31 March 2007</b>	<b>46,577</b>	<b>27,036</b>	<b>1,141</b>	<b>3,460</b>	<b>78,214</b>
<b>Depreciation 1 April 2006</b>	<b>(1,549)</b>	<b>(14,987)</b>	<b>-</b>	<b>(52)</b>	<b>(16,588)</b>
Charged During Year	(925)	(3,465)	-	(78)	(4,468)
Impairment	-	-	-	-	-
Written off					
- On Disposals	8	4,663	-	10	4,681
- On Revaluations	267	-	-	55	322
- On Reclassification	95	-	-	(95)	-
<b>Depreciation 31 March 2007</b>	<b>(2,104)</b>	<b>(13,789)</b>	<b>-</b>	<b>(160)</b>	<b>(16,053)</b>
<b>Net Book Value 31 March 2007</b>	<b>44,473</b>	<b>13,247</b>	<b>1,141</b>	<b>3,300</b>	<b>62,161</b>
<i>Net Book Value 1 April 2006</i>	<i>42,606</i>	<i>13,368</i>	<i>920</i>	<i>849</i>	<i>57,743</i>

The progress of the Authority's rolling programme for the revaluation of fixed assets is:

	Operational		Non-Operational		Total
	<i>Land &amp; Buildings</i>	<i>Vehicles &amp; Equip</i>	<i>Under Construction</i>	<i>Surplus</i>	
	£000	£000	£000	£000	£000
Valued at historical cost	-	27,036	1,141	-	28,177
Valued at current value in:					
Current year	10,602	-	-	2,694	13,296
2005/06	16,695	-	-	766	17,461
2004/05	10,745	-	-	-	10,745
2003/04	5,719	-	-	-	5,719
2002/03	2,816	-	-	-	2,816
<b>Gross Book Value 31 March 2007</b>	<b>46,577</b>	<b>27,036</b>	<b>1,141</b>	<b>3,460</b>	<b>78,214</b>

The valuations are carried out by an external valuer, the Valuation Office Agency, District Valuer Services, in accordance with the Practice Statements in the RICS Appraisal and Valuation Standards published by the Royal Institution of Chartered Surveyors. The basis for valuation is set out in the Statement of Accounting Policies. Reviews have been undertaken on those properties not subject to formal valuation during the year and no other impairments or material increases were identified.

## 9. Finance Leases

The Authority holds various capital assets, mainly vehicles and computer equipment, under finance leases. The following values of assets held under finance leases by the Authority are included as part of Tangible Fixed Assets:

<b>2005/06</b>	<b>Vehicles and Equipment</b>	<b>2006/07</b>
<b>£000</b>		<b>£000</b>
2,190	Value at 1 April	1,813
534	Additions	114
(911)	Depreciation	(759)
-	Disposals	(258)
<b>1,813</b>	<b>Value at 31 March</b>	<b>910</b>

Outstanding obligations to make payments under these finance leases (excluding finance costs) at 31 March 2007, accounted for as part of Deferred Liabilities, are:

<b>Vehicles and Equipment</b>	<b>£000</b>
Payable in 2007/08	479
Payable between 2008/09 and 2011/12	453
	<b>932</b>

## 10. Significant Commitments under Capital Contracts

The Authority has the following significant capital commitments as at 31 March 2007:

	<b>Contractually Committed</b>
	<b>£000</b>
Discipline and Complaints Building	2,423
Attercliffe Extension	2,004
Other Building Schemes	1,318
Vehicles	635
Other Schemes	625

It is expected that the expenditure will be incurred over the next two financial years.

## 11. Capital Expenditure and Sources of Capital Financing

The Authority invested in fixed assets through either direct capital purchase or finance leasing during the year totaling £11.970m. The table below shows how some of this expenditure has been financed by grants and the Authority's own internal resources such as capital receipts and revenue contributions. The balance that is not funded

reflects an increase in the Authority's capital financing requirement or, in other words, its underlying need to borrow.

<b>2005/06</b>		<b>2006/07</b>
<b>£000</b>		<b>£000</b>
28,640	<b>Opening Capital Financing Requirement</b>	29,066
	<b>Capital Expenditure</b>	
573	- Intangible Fixed Assets	695
8,736	- Tangible Fixed Assets	11,275
	<b>Sources of Finance</b>	
(4,419)	- Capital Receipts	(548)
(452)	- Grants and Contributions	(4,429)
(2,064)	- Direct Revenue Contributions	(1,429)
(1,948)	- Sums set aside from revenue to repay debt	(2,017)
29,066	<b>Closing Capital Financing Requirement</b>	32,613
	<b>Explanation of movements during the year</b>	
426	- Increase in underlying need to borrow (supported by Government financial assistance)	1,840
	- Increase in underlying need to borrow ( not supported by Government financial assistance)	1,707
<b>426</b>	<b>Increase in Capital Financing Requirement</b>	<b>3,547</b>

## 12. Information on Assets Held

An analysis of fixed assets held is as follows:

<b>31 March</b>		<b>31 March</b>
<b>2006</b>		<b>2007</b>
4	Headquarters and Annexes	2
1	Operations Complex at Sheffield Airport	1
46	Police Stations/Section Stations	45
13	Police Boxes and Posts	12
1	Training School	1
2	Stables and Kennels	2
1	Firearms Range	1
2	Motorway Posts	2
2	Garages and Workshops	2
41	Other Premises	41
6	Police Houses	4
778	Vehicles	825
1	Helicopter	1

## 13. Operating Leases

The Authority currently has operating leases for some properties, computer equipment and a small number of vehicles. Rental payments made during the year were £0.891m (£0.742m in 2005/06). The Authority is committed to making operating lease payments of £0.956m during 2007/08 (£0.872m in 2006/07).

The 2007/08 payments relate to leases which are due to expire over the following terms:

	<b>Land and Buildings £000</b>	<b>Vehicles and Equipment £000</b>
Leases expiring in 2007/08	13	-
Leases expiring between 2008/09 and 2012/13	486	281
Leases expiring beyond 2012/13	176	-

The Authority generates £0.045m in rental income from the lease of property assets. These leases relate to three police houses/offices and a proportion (11%) of the office accommodation at Atlas Court. The gross value of these assets held for use as operating leases, including the appropriate proportion of Atlas Court, is £1.059m and accumulated depreciation as at 31 March 2007 is £0.047m.

#### 14. Deferred Premiums

Premiums incurred as a result of the repurchase of borrowing during the restructuring of the loan portfolio are treated as deferred premiums and written off to the Income and Expenditure Account over the life of the replacement loans.

	<b>1 April 2006 £000</b>	<b>Premium Paid £000</b>	<b>Written Off £000</b>	<b>31 March 2007 £000</b>
Deferred Premiums	2,482	-	(104)	2,378

#### 15. Debtors

<b>31 March 2006 £000</b>		<b>31 March 2007 £000</b>
	<i><b>Amounts falling due after one year:</b></i>	
19	Car loans to employees	6
<b>19</b>	<b>Total Long Term Debtors</b>	<b>6</b>
	<i><b>Amounts falling due within one year:</b></i>	
5,368	Pensions and salary prepayments	5,029
6,387	Central Government	8,219
285	Other local authorities	2,047
28	Car loans to employees	4
2,037	Other debtors and prepayments	1,615
14,105		16,914
(49)	Less: Provision for Doubtful Debts	(38)
<b>14,056</b>	<b>Total Current Debtors</b>	<b>16,876</b>
<b>14,075</b>	<b>Total Debtors</b>	<b>16,882</b>

## 16. Creditors

31 March 2006 £000		31 March 2007 £000
3,201	Salary Accruals	3,166
5,173	Central Government	7,393
1,460	Other Local Authorities	954
4,635	Other creditors	4,638
<b>14,469</b>	<b>Total Creditors</b>	<b>16,151</b>

Cash that is seized by the Force because it is suspected of either having been used, or intended for use, for the purpose of crime, is held pending a court decision as to whether it should be returned or awarded under a forfeiture order to the Force or the Treasury. This seized cash has previously been included as a creditor in the Accounts, but has now been excluded from the Balance Sheet as it is held in trust for third parties by the Authority. The sum held at 31 March 2007 is £0.407m.

## 17. Long Term Borrowing

This consists of borrowing repayable beyond the next financial year. Loans repayable within the next twelve months are included as part of current liabilities (none as at 31 March 2007). Rates of interest payable on the loans range from 4.05% to 5.1%, with an average rate of 4.59% (4.62% in 2005/06).

31 March 2006 £000	Public Works Loans Board:	31 March 2007 £000
-	Maturity between 2 and 5 Years	-
3,410	Maturity between 5 and 10 Years	4,160
4,736	Maturity between 10 and 20 Years	4,821
22,534	Maturity in more than 20 Years	23,149
<b>30,680</b>		<b>32,130</b>

## 18. Deferred Liabilities

Deferred liabilities on the Consolidated Balance Sheet consist of:

31 March 2006 £000		31 March 2007 £000
9,716	Transferred Debt from former County Council	9,369
2,773	Insurance Settlements	2,566
1,790	Finance leases	453
<b>14,279</b>		<b>12,388</b>

### **Transferred Debt**

This consists of debt taken over from the former South Yorkshire County Council, where the loan management rests with Rotherham MBC. Debt of £0.347m is repayable within

the next twelve months and is included as part of Current Liabilities. The interest rate paid in 2006/07 was 6.34% (6.67% in 2005/06).

<b>31 March 2006 £000</b>	<b>Transferred Debt :</b>	<b>31 March 2007 £000</b>
347	Maturity between 1 and 2 Years	382
1,265	Maturity between 2 and 5 Years	1,391
3,105	Maturity between 5 and 10 Years	3,415
4,999	Maturity between 10 and 20 Years	4,181
<b><u>9,716</u></b>		<b><u>9,369</u></b>

### ***Insurance Settlements***

Structured insurance settlements are shown in the accounts as Deferred Liabilities and written down annually to the capital financing account.

	<b>1 April 2006 £000</b>	<b>Written Off £000</b>	<b>31 March 2007 £000</b>
Deferred Liability	2,773	(207)	2,566

### ***Finance Lease Liability***

Information on the liabilities associated with finance leases is shown in note 9. A sum of £0.479m is repayable within twelve months and is therefore excluded from the above figures and included as part of Current Liabilities on the Balance Sheet.

## **19. Provisions**

### ***Insurance Provisions***

The Authority provides a degree of self-insurance through its insurance provisions. Under its insurance policies, the Authority has to meet a proportion of each claim up to a total maximum level each year. A contribution to the provision is made from revenue to fund this uninsured liability, in accordance with advice from the Authority's insurance brokers. Payments are then made directly from the provision.

### ***Police Officers Overtime Provision***

This provision funds the cost of overtime due to police officers who have elected to take time off in lieu but are entitled to payment if time off has not been taken after three months.

Movements in provisions during the year are as follows:

	<b>1 April 2006 £000</b>	<b>Contribution from / (to) Revenue £000</b>	<b>Payments Out £000</b>	<b>31 March 2007 £000</b>
Employer/Public Liability	4,360	1,250	(169)	5,441
Motor Insurance	978	669	(503)	1,144
Police Officers' Overtime	34	33	(37)	30
	<b><u>5,372</u></b>	<b><u>1,952</u></b>	<b><u>(709)</u></b>	<b><u>6,615</u></b>

## 20. Reserves

Reserve	Balance 1 April 2006 £000	Net Movement in Year £000	Balance 31 March 2007 £000	Purpose of Reserve	Further Detail of Movements
Fixed Asset Restatement Account	(7,069)	316	(6,753)	Store of gains on revaluation of fixed assets	See Note 21
Capital Financing Account	18,537	652	19,189	Store of capital resources set aside to meet past expenditure	See Note 22
Usable Capital Receipts Reserve	-	-	-	Proceeds of fixed asset sales available to meet future capital expenditure	See Note 23
Pensions Reserve	(1,845,957)	49,791	(1,796,166)	Balancing account to allow inclusion of Pensions Liability in Balance Sheet	See Note 2
General Fund	15,677	(1,363)	14,314	Resources available to meet future running costs	Statement of Movement in General Fund Balance
Earmarked Reserves	8,370	1,977	10,347	Resources available to meet future costs	See Note 24
	<b>(1,810,442)</b>	<b>51,373</b>	<b>(1,759,069)</b>		

## 21. Fixed Asset Restatement Account

The balance on this account represents the difference between the valuation of assets under the previous system of capital accounting and subsequent revaluations, adjustments and disposals. The account is credited with any surpluses arising from revaluations, and debited with the deficit arising from any reduction in value due to a fall in prices. The account is also written down by the net book value of assets as they are disposed of. It is a balancing item, which enables current values of assets to be included in the balance sheet. It does not represent resources available to the Authority, and therefore cannot be called upon to support expenditure.

2005/06 £000		2006/07 £000
(9,907)	Balance at 1 April	(7,069)
3,290	Gains / (Losses) on revaluation / restatement of fixed assets	1,051
(452)	Net value of assets sold or disposed	(735)
<b>(7,069)</b>	<b>Balance at 31 March</b>	<b>(6,753)</b>

## 22. Capital Financing Account

The Capital Financing Account contains the capital resources set aside to meet capital expenditure and also the difference between amounts provided for depreciation and impairment and that required to be charged to revenue to repay the principal element of external loans. An adjustment is also made in respect of the contributions released from the Government Grants Deferred Account.

2005/06 £000		2006/07 £000
8,336	Balance at 1 April	18,537
-	<b>Write off Leased asset</b>	221
	<b>Resources set aside to meet capital expenditure</b>	
452	- Capital receipts	548
2,064	- Direct revenue financing	1,429
	<b>Replacement of fixed asset charges with statutory revenue provision</b>	
(149)	- Amortisation of Intangible Fixed Assets	(336)
(5,455)	- Depreciation / Impairment of Fixed Assets and De Minimis capital expenditure	(7,358)
775	- Government Grants Deferred Amortisation	1,082
10,080	- Other Capital Grants	2,747
2,234	- Minimum Revenue Provision / Transferred Debt	2,112
200	- Insurance Settlements	207
<b>18,537</b>	<b>Balance at 31 March</b>	<b>19,189</b>

## 23. Usable Capital Receipts Reserve

2005/06 £000		2006/07 £000
-	Balance at 1 April	-
(452)	Amounts receivable	(548)
452	Amounts applied to finance new capital expenditure	548
<b>-</b>	<b>Balance at 31 March</b>	<b>-</b>

## 24. Earmarked Reserves

The Authority has several reserves which are earmarked for a future specific purpose.

### **Capital Reserves**

Capital reserves are maintained to fund slippage in capital expenditure, and to finance future expenditure on capital schemes.

### **Helicopter Reserve**

Expenditure on pilotage, maintenance and running costs of the helicopter can be erratic and unpredictable because of emergency or extended flying hours and unplanned maintenance. Therefore any budgetary underspendings occurring in the financial year are transferred to the reserve, and any overspendings or one-off items of expenditure are funded by a contribution from the reserve.

### **Devolved Budget Holders Reserve**

In accordance with the Authority's approved scheme of financial devolution, devolved budget holders are allowed to carry forward any underspendings up to predetermined limits. The aggregate underspending is transferred to the reserve and is released to supplement devolved budgets in the new financial year.

### **Insurance Reserves**

These reserves represent sums set aside to fund future potential liabilities under current insurance arrangements.

### **Forensic Science Reserve**

This reserve was created to fund the outstanding work currently at the Home Office Forensic Science Service. This has been returned to general reserves during 2006/07.

### **Future Leasing Costs Reserve**

This reserve has been created to fund future leasing charges on Airwave and other computer equipment.

A summary of movements on the above reserves is shown below:

	<b>1 April 2006 £000</b>	<b>Net Movement £000</b>	<b>31 March 2007 £000</b>
Capital	1,636	(355)	1,281
Helicopter	84	119	203
Devolved Budget Holders	1,962	2,770	4,732
Insurance	3,920	-	3,920
Forensic Science	343	(343)	-
Future Leasing Costs Reserve	425	(214)	211
	<b>8,370</b>	<b>1,977</b>	<b>10,347</b>

## **25. Related Party Transactions**

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

Central Government has effective control over the general operations of the Authority. It is responsible for providing the statutory framework within which the Authority operates, and provides the majority of funding in the form of general or specific grants. Details of government grants are detailed in the Notes to the Accounts.

Members of the Authority have direct control over the Authority's financial and operating policies. From examination of the Register of Members' Interests, there were no related party transactions to disclose.

Certain officers might also be in a position to influence significantly the policies of the Authority. No material related party transactions have been identified following consultation with relevant officers.

The following other related parties transactions have been identified which are not specifically included elsewhere in the Accounts.

<b>2005/06 £000</b>		<b>2006/07 £000</b>
	<i>South Yorkshire District Councils</i>	
910	Barnsley MBC - Services of Joint Secretariat	960
994	Rotherham MBC - Transferred Debt	969

**26. Reconciliation of Net Surplus / Deficit on Income and Expenditure Account to Revenue Activities in Cash Flow Statement**

2005/06 £000		2006/07 £000	£000
	<b>Income and Expenditure Account</b>		
79,487	(Surplus)/Deficit for Year		120,246
	<b>Statement of Movement in General Fund</b>		
	<b>Balance transactions</b>		
(123,706)	FRS17 charges for retirement benefits	(153,153)	
5,366	Charges for Fixed Assets / Insurance Settlements	(3,624)	
37,162	Employers pensions contributions	<u>32,376</u>	(124,401)
	<b>Non Cash Transactions</b>		
1,347	Movement in Provisions	(1,243)	
(104)	Write off of Deferred Premium	<u>(104)</u>	(1,347)
	<b>Items on an Accruals Basis</b>		
81	Increase/(Decrease) in Stocks	(107)	
1,851	Increase/(Decrease) in Debtors	2,697	
(316)	(Increase)/Decrease in Creditors	<u>(1,846)</u>	744
	<b>Items Classified Elsewhere in Statement</b>		
(2,928)	Interest Paid	(1,591)	
2,266	Interest Received	2,229	
(126)	Finance Lease	<u>(70)</u>	568
<u>380</u>	<b>Net Cash (Inflow) / Outflow from Revenue Activities</b>		<u>(4,190)</u>

**27. Analysis of Movement in Net Debt**

	Balance 1 April 2006 £000	Cash Flow Changes £000	Non Cash Changes £000	Balance 31 March 2007 £000
<b>FROM BALANCE SHEET</b>				
<b>Movements in Cash</b>				
Cash in Hand and Bank	110	6	-	116
Bank Overdraft	<u>(902)</u>	<u>(2,062)</u>	-	<u>(2,964)</u>
	(792)	(2,056)	-	(2,848)
Short Term Borrowing	(316)	316	(826)	(826)
Long Term Borrowing	(30,680)	(1,450)	-	(32,130)
Deferred Liabilities	(9,716)	-	347	(9,369)
Finance Lease Liability	(1,790)	858	479	(453)
Temporary Investments	34,253	2,056	-	36,309
<b>Movement in Net Debt</b>	<u>(9,041)</u>	<u>(276)</u>	-	<u>(9,317)</u>

The change in temporary investments shown in the above table reconciles to the Management of Liquid Resources section of the Cash Flow Statement.

## 28. Reconciliation of Net Cash Flow to Movement in Net Debt

	£000	£000
<b>Decrease in Cash (from Cash Flow Statement)</b>		(2,056)
<b>PWLB Debt</b>		
Cash used to repay debt	-	
Cash inflow from new borrowing	<u>(1,450)</u>	(1,450)
<b>Deferred Liabilities</b>		
Cash used for Transferred Debt repayment	316	
Cash used to repay capital element of Finance Lease	<u>858</u>	1,174
<b>Current Investments</b>		
Cash decrease due to increase in investments		2,056
<b>Movement in Net Debt</b>		<u><b>(276)</b></u>

## 29. Analysis of Government Grants

<b>2005/06</b>		<b>2006/07</b>
<b>£000</b>	<b>Revenue Grants</b>	<b>£000</b>
103,252	Police General Grant	99,730
7,343	Crime Fighting Fund	5,875
1,822	South Yorkshire Safety Camera Partnership	2,052
1,629	Police Reform	-
1,216	Basic Command Unit Challenge grant	873
858	DNA Expansion and other DNA related grants	539
997	South Yorkshire Drug Testing Pilot	1,224
250	Street Crime Initiative	-
829	Debt Charges Grant	772
2,248	Community Support Officers	5,223
118	Occupational Health	-
175	National Intelligence Model	-
-	Pensions Top Up Grant	3,060
-	Police Incentivisation	457
-	Dedicated Security posts	1,145
-	Police Learning and Development Programme	630
-	Human Trafficking	658
-	Single Non Emergency Number	508
5,059	Other Miscellaneous Grants	4,484
<u>125,796</u>		<u>127,230</u>
	<b>Capital Grants</b>	
3,086	Police General Grant	3,311
608	Premises Improvement Fund	-
-	NSPIS Custody and Case Preparation	732
-	CCTV Replacement	561
-	Single Non Emergency Number	473
1,254	Other small grants	1,395
<u>4,948</u>		<u>6,472</u>

### 30. Trust Fund

The Authority acts as trustee for the Brian Moseley Prize Fund. Income from the Fund is to be used for a prize to the member of the South Yorkshire Police who has contributed most to the furtherance of good community relations in South Yorkshire. It is not included in the Authority's balance sheet.

<b>1 April 2006</b>	<b>Income</b>	<b>Expenditure</b>	<b>31 March 2007</b>
<b>£</b>	<b>£</b>	<b>£</b>	<b>£</b>
724	33	(59)	698

### 31. Contingent Liabilities

The Authority has two significant contingent liabilities.

- A claim of £1.7m has been issued against the Authority in respect of unpaid storage charges for 28 vehicles. The Authority maintains that liability rests with the Crown Prosecution Service as the vehicles were stored at their direction in relation to a criminal prosecution.
- A potential liability exists for outstanding leave days to Police officers. When an officer works a rest or weekly leave day, that officer is entitled to either payment or another day off. At 31 March 2007, the estimated value of outstanding leave is £4.7m. Since it is uncertain whether this will be taken as payment rather than leave, no accrual has been made in the accounts. A comprehensive management regime has been established to eliminate the backlog.

## POLICE PENSION FUND ACCOUNT

	2006/07	
	£000	£000
<b>Contributions Receivable</b>		
<i>From Employer</i>		
- Normal	(25,879)	
- Early Retirement	(334)	
<i>From Members</i>	<u>(11,551)</u>	(37,764)
<b>Transfers In from Other Schemes</b>		(1,183)
<b>Benefits Payable</b>		
- Pensions	35,776	
- Commutations and Lump sum Retirement Benefits	9,073	
- Death Benefits	<u>151</u>	45,000
<b>Payments to and on account of Leavers</b>		
- Refunds of Contributions	83	
- Transfers Out to Other Schemes	<u>344</u>	427
<b>Net amount payable for the year before transfer from the Police Authority of the amount equal to the deficit</b>		<u><u>6,480</u></u>
Additional funding payable by the Authority to fund the deficit for the year		(6,480)
<b>Net Amount Payable / Receivable for Year</b>		<u><u>-</u></u>

## NET ASSETS STATEMENT

	31 MARCH 2007
	£000
<b>Net Current Assets and Liabilities</b>	
- Contributions received in advance from Employer	(574)
- Contributions received in advance from Employees	(255)
- Unpaid pensions benefits	-
- Cash in Hand	829
<b>TOTAL</b>	<u><u>-</u></u>

## **Notes to the Pension Fund Account**

The funding arrangements for the two Pensions Pension Schemes (1987 and 2006 schemes) changed from 1 April 2006. Prior to 1 April 2006, the Authority was responsible for paying the pensions of its former employees on a pay-as-you-go basis. The Authority is now required by legislation to operate a Pension Fund with the amounts that must be paid into or out of the Pension Fund being specified by regulation. This means that the Authority now no longer meets pensions expenditure directly, except for the costs of injury awards, and instead pays an employer's pension contribution, based on a percentage of pay, into the Pensions Fund.

The Pension Schemes remain unfunded which means that there are no investment assets built up to meet pensions liabilities. The Pension Fund Account is balanced to nil each year by a transfer from the Police Authority to fund the deficit on the Police Pension Fund Account. The Authority receives a top-up grant from the Government equal to this amount.

The Pension Fund Statement does not take into account any liabilities to pay pensions or any other benefits not relating to the current year.

## **GLOSSARY OF TERMS**

### **Accrual**

The concept that income and expenditure is recognised as it is earned or incurred, not as cash is received or paid.

### **Actuarial Gain or Loss**

The change in actuarial deficits or surpluses that arise because either events have not coincided with the actuarial assumptions made for the last valuation (experience gains or losses), or because the actuarial assumptions have changed.

### **Assets**

Items of worth which are measurable in monetary terms. Current assets are ones that change in value on a day to day basis whereas fixed assets are assets which yield benefit to the Authority for a period of more than one year.

### **Capital Expenditure**

Spending on the acquisition of assets or spending which adds to and not merely maintains the value of an existing asset.

### **Capital Financing Requirement**

This measures the underlying need to borrow for capital purposes.

### **Capital Receipt**

Proceeds from the disposal of land or other capital assets which may be used to reduce debt or to finance capital expenditure, but cannot be used to support revenue expenditure.

### **Contingent Liability**

A possible liability at the balance sheet date which will only be confirmed following the outcome of uncertain future events.

### **Corporate and Democratic Core**

The costs associated with corporate policy making and member based activities, together with costs relating to corporate management, public accountability and treasury management.

### **Creditor**

Amounts owed by the Authority for works done and goods or services received for which actual payments had not been made by the end of the financial year.

### **Current Service Cost (Pensions)**

This measures the increase in the present value of pensions liabilities generated in the financial year by employees. It is an estimate of the true economic cost of employing people in the financial year, earning service that will eventually entitle them to the receipt of a lump sum and pension when they retire.

### **Debtor**

Amounts due to the Authority for works done and goods or services supplied for which actual payments had not been received by the end of the financial year.

### **Defined Benefit Pension Scheme**

Retirement benefits are defined independently of the contributions payable and benefits are not directly related to the investments of the scheme. The scheme may be funded or unfunded.

### **Depreciation**

The measure of the wearing out, consumption or other reduction in the useful life of a fixed asset arising from age, wear and tear, deterioration or obsolescence.

**Earmarked Reserves**

Amounts set aside for a specific purpose in one financial year and carried forward to meet expenditure in future years

**Expected Rate of Return on Pensions Assets**

This is a measure of the average rate of return expected on the investment assets held by the scheme for the year. It is not intended to reflect the actual realised return on the scheme, but a longer-term measure, based on the value of assets at the start of the year and an expected return factor.

**Finance Lease**

A lease that transfers all the risks and rewards of ownership of a fixed asset to the lessee. Assets held in this way by the Authority appear on the Authority's balance sheet and are accounted for as tangible fixed assets.

**Impairment**

A reduction in the value of a fixed asset below its carrying amount on the balance sheet.

**Intangible Fixed Assets**

These are fixed assets such as software licences that do not have physical substance, but are identifiable and controlled through legal or custody rights.

**Interest Costs (Pensions)**

The expected increase in the present value of liabilities during the year as they move one year closer to being paid.

**Liabilities**

Amounts due to individuals or organisations which will have to be paid at some point in the future. Current liabilities are usually payable within one year of the balance sheet date.

**Minimum Revenue Provision**

The statutory minimum amount that must be set aside from revenue each year to repay debt. This is currently 4% of the Capital Financing Requirement.

**Net Book Value**

The amount at which fixed assets are included in the balance sheet, that is their historical or current value less the cumulative amounts provided for depreciation.

**Operating Leases**

A lease where substantially all the risks and rewards of ownership of a fixed asset remain with the lessor.

**Past Service Cost (Pensions)**

These costs represent the increase in liabilities arising from decisions taken in the current year to improve retirement benefits, but whose financial effect is derived from years of service earned in earlier years.

**Provisions**

Sums set aside to cover a liability that is likely to be incurred, but the amounts or date on which the cost will arise is uncertain.

**Revenue Expenditure**

Expenditure on day to day running costs incurred by the Authority in the provision of services