

**Devon and Cornwall Police Authority Resources Committee  
26 April 2007**

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Report of the Treasurer

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**Statement of Accounts for 2006/7 - New Regulations**

**Recommendation:**

**That the changes to the regulations that govern the preparation of the Police Authority Statement of Accounts are noted.**

**1 Background**

- 1.1 The Police Authority prepares its Statement of Accounts according to the Statement of Recommended Practice or SORP. For 2006/7 changes in the SORP will have a major impact on the Statement that sets out the Authority's Income and Expenditure for the year. This paper alerts Members of the Committee to the changes in advance of the publication of the Statement of Accounts.

**2 Income and Expenditure Account**

- 2.1 In 2005/6 and previous years the Statement that set out the financial position of the Authority for the year was called the Consolidated Revenue Account. In 2006/7 this Statement will be known as the Income and Expenditure Account.
- 2.2 The SORP requires the Police Authority to prepare its accounts using the same conventions that a large UK company would use in preparing its accounts. This approach is however out of line with the statutory provisions that specify the net expenditure that the authority needs to take into account when setting local taxes. It also means that figures in the accounts will differ from the "normal" definitions of expenditure used to monitor the budget.
- 2.3 The regulations that determine what should be funded by council tax do this by specifying what may be charged against the General Fund. The effect for the Police Authority is to substantially reduce the amount that is charged to the Fund and hence against council tax. The main reasons for this are:
- The authority is not required to fund, in any given year, the full costs related to the consumption of capital assets but only the real debt charges
  - The full cost of future pensions benefits earned do not have to be funded in the year that they are earned.
- 2.4 Up to now the bottom line of the account should be the surplus or deficit for the year and this ties in with the budget monitoring updates. For 2005/6 the surplus for the year as reported in June 2006 was £100,000.
- 2.5 For the 2006/7 accounts onwards this will change. The 2005/6 performance will need to be restated according to the new accounting requirements and the Income and Expenditure Account will show a deficit of £93.755m. A separate statement (the Statement of Movement on the General Fund) will show the impact on the general fund and hence council tax and what is generally understood as the surplus or deficit.

2.6 Annex 1 compares the presentation of the performance for the year 2005-6 as shown in the 2005/6 Statement of Accounts and the presentation for the same year that will be included as comparatives in the 2006/7 accounts.

2.7 The reasons for the variations are given in the table below:

| Reason for Variation  | £m   |
|---|------|
| Charges for the use of capital assets (Income and Expenditure Account) exceed the cost of financing capital investment (General Fund) | 7.6  |
| Pensions  | 90.0 |
| Contribution to/from earmarked reserves are not included in the Income and Expenditure Account  | -3.8 |
| Total variation between the deficit on the Income and Expenditure Account and the surplus on the General Fund                         | 93.8 |

2.8 The most significant variation relates to the recognition of pension costs and in particular the impact of the Police Officers pension scheme. There was a net charge in the Income and Expenditure Account for 2005/6 of £76m for interest costs on the Police Officers' scheme. The size of this charge is due to the fact that the scheme is unfunded. For this reason Police Authorities are likely to show larger deficits on their Income and Expenditure Accounts than Local Authorities of a similar size who are not required to disclose the costs of large unfunded schemes. This is extremely unhelpful as a portion of these costs will be eventually fall on the government. The Treasurer's view is that the new rules are potentially misleading. Nevertheless we have to comply.

### Conclusion

3.1 The Income and Expenditure Account is intended to show the true position of the Police Authority. However, a number of concessions provided by statute allow the authority to raise Council tax according to different rules. Each year when evaluating the financial performance for the year the Police Authority focuses on the movement on the General Fund balance. This approach does not need to change as it is the position on the General Fund that indicates what action the Authority may need to take in terms of increasing or decreasing expenditure or increasing its resources available through raising council tax or other means. The Treasurer believes that the new rules are potentially misleading. We shall have to comply but will try to continue to make the "true" position clear.

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