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(b) Legislation in the United Kingdom governing the preparation and dissemination of financial statements may differ from legislation in other jurisdictions.”

ESSEX POLICE AUTHORITY STATEMENT OF ACCOUNTS FOR 2004/05 CONTENTS

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EXPLANATORY FOREWORD

Introduction

Essex Police Authority is an independent body created by the Police and Magistrates' Courts Act 1994. It sets its own budget, has its own Formula Spending Share (FSS), holds its own reserves and receives funding from the Government by way of the Police Grant, Revenue Support Grant and Business Rates. It precepts local district and unitary authorities for the proportion of the budget to be met by Council Tax.

The Statement of Accounts has been published in accordance with the Audit Commission Act 1998.

The accounts are prepared in accordance with the CIPFA Code of Practice on Local Authority Accounting in The United Kingdom 2004.

The Statement of Accounts is also intended to provide the reader with an overall impression of the finances of Essex Police Authority.

Background

Essex Police Authority ("The Authority") incurs both revenue and capital expenditure.

The Revenue Account relates to expenditure and income incurred during the financial year.

Revenue expenditure is funded by Central Government Grants, Business Rates and Council Tax Receipts. Revenue Support Grant is distributed through the Formula Spending Share (FSS) mechanism and Police Grant is distributed on a formula basis.

Capital expenditure relates to spending on assets that have a usable life of more than one year. This mainly covers building improvement works and the purchase of vehicles and IT systems. The expenditure is supported by Home Office grants.

Additionally, the Authority can utilise receipts from the sale of assets to support capital expenditure. This is subject to Government regulations.

The Accounting Statements

The Authority's accounts for the year 2004/05 are set out on the following pages. They consist of the:

[Introduction by the Treasurer to the Police Authority \(Pages 3 – 6\)](#)

This is a brief explanation of the financial aspects of the Authority's activities and highlights the significant features of its financial position.

[Statement of Responsibilities for the Statement of Accounts \(Page 7\)](#)

This states the Authority's and the Treasurer's responsibilities in the administration of the financial affairs and the preparation of the Statement of Accounts of the organisation.

[Statement on the System of Internal Control \(Pages 8-12\)](#)

This states the framework within which internal control is managed and reviewed and the main components of the system, including the arrangements for internal audit.

[Auditors' Report to Essex Police Authority \(Page 13\)](#)

This states the auditor's opinion on whether the Statement of Accounts presents fairly the financial position and operations of the Authority.

[Statement of Accounting Policies \(Pages 14-16\)](#)

The accounting policies adopted by the Authority comply with the guidance notes issued by CIPFA, unless otherwise stated.

[Revenue Account \(Page 17\)](#)

This summarises the income and expenditure relating to all the Authority's functions and is disclosed both in the form of a Service Expenditure Analysis and by subjective classification (see Revenue Account Notes pages 18-22).

[Balance Sheet \(Page 23\)](#)

This sets out the financial position of the Authority on the 31 March 2005.

[Statement of Total Movements in Reserves \(Page 24\)](#)

This is a statement that brings together all the recognised gains and losses of the Authority for 2004/05. It identifies those transactions that have not been taken through the Revenue Account.

[Cash Flow Statement \(Page 35\)](#)

This statement summarises the inflows and outflows of cash with third parties.

[Glossary of Terms \(Pages 38-42\)](#)

This is a list of accounting terms that appear throughout the Accounts.

INTRODUCTION BY THE TREASURER TO THE POLICE AUTHORITY

Introduction

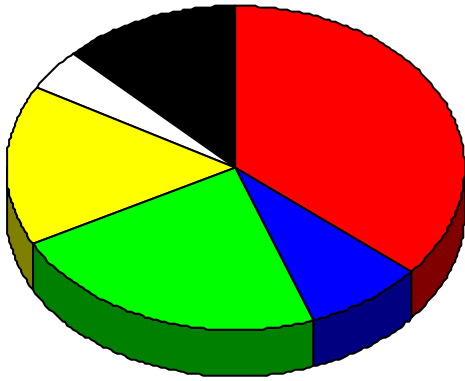
This section provides a brief summary of the Police Authority's finances for the 2004/05 financial year.

Where the money came from

In 2004/05, the Authority received £266.501m. The chart below shows where the Authority's money came from.

The largest single source was £96.185m from the Police Grant.

The appropriations figure includes all movements to and from reserves including the surplus for the year transferred to the General Reserve.

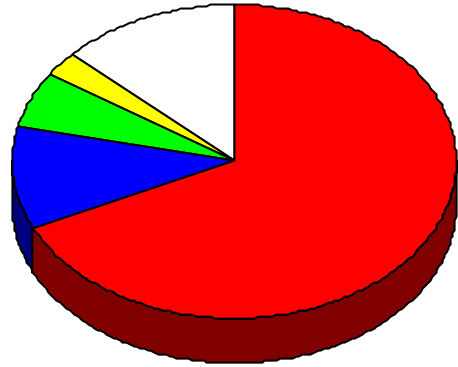


Police Grant	£96.185m	(36.1%)
Business Rates	£22.096m	(8.3%)
Council Tax	£61.148m	(22.9%)
Revenue Support Grant	£42.652m	(16.0%)
Appropriations and AMRA	£10.783m	(4.1%)
Other Income	£33.637m	(12.6%)

What the money was spent on

An analysis of the Authority's gross expenditure of £266.501m is set out below.

Employees and Pension costs accounted for 78.6% of the Authority's gross expenditure.



Employees	£181.62m	(68.1%)
Police Pensioners	£27.870m	(10.5%)
Premises	£15.373m	(5.8%)
Transport	£6.720m	(2.5%)
Supplies & Services	£34.585m	(13.0%)
Other	£0.333m	(0.1%)

Note : These figures will not match those in the Revenue Account (page 17) or in the subjective classification of the Revenue Account (page 19), as they have been adjusted to exclude any entries relating to the new requirements under FRS17 Retirement Benefits. These entries are not cash related and are designed to reflect our commitment in the long term to fund pensions liabilities accrued in the current year. Further explanations of FRS17 can be found in the Statement of Accounting Policies (page 14), Note 12 to the Revenue Account (page 22) and Note 20 to the Balance Sheet (pages 32 - 34).

INTRODUCTION BY THE TREASURER TO THE POLICE AUTHORITY

The Police Revenue Account

The table on the following page compares actual net expenditure with the final approved budget for the Police Revenue Account.

The actual level of total net expenditure in 2004/05 was £221.394m, compared to a budget of £222.081m, an underspend of £0.687m or 0.3% (2003/04 net expenditure was £209.075m compared to the budget of £212.756m, an underspend of £3.681m or 1.7%). There was a planned withdrawal from the General Reserve of £5.613m, however in year monitoring revealed underspends and £3.476m was returned to the General Reserve. On 24 January 2005, the Resource and Finance Committee agreed to establish a new earmarked reserve for the contact management programme, thus £9.700m was moved from the General Reserve. The planned net withdrawal from the General Reserve was therefore £11.837m. Both police officers and police staff pay were under spent due to higher than anticipated vacancy levels. Supplies and services underspend included car allowances, body armour, consultants and telephone call charges.

The Authority operates a rolling budget facility where underspending on certain budgets may be carried forward, subject to certain limits, into the following year by transferring them to an earmarked reserve. The balance on this reserve at 31 March 2005 was £3.358m (2003/04 £2.251m) and enables specific unspent budget provisions to be carried forward from 2004/05 to 2005/06 to meet planned commitments.

The General Reserve at 31 March 2005 stood at £9.484m, equivalent to 4.28% of net expenditure. Based on a planned withdrawal of £1.470m in 2005/06, this is expected to stand at £8.014m on 31 March 2006, equivalent to 3.62% of net expenditure (2003/04 £20.634m 9.87%).

The Police Capital Account

In 2004/05, capital expenditure amounted to £10.872m compared with an approved revised estimate of £11.864m (2003/04 £11.829m compared to £11.942m).

Expenditure was incurred on a range of capital projects including improvements to the Authority's buildings, the development of new IT systems, enhancements to the communications network, force wide implementation of the Airwave radio system and the acquisition of operational equipment and fleet vehicles.

INTRODUCTION BY THE TREASURER TO THE POLICE AUTHORITY

Comparison of 2004/05 Net Revenue Expenditure and Budget

	<i>Net expenditure</i>	<i>Final Budget</i>	<i>Variance overspent/ (underspent)</i>
	<i>£000</i>	<i>£000</i>	<i>£000</i>
Net Cost of Services	237,267	238,392	(1,125)
Interest receivable	(2,827)	(2,606)	(221)
Asset Management Revenue Account	(9,064)	(6,585)	(2,479)
FRS17 Pensions (Interest & Return on Assets)	60,494	60,494	-
Net Operating Expenditure	<u>285,870</u>	<u>289,695</u>	<u>(3,825)</u>
Appropriations			
Contributions to capital reserves	(2,872)	41	(2,913)
Net contributions to/(from) earmarked reserves	12,304	6,253	6,051
Contribution to /(from) FRS17 Pensions Reserve	(62,071)	(62,071)	-
Planned Contribution from General Reserve	(11,837)	(11,837)	-
Total Net Expenditure	<u>221,394</u>	<u>222,081</u>	<u>(687)</u>
Surplus for the year appropriated to General Reserve	687	-	687
Budget Requirement	<u>222,081</u>	<u>222,081</u>	<u>-</u>

INTRODUCTION BY THE TREASURER TO THE POLICE AUTHORITY

Financial Outlook

The Authority has a General Reserve of £9.484m to carry forward into the 2005/06 financial year.

For 2005/06, the Government announced that Essex Police's Formula Spending Share (FSS) together with the principal police grant totalled £212.648m, representing a headline increase of 4.6% over 2004/05. This reflects the assessment by the Government of how much an Authority needs to spend to provide a common level of service and is used to distribute the Revenue Support Grant and the Police Grant.

The actual increase in grants received was 3.75% which is equivalent to the 'floor' (i.e. the minimum level guaranteed by the Government to all Police Authorities).

The Authority set its budget requirement for 2005/06 at £232.229m after taking into account committed changes of £11.828m, service investments of £0.801m and expenditure reductions of £6.841m. The budget is supported by a withdrawal from reserves of £5.925m to meet non-recurrent items.

The table below summarises the increase in net expenditure from 2004/05, in monetary and percentage terms:

	<i>Budget</i> £000	<i>Change</i> %
2004/05 Budget Requirement	222,081	
Removal of one-off 2004/05 items	(3,361)	(1.5)
Expenditure financed from the General Reserve in 2004/05	5,613	2.5
	<u>224,333</u>	
Pay and price increases	8,033	3.6
Committed changes	11,828	5.3
Service Investments	801	0.4
Expenditure reductions	(6,841)	(3.1)
Use of Earmarked Reserves	(4,455)	(2.0)
Use of General Reserve	(1,470)	(0.7)
2005/06 Budget Requirement	<u><u>232,229</u></u>	<u><u>4.5</u></u>

The Government funding settlement takes into account the need to deliver 3% efficiency improvements. This equates to £7.146m comprising of cashable budget reductions and non-cashable efficiency savings.

A total of £0.801m has been identified for service investments that will have the following operational benefits:

- More police officers will be released to perform front line duties in accordance with the current Government agenda;
- Greater reassurance for the community as more Police Community Support Officers are recruited;
- More resources to employ automatic number plate recognition technology;
- More police officers to fight high tech crime.

Specific government grants include Crime Fighting Fund (CFF) £6.067m for 207 officers, and Rural Policing (£0.503m).

STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS

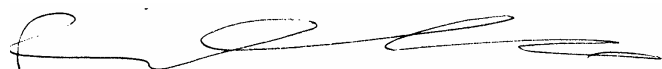
The Authority's Responsibilities

The Authority is required:

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

Completion of the Approval Process by The Authority

I certify that the following financial statements have been approved through the appropriate channels of The Authority. The opinions of the Treasurer and the appointed auditors can be found on page 7 and 13.



Councillor Robert Chambers,
Chairman, Essex Police Authority
26 September 2005

The Treasurer's Responsibilities

The 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 of Practice'). In preparing this Statement of Accounts, the Treasurer has:

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

The Treasurer has also:

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

I certify that the Statement of Accounts, on pages 14 to 37, have been prepared in accordance with proper accounting practices and presents fairly the financial position of the Authority at 31 March 2005 and its income and expenditure for the year then ended.



Robin Paddock CPFA
Treasurer to the Essex Police Authority
26 September 2005

STATEMENT ON THE SYSTEM OF INTERNAL CONTROL

Scope of Responsibility

The primary responsibility of the Police Authority is to secure an efficient and effective policing service for everyone in the Essex Police area. In so doing, it is required to ensure that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded. Essex Police Authority also has a duty under the Local Government Act 1999 to make arrangements to secure continuous improvement in the way in which its functions are exercised, having regard to a combination of economy, efficiency and effectiveness.

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

The Purpose of the System of Internal Control

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effective control. 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.

The system of internal control has been in place at the Police Authority for the year ended 31 March 2005 and up to the date of approval of the annual Statement of Accounts.

The Internal Control Environment

Although the Chief Constable is responsible for operational policing matters and the direction and control of police personnel, the Police Authority, in discharging its responsibilities must satisfy itself that the Force has appropriate control mechanisms in place.

The system of internal control is based on a framework comprising systems, policies, procedures and operations designed to:

- Establish & monitor the achievement of the Authority's objectives
- Facilitate policy & decision making
- Ensure compliance with the established framework
- Manage the performance of the Authority, and reporting thereon.

The Internal Control Environment (contd.)

The overall framework consists of a number of strands covering:

- Planning
- Financial management
- Performance management
- Risk management, and
- Governance

The Planning Framework

3 year policing strategy

The Police Authority is required to publish a 3 year policing strategy, setting out its medium term vision, which must take account of the National Policing Plan. The 3 year policing strategy is produced jointly with the Force.

Local Policing Plan

The Police Authority is required to publish each year a Local Policing Plan, which sets out its local policing priorities and the resourcing of those priorities. It must take into consideration any objectives set by the Government. The Local Policing Plan is produced jointly with the Force and reflects the views of the public and takes into account the plans of other relevant bodies, such as the Crime and Disorder Reduction Partnerships (CDRPs).

Environmental Scanning

In determining its medium term vision and annual plans, both the Force and the Authority need to identify and take into account those issues and factors which will substantially affect its plans. The Corporate Support Department has a dedicated environmental scanning function, which is responsible for assisting with the review and development of corporate strategies. In addition the Force conducts quarterly Strategy and Performance Conferences designed to:

- Develop the Essex policing plan
- Develop strategies to achieve the plan
- Monitor and drive performance, against the plan.

Community Engagement

The Police Authority has a duty to consult with the public in relation to policing issues. The Force also has a fundamental need to engage with local communities on policing issues. The Authority and the Force achieve this through a variety of formal and informal mechanisms, such as:

- Surveys
- Police Community Consultation Groups (PCCGs)
- Independent Advisory Group (IAG)
- Business Community Consultation
- Dialogue with partner agencies

The feedback from these is captured for the formalised planning process as well as providing local operational officers with more immediate information on local issues.

STATEMENT ON THE SYSTEM OF INTERNAL CONTROL

Financial Management Framework

Financial control involves the existence of a control structure which ensures that all resources are used as efficiently and effectively as possible to attain the Authority's overall objectives and targets. Internal financial control systems are in place to minimise the risk of loss, unlawful expenditure or poor value for money, and to maximise the use of the Authority's assets and limited resources.

The key elements of the Authority's financial management framework are set out below.

Financial Regulations

Financial Regulations establish the principles of financial control. They are designed to ensure that the Authority conducts its financial affairs in a way which complies with statutory provision and reflects best professional practice.

Financial Instructions

The Chief Constable has issued a Finance Manual to supplement the Authority's Financial Regulations. These are used to ensure the proper application and control of public money and to safeguard the officers involved in financial processes.

Contract Standing Orders

These set out the rules to be followed in respect of contracts for the supply of goods and services.

Treasury Management

The Police Authority has adopted the CIPFA Code on Treasury Management requiring the Authority to approve an annual treasury management strategy including an annual investment strategy.

Medium term financial planning

In accordance with the Prudential Code and best accounting practice the Authority produces a three year medium term service and financial plan and a three year capital programme. These are considered in the autumn each year and form the basis of further discussion and debate on the annual revenue budget and capital programme.

The medium term service and finance plan (MTSFP) includes full provision for inflation, known commitments and other expenditure items which the Chief Constable has identified as necessary to deliver both national and local policing priorities. The MTSFP also addresses the level of reserves, provisions and the general reserve.

Financial Management Framework

Revenue budget

The revenue budget provides an estimate of the annual income and expenditure requirements for the police service and sets out the financial implications of the Authority's policies. It provides chief officers with authority to incur expenditure and a basis on which to monitor the financial performance of the Authority.

The Authority is required to set its budget and council tax level (precept) by the end of February prior to the start of the relevant financial year.

Capital programme

Capital expenditure is an important element in the development of the Authority's services since it represents major investment in new and improved assets. The Authority approves a rolling three year capital programme each year.

Internal audit

Internal audit is an assurance function that provides an independent and objective opinion to the organisation on the control environment by evaluating its effectiveness in achieving the organisation's objectives. It works to a code of practice and prepares a plan of activities that is submitted to members for approval. It examines, evaluates and reports on the adequacy of internal control as a contribution to the proper, economic, efficient and effective use of resources. The Internal Auditor reports on a quarterly basis to members on progress against both the plan and actions arising out of each audit exercise.

Treasurer to the Police Authority/Director of Finance & Administration

The Treasurer is the Authority's professional advisor on financial matters. The statutory responsibilities of the Treasurer to the Police Authority are set out in various Acts, including sections 112 and 114 of the Local Government Finance Act 1988.

The Director of Finance & Administration is responsible to the Chief Constable for all financial activities undertaken within the Force, or contracted out under the supervision of the Force. The Director of Finance & Administration is a key member of the Chief Officers' Management Team.

The Treasurer and Director of Finance & Administration work closely together throughout the year to ensure that the Authority's financial plans and arrangements are delivered in the most effective manner possible.

STATEMENT ON THE SYSTEM OF INTERNAL CONTROL

Performance Management Framework

Police Authority Business Structure

The Police Authority conducts its business based around a committee structure and a scheme of delegated powers. Within this framework the Authority has formal and informal mechanisms for the monitoring and scrutiny of the performance of the Force. The Authority is ultimately accountable for securing an effective and efficient Police Force.

Force Business Structure

The Force is structured to ensure not only a management framework where certain operational decisions must be taken at a designated level, but also one that supports and promotes a performance culture. The Chief Constable is ultimately accountable to the Police Authority for the performance of the Force.

Performance Analysis and Review

The Force's analysis and review functions help to develop and provide guidance on planning in support of Force objectives; to monitor, analyse and advise on performance; to identify good and bad performance; and to generate performance improvements.

Projects

Chief Officers have an annual programme of work, divided into five portfolios:

- Force Development
- Operational Policing
- Crime
- Human Resources
- Support Services

The programme of work is derived from new legislation, Home Office directives, the National Policing Plan, ACPO policy and initiatives generated within the Force. Many of these have deadlines that require development work to be conducted within fixed timescales.

Operational Audit & Inspection

This unit's role is to complete systematic reviews of Divisions and Departments to enable assessment of their performance against Force strategies, ensure compliance with Essex Police policies and to ensure data quality in Essex Police systems.

PDRs

The mandatory system of Performance Development Reviews for each officer and member of staff provides for the cascading of and targeting of key objectives which appear within the Force plans. The process ensures a clear focus for individuals on those issues which most concern the organisation.

Risk Management Framework

Risk Management

The Force works to identify areas of risk, assess the likely impact and seek to eliminate or reduce the consequences of those risks. It maintains a risk register. Operational risk assessments are maintained and updated on a regular basis.

Insurance /Self-insurance

Part of the approach to risk management involves the purchasing of insurance cover to protect assets and liabilities where it is either required or is cost effective to do so.

It is sometimes more cost-effective for the Authority to self-insure some elements of the overall insurance package, especially where external insurance costs are high. The Authority maintains an Insurance Provision, which is reviewed annually, to help meet claims.

Project Methodology

PRINCE is the Force's structured methodology for project management. All Force projects are controlled and directed by the Force Development Board.

Health and Safety

The Police Authority and Force are committed to the health, safety and well-being of all staff, others persons and visitors.

A range of supporting policies and arrangements are in place to ensure that adequate safety controls meet Force health and safety standards or legislative requirements and best practice. They are published on the Force Intranet and accessible to all staff.

Monitoring officer

The Chief Executive is the Authority's designated monitoring officer who has a statutory duty to highlight any proposals, decisions or omissions by the Authority which constitute, has given rise to, or is likely to give rise to either a breach of the law, a breach of a statutory code, or which constitute maladministration or injustice.

The monitoring officer is the proper officer for the purposes of ensuring that executive decisions, together with the reasons for those decisions and relevant officer reports and background papers, are made publicly available.

Scheme of delegation

In addition to the general powers set out in the Authority's Constitution, Contract Standing Orders, Financial Regulations and the Code of Financial Management Practice issued by the Home Secretary, the Chief Officers of the Authority (i.e. Chief Executive, Treasurer and Chief Constable) have been authorised to exercise, on behalf of the Authority, specific and general powers. These delegation arrangements are set out in the Authority's Constitution.

STATEMENT ON THE SYSTEM OF INTERNAL CONTROL

Governance Framework

Corporate governance arrangements

The Authority has adopted the CIPFA/SOLACE framework to assess the adequacy of its corporate governance arrangements. An annual review is conducted each year and an action plan developed.

Code of conduct

The Authority's members have adopted the model code of conduct to guide their behaviour in the conduct of the Authority's business. Police officers and staff are subject to policies and procedures covering dignity at work, discipline, grievance and standards of conduct.

Fraud and corruption

The Authority and Force have agreed an anti-fraud and corruption policy and have whistle-blowing arrangements in place.

Review of Effectiveness

The Police Authority has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. This review is informed by the work of the internal auditors and the chief officers of the Authority who have responsibility for the development and maintenance of the internal control environment, and also by comments made by the external auditors and other review agencies and inspectorates.

The processes that have been applied in maintaining and reviewing the effectiveness of the system of internal control are described below.

Police Authority

The Police Authority approves the annual revenue budget, three year capital programme, and the Local Policing Plan each year. Regular monitoring of progress against these plans and strategies are carried out by the appropriate committees, primarily based on reports by the Chief Constable. At the end of the financial year, outturn reports are produced for committee approval and the information is also incorporated in the joint Annual Report of the Chief Constable and the Police Authority.

The formal committee process is enhanced and supplemented by the involvement of Police Authority members on key groups, such as the Contact Management Programme Oversight Panel and Performance Review Joint Board.

A corporate governance review has been conducted jointly with the Force for the first time this year. An action plan has been approved and will be pursued over the coming financial year. The Authority has agreed to undertake a review on an annual basis.

Review of Effectiveness

Best Value

Best value reviews were completed during 2004/05 on the Authority itself and the Contact Management Programme, while a review of procurement is underway. Progress against the action plan arising out of each review is monitored by the Authority on a regular basis.

The Chief Officers' Management Team (COMT)

The Chief Officers' Management Team is ultimately responsible for the determination of Force strategies and key policy decisions. It identifies the relevant service improvement programmes necessary to deliver the 3 year policing strategy and the mechanisms for authorising, monitoring and controlling the corporate projects needed to deliver the necessary improvements in service. The team has completed a detailed questionnaire assessing the current state of the internal control environment.

Risk Management

Key risks are considered by Chief Officers for all major proposals put before them and risk logs are maintained for all major projects. Operational risk assessments are completed, assessing business risks is not yet embedded into the work culture.

Internal Audit

The annual report of the Head of Audit & Corporate Assurance was presented to the Resources and Finance Committee in July 2005 and included his opinion on the internal financial control framework. Nearly all of the work undertaken during 2004/05 was concerned with the review of controls in financial systems. No significant control weaknesses have been identified, though some weaknesses relating to BACS payment procedures have been highlighted. Work is underway to establish compensating controls

Other review / assurance mechanisms

External Audit

PricewaterhouseCoopers LLP agree an annual audit plan with Authority members. Regular meetings are held with both the Treasurer and the Director of Finance & Administration. Recommendations arising out of the auditor's reports are progressed by the Force.

Police Standards Unit

The activities of this Unit, which operates within the Home Office, focus on the measurement and comparison of police performance, seeking to understand the underlying causes of performance variation, working with those forces in need of assistance and identifying and disseminating good practice. Data published by this Unit can inform assessments on performance by forces, police authorities and the public.

STATEMENT ON THE SYSTEM OF INTERNAL CONTROL

Review of Effectiveness

HMIC

The Home Office appoints a number of Inspectors of Constabulary to inspect and report to the Secretary of State, in the first instance, on the efficiency and effectiveness of police forces. Her Majesty's Inspectors carry out periodic thematic inspections on strategic topics determined by the Home Office and the inspection of Basic Command Units, as well as monitoring Force performance on an ongoing basis.

All forces are subject to a periodic visit and formal inspection process, the contents of which are reported to the Home Secretary and the Police Authority, prior to publication.

CIPFA Financial Management Model

This model, developed by the Chartered Institute of Public Finance & Accountancy (CIPFA), has been designed as a self-assessment tool to help assess the contribution financial management makes at all levels within the organisation. It will help the Authority and Force to establish an accurate financial management profile, and identify strengths and areas for improvement. The first self-assessment is planned to be undertaken during 2005/06

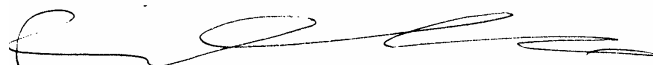
Summary of actions arising out of the review

The following activities will be undertaken during 2005/06 as a result of issues identified during 2004/05:

- Progress action plan arising out of assessment of corporate governance arrangements
- Review of financial regulations and contract standing orders
- Assessment of the strength of financial management using CIPFA's model
- Development of a SIC Assurance Group to oversee the assessment and review of the control environment on an annual basis.

Significant Internal Control Issues

The review of the effectiveness of the system of internal control for 2004/05 has identified no significant control weaknesses, nor any major risks that are not being adequately addressed. Nevertheless in 2005/06 there will be further development of the risk management process so as to embed risk management into all levels of the Force and Authority.



Councillor Robert Chambers
Chairman, Essex Police Authority
26 September 2005



Roger Baker
Chief Constable of Essex Police
26 September 2005

AUDITORS' REPORT TO ESSEX POLICE AUTHORITY

Introduction

We have audited the Statement of Accounts on pages 17 to 37 which has been prepared in accordance with the accounting policies applicable to local authorities as set out on pages 14 to 16. This report is made solely to Essex Police Authority in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 54 of the Statement of Responsibilities of Auditors and of Audited Bodies, prepared by the Audit Commission.

Respective Responsibilities of the Treasurer and Auditors

As described in the Statement of Responsibilities for the Statement of Accounts, the Treasurer is responsible for the preparation of the Statement of Accounts in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2004. Our responsibilities, as auditors, are established by statute, the Code of Audit Practice issued by the Audit Commission and our profession's ethical guidance.

We report to you our opinion as to whether the Statement of Accounts presents fairly the financial position and results of operations of the Authority.

We review whether the Statement on Internal Control reflects compliance with CIPFA's guidance "The Statement on Internal Control in Local Government: Meeting the Requirements of the Accounts and Audit Regulations 2003" published on 2 April 2004. We report if it does not comply with proper practices specified by CIPFA or if the statement is misleading or inconsistent with other information we are aware of from our audit of the Statement of Accounts. We are not required to consider, nor have we considered, whether the Statement on Internal Control covers all risks and controls. We are also not required to form an opinion on the effectiveness of the authority's corporate governance procedures or its risk and control procedures. Our review was not performed for any purpose connected with any specific transaction and should not be relied upon for any such purpose.

We read the other information published with the Statement of Accounts and consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the Statement of Accounts. The other information comprises only the Explanatory Foreword and Introduction by the Treasurer to the Police Authority.

Basis of Opinion

We conducted our audit in accordance with the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission, which requires compliance with relevant auditing standards issued by the Auditing Practices Board.

An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the Statement of Accounts. It also includes an assessment of the significant estimates and judgements made by the Authority in the preparation of the Statement of Accounts, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

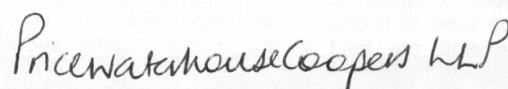
We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the Statement of Accounts is free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion, we evaluated the overall adequacy of the presentation of the information in the Statement of Accounts.

Opinion

In our opinion the Statement of Accounts presents fairly the financial position of Essex Police Authority as at 31 March 2005 and its income and expenditure for the year then ended.

Certificate

We certify that we 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.



PricewaterhouseCoopers LLP
Norwich
3 October 2005

STATEMENT OF ACCOUNTING POLICIES

General

The accounts are prepared in accordance with the Code of Practice on Local Authority Accounting issued by the Chartered Institute of Public Finance and Accountancy (CIPFA). They are also consistent with those Statements of Standard Accounting Practice and Financial Reporting Standards except for any departures noted in succeeding paragraphs. The accounts are prepared under the historical cost convention except where specifically noted below.

Revenue Account

The Revenue Account meets the format set by CIPFA Best Value Accounting Code of Practice in the form of a service expenditure analysis. There is also an analysis by subjective classification, which complies with CIPFA Accounting Code of Practice 2004.

Overheads

The Revenue Account on page 17 apportions support services (for example Personnel, Finance) to Operational Divisions, which are subsequently analysed over the main areas of police incident and activity. The analysis by subjective classification on page 19 does not recharge the cost of central departments.

Pensions

The Authority participates in two different pension schemes. Both schemes provide members with defined benefits related to pay and service. The schemes are as follows:

Uniformed Police Officers

This scheme is unfunded, meaning there are no investment assets built up to meet pensions liabilities, and cash has to be generated to meet actual pension payments as they fall due.

Police Staff

Police staff are, subject to certain qualifying criteria, eligible to join the Local Government Pension Scheme (LGPS). This is a funded scheme, meaning that the authority and employees pay contributions into a fund, calculated at a level intended to balance the pension liabilities with investment assets.

FRS17 requires entries in the accounts to reflect the fact that commitments made to current employees in respect of their retirement benefits are recognised in the year in which they are earned. The financial statements reflect, at fair value, the assets and liabilities arising from the Authority's retirement obligations (included within the balance sheet).

The operating cost of providing retirement benefits to employees are recognised in the accounting period(s), in which the benefits are earned by the employees, and the related finance costs and any other changes in value of the assets and liabilities are recognised in the accounting periods in which they arise.

Pensions contd.

The financial statements contain adequate disclosure of the costs of providing retirement benefits and related gains, losses, assets and liabilities.

The attributable assets of the LGPS are measured, at their fair value, at the balance sheet date, and are shown net of attributable scheme liabilities.

Entries in the Revenue Account reflect commitments generated by employees' service in the current year, interest costs and expected return on assets in the scheme. Past service costs are recognised in Net Cost of Services on a straight-line basis over the period to which the increases in benefits vest. To the extent that past service costs vest immediately, the past service costs are recognised immediately.

Losses arising on a settlement or curtailment not allowed for in the actuarial assumptions will be measured at the date on which the Authority becomes demonstrably committed to the transaction and recognised in the Net Cost of Services at that date. Gains arising on a settlement or curtailment not allowed for in the actuarial assumptions will be measured at the date on which all parties whose consent is required are irrevocably committed to the transaction and recognised in Net Cost of Services at that date.

Actuarial gains and losses arising from any new valuations, and from updating the latest actuarial valuation to reflect conditions at the balance sheet date, are recognised in the Statement of Total Movements in Reserves for the period.

In assessing liabilities for retirement benefits at 31 March 2004 for the 2003/04 Statement of Accounts, the actuary was required by the SORP to use a discount rate of 3.5% real (6.1% actual). For the 2004/05 Statement of Accounts, a rate based on the current rate of return on a high-quality corporate bond of equivalent currency and term to scheme liabilities has been used. The actuary has advised that a rate of 2.5% real (5.4% actual) is appropriate. Application of this rate has resulted in an increase in liabilities measured at today's prices of £164.565m, adjusted for by an increase in actuarial losses recognised for the year in the Statement of Total Movements in Reserves.

The entries are detailed in Note 12 (page 22) to the Revenue Account and Note 20 (pages 32- 34) to the Balance Sheet.

STATEMENT OF ACCOUNTING POLICIES

Third Party Funds

Third Party funds are accounted for separately from the Authority's accounts. Note 19 (page 31) to the Balance Sheet provides further information on funds administered by the Authority.

Redemption of Debt

As at 31 March 2005, the Authority does not have any outstanding external debt, to the extent that the Authority has no money outstanding by way of long-term borrowing, from the Public Works Loans Board, the Bank of England and institutions authorised by it, and building societies.

The new Prudential Capital Finance System requires the calculation of a Capital Financing Requirement. This represents an amount of capital spending that has not yet been financed by capital receipts, capital grants or contributions from revenue income. The Capital Financing Requirement for the Authority is positive, meaning there is an underlying need to borrow for a capital purpose.

Stocks

At 31 March 2005, stocks were valued on a FIFO basis (i.e. first in, first out) which means the remaining stock is assumed to have arrived last and is therefore valued on the most recent purchases.

Investments

Essex County Council undertakes the Authority's Treasury Management function. During the 2004/05 financial year, daily transfers of cash were made between the two Authorities in the form of temporary lending from the Authority to Essex County Council.

Due to the strength of the Authority's cash flow, a sum of £20m has been lent on a longer-term basis. The Authority benefited from a higher rate of interest than if the sum had been lent out on a temporary basis in the money markets.

Reserves

Capital accounting regulations require the maintenance of a Fixed Asset Restatement Account and a Capital Financing Account within the Balance Sheet.

The Fixed Asset Restatement Account mainly represents the balance of surpluses or deficits arising on the revaluation of fixed assets.

The Capital Financing Account represents amounts set aside from revenue or capital receipts to finance expenditure on fixed assets or for the repayment of external loans and certain other capital financing transactions.

The FRS17 Pension Reserve represents the balance of actuarial surpluses or deficits.

In addition to these reserves, the Authority maintains earmarked reserves that are set aside for specific purposes. These are outlined in Note 16 (page 30) to the Balance Sheet.

A General Reserve is maintained representing resources set aside for contingencies and cash flow management.

Provisions

The Authority sets aside provisions for future expenses, which are likely to be incurred but that cannot yet be determined precisely. At 31 March 2005, there was a provision for insurance. The operation of the provisions is explained in Note 8 (page 28) to the Balance Sheet.

Debtors and Creditors

The revenue accounts of the Authority are maintained on an accruals basis. This means that sums due to or from the Authority are included as they fall due whether or not the cash has been received or paid.

Value Added Tax

VAT is included in the accounts of the Authority, whether of a capital or revenue nature, only to the extent that it is not recoverable.

STATEMENT OF ACCOUNTING POLICIES

Fixed Assets

Expenditure on the acquisition of assets or expenditure that adds to the value of existing assets is capitalised provided that these assets yield benefit to the Authority for a period of more than one year. The Authority operates a de-minimis limit below which items will not be charged to capital on the grounds of materiality. The limit for individual items is £10,000 except for vehicles where a £5,000 limit applies.

Land, buildings and the helicopter are recorded in the accounts at current use value net of accumulated depreciation. Land and buildings are revalued at least every 5 years in accordance with the R.I.C.S. manual of Valuation Guidance Notes. The helicopter is also revalued every 5 years. In accordance with FRS 15, buildings are depreciated over their useful economic lives as determined by the Authority's property advisors. The value of the helicopter is also written down over its useful life.

Vehicles, plant and equipment, which are considered to be short lived operational assets are held at historic cost, less depreciation as a proxy for current replacement cost.

Depreciation is charged in order to reflect in the revenue account the cost of the use of fixed assets in the financial period reported. Assets, other than land, are depreciated over their useful economic lives using the straight-line method. For buildings a residual value equivalent to the value of the land is assumed, but for all other assets no residual value is anticipated. The charges are adjusted for acquisitions and disposals during the year. For all assets, a depreciation charge is made in the year of acquisition, but no charge is made in the year of disposal.

Although depreciation is calculated on the estimated life of the specific individual asset concerned, approximate average depreciation periods are as follows:

Buildings	20-60 years
Helicopters	10 years
Vehicles	3-10 years
Plant and Equipment	3-30 years

Where assets have an estimated remaining life of more than 50 years, an annual impairment test is undertaken as required by FRS 15. Freehold land is not depreciated.

Expenditure on incomplete capital works is shown as fixed assets under construction in the Balance Sheet.

In accordance with the SORP, the Authority's intangible fixed assets, covering purchased software licences, are now disclosed separately. These assets are amortised to revenue on an equal basis over their economic lives. In most cases it is assumed that software will have an economic life of 5-7 years.

Charges for Use of Fixed Assets

Asset charges are made at the minimum level required under the Accounting Code of Practice, covering depreciation plus a notional interest charge applied to the net book value of the asset.

For assets carried at current value the rate of interest for calculating the notional interest charge is 3.5%. For assets carried at historical cost the rate applied is 4.8%. For 2003/04 the interest rates were 3.5% and 4.625%.

Capital Financing Costs

Under the requirements of the Code of Practice, external interest payable is charged to the Asset Management Revenue Account.

Capital Receipts

In accordance with the Government's capital financing regulations, 100% of capital receipts from the disposal of assets can be used to fund new capital expenditure. Any unused receipts are held in the Usable Capital Receipts Reserve.

Government Grants and Other Contributions Towards Capital Schemes

Where the purchase of a fixed asset is financed wholly or in part by a government grant or other contribution, the amount of the grant or contribution is credited initially to the Government Grants Deferred Account.

An amount is charged annually to the Asset Management Revenue Account over the useful life of the asset to match the depreciation charged on the asset.

Interest Charges

External interest income is credited to revenue over the period to which it relates. Interest payable is charged as a cost to revenue in the period to which it relates.

Deferred Charges

Expenditure which can be capitalised, but which does not result in the acquisition of an asset owned by the Authority, is accounted for as a deferred charge. In accordance with the SORP, deferred charges should be amortised to revenue over an appropriate period consistent with the consumption of economic benefits controlled by the Authority. Where the Authority does not control the benefit the full charge is amortised to revenue in the year of expenditure.

REVENUE ACCOUNT FOR THE YEAR ENDED 31 MARCH 2005

CIPFA Best Value Accounting Code of Practice

2003/04 Net Expenditure See £000 Note /Page		2004/05 Gross Expenditure £000	2004/05 Gross Income £000	2004/05 Net Expenditure £000
	Crime			
	Reducing Crime	3,293	(2,184)	1,109
	Investigating Crime	126,369	(9,795)	116,574
	Policing in the Community			
	Promoting Public Safety	91,550	(14,526)	77,024
	Assistance to the Public	45,551	(4,305)	41,246
207,086		266,763	(30,810)	235,953
1,151	Corporate and Democratic Costs	1,176	-	1,176
119	Non Distributed Costs	138	-	138
208,356	Net cost of services	268,077	(30,810)	237,267
(1,938)	Interest receivable	17	(2,844)	(2,827)
(6,888)	N 2 Asset management revenue account (AMRA)	7,032	(16,096)	(9,064)
53,598	N12 FRS17 Pensions interest cost and expected return on pensions assets	65,208	(4,714)	60,494
253,128	Net operating expenditure	340,334	(54,464)	285,870
	Appropriations			
	Contributions to/(from) capital reserves:			
(3,150)	N 3 Provision for the repayment of external loans			(4,411)
430	Amounts set aside to finance capital expenditure			1,539
11,198	N 6 Net contributions to earmarked reserves			12,304
(49,429)	N 12 Contribution from FRS17 Pensions reserve			(62,071)
(3,102)	P31 Contribution from General Reserve			(11,837)
209,075	Amount to be met from general government grants and local taxpayers			221,394
	Financed by:			
94,671	N 7 Police grant			96,185
38,125	Revenue support grant			42,652
23,070	Business rates			22,096
56,890	Council tax			61,148
212,756				222,081
3,681	Surplus for the year			687
	General Reserve			
20,055	Balance at beginning of year			20,634
(3,102)	P31 Contribution from General Reserve			(11,837)
3,681	Surplus for the year			687
20,634	Balance at end of year			9,484

NOTES TO THE REVENUE ACCOUNT

1. Revenue Account

The Revenue Account meets the format set by CIPFA Best Value Accounting Code of Practice 2004 in the form of a service expenditure analysis. There is also an analysis by subjective classification on page 19.

The service expenditure analysis is based on time data and due to the nature of police work may produce different results each year, depending on the activities undertaken during the time surveyed. The subjective analysis is based on the CIPFA classification of costs and any variances will only reflect changes in the level of expenditure or income under each cost heading.

The Service Expenditure Analysis

Costs are apportioned to each heading based on an Activity Analysis Survey of police officers and some police staff. Surveys are carried out over a two-week period each year to record how officers spend their time. Time data only represents a snapshot of officers' time and this will not be consistent year on year, or even day by day, due to the nature of police work. The surveys are limited to two weeks per annum.

It is not possible to provide comparative figures for all of 2003/04 as the methodology radically changed in 2004/05.

The CIPFA Best Value Accounting Code of Practice defines the costs as follows:

Reducing Crime

Working with local communities to reduce crime including the gathering of local intelligence, community safety, other community services and architectural teams.

Investigating Crime

Crime management and investigation, surveillance, family protection and special branch involved with the investigation of crime, preparation of cases and submissions to the legal system. Also the specialist resources which support the crime investigators, such as photographic, finger prints, scenes of crime and scientific support.

1. Revenue Account (contd.)

Promoting Public Safety

The costs of local reactive policing, operations planning and support units, traffic and road safety units, firearms units and incident management. Also the pre-planning and execution of police operations for public events such as football matches and other major gatherings.

Assistance to the Public

The receiving and dealing with initial enquiries from the public primarily relating to the force control room, divisional service desks and police station front counters.

Police Pensions

Under FRS17 Retirement Benefits the figure shown is the current service cost i.e. the benefits earned by police officers in relation to their pensions during the current year. These costs are apportioned over the four main headings above.

Corporate and Democratic Core

All aspects of Police Authority Members' activities including officer time spent providing appropriate advice and support to them.

Non Distributed Costs

According to FRS17 Retirement Benefits any past service costs are recorded as non distributed costs. See Glossary on pages 38 to 42 for a further explanation of the terms used.

National Police Services Undertaken Locally

We record special operations, VIP visits, sporting events protection duties in connection with special events. We do not separately record royal and diplomatic protection services of national importance but carried out within the Force.

NOTES TO THE REVENUE ACCOUNT

Analysis of the Revenue Account by subjective classification.

2003/04 £000	See Note /Page		2004/05 £000
		Employees	
121,886		Police Pay and Allowances	131,250
42,565		Police Staff Pay and Allowances	49,689
713		Other Employees Expenses	1,228
20,292	N 12	FRS17 Police Pensions Current Cost of Service	28,762
13,207		Premises	15,373
6,135		Transport	6,720
33,306		Supplies and Services	34,584
-	N 4	Agency Services	3
1,136		Support Services	330
119		Non Distributed Costs	138
<u>239,359</u>		Gross Operating Expenditure	<u>268,077</u>
		Income	
(18,086)		Government Grants	(16,987)
(5,526)		Contributions from Other Local and Public Bodies	(5,849)
(90)		Sales	(55)
(6,524)		Fees & Charges	(7,219)
(119)		Rents	(65)
(658)		Other	(635)
<u>(31,003)</u>		Total Income	<u>(30,810)</u>
<u>208,356</u>		Net Cost of Services	<u>237,267</u>
(1,938)		Interest Receivable	(2,827)
(6,888)	N 2	Asset Management Revenue Account (AMRA)	(9,064)
53,598		FRS17 Pensions Interest Cost and Expected Return on Assets	60,494
<u>253,128</u>		Net Operating Expenditure	<u>285,870</u>
		Appropriations	
		Contributions to/(from) Capital Reserves:	
(3,150)	N 3	Provision for the repayment of external loans	(4,411)
430		Amounts set aside to finance capital expenditure	1,539
11,198	N 6	Net contributions to Earmarked Reserves	12,304
(49,429)	N 12	Contribution from FRS17 Pensions Reserve	(62,071)
(3,102)	P31	Contribution from General Reserve	(11,837)
<u>209,075</u>		Amount to be met from general government grants and local taxpayers	<u>221,394</u>
		Financed by:	
94,671	N 7	Police Grant	96,185
38,125		Revenue Support Grant	42,652
23,070		Business Rates	22,096
56,890		Council Tax	61,148
<u>212,756</u>			<u>222,081</u>
<u>3,681</u>		Surplus for the year	<u>687</u>
		General Reserve	
20,055		Balance at beginning of year	20,634
(3,102)	P31	Contribution from General Reserve	(11,837)
3,681		Surplus for the year	687
<u>20,634</u>		Balance at end of year	<u>9,484</u>

NOTES TO THE REVENUE ACCOUNT

2. Asset Management Revenue Account

This account allows the Authority to offset the impact of asset charges made to services in arriving at the total level of expenditure to be financed from government grants and local taxpayers. This is illustrated in the table below:

2003/04 £000		2004/05 £000
Credits		
(10,461)	Asset Charges to services	(12,032)
-	- Impairments	(235)
-	- Amortisations	(974)
(1,938)	Government grants	(2,855)
<u>(12,399)</u>		<u>(16,096)</u>
Debits		
5,510	Provision for depreciation	5,819
-	- Impairments	235
-	- Amortisations	974
1	External interest payable	4
<u>5,511</u>		<u>7,032</u>
<u>(6,888)</u>	Balance transferred to the Revenue Account	<u>(9,064)</u>

3. Minimum Revenue Provision (MRP)

The Prudential Capital Finance System includes a duty to make a revenue provision for the redemption of debt. This is designed to produce, as far as possible, a revenue effect similar to that required under the previous rules from the Local Government and Housing Act 1989. The MRP calculation is based upon the Authority's Capital Financing Requirement, adjusted to bring the calculation into line with the credit ceiling at 31 March 2004. The MRP amount is offset against the level of depreciation already charged to the Authority's Revenue Account to ensure that depreciation charges do not increase the net expenditure of the Authority. The Revenue Account is charged no more than the amount required for the repayment of debt. Under MRP regulations, the amount required for 2004/05 was £0.446m and the amount of depreciation, amortisation and impairment charged, net of grant released, was £4.857m requiring a charge of £4.411m to the Capital Financing Account (2003/04 amount required £0.422m, depreciation £3.572m requiring a charge of £3.150m).

4. Agency Services

The Authority contributed £3,000 towards the cost of a shared service provided by Essex County Council which we use on an agency basis (No payments were made in 2003/04).

The Authority provides officers to the National Crime Squad (NCS) and National Criminal Intelligence Service (NCIS) on a secondment basis. The related costs incurred are analysed across other headings in the revenue account and are recharged to each body. Income received for NCS secondments amounted to £1.800m (2003/04 £1.673m) and £0.410m (2003/04 £0.363m) for NCIS secondments.

5. Finance and Operating Leases

The table below details the amount paid to lessors during the year. The Authority does not have any obligations under finance leases.

2003/04 £000		2004/05 £000
5	Operating leases	0
128	Property leases	131
<u>133</u>		<u>131</u>

6. Other earmarked reserves

The Authority holds certain reserves that are earmarked for particular purposes. The balances at 31 March 2005 form part of the revenue reserves. Note 16 (page 30) to the Balance Sheet provides additional information.

7. Sources of finance

The Authority received financial support directly from the government in the form of police grant £96.185m (2003/04 £94.671m), revenue support grant £42.652m (2003/04 £38.125m) and business rates £22.096m (2003/04 £23.070m). The levying of a uniform business rate by the Government raises this latter sum.

After taking into account central government financing, surplus on collection funds and income raised by fees and charges for services, the remaining net expenditure of the Authority is financed by the Council Tax. In 2004/05, a tax of £99.27 (2003/04 £92.97), at band D, was set which required a precept of £60.818m (2003/04 £56.510m) on the collection funds of the District and unitary authorities. In addition, £0.330m (2003/04 £0.380m) was received from district and unitary councils in respect of surpluses on their collection funds arising from previous years.

NOTES TO THE REVENUE ACCOUNT

8. Local Authority Goods & Services Act

An exercise was undertaken during the year to determine the value of goods and services provided to other public services as per the Local Authority Goods and Services Act 1970.

In 2004/05, the Authority received £11,600 in income (No income was received during 2003/04).

The Authority sets its charges based on an analysis of the costs involved in providing the service.

9. Publicity

The Authority spent £937,908 representing 0.35% of gross operating expenditure on certain categories of publicity (2003/04 £951,442 representing 0.39%). This information is published in accordance with section 5(1) of the Local Government Act 1986.

These categories are:

1. Staff advertising.
2. Costs of staff wholly or mainly engaged on publicity.
3. Other publicity
 - (i) Publicity forming part of a campaign;
 - (ii) Newspapers and periodicals published by or on behalf of the Authority;
 - (iii) Press notices.

There were 21 staff wholly or mainly engaged on publicity.

10. Members' Allowances

The total amount of members allowances paid during the 2004/05 financial year was £182,166 (2003/04 £198,965). Details of member's allowances are published by Essex Police Authority and are available upon request from the Essex Police Financial Services Department whose contact address is stated on page 43.

11. Disclosure of Officers' emoluments

The numbers of officers whose remuneration, excluding pension contributions, was £50,000 or more during 2004/05 are stated below.

<i>Number of Employees 2003/04</i>	<i>Remuneration Band</i>	<i>Number of Employees 2004/05</i>
140	£50,000 - £59,999	218
26	£60,000 - £69,999	30
12	£70,000 - £79,999	17
0	£80,000 - £89,999	0
1	£90,000 - £99,999	0
2	£100,000 - £109,999	2
0	£110,000 - £119,999	1
0	£120,000 - £129,999	1
1	£130,000 - £139,000	0
0	£140,000 - £149,000	0
0	£150,000 - £159,000	1

NOTES TO THE REVENUE ACCOUNT

12.Pensions

Under FRS17 the Authority is required to recognise the cost of retirement benefits in the Net Cost of Services when they are earned by employees, rather than when the benefits are eventually paid as pensions. However the charge we are required to make against the council tax is based on the cash payable in the year. Therefore the real cost of retirement benefits is reversed out of the Revenue Account after Net Operating Expenditure.

In order for the Actuaries to complete the work within the deadlines the FRS17 valuation includes an estimate of the amount to be charged to the Revenue Account. Therefore the figures below do not necessarily match those charged to the Revenue Account.

There are two schemes, the nature of these are described in the Balance Sheet Note 20, page 32. The following transactions have been made in the Revenue Account during the year:

	As at	
	31 March 04	31 March 05
	£000	£000
Local Government Pension Scheme (LGPS)		
Net Cost of Service		
Current Service cost	4,108	5,671
Past service cost	119	138
Net operating Expenditure		
Interest cost	5,054	5,979
Expected return on assets in the scheme	(3,806)	(4,714)
Amounts to be met from Government		
Grants and Local Taxation		
Movement on pensions reserve	(1,398)	(1,950)
Actual amount charged against council tax for pensions in year		
Employers' contribution payable to the LGPS scheme	4,077	5,124

12.Pensions (continued)

Police Pension Scheme	As at	
	31 March 04	31 March 05
	£000	£000
Net Cost of Service		
Current Service cost	20,292	28,734
Net operating Expenditure		
Interest cost	52,350	59,229
Amounts to be met from Government		
Grants and Local Taxation		
Movement on pensions reserve	(48,031)	(60,121)
Actual amount charged against council tax for pensions in year		
Retirement benefits payable to pensioners less contributions and transfers	24,611	27,842

Note 20 (page 32) in the Balance sheet contains details of the assumptions made in estimating the figures included in this note. The Statement of Reserves (page 24) details the costs that have arisen through the year.

13.Related Parties Transactions

In accordance with the Code of Practice 2004 and FRS 8, the financial statements must contain the disclosures necessary to draw attention to the possibility that the reported financial position of the Authority may have been affected by the existence of related parties and by material transactions with them.

Related parties under FRS8 include:-

- Central Government;
- Local Authorities;
- Members of the Police Authority;
- Management Team Members;
- Members of the close family or same household as a Member or Management Team Members;
- Partnerships, companies, trusts or other bodies in which the Member or Member of Management Team or member of their close family or same household has a controlling interest.

During the year no Chief Officers or Members of the Authority have undertaken any material transactions with the Authority.

Material transactions with other public bodies are shown elsewhere in the accounts.

BALANCE SHEET

AS AT 31 MARCH 2005

Restated 31 March 2004 £000	See Note		31 March 2005 £000	£000
		Fixed assets		
2,361		Intangible assets	2,227	
		Tangible fixed assets		
		Operational assets		
133,126		Land & Buildings	196,120	
12,634		Vehicles, plant and equipment	12,533	
		Non Operational Assets		
746		Assets under construction	1,089	
100		Surplus assets, held for disposal	2,086	
<u>148,967</u>	1	Total fixed assets		214,055
69		Deferred Charges		-
128	2	Long term debtors		120
<u>149,164</u>		Total long-term assets		<u>214,175</u>
		Current assets		
704	3	Stocks	835	
11,897	4	Debtors	11,139	
58,393	5	Short term investments	55,862	
250	6	Cash at bank and in hand	378	
<u>71,244</u>			<u>68,214</u>	
		Current liabilities		
15,422	7	Creditors	14,080	
1,356	6	Cash overdrawn	2,081	
<u>16,778</u>			<u>16,161</u>	
54,466		Net current assets		52,053
<u>203,630</u>		Total assets less current liabilities		<u>266,228</u>
(25,333)	9	Government grants deferred account		(26,272)
(2,073)	8	Provisions		(1,301)
(951,877)	20	Liability relating to defined benefit pension schemes		(1,254,649)
<u>(775,653)</u>		Net liabilities		<u>(1,015,994)</u>
110,344	10	Fixed asset restatement account		172,203
6,091	11	Capital financing account		9,316
11,780	12	Usable Capital Receipts Reserve		7,973
(951,877)	20	Pensions Reserve (FRS17)		(1,254,649)
27,375	16	Earmarked Reserves		39,679
20,634	17	General Reserve		9,484
<u>(775,653)</u>		Total equity		<u>(1,015,994)</u>

STATEMENT OF TOTAL MOVEMENTS IN RESERVES FOR THE YEAR ENDED 31 MARCH 2005

	<u>Capital Reserves</u>			<u>Revenue Reserves</u>			<i>Total</i>
	<i>Fixed asset restatement account</i>	<i>Capital financing account</i>	<i>Usable capital receipts</i>	<i>FRS17 Pension Reserve</i>	<i>Earmarked Reserves</i>	<i>General Reserve</i>	
	<i>(Note 10)</i>	<i>(Note 11)</i>	<i>(Note 12)</i>	<i>(Note 20)</i>	<i>(Note 16)</i>	<i>(Note 17)</i>	
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>
Balance as at 1 April 2004	110,344	6,091	11,780	(951,877)	27,375	20,634	(775,653)
Net surplus / (deficit) for year		(2,872)				687	(2,185)
Appropriations to/(from) revenue				(62,071)	12,304	(11,837)	(61,604)
Actuarial gains/(losses) relating to pensions				(240,701)			(240,701)
Gains/(losses) on revaluation of fixed assets	63,392						63,392
Effects of disposal of fixed assets:							
Cost or value of assets disposed of	(1,533)						(1,533)
Proceeds of disposals			2,290				2,290
Financing of fixed assets		6,097	(6,097)				-
Balance as at 31 March 2005	172,203	9,316	7,973	(1,254,649)	39,679	9,484	(1,015,994)

The actuarial gains/(losses) identified as movements on the FRS17 Pensions Reserve in 2004/05 can be analysed into the following categories measured as absolute amounts and as a percentage of assets or liabilities at 31 March 2005, with comparable figures for 2002/03 and 2003/04.

	Year ended 31 March 2003		Year ended 31 March 2004		Year ended 31 March 2005	
	£000	%	£000	%	£000	%
Local Government Pension Scheme						
These gains or losses can be explained as a difference between the expected and actual return on assets.						
Actuarial (Loss)/Gain	(14,742)	18	8,436	9	3,498	4
Liability Gain					6,933	6
Change in Assumptions					(23,009)	19
Police Pension Scheme						
These losses are generated by differences between actuarial assumptions about liabilities and actual experience.						
Actuarial Loss	(19,474)	2	(17,978)	2		
Liability Gain					(9,093)	1
Change in Assumptions					(219,030)	18
	<u>(34,216)</u>		<u>(9,542)</u>		<u>(240,701)</u>	

NOTES TO THE BALANCE SHEET

1. Fixed Assets

The movement in fixed assets during 2004/05 is summarised below:

	Operational Assets		Non Operational Assets		Intangible Assets	Total
	<i>Land & Buildings</i>	<i>Vehicles, Plant & Equipment</i>	<i>Assets Under Construction</i>	<i>Surplus assets, held for disposal</i>	<i>Purchased software licences</i>	
	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	<i>£000</i>	
Gross (historical) book/certified value at 1 April 2004	139,145	22,307	746	100	4,073	166,371
Accumulated depreciation and amortisation	(5,975)	(9,673)	-	-	(1,712)	(17,360)
Restatement for deferred charges (note 1)	(44)	-	-	-	-	(44)
Net Book Value as at 31 March 2004	133,126	12,634	746	100	2,361	148,967
Movement in 2004/05						
Additions	1,797	4,117	3,706	-	641	10,261
Disposals	(1,045)	(2,021)	-	-	-	(3,066)
Depreciation on disposals	46	1,487	-	-	-	1,533
Transfers	1,974	7	(3,364)	1,184	199	-
Revaluations	62,414	(1)	-	979	-	63,392
Depreciation	(2,125)	(3,687)	-	(7)	-	(5,819)
Amortisation	-	-	-	-	(974)	(974)
Impairments	(65)	-	-	(170)	-	(235)
Restatements/reclassifications	(2)	(3)	1	-	-	(4)
Net Book Value as at 31 March 2005	196,120	12,533	1,089	2,086	2,227	214,055
Accumulated depreciation and amortisation						
as at 31 March 2005	2,125	11,873	-	7	2,686	16,691
Gross Book Value as at 31 March 2005	198,245	24,406	1,089	2,093	4,913	230,746

Note 1 - The balance on deferred charges at 1 April 2004 related to a capital contribution to improvement works undertaken at a joint use facility and is now recognised under property assets. In addition, deferred charges totalling £0.069m were incorrectly included within the fixed assets balance as at 31 March 2004. The balances at 1 April 2004 on fixed assets and deferred charges have been restated accordingly.

NOTES TO THE BALANCE SHEET

1. Fixed Assets (contd.)

An analysis of the way that capital expenditure was financed is set out below:

	2004/05 £000
Government grants and other local authority contributions	3,309
IT Reserve	963
Revenue funding	576
Capital receipts	6,097
Capital creditors	(243)
Capital payments in advance	170
Total financing	10,872

The above figure differs from the cumulative value of additions included in the table showing the movement of fixed assets. This difference relates to expenditure on deferred charge items which have been financed as capital expenditure and fully amortised to revenue in 2004/05.

The number of main fixed assets held by the Authority are:

2003/04	2004/05
36 Freehold Land (Hectares)	36
1 Police Headquarters	1
0 Police Authority offices	1
56 Police Stations	55
154 Police Houses and offices	125
14 Other Police Properties	22
1 Non Operational Properties	13
5 Private Access Roads	5

Movement in deferred charges

	£000
Balance as at 1 April 2004	25
Restatement - see note 1	44
	<u>69</u>
Expenditure in the year	615
Written off to revenue in year	(684)
Balance at 31 March 2005	<u>0</u>

Note 1 – The opening balance has been restated for an item treated as a deferred charge in 2003/04 that should have been included under fixed assets. In addition, an adjustment has been made for deferred charges totalling £0.069m that were incorrectly included within the fixed assets balance at 31 March 2004.

NOTES TO THE BALANCE SHEET

1. Fixed Assets (Continued)

The Authority's existing land and building assets have been revalued by a professionally qualified external valuer employed by Lambert Smith Hampton, which is part of WS Atkins plc.

The valuation was undertaken in two phases.

Phase 1 began in 2003/04 covering Police HQ, divisional headquarters and other property assets with significant capital investment since the last valuation in 2000. The valuation was completed during 2004/05, with valuations backdated to 1 January 2004.

Phase 2 covered the remainder of the Authority's property assets and was started and completed during 2004/05, with a valuation date of 1 January 2005.

All properties were revalued in accordance with SORP on the following bases :-

- Depreciated replacement cost
- specialised operational properties
- Market value in existing use – police houses
- Market value – surplus assets held for disposal

The following statement shows the progress of the Authority's rolling programme for the revaluation of fixed assets. The basis for valuation is set out in the Statement of Accounting Policies on page 16.

	Land & Buildings	Vehicles, Plant & Equipment	Surplus assets, held for disposal	Total
	£000	£000	£000	£000
Valued at Historical Cost				
	1,824	24,406	0	26,230
Valued at Current Value in:				
2004/05	63,931	0	2,093	66,024
2003/04	132,490	0	0	132,490
	196,421	0	2,093	198,514
Total	198,245	24,406	2,093	224,744

Joint Air Support Consortium

Essex Police is a member of an Air Support Consortium with Cambridgeshire and Suffolk Constabularies. The Consortium was established to purchase and operate aircraft for operational policing purposes. Three helicopters have been purchased to date for the Consortium. Each Force operates an individual helicopter and bears the costs of operating their own aircraft.

2. Long Term Debtors

These consist of interest bearing loans made to staff for the purchase of cars for use on Authority business of £0.022m (2003/04 £0.035m), and new officers pay advances of £0.098m (2003/04 £0.093m).

3. Stocks

31 March 2004 £000	31 March 2005 £000
125 Vehicle services	122
42 Petrol and derv	48
367 Uniforms	422
100 Stock Forms	148
4 CS Spray	5
9 Prisoners Supplies	13
57 General Stock	77
704 Total Stock	835

4. Debtors

31 March 2004 £000	31 March 2005 £000
1,323 Payments in Advance	1,802
1,289 Customs & Excise	883
5,839 Other Debtors	8,061
3,446 Stansted Airport Ltd	393
11,897 Total Debtors	11,139

5. Short Term Investments

Surplus funds are managed by Essex County Council.

6. Cash at Bank and In Hand/Overdrawn

The cash overdrawn balance at 31 March 2005 is due to the timing of payments and the funding of the account from temporary investments.

NOTES TO THE BALANCE SHEET

7. Creditors

<i>31 March 2004</i>	<i>31 March 2005</i>
<i>£000</i>	<i>£000</i>
670 Receipts In Advance	423
867 Capital Creditors	624
13,885 Other Creditors	13,033
15,422 Total Creditors	14,080

8. Provisions

A summary showing the movement in the level of provisions during 2004/05 is set out below.

The Insurance Provision of £1.301m represents estimated outstanding claims under the 'excess' clauses of the Authority's insurance policies (employers' and public liability and property). Settlement of these claims is likely to be spread over a number of years.

The Police Officers Back Pay Provision was created to cover the liability arising from a Home Office ruling in respect of police officers progression from sergeant to inspector ranks. This has now been settled in full so is no longer required.

There are no amounts in respect of liabilities covered by the insurance or police pay provision that are expected to be subject to reimbursement from third parties.

	Balance 1/4/04	Applied £000	Revenue Contribution £000	Balance 31/3/05 £000
Insurance	1,923	(558)	(64)	1,301
Police Officers -Back Pay	150	(113)	(37)	0
	<u>2,073</u>	<u>(671)</u>	<u>(101)</u>	<u>1,301</u>

9. Government Grants Deferred Account

This account shows the government grants and other contributions that have been received by the Authority and the extent to which they have been applied to the revenue account. An allocation is made to the Asset Management Revenue Account (AMRA) over the life of the assets being financed.

In previous years the release of grant to the revenue account did not take account of whether the grant had been applied to finance the asset. The method also used an assumed life for each category of asset rather than the estimated life for each specific asset.

From 2000/01 the amount released to revenue matches the depreciation on the individual asset financed in full or part by the grant. The release of grant in respect of acquisitions in earlier years continues to be made on the basis of assumed periods of asset life.

Assumed Periods of Asset Life	Years
Equipment	5
Vehicles	4

Since Financial Reporting Standard (FRS) 15 required depreciation to be charged on all assets, grant is now released in respect of the financing of building works.

A summary of the account is set out below

	£000
Balance as at 1 April 2004	25,333
Grants and contributions received	3,794
Allocation to AMRA in 2004/05	(2,855)
Balance as at 31 March 2005	26,272

NOTES TO THE BALANCE SHEET

10. Fixed Asset Restatement Account

The fixed asset restatement account records the deficits or surpluses arising on the revaluation of assets, and is written down by the net book value of assets as they are disposed.

Any impairment losses on a fixed asset related to a general fall in prices is also recognised in the reserve. However, impairment losses caused by a clear consumption of economic benefits, e.g. deterioration in the asset, are recognised in the asset management revenue account and the main revenue account.

11. Capital Financing Account

This reserve shows the setting aside of capital receipts and revenue monies as provision to repay external loans, and the financing of capital payments by capital receipts and by revenue funding.

	<i>£000</i>
Balance as at 1 April 2004	6,091
Receipts applied	6,097
Revenue funding	1,539
Minimum revenue provision	446
Depreciation	(5,819)
Amortisation	(1,658)
Impairment	(235)
Deferred capital grants	2,855
Balance as at 31 March 2005	9,316

12. Usable Capital Receipts Reserve

The usable capital receipts reserve contains the proceeds from sales of fixed assets that have not yet been used to finance capital expenditure.

Capital receipts in 2004/05 were £2.290m (2003/2004 £2.069m).

The overall position of usable receipts is summarised below:

	<i>£000</i>
Balance as at 1 April 2004	11,780
Receipts	2,290
Applied to finance expenditure	(6,097)
Balance as at 31 March 2005	7,973

13. Significant Commitments under Capital Contracts

The estimated value of significant commitments under capital contracts totalled some £2.070m at 31 March 2005 (£4.937m 31 March 2004).

14. Obligations Under Leases

Payments on property operating leases during 2004/05 totalled £0.131m (2003/04 £0.128m). The undischarged obligations at 31 March 2005 comprised leases expiring as follows :-

2003/04 £000		2004/05 £000
0	Within 1 year	0
28	2- 5 years	15
978	over 5 years	863
<u>1,006</u>		<u>878</u>

These leases were not identified for inclusion in the 2003/04 Statement of Accounts and the 2003/04 position has consequently been restated. There are no undischarged obligations under finance leases at 31 March 2005.

15. Euro Costs

The potential future costs of dealing with the Euro are not expected to be significant and will be accounted for as incurred.

NOTES TO THE BALANCE SHEET

16. Earmarked Reserves

A summary of the movements on earmarked reserves is set out in the table below:

Earmarked Reserve	See Note	Balance 1 April 2004 £000	Appropriations (to)/from the Reserves £000	Balance 31 March 2005 £000
Contact Management Reserve	1	-	10,094	10,094
Pensions Equalisation Reserve	2	6,137	(1,959)	4,178
Future Capital Funding Reserve	3	4,966	2,381	7,347
IT and Communications Reserve	4	4,750	(1,368)	3,382
Specific Pension Reserve	5	4,399	815	5,214
Devolved and Specific Budgets Reserve	6	2,251	1,107	3,358
Airwave Reserve	7	1,908	282	2,190
Insurance Reserve	8	1,768	1,047	2,815
Uniform/Protective Equipment Reserve	9	1,134	(366)	768
IT Replacement Reserve	10	-	239	239
Car Provision Scheme Reserve	11	28	4	32
Helicopter Maintenance Reserve	12	20	-	20
Forfeiture Monies Reserve	13	14	28	42
Total Earmarked Reserves		27,375	12,304	39,679

Notes

1. The contact management reserve is to fund the introduction of the Force's new division designed to better manage calls for assistance and crime bureau investigation.
2. The Pensions Equalisation Reserve is to assist in smoothing the effects of future increases in pension costs.
3. The Future Capital Funding Reserve is intended to finance future items of capital expenditure.
4. The IT and Communications Reserve finances the development of future information technology projects.
5. The Specific Pension Reserve is intended to finance the lump sum payments due to police officers who are eligible to retire but have not yet retired. At 31 March 2005 there were 56 officers eligible to retire who had not retired. The estimated pension lump sums liability in relation to these officers was £ 5.214m. The timing of these lump sum payments is unpredictable and is likely to be spread over several years.
6. The Devolved and Specific Budgets Reserve represents balances earmarked to carry forward to meet commitments in 2005/06. Budget holders are permitted to carry forward, within certain limits, any surplus or deficit from one financial year to the next.
7. The Airwave Reserve is being used to hold the specific government grant received to fund the implementation and initial running costs of the new radio system which went live in 2004/05.
8. The Insurance Reserve is to finance the self-insurance element of future claims that may be made against the Police Authority.
9. The Uniform/Protective Equipment Reserve is to fund the purchase of police officer's personal safety clothing and equipment.
10. When a new item of IT equipment is purchased a contribution must be made for its future replacement, These funds are held in this reserve until that replacement is purchased,
11. The Car Provision Scheme Reserve represents the cumulative surplus generated on the scheme for qualifying staff.
12. The Helicopter Maintenance Reserve is intended to finance future repairs and maintenance of the Essex Police helicopter.
13. Section 27 of the Misuse of Drugs Act 1971 empowers the Authority to retain monies seized in a third party fund (see Note 19 on page 31). The Courts may award these monies to the Authority on the undertaking that these funds are used for tackling drug related crime and drug abuse. These monies are accounted for separately within the Police Revenue account and may not be used to finance other general police activities. Surplus monies at the year-end are transferred to the Forfeiture Monies Reserve.

NOTES TO THE BALANCE SHEET

17. General Reserve

A summary of the movement in the general reserve on the Police Fund is set out below:

	<i>£000</i>
Balance as at 1 April 2004	20,634
Net appropriations during the year	(11,837)
Surplus for the year	687
Balance as at 31 March 2005	9,484

18. Audit Costs

<i>2003/04</i>	<i>2004/05</i>
<i>£000</i>	<i>£000</i>
90 Fees payable to the External Auditor in respect of external audit services	93
5 Fees payable to the Audit Commission for the certification of grant claims and returns by the appointed auditor	0
95	93

19. Third Party Funds

Third Party Funds are monies administered, but not owned by the Authority. The 2004 Code of Practice requires that these funds are treated separately from the Authority's accounts and are excluded from the main Revenue Account and Balance Sheet.

These accounts will not be audited by Internal Audit Services until after the completion of the external audit. For further information contact the Essex Police Financial Services Department whose contact address is stated on page 43.

Police Property Act Fund

Under section 43 of the Powers of the Criminal Courts Act 1973, the Authority is empowered to seize monies or property used, or intended for use, for the purpose of crime. These seized monies are held within the Police Property Act Fund pending a decision by the Courts.

The amount held, as at the 31 March 2005, was £285,687 (£188,848 2003/2004).

The Courts may release the above monies to the Authority. The monies are then transferred to the Police Property Act Disbursement Fund. It is current policy to donate monies from this fund to local charities.

The amount held pending distribution to local charities, as at 31 March 2005 was £9,579. (£4,301 was distributed in 2003/04).

Misuse of Drugs Act Seizures Fund

Section 27 of the Misuse of Drugs Act 1971 empowers Police Authorities to retain monies seized during investigations. The Courts may release property or monies to the Authority so that it is used to tackle drug related crime and drug abuse.

The amount held, as at 31 March 2005, was £321,805 (£209,841 2003/04).

NOTES TO THE BALANCE SHEET

20. Defined Benefit Pension Schemes (FRS17)

The last full actuarial valuation was carried out by Mercer Human Resource Consulting Ltd, an independent firm of actuaries, on 31 March 2004. The valuation at 31 March 2005 was derived by approximate methods from the full actuarial valuation.

Uniformed Police Officers

Uniformed police officers are admitted to the Police Pension Scheme, which is administered by Essex County Council under the Regulations governing the scheme, an unfunded defined benefit scheme. The figures disclosed below have been calculated from data provided by Essex County Council.

The following assumptions have been used in the calculations for the uniformed police officers' scheme.

As at 31 March 2004 % pa	Main Financial Assumptions	As at 31 March 2005 % pa
2.8	a. Retail Price inflation	2.9
4.6	b. Increases in salaries	4.4
2.8	c. Increases in pensions and deferred pensions	2.9
6.3	d. Discount rate	5.4

Assumption in c. above – parts of pensions in payment representing guaranteed minimum pensions are not increased (pre 1998 accrual) or increased at 2.0% per annum (post 1998 accrual).

The value placed on the liabilities as at 31st March 2005 was **£1,215.1m** (2003/04 £926.9m).

NOTES TO THE BALANCE SHEET

20. Defined Benefit Pension Schemes (FRS17) (contd.)

Police Staff

Police staff, employed by Essex Police, are admitted to the Essex County Council Pension Fund, which is administered by Essex County Council under the Regulations governing the Local Government Pension Scheme (LGPS), a funded defined benefit scheme.

The following assumptions have been used in the calculations for the Essex County Council Pension Fund.

As at 31 March 2004	Main Financial Assumptions	As at 31 March 2005
% pa		% pa
2.8	a. Retail Price inflation	2.9
4.6	b. Increases in salaries	4.4
2.8	c. Increases in pensions and deferred pensions	2.9
6.3	d. Discount rate	5.4

The fair values of each main class of asset held by the Fund in total and on behalf of the Authority as at 31 March 2005 and the expected rates of return for the ensuing year are set out in the following table:

As at 31 March 2004			Main Class Of Asset	As at 31 March 2005		
Total Fund Fair Value £m	Authority Fair Value £m	Expected Return %		Total Fund Fair Value £m	Authority Fair Value £m	Expected Return %
1,309	46	7.5	Equities	1,477	57	7.5
165	6	4.7	Govt Bonds	236	9	4.7
180	6	5.5	Other Bonds	126	5	5.4
205	7	6.5	Property	244	9	6.5
38	1	4.0	Other	60	2	4.75
<u>1,897</u>	<u>66</u>			<u>2,143</u>	<u>82</u>	

As at 31 March 2004	Allocation of the Fund Essex Police	As at 31 March 2005
£m		£m
65.6	The Fair Value of Assets	82.4
90.6	The Value placed upon liabilities	121.9
<u>(25.0)</u>		<u>(39.5)</u>

NOTES TO THE BALANCE SHEET

20. Defined Benefit Pension Schemes (FRS17) (contd.)

Balance Sheet

As at 31st March 2005, the Authority had the following overall assets and liabilities in respect of pensions that have been included in the balance sheet.

As at 31 March 2004 £m	Values placed upon Liabilities in respect of Funds for:	As at 31 March 2005 £m
926.9	Uniformed Police Officers	1,215.1
<u>90.6</u>	Police Staff	<u>121.9</u>
1,017.5		1,337.0
	Fair Value of Assets in respect of Funds for:	
65.6	Police Staff	82.4
<u><u>951.9</u></u>		<u><u>1,254.6</u></u>

The liabilities show the underlying commitments that the Authority has in the long-term to pay retirement benefits. The total liability of £1,254.6m has a substantial impact on the worth of the authority as recorded in the balance sheet. However, statutory arrangements for funding the deficit mean that the financial position of the authority remains healthy.

- The deficit on the local government pension 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 the police pensions when the pensions are actually paid.

CASH FLOW STATEMENT

FOR THE YEAR ENDED 31 MARCH 2005

2003/04				2004/05		
£000	£000	£000		£000	£000	£000
			Revenue Activities			
			Cash outflows			
166,793			Cash paid to and on behalf of employees	182,856		
35,564			Cash paid to and on behalf of pensioners	39,301		
40,033			Other operating cash payments	42,523		
	242,390				264,680	
			Cash inflows			
56,890			Precept received	61,148		
23,070			Business Rates	22,096		
38,125			Revenue Support Grant	42,652		
112,429			Other government grants	110,440		
19,026			Cash received for goods and services	27,944		
	249,540				264,280	
		(7,150)	Revenue activities cash flow			400
			Returns on Investments and Servicing of Finance			
			Cash outflows			
	9		Interest paid		21	
			Cash inflows			
	1,847		Interest received		2,574	
		(1,838)				(2,553)
			Capital activities			
			Cash outflows			
	11,559		Purchase of fixed assets		10,938	
			Cash inflows			
2,069			Sale of fixed assets	2,400		
3,044			Capital grants received	3,257		
-			Other capital cash received	-		
	5,113				5,657	
		6,446	Net cash(inflows)/outflows before financing			5,281
		(2,542)				3,128
			Management of Liquid Resources			
		3,014	Net increase/(decrease) in short term deposits			(2,531)
	472		Decrease in cash			597

NOTES TO THE CASH FLOW STATEMENT

1. Reconciliation of net surplus/deficit on the Revenue Account to the revenue activities net cash flow

2003/04 £000		2004/05	
		£000	£000
3,681	Revenue surplus/(deficit) for the year		687
	Non cash transactions		
5,376	Appropriations	(2,404)	
5,510	Depreciation (AMRA) & Amortisation	7,711	
368	Net Contribution to Provisions	(45)	
(1,938)	Government grants deferred (AMRA)	(2,855)	
<u>9,316</u>			2,407
	Accruals		
2,334	(Decrease)/Increase in creditors	(413)	
(6,224)	Decrease/(Increase) in debtors	281	
(119)	Decrease/(Increase) in stock and work in progress	(131)	
<u>(4,009)</u>			(263)
-	Non revenue expenditure		(678)
(1,838)	Servicing of finance		(2,553)
<u><u>7,150</u></u>	Revenue activities net cash flow		<u><u>(400)</u></u>

2. Reconciliation of movement in cash to movement in net debt

	2004/05	
	£000	£000
Movement in Net Debt		597
Cash at bank and in hand		
Balance as at 1 April 2004	250	
Balance as at 31 March 2005	<u>378</u>	
	(128)	
Cash Overdrawn		
Balance as at 1 April 2004	(1,356)	
Balance as at 31 March 2005	<u>(2,081)</u>	
	725	
		597

NOTES TO THE CASH FLOW STATEMENT

3. Reconciliation of Management of Liquid Resources

	<i>2004/05</i> <i>£000</i>	<i>£000</i>
Movement of Liquid Resources		(2,531)
Temporary Investments		
Balance as at 1 April 2004	58,393	
Balance as at 31 March 2005	<u>55,862</u>	(2,531)

Liquid Resources are made up of short term investments with Essex County Council.

4. Analysis of Government Grants and Contributions

<i>2003/04</i> <i>£000</i>		<i>2004/05</i> <i>£000</i>
94,671	Police Grant	96,185
5,792	Crime Fighting Fund	4,551
2,327	Hypothecation Grant - Camera Enforcement	2,531
1,456	South East Pay Allowance	1,750
930	Police Negotiating Board Reforms	1,176
841	DNA Grant Phase 1 and 2	917
778	Basic Command Unit Fund	778
459	Community Support Officers	649
1,369	Other Government Grants	614
502	Rural Policing Grant	500
380	Local Partnership Funding	283
246	Arrest Referral Grant	241
228	Criminal Records Bureau	233
84	National Security Grants	32
2,366	Airwave Radio System	-
<u>112,429</u>	Total	<u>110,440</u>

GLOSSARY OF TERMS

ACCRUAL – The recognition, in the correct accounting period, of income and expenditure as it is earned or incurred, rather than as cash is received or paid.

ACCRUED BENEFITS – The benefits for service up to a given point in time, whether vested rights or not.

ACTUARIAL GAINS AND LOSSES – For a defined benefit scheme, the changes in actuarial deficits or surpluses that arise because events have not coincided with the actuarial assumptions made for the last valuation (experience gains or losses) or the actuarial assumptions have changed.

ACTUARIAL VALUATION – A valuation of assets held, an estimate of the present value of benefits to be paid, and an estimate of required future contributions, by an actuary, on behalf of a pension fund.

AGENCY SERVICES – The provision of services by an authority (the agent) on behalf of another authority, which is legally responsible for providing those services. The responsible authority reimburses the authority providing the service.

APPROPRIATIONS - Amounts transferred to or from revenue or capital reserves.

ASSET – An item owned by the Authority, which has a value, for example, land & buildings, vehicles, equipment, cash.

ASSET MANAGEMENT REVENUE ACCOUNT (AMRA) – This is a holding account which enables authorities to ensure that the capital charges have a neutral impact on the amounts required to be raised from local taxation.

AUDIT COMMISSION – An independent body, established under the Local Government Finance Act 1982. It is the responsibility of the Audit Commission to appoint external auditors to the Police Authority. The Audit Commission has a duty to ensure that the Police Authority makes proper arrangements for ensuring the economy, efficiency and effectiveness in their use of resources and has the power to undertake special 'value for money' studies.

BALANCES – The total general balances available to the Police Authority is the accumulated surplus of income over expenditure which enable the Authority to operate without borrowing until the first precept and grant payments are received in the early part of the financial year. Balances are also used to cover any unexpected expenditure during the financial year.

BEST VALUE ACCOUNTING CODE OF PRACTICE – A CIPFA guide to accounting for best value which provides a consistent and comparable calculation of the total costs of services.

BUDGET – A statement of the Authority's plans in financial terms. A budget is prepared and approved by the Police Authority before the start of each financial year and is used to monitor actual expenditure throughout the year.

BUSINESS RATES – The business rate in the pound is the same for all business ratepayers and is set annually by the Government. Income from business rates goes into a central Government pool that is then distributed to authorities according to resident population.

CAPITAL CHARGE - A charge to the Revenue Account to reflect the cost of fixed assets consumed during the year.

CAPITAL EXPENDITURE - Expenditure on new assets or on the enhancement of existing assets so as to prolong their life or enhance market value.

CAPITAL FINANCING CHARGES – The repayment of loans and interest to pay for capital projects.

CAPITAL FINANCING ACCOUNT – An account which contains amounts set aside from the Revenue Account or from capital receipts to finance expenditure on fixed assets or for the repayment of external loans and a number of other capital financing transactions.

GLOSSARY OF TERMS

CAPITAL GRANT – Grant from Central Government used to finance specific schemes in the capital programme. Where capital grants are receivable, these are used, as far as possible, to finance capital expenditure to which they relate in the year that the grant is received.

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

CAPITAL RESERVE – Created to provide an alternative source of financing capital expenditure, and to ensure some stability in the level of capital programmes that can be financed.

CASHFLOW STATEMENT – This statement summarises the inflows and outflows of cash.

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

CONTINGENCY – The sum of money set aside to meet unforeseen expenditure or liability.

COLLECTION FUND – A fund administered by each District Council into which individuals' Council Tax payments are paid. The Police Authority precept on the fund to finance part of their net revenue expenditure.

COUNCIL TAX – The local tax levied on householders, based on the relative market values of property, which helps to fund local services.

CREDITORS – Individuals or organisations to whom the Authority owes money at the end of the financial year.

CURRENT ASSETS AND LIABILITIES – Current assets are items that can be readily converted into cash. Current liabilities are items that are due immediately or in the short-term.

CURRENT SERVICE COSTS (PENSIONS) – The increase in the present value of a defined benefit scheme's liabilities expected to arise from the employee service in the current period.

CURTAILMENT – For a defined benefit scheme, an event that reduces the expected years of future service of present employees or reduces for a number of employees the accrual of defined benefits for some or all of their future service.

DEBTORS – Individuals or organisations who owe the Authority money at the end of the financial year.

DEFERRED CHARGES – Capital expenditure that does not create a tangible asset. It also represents outstanding borrowing in respect of a capital asset which has been disposed of but where the proceeds have been insufficient to clear the outstanding debt.

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

DEFERRED PENSIONS – Individuals who have ceased to be active members but are entitled to benefits payable at a later date.

DEFINED BENEFIT SCHEME – A pension scheme which defines the benefits independently of the contributions payable, and the benefits are not directly related to the investments of the scheme.

DEPRECIATION – An annual charge to reflect the extent to which an asset has been worn out or consumed during the financial year.

GLOSSARY OF TERMS

DIRECT REVENUE FINANCING – Resources provided from the authority’s revenue budget to finance the cost of capital projects.

DISCRETIONARY BENEFITS – Retirement benefits which the employer has no legal, contractual or constructive obligation to award and which are awarded under the authority’s discretionary powers.

EARMARKED RESERVES – These reserves represent monies set aside that can only be used for a specific purpose.

EXPECTED RATE OF RETURN ON PENSION ASSETS – For a funded defined benefit scheme, the average rate of return, including both income and changes in fair value but net of scheme expenses, expected over the remaining life of the related obligation on the actual assets held by the scheme.

EXTRAORDINARY ITEMS – Material items, possessing a high degree of abnormality, which derive from events or transactions that fall outside the ordinary activities of the authority and are not expected to recur.

FINANCE AND OPERATING LEASE – A Finance lease transfers all of the risks and rewards of ownership of a fixed asset to the lessee. If these leases are used, the assets acquired have to be included within the fixed assets in the balance sheet at the market value of the asset involved. With an operating lease the ownership of the asset remains with the leasing company and an annual rent is charged to the relevant service committee’s revenue account.

FINANCIAL REGULATIONS – A written code of procedures approved by the authority, intended to provide a framework for proper financial management.

FINANCIAL REPORTING STANDARDS (FRS) – These standards are developed by the Accounting Standards Board and regulate the preparation and presentation of financial statements. The Companies Act 1985 requires compliance to these Standards or disclosures in the notes if there are any material departures from those Standards.

FRS17 RETIREMENT BENEFITS – An accounting standard that requires the recognition of long term commitments made to employees in respect of retirement benefits in the year in which they are earned. See Statement of Accounting Policies, pages 11-13, for further explanation.

FINANCIAL YEAR - The period of twelve months for the accounts, are compiled commencing 1st April.

FIXED ASSETS – Tangible assets that yield benefits to the Authority and the services it provides for a period of more than one year.

FIXED ASSET RESTATEMENT ACCOUNT – This account represents the difference between the current valuations of fixed assets and the historic costs of those assets.

FLOOR – The minimum increase in Government grants guaranteed to all Police Authorities. There is also a ceiling (i.e) a maximum increase above which Police Authorities will lose government grant. This is used to offset those below the ‘floor’ and bring them upto the minimum level of funding.

FORMULA SPENDING SHARE (FSS) – An assessment by central government of how much an authority needs to spend to provide a common level of service having regard to its individual circumstances. It is used to distribute Revenue Support Grant and Police Grant.

GOING CONCERN – The concept that the authority will remain in operational existence for the foreseeable future, in particular that the revenue accounts and balance sheet assume no intention to curtail significantly the scale of operations.

GOVERNMENT GRANTS - Assistance by government and inter-government agencies and similar bodies, whether local, national or international, in the form of cash or transfers of assets to an authority in return for past or future compliance with certain conditions relating to the activities of the authority.

GLOSSARY OF TERMS

INTEREST INCOME – The money earned from the investment of surplus cash.

INTEREST COSTS (PENSIONS) – For a defined benefit scheme, the expected increase during the period in the present value of the scheme liabilities because the benefits are one period closer to settlement.

INVESTMENTS (PENSION FUND) –The investments of the Pension Fund will be accounted for in the statements of that Fund. However authorities are also required to disclose, as part of transitional disclosures relating to retirement benefits, the attributable share of pension scheme assets associated with their underlying obligations.

MINIMUM REVENUE PROVISION (MRP) – The statutory minimum amount which an authority is required to set aside on an annual basis as a provision to redeem debt.

NET BOOK VALUE – The amount at which fixed assets are included in the balance sheet, i.e. their historical cost or current value less the cumulative amounts provided for depreciation.

NET CURRENT REPLACEMENT COST – The cost of replacing or recreating the particular asset in its existing condition and in its existing use, i.e. the cost of its replacement or of the nearest equivalent asset, adjusted to reflect the current condition of the existing asset.

NOTIONAL INTEREST – An element of the capital charge in the Revenue Account to reflect the cost of capital tied up in fixed assets.

NON DISTRIBUTED COSTS – This is where overheads are not charged or apportioned to activities within the Service Expenditure Analysis.

NON OPERATIONAL ASSETS – Non operational assets are fixed assets held by the Authority but not directly occupied or used in the delivery of services. They include surplus properties awaiting disposal and assets that are under construction.

NOTIONAL RATE OF INTEREST – This is a specified rate of interest. It is used to calculate the capital charge.

OPERATIONAL ASSETS – Fixed assets held and occupied, used or consumed by the Police Authority in the direct delivery of those services for which it has either a statutory or discretionary responsibility.

OUTTURN – The actual amount spent in the financial year.

PAST SERVICE COST – For a defined benefit scheme, the increase in the present value of the scheme liabilities related to employee service in prior periods arising in the current period as a result of the introduction of, or improvement to, retirement benefits.

PAYMENTS IN ADVANCE – These represent payments prior to 31 March for supplies and services received after 1 April.

PENSION FUND – A fund which makes pension payments on retirement of its participants.

POLICE GRANT – A grant paid by the Government to Police Authorities as a proportion of the Formula Spending Share or FSS.

POLICE REVENUE ACCOUNT – The main revenue fund of the Authority into which the precept, government grants and other income are paid, and from which the costs of providing services are met.

PRECEPT – The income which the Authority requires the District Council to raise from Council Tax on behalf of the Police Authority.

GLOSSARY OF TERMS

PROJECTED UNIT METHOD – An accrued benefits valuation method in which the scheme liabilities make allowances for projected earnings. The scheme liabilities at the valuation date relate to:

- a) the benefits for pensioners and deferred pensioners, and their dependants, allowing where appropriate for future increases and,
- b) the accrued benefits for members in service at the valuation date.

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

PUBLIC WORKS LOAN BOARD (PWLB) – A government agency which provides longer term loans to local authorities at interest rates only slightly higher than those at which the government itself can borrow.

RECEIPTS IN ADVANCE – These represent income received prior to 31 March for supplies and services provided by the Authority after 1 April.

RESERVES – Monies set aside by the authority that do not fall within the definition of provisions.

RETIREMENT BENEFITS – All forms of consideration given by an employer in exchange for services rendered by employees that are payable after the completion of employment.

REVENUE EXPENDITURE AND INCOME – Day to day expenses mainly salaries and wages, general running expenses and the minimum revenue provision cost. Charges for goods and services.

REVENUE CONTRIBUTIONS – Contribution from the Revenue account to finance capital expenditure and thus reduce the requirement to borrow.

REVENUE SUPPORT GRANT (RSG) - General government grant support towards police authority expenditure.

SCHEME LIABILITIES – The liabilities of a defined benefit scheme for outgoings due after the valuation date. Scheme liabilities measured using the projected unit method reflect the benefits that the employee is committed to provide for service up to the valuation date.

SETTLEMENT – An irrevocable action that relieves the employer (or the defined benefit scheme) of the primary responsibility for a pension obligation and eliminates significant risks relating to the obligations and the assets used to effect the settlement.

SPONSORSHIP – The voluntary provision of non-public fund, services, equipment or other resources that enables the police to enhance or extend the normal service provided.

STATEMENTS OF STANDARD ACCOUNTING PRACTICE (SSAP) - These standards were adopted by the Accounting Standards Board (ASB) from its predecessor the Accounting Standards Committee (ASC) and regulate the preparation and presentation of financial statements. Any new Standards are now referred to as Financial Reporting Standards (FRS). The CIPFA Code of Practice on Local Authority Accounting 2003 requires compliance to these Standards or disclosures in the notes if there are any material departures from those Standards.

TRANSFER VALUES – Payment made by one pension scheme to another in respect of accrued pension rights when a member of a scheme changes pensionable employment.

VESTED RIGHTS – In relation to a defined benefit scheme, these are:

- a) for active members, benefits to which they would unconditionally be entitled on leaving the scheme.
- b) for deferred pensioners, their preserved benefits.
- c) for pensioners, pensions to which they are entitled.

Vested rights include where appropriate the related benefits for spouses or other dependants.

WORK IN PROGRESS – The cost of work done on an uncompleted project at the balance sheet date.

FURTHER INFORMATION

This publication is a companion volume to the Authority's Annual Report, both of which are provided free of charge. Further information about the Authority's accounts are available from:

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Essex Police HQ
PO Box 2
Chelmsford
Essex
CM2 6DA
Telephone 01245 452604
Fax 01245 452568
E-mail Public Relations Officer on info@essex.pnn.police.uk

This is part of the Authority's policy of providing full information about the Authority's affairs. In addition, members of the public have a statutory right to inspect the accounts before the audit is completed. The availability of the accounts for inspection is advertised in the local press. The audit of the accounts has been formally concluded and this is reflected in the auditors' report that appears on page 13.

Further general information about Essex Police can be obtained from its Internet site at www.essex.police.uk.