

## EXPLANATORY FOREWORD

The Statement of Accounts brings together the key financial statements of the Police Authority.

**The Revenue Account:**

The annual expenditure incurred in operating the Force.

**The Capital Summary:**

The investment in capital assets during the year and their financing.

**The Balance Sheet:**

The Authority's liabilities and assets at the end of the year including reserves.

**Cash Flow Statement:**

The movement of cash through the year to show the source and application of funds.

## REVENUE OUT-TURN 2004/2005

The position is summarised in the following table:

<b>Actual 2003/04 £'m</b>	<b>Revenue Expenditure</b>	<b>Budget 2004/05 £'m</b>	<b>Actual 2004/05 £'m</b>	<b>Variation +(-)</b>
436.6	Net Cost of General Fund Services	486.6	490.6	4.0
	Other Charges	152.0	150.3	(1.7)
559.9	Net Operating Expenditure	638.6	640.9	(2.3)
(2.2)	Capital Appropriations	(3.1)	(5.9)	2.8
(113.1)	Transfers to Earmarked/Pensions Reserves	(174.9)	(174.4)	0.5
(3.4)	Transfer to (from) General Balance	0	0	0
<b>441.2</b>	<b>Net Budget Requirement</b>	<b>460.6</b>	<b>460.6</b>	<b>0</b>

Main variations in General Fund Expenditure £'m

Police Pay	1.2
Support Staff Pay	0.4
Employees Expenses	(0.3)
Pensions	1.6
Premises	(1.1)
Transport Costs	0.4
Supplies and Services	(1.4)
Agency Costs	0.7
Capital Financing	4.2
Income	(1.7)
	4.0

## EARMARKED AND GENERAL RESERVES

Earmarked reserves amount to £57.099m, and the general reserve is £6.042m. Details are shown in note 13 to the Balance Sheet.

## 4. Reconciliation to Summary Capital Account

	2003/04	2004/05
	£'000	£'000
Total Capital Expenditure	13,909	23,772
Other non cash transactions	404	(497)
<b>Total Capital Finance</b>	<b>14,313</b>	<b>23,275</b>
Leasing Arrangements		
Other non cash transactions	(9,375)	(12,733)
Capital Grant Unapplied	11,870	(444)
Other Capital Income	0	0
Cash capital receipts	570	1,205
<b>Capital Activities</b>	<b>17,378</b>	<b>11,303</b>

## 1. RECONCILIATION TO SUMMARY REVENUE ACCOUNT

	Year Ended 31 March 2004		Year Ended 31 March 2005	
	£'000	£'000	£'000	£'000
Surplus (Deficit) for the year		(3,400)		0
Increase (decrease) in Provisions		0		0
Other adjustments for non-cash movements		9,414		(5,236)
Items classified elsewhere in the Statement	(2,006)		0	
Capital Financing transaction	3,154		2,155	
(Increase) decrease in Long Term Debtors	28		24	
		1,176		2,179
Adjustments for:				
(Increase)Decrease in stocks		(47)		(50)
(Increase)Decrease in debtors		(313)		(9,168)
Increase (Decrease) in creditors		8,516		(762)
<b>Net Inflow (Outflow) from Revenue Activities</b>		<b>15,346</b>		<b>(13,037)</b>

## 2. MOVEMENT IN LIQUID AND NON LIQUID RESOURCES

	Balance at 31 March 2004	Movement in the year	Balance at 31 March 2005
	£'000	£'000	£'000
Cash overdrawn	(5,519)	1,044	(4,475)
Investments	134,500	(25,200)	109,300
	128,981	(24,156)	104,825

Liquid resources are assets which can be realised within 24 hours.

## 3. OTHER GOVERNMENT GRANTS RECEIVED

	2003/04	2004/05
	£'000	£'000
Police Revenue Grant	231,264	235,944
Loan Charges Grant	787	773
Other	28,517	27,077
<b>Total</b>	<b>260,568</b>	<b>263,794</b>

# CASH FLOW STATEMENT

Description	Year Ended 31 March 2004		Year Ended 31 March 2005	
	£'000	£'000	£'000	£'000
<b>REVENUE ACTIVITIES</b>				
<b>EXPENDITURE:</b>				
Employee Costs	363,099		381,132	
Other Operating Costs	118,511		143,988	
	481,610		525,120	
<b>INCOME:</b>				
Subsidy payments	0		0	
Precept	(54,717)		(61,319)	
Non-domestic Rates	(36,460)		(35,080)	
Revenue Support Grant	(118,759)		(128,257)	
Other Government Grants	(260,568)		(263,794)	
Rents	(1,392)		(929)	
Other Income	(25,060)		(22,704)	
	(496,956)		(512,083)	
<b>NET INFLOW FROM REVENUE ACTIVITIES</b>		(15,346)		13,037
<b>SERVICING OF FINANCE:</b>				
Interest Paid	3,177		(3,190)	
Interest on Leases	0		0	
Interest Received	(4,918)		(6,158)	
		(1,741)		(2,968)
<b>CAPITAL ACTIVITIES</b>				
<b>EXPENDITURE:</b>				
Purchase of Fixed Assets	14,314		22,674	
<b>INCOME:</b>				
Sale of Fixed Assets	(570)		(1,205)	
Capital Grants	(16,808)		(10,098)	
Sale of Long Term Investments	-		-	
Other Income				
	(17,378)	(3,064)	(11,303)	11,371
<b>NET (INFLD)W OUTFLOW BEFORE FINANCING</b>		(20,151)		21,440
<b>FINANCING</b>				
Repayment of Amounts Borrowed	164		2,716	
Capital Element of Leases	-		-	
New Loans Raised	0	164	-	2,716
		(19,987)		24,156
<b>(INCREASE) / DECREASE IN LIQUID AND NON LIQUID RESOURCES</b>				
Cash	(1,213)		1,044	
Investments	21,200		(25,200)	
		19,987		(24,156)

## 24. RELATED PARTY TRANSACTIONS

The Police Authority is required to disclose material transactions with related parties – bodies or individuals that have the potential to control or influence the Authority or to be controlled or influenced by the Authority. Disclosure of these transactions allows readers to assess the extent to which the Authority might have been constrained in its ability to operate independently or might have secured the ability to limit another party's ability to bargain freely with the Authority.

	2003/04 £'000	2004/05 £'000
<b>Major Government Grants Received</b>		
<b>Home Office</b>		
Police Grant	231,264	235,943
Loan Charges Grant	788	773
Crime Fighting Fund	14,415	15,149
Special Priority Payments	2,263	1,959
BCU Grant	3,691	3,052
DNA Expansion Scheme	4,113	3,998
Capital Grant	5,168	8,263
Operation Middlemarket	683	0
PCSO Grant	206	1,072
Safer Streets	1,804	1,745
Airwave Grant	2,739	9,843
NCS	4,090	3,850
NCIS	501	336
ODPM / DTLR		
Revenue Support Grant	118,759	128,257
National Non Domestic Rates	36,460	35,080
Local Authority Precept	54,717	61,319
Payments to the West Midlands Superannuation Fund	9,615	10,780

## 25. TRUST FUNDS

The Authority is Trustee to two Registered Charities:

**The High Sheriff's Police Trust Fund for the West Midlands (Building Blocks)**

The Charity supports a number of police service related initiatives within the West Midlands.

The balance on the funds accounts at 31 March 2005 was £115,000 (£174,000 in 2004).

**Alderman Guy Fund**

This small charity makes small awards to selected officers whose performance it recognises as being of particular merit.

The balance on the funds accounts at 31 March 2005 was £2,000 (£2,000 in 2004).

These two charities are not subject to KPMG audit.

## 26. PROCEEDS OF CRIME ACT 2002 ACCOUNT

In addition, West Midlands Police Authority have a bank account for the holding of 3rd party funds seized as suspected proceeds of crime in accordance with the Act. At 31 March 2005 the balance on this account was £796,211.32, \$435.21 and €41,569.06.

Liabilities have been assessed on an actuarial basis using the projected unit method, an estimate of the pensions that will be payable in future years dependent on assumptions about mortality rates, salary levels, etc. The Police Scheme and the West Midlands Fund liabilities have been assessed by the Government Actuary's Department and Mercers Human Resource Consulting respectively.

	Local Government Pension Scheme		Police Pension Scheme	
	2003/04 %	2004/05 %	2003/04 %	2004/05 %
Rate of inflation	2.80	2.90	3.40	2.90
Rate of increase in salaries	4.30	4.65	4.40	4.40
Rate of increase in pensions	2.80	2.90	2.90	2.90
Rate for discounting scheme liabilities	6.30	6.30	6.50	5.40

Assets in the West Midlands Pension Fund are values at fair value, principally market value for investments, and consist of the following categories, by proportion:

	2003/04		2004/05	
	£'000s	%	£'000s	%
Equity investments	113,642	76	131,948	75
Bonds	20,500	14	24,357	14
Other assets	14,409	10	18,924	11
	<b>148,551</b>	<b>100</b>	<b>175,229</b>	<b>100</b>

## 22. DISCRETIONARY PENSION PAYMENTS

The capitalised value of payments made during the year to former employees under the conditions of the Local Government Superannuation Scheme are set out below:

	2003/04 Capitalised Value £'000	2004/05 Actual Payments £'000	2004/05 Capitalised Value £'000
Payments made in respect of decisions made in the year	0	0	0
Payments made in respect of decisions made in previous years	2,110	117	2,110
<b>Total</b>	<b>2,110</b>	<b>117</b>	<b>2,110</b>

## 23. CONTINGENT LIABILITY

Other than liabilities which are covered by the Authority's normal insurance arrangements there are no known contingent liabilities.

## 21. PENSIONS

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

The Authority participates in two pension schemes:

- the Local Government Pension Scheme (defined benefit) for civilian employees, administered by West Midlands Pension Fund - this is a funded scheme, meaning that the Authority and employees pay contributions into a fund, calculated at a level estimated to balance the pensions liabilities with investment assets.
- the Police Pension Scheme (defined benefit) for police officers - this is an unfunded scheme, meaning that there are no investment assets built up to meet the pensions liabilities, and cash has to be generated to meet actual pensions payments as they eventually fall due.

In 2004/05, pensions costs have been charged to the consolidated revenue account on the basis of contributions payable for the year to the West Midlands Pension Fund pension scheme (based on a formal actuarial valuation for 31 March 2004) and the pensions payable in the year to retired officers. However, at 31 March 2005, the Authority had the following overall assets and liabilities for pensions:

	Local Government Pension Scheme		Police Pension Scheme		Total	
	£'000s		£'000s		£'000s	
	31 March 2004	31 March 2005	31 March 2004	31 March 2005	31 March 2004	31 March 2005
Estimated liabilities in scheme	(195,536)	(252,241)	(2,401,000)	(3,152,120)	(2,596,536)	(3,404,361)
Estimated assets in scheme	148,551	175,229	0	0	148,551	175,229
<b>Net asset/(liability)</b>	<b>(46,985)</b>	<b>(77,012)</b>	<b>(2,401,000)</b>	<b>(3,152,120)</b>	<b>(2,447,985)</b>	<b>(3,229,132)</b>

	Local Government Pension Scheme		Police Pension Scheme		Total	
	£'000s		£'000s		£'000s	
	31 March 2004	31 March 2005	31 March 2004	31 March 2005	31 March 2004	31 March 2005
Surplus(Delicit) brought forward	(61,404)	(46,985)	(1825,000)	(2,401,000)	(1,886,404)	(2,447,985)
Current Service Cost	(6,405)	(9,502)	(46,000)	(65,680)	(52,405)	(75,182)
Employers Contribution	6,448	7,239	(23,000)	(25,880)	(16,552)	(18,641)
Retirement benefits Payable to pensioners	0	0	76,000	86,760	76,000	86,760
Past Service Costs	0	0	0	(4,180)	0	(4,180)
Interest Costs/Return on assets	(2,553)	(2,157)	(127,000)	(156,380)	(129,553)	(158,537)
Expected Return on scheme assets	0	(25,607)	0	0	0	(25,607)
Actuarial Gains(Losses)	16,929	0	(456,000)	(585,760)	(439,071)	(585,760)
<b>Surplus (Deficit) carried forward</b>	<b>(46,985)</b>	<b>(77,012)</b>	<b>(2,401,000)</b>	<b>(3,152,120)</b>	<b>(2,447,985)</b>	<b>(3,229,132)</b>

### Note to the Statement of the total Movement in Reserves

	Local Government Pension Scheme		Police Pension Scheme	
	£'000s	%	£'000s	%
Difference relating to return on assets	6,703	3.8 of assets	0	
Difference relating to actuarial assumptions	17,625	7.0 of liabilities	45,300	1.4 of liabilities
Changes to demographic and financial assumptions	(49,935)	19.8 of liabilities	(630,680)	20.0 of liabilities
<b>Total</b>	<b>(25,607)</b>	<b>10.2 of liabilities</b>	<b>(585,380)</b>	<b>18.6 of liabilities</b>

## 19. SOURCES OF CAPITAL FINANCE

This table shows the sources of financing for the cash transactions on Capital expenditure.  
See also the Summary Capital Account on page 17.

	2003/04	2004/05
	£'000	£'000
Total Capital Expenditure	13,909	23,275
Accrual b/d	404	0
Accruals	0	497
<b>Capital Expenditure</b>	<b>14,313</b>	<b>23,772</b>
Financing:		
Capital Grants in Year	4,938	10,542
Credit Approvals	5,810	4,044
Credit Approvals - Credit Arrangements	0	0
Capital Receipts	0	5,000
Capital Reserve	0	600
Operational Leases	0	0
Direct Revenue Financing	3,565	,586
<b>Total Financing</b>	<b>14,313</b>	<b>23,772</b>

## 20. STATEMENT OF PHYSICAL ASSETS

An analysis of major fixed assets owned by the Authority is shown below:-

	31 March 2004	31 March 2005
Operational Police Stations	67	47
Beat Offices	55	79
Police Administrative Buildings	4	4
Police Houses	120	110
Single Officers' Quarters	2	2
Stand alone Radio Aerials	2	2
Garages	2	2
Training Centres	3	3
Other Property	11	14

The above descriptions relate to the main function of each site. Police stations are those stations which satisfy the latest Home Office criteria.

Other minor assets include equipment and vehicles, although these are too numerous to list individually. In future years the numbers of such assets will diminish greatly, as present policy is to classify the majority of such items as revenue rather than capital.



	Capital Financing Reserve £'000s	Government Grants deferred £'000s	Total £'000s
<b>5. Movements in amounts set aside to finance capital investment</b>			
Capital receipts set aside in year			
- reserved receipts	0		
- useable receipts applied	0		
<b>Total capital receipts set aside in year</b>	<b>(5,000)</b>		<b>(5,000)</b>
Revenue resources set aside in year			
- capital expenditure financed from revenue	(3,586)		
- reconciling amount for provisions for loan repayment	8,706		
<b>Total revenue resources set aside in year</b>	<b>5,120</b>		<b>5,120</b>
Grants applied to capital investment in year	(1,305)	(8,365)	
Amounts credited to the asset management revenue account in year		1,168	
<b>Movement on Government Grants</b>	<b>(1,305)</b>	<b>(7,197)</b>	<b>(8,502)</b>
<b>Total (increase)/decrease in amounts set aside to finance capital investment</b>			<b>(8,382)</b>
Total movement on reserve in year	(1,185)	(7,197)	(8,382)
Balance brought forward at 1 April 2004	(58,852)	(4,136)	(62,988)
<b>Balance carried forward at 31 March 2005</b>	<b>(60,037)</b>	<b>(11,333)</b>	<b>(71,370)</b>

	Usable Capital Receipts	Unapplied Capital Grants & Contributions
	£'000	£'000
<b>2. Movements in realised capital resources</b>		
Amounts receivable year	(1,205)	(10,098)
<b>Amounts applied to finance new capital investment in year</b>	5,000	10,542
<b>Total (Increase)/decrease in realised capital resources in year</b>	3,795	444
Balance brought forward at 1 April 2004	(11,18)	(27,547)
<b>Balance carried forward at 31 March 2005</b>	<b>(7,389)</b>	<b>(27,103)</b>
	<b>Fixed assets restatement reserve £'000</b>	
<b>3. Movements in unrealised value of fixed assets</b>		
(Gains) losses on revaluation of fixed assets in 2004/05	2,656	
Impairment losses on fixed assets due to general changes in prices in 2004/05	0	
<b>Total (Increase)/decrease in unrealised capital resources 2004/05</b>	<b>2,656</b>	
<b>4. Value of assets sold, disposed of or decommissioned</b>		
Amounts written off fixed asset balances for disposal in 2004/05	6,180	
Amounts written off fixed asset balances for maintaining value in 2004/05	7,784	
	<b>13,964</b>	
<b>Total movement on reserve in year</b>	<b>16,620</b>	
Balance brought forward at 1 April 2004	23,144	
<b>Balance carried forward at 31 March 2005</b>	<b>39,764</b>	

(Increase)/decrease in useable capital receipts	(570)	3,795
(Increase)/decrease in unapplied capital grants and contributions	(11,870)	444
<b>Total increase/(decrease) in realised capital resources (Note 2)</b>	<b>(12,440)</b>	<b>4,239</b>
(Gains)/losses on revaluation of fixed assets.	(296)	2,656
Impairment losses on fixed assets due to general changes in prices	-	-
<b>Total (increase)/decrease in unrealised value of fixed assets (Note 3)</b>	<b>(296)</b>	<b>2,656</b>
<b>Value of assets sold, disposed of or decommissioned (Note 4)</b>	<b>4,202</b>	<b>13,964</b>
Capital receipts set aside	0	(5,000)
Revenue resources set aside	4,001	5,120
Movement on Government Grants	(3,686)	(8,502)
<b>Total (increase)/decrease in amounts set aside to finance capital investment (Note 5)</b>	<b>315</b>	<b>(8,382)</b>
<b>Increase In Pensions Reserve</b>	<b>(561,581)</b>	<b>(781,147)</b>
<b>Total recognised gains and losses</b>	<b>(1,137,394)</b>	<b>(1,544,581)</b>

Notes to the statement of total movements on reserves

	General Reserve £'000	Earmarked Reserve £'000	Pensions Reserve £'000	Total £'000
<b>1. Movement in Revenue Resources</b>				
Surplus (Deficit)	0			0
Appropriations		5,236	(169,780)	(164,544)
Actuarial Gains			(611,367)	(611,367)
	0	5,236	(781,147)	(775,911)
Balance brought forward	(6,042)	(62,335)	(2,447,985)	(2,516,362)
Balance carried forward	(6,042)	(57,099)	(3,229,132)	(3,292,273)

## 16. CAPITAL FINANCING ACCOUNT

This account contains the amounts which are required by statute to be set aside from capital receipts for the repayment of external loans and the amount of capital expenditure financed from revenue and capital receipts. It also contains the difference between amounts provided for depreciation and that required to be charged to repay the principal element of external loans (minimum revenue provision), the balance on this reserve will reduce as loan debt is repaid.

	2003/04 £'000	2004/05 £'000
Opening Balance	(62,427)	(58,852)
Capital receipts set aside in year	0	0
Capital financing in year		
• Capital receipts	0	(5,000)
• Revenue contribution to capital	(3,565)	(3,586)
• Capital Grants	426	(1,305)
• Capital Reserve	0	(600)
• External Contributions	0	0
Transferred Debt Repayment	(164)	(180)
Minimum Revenue Provision (less depreciation)	6,373	10,654
Voluntary Revenue Provision	0	0
Finance Lease Payment	0	0
Deferred Grants written down	(649)	(1,168)
Premiums charged to PCL	2,006	0
<b>Closing Balance</b>	<b>(58,852)</b>	<b>(60,037)</b>

## 17. FIXED ASSET RESTATEMENT ACCOUNT

The new system of capital accounting requires the establishment of this account. It represents the difference between the valuation of assets under the previous system of capital accounting and the revaluation as at 1 April 2004. The reserve is adjusted with any surplus or deficits that may arise on the disposal of assets.

	2003/04 £'000	2004/05 £'000
Opening Balance	19,238	23,144
Revaluation of Assets	(296)	(2,813)
Disposal of fixed assets	454	709
Repaid External Debt	0	0
Capital expenditure to maintain asset values	4,351	8,656
Deferred Grants written out	(603)	(872)
<b>Closing Balance</b>	<b>23,144</b>	<b>28,824</b>

## 18. TOTAL MOVEMENT IN RESERVES

	2003/04 £'000	2004/05 £'000
(Surplus)/deficit for the year:		
- General Fund	3,400	0
- Earmarked Reserves	(9,413)	5,236
- Pensions Reserve	(122,510)	(169,780)
- Actuarial Gains and Losses	(439,071)	(611,367)
<b>Total increase/(decrease) in revenue resources (note1)</b>	<b>(567,594)</b>	<b>(775,911)</b>

## 13. RESERVES

The movements and balances of Earmarked and the General Reserve are set out below:

	Balance at 31 March 2004 £'000	Transfer to Reserve £'000	Transfer from Reserve £'000	Balance at 31 March 2005 £'000
Pensions Reserve	(31,131)	(15,100)	16,715	(29,516)
Insurance pre self funding	(1,492)	0	1,492	0
Uniform and Protective Equipment Reserve	(1,952)	0	334	(1,618)
Capital	(5,000)	0	600	(4,400)
Devolved Budget	(1,347)	0	0	(1,347)
Helicopter	(400)	0	0	(400)
Football Overtime	(815)	(205)	500	(520)
Self funded Insurance	(10,598)	(2,717)	2,873	(10,442)
New Initiatives	(8,800)	(1,692)	2,236	(8,256)
Restructuring	(500)	0	200	(300)
Major Incidents	(300)	0	0	(300)
<b>Earmarked Reserves</b>	<b>(62,335)</b>	<b>(19,714)</b>	<b>24,950</b>	<b>(57,099)</b>
<b>General Fund Reserve</b>	<b>(6,042)</b>	<b>0</b>	<b>0</b>	<b>(6,042)</b>
<b>Total Reserves</b>	<b>(68,377)</b>	<b>(19,714)</b>	<b>24,950</b>	<b>(63,141)</b>

## 14. UNAPPLIED CAPITAL GRANT

	2003/04 £'000	2004/05 £'000
Opening Balance	(15,677)	(27,547)
Received in Year	(16,808)	(10,098)
Applied in Year	426	1,305
Grants Deferred in Year	4,512	9,237
<b>Closing Balance</b>	<b>(27,547)</b>	<b>(27,103)</b>

## 15. DEFERRED CAPITAL GRANT

This represents capital grant received and applied in respect of specific projects. The balance is written down over the life of the assets.

	2003/04 £'000	2004/05 £'000
Opening Balance	(876)	(4,136)
Received in Year	(4,512)	(9,237)
Written Off in Year	1,252	2,040
<b>Closing Balance</b>	<b>(4,136)</b>	<b>(11,333)</b>

## 10. LONG TERM BORROWING

Transactions undertaken during the year were as shown below:-

	31 March 2004 £'000	31 March 2005 £'000
Opening Balance	(50,549)	(50,384)
External Loans Raised in Year	0	0
Loans Repaid in Year	165	2,716
<b>Closing Balance</b>	<b>(50,384)</b>	<b>(47,668)</b>

The sources of long term loans outstanding at the year end are shown below:

	31 March 2004 £'000	31 March 2005 £'000
Public Works Loan Board	(37,703)	(35,167)
Dudley Metropolitan Debt		
Administration Fund	(12,579)	(12,403)
Birmingham City Council	(102)	(98)
	<b>(50,384)</b>	<b>(47,668)</b>

These borrowings are repayable as follows:-

	31 March 2004 £'000	31 March 2005 £'000
Maturity within 5 years	8,183	11,091
Maturity within 6 to 10 years	11,882	9,255
Maturity within 10 to 15 years	4,810	5,639
Maturity in 15 or more years	25,509	21,683
	<b>50,384</b>	<b>47,668</b>

## 11. DEFERRED LIABILITY

This represents the capital value of finance leases still outstanding in respect of assets financed in this way. It is written down annually as annual payments are made under the agreements. There are no outstanding finance lease liabilities.

## 12. UNAPPLIED CAPITAL RECEIPTS

This is the element of capital receipts which the Authority has the discretion to use in the future either to finance capital expenditure or to use for the redemption of external debt.

	2003/04 £'000	2004/05 £'000
Opening Balance	(10,614)	(11,184)
Sales of Assets in Year	(570)	(1,205)
Receipts Applied to Finance Expenditure	0	5,000
Receipts Set Aside for Redemption of Debt	0	0
<b>Closing Balance</b>	<b>(11,184)</b>	<b>(7,389)</b>

## 6. LONG TERM DEBTORS

These are debtors which fall due for repayment after the forthcoming accounting year and relate to police capital receipts managed by Birmingham City Council and loans advanced to employees under the assisted car purchase scheme.

	31 March 2004	31 March 2005
	£'000	£'000
Other Local Authorities	218	195
Loans Advanced to Employees	1	0
	<b>219</b>	<b>195</b>

## 7. STOCKS

	31 March 2004	31 March 2005
	£'000	£'000
Vehicle Fuel	172	228
Vehicle Parts	111	143
Uniforms	830	770
Stationery	78	69
Reprographics	26	53
	<b>1,217</b>	<b>1,267</b>

## 8. DEBTORS

An analysis of current debtors is shown below. A bad debts provision of £200k (£200k in 2003/04) has been made to provide for potentially uncollectable debts outstanding for more than one year.

	31 March 2004	31 March 2005
	£'000	£'000
Government Departments	7,026	11,794
Other Local Authorities	3,487	5,384
Employee Loans	65	68
Sundry Debtors	2,954	2,454
	<b>13,522</b>	<b>22,690</b>

## 9. CREDITORS

The majority of sums accrued relate to trade creditors, with the remainder being in respect of debts owed to other local authorities and Central Government. Due to the large volume of accruals, it is not considered practicable to quantify the total accrual into categories.

## 4. MOVEMENT OF FIXED ASSETS

	Land & Buildings £'000	Houses £'000	Leased Property £'000	Vehicles £'000	IT £'000	Casualty Partnership £'000	Helicopter £'000	Equipment £'000	Leased Vehicles £'000	Total £'000
<b>Cost or Value at 31 March 2004</b>	59,479	11,247	7,525	16,580	24,568	1,048	2,870	4,960	28	128,305
Additions in Year	9,115	0	0	4,282	9,613	755	0	607	0	23,772
Written Off in Year	0	0	0	0	0	0	0	0	0	0
Items Not Adding Value (7,000)		0	0	(212)	(433)	0	0	(71)	0	(8,656)
Disposals in Year	0	(735)	0	(1,762)	0	0	0	0	(7)	(2,504)
Revaluations	(2,389)	262	(536)	0	0	0	0	0	0	(2,663)
<b>Cost or Value at 31 March 2005</b>	58,305	10,771	6,995	18,888	33,098	1,803	2,870	5,506	21	138,257
<b>Depreciation at 31 March 2004</b>	4,837	891	632	10,305	19,388	49	1,640	4,077	28	41,847
Depreciation in Year	1,447	250	163	3,523	5,443	269	410	497	0	12,010
Written off in Year	0	0	0	0	0	0	0	0	0	0
Disposals in Year	0	(73)	0	(1,715)	0	0	0	0	(7)	(1,795)
Revaluations	(4,837)	0	(632)	0	0	0	0	0	0	(5,469)
<b>Depreciation at 31 March 2005</b>	1,447	1,070	163	12,117	24,831	318	2,050	4,574	21	46,591
<b>Net Book Value at 31 March 2005</b>	56,858	9,701	6,832	6,771	8,267	1,485	820	932	0	91,666
Net Book Value at 31 March 2004	54,642	10,356	6,893	6,275	5,180	999	1,230	633	0	86,458

## 5. INVESTMENTS

The Authority invests its surplus cash balances in order to generate income by earning interest. The balance sheet shows these investments at original cost, as summarised below:-

	31 March 2004 £'000	31 March 2005 £'000
Short Term Investments (Banks, Building Societies)	134,500	81,300
Long Term Investments	-	28,000
	<b>134,500</b>	<b>109,300</b>

Interest earned on investments has been credited to Revenue Account.



# NOTES TO THE BALANCE SHEET

## 1. FIXED ASSET VALUATION

- Freehold and leasehold properties which the Authority includes in its property portfolio valued in 2004 by Gerald Eve (Chartered Surveyors) in accordance with the statements of asset valuation practice and guidance notes of the Royal Institution of Chartered Surveyors. Property will be revalued at intervals no greater than 5 years. Police Houses are not formally revalued but values are adjusted to reflect sales of relevant properties. To this extent the Authority does not comply fully with FRS requirements.
- Buildings are written down over a 40 year period.
- Plant and machinery is included in the valuation of the building in which it is located.
- I.T. equipment is valued, internally, at historic cost and written down to reflect an anticipated three year life.
- General equipment (including Casualty Reduction Partnership) is valued, internally, at historic cost and written down to reflect an anticipated four year life.
- Vehicles are valued at cost and written down to reflect an anticipated four year life.
- In view of the short life of vehicles and equipment it is expected that valuations will always be on a current basis and will not therefore require formal revaluation.
- Expenditure on assets which do not increase market value are written out of the accounts. Such expenditure relates to items of less than £5,000 or which simply maintains value or which modifies assets for operational reasons but does not add to their market value.
- Property valuations do not separate site and building costs and therefore do not comply fully with FRS requirements. This will be corrected at the next formal revaluation.
- Operational assets are valued at either existing use value or direct replacement cost. Non operational assets are valued at market value.
- The helicopter is written down over a 7 year period.

## 2. FUTURE CAPITAL COMMITMENTS

The following significant capital contracts had been entered into by the Authority at 31 March 2005, and the Authority is committed to make further payments, as detailed below:-

	£'000
FOU Facility Improvement	3,510
Sutton Coldfield Custody Suite	2,990
Tipton	1,490

## 3. LEASING

### Operating Leases

The cost of vehicles, furniture and equipment acquired during 2003/04 under operational leases is nil (nil in 2003/04). Rental payments on leases amounted to nil (nil in 2003/04). The Authority was committed on 31 March 2005 to meet future primary rental charges on leased items as follows:-

	31 March 2004	31 March 2005
	£'000	£'000
2003/04	Nil	Nil
2004/05	Nil	Nil

### Property Leases

The Authority leases several of the properties which it occupies. The capitalised value of leases which were entered into or renewed in 2004/05 was nil.

# GENERAL FUND BALANCE SHEET

Note		As at 31 March 2004		As at 31 March 2005	
		£'000	£'000	£'000	£'000
4	<b>FIXED ASSETS</b>				
	Land & Buildings - owned	54,642		56,858	
	Land & Buildings - leased	6,893		6,832	
	Police Houses	10,356		9,701	
	Vehicle, Plant and Equipment - owned	12,338		15,970	
	Helicopter	1,230		820	
	Casualty Partnership	999		1,485	
			86,458		91,666
	<b>LONG TERM INVESTMENTS</b>		0		28,000
6	<b>LONG TERM DEBTORS</b>		219		195
	<b>CURRENT ASSETS</b>				
7	Stocks	1,217		1,267	
8	Debtors	13,522		22,690	
5	Short Term Investments	134,500		81,300	
		149,239		105,257	
	<b>CURRENT LIABILITIES</b>				
9	Creditors	(33,061)		(32,796)	
	Cash	(5,519)		(4,475)	
		(38,580)		(37,271)	
	<b>NET CURRENT ASSETS</b>		110,659		67,986
10	Capital Long Term Borrowing		(50,384)		(47,668)
11	Deferred Liability		0		0
21	Pensions Liability		(2,447,985)		(3,229,132)
	<b>NET ASSETS</b>		<b>(2,301,033)</b>		<b>(3,088,953)</b>
	<b>BALANCES AND RESERVES:</b>				
12	UNAPPLIED CAPITAL				
	RECEIPTS	(11,184)		(7,389)	
13	EARMARKED RESERVES	(62,335)		(57,099)	
14	UNAPPLIED CAPITAL				
	GRANT	(27,547)		(27,103)	
15	DEFERRED CAPITAL GRANT	(4,136)		(11,333)	
13	GENERAL RESERVES	(6,042)		(6,042)	
16	CAPITAL FINANCING ACCOUNT	(58,852)		(60,037)	
17	FIXED ASSET RESTATEMENT ACCOUNT	23,144		28,824	
21	PENSIONS RESERVE	2,447,985		3,229,132	
	<b>NET LIABILITIES</b>		<b>2,301,033</b>		<b>3,088,953</b>

## 5. SELF FINANCED COSTS

The following table shows expenditure included in the accounts which because they are met from external income were budgeted at zero costs.

2003/04 £'000		2004/05 £'000
4,662	NCS & NCIS	4,245
3,475	BCU Funded	3,540
6,692	Other Externally funded, Rechargeable & Sponsorship	11,919
<b>14,829</b>		<b>19,704</b>

## 6. EMPLOYEE REMUNERATION

2003/04 Total	EARNING BANDS 2004/05	Police Officers	Police Staff	Total
12,848	Less than £49,999	8,780	4,516	13,296
109	£50,000 - £59,999	59	4	63
47	£60,000 - £69,999	34	2	36
2	£70,000 - £79,999	2	0	2
5	£80,000 - £89,999	3	1	4
2	£90,000 - £99,999	0	1	1
0	£100,000 - £109,999	0	0	0
1	£110,000 - £119,999	1	0	1
0	£120,000 - £129,999	0	0	0
1	£130,000 - £139,999	0	0	0
0	£140,000 - £149,999	0	0	0
0	£150,000 - £159,999	1	0	1
<b>13,015</b>	<b>TOTAL</b>	<b>8,880</b>	<b>4,524</b>	<b>13,404</b>

## 7. AUDIT FEES

In 2004/05 the Authority incurred the following fees relating to external audit and inspection:

	2003/04 £'000	2004/05 £'000
Fees payable to the Audit Commission with regard to external audit services carried out by the appointed auditor	103	109
Fees payable to the Audit Commission in respect of statutory inspection	0	0
Fees payable to the Audit Commission for the certification of grant claims and returns	12	12 (estimated)
Fees payable in respect of other services provided by the appointed auditor	0	0

## 8. MEMBERS' ALLOWANCES

The cost of allowances paid to Members of the Police Authority in 2004/05 was £230,000 (£227,000 in 2003/04).

# NOTES TO THE SUMMARY REVENUE ACCOUNT

## 1. EXPENDITURE ON PUBLICITY

Expenditure on publicity in 2004/2005 as defined in Section 5 of the Local Government Act 1986 amounted to £2.092m (£1.748m in 2003/04).

## 2. AGENCY

Agency expenditure includes payment made to the Forensic Science Service and Police Information Technology Organisation (PITO).

## 3. REVENUE BALANCES

On 31 March 2005 the non-earmarked General Fund Revenue Balances stood at £6.042m (£6.042m at 31 March 2004).

## 4. ASSET MANAGEMENT REVENUE ACCOUNT

This account shows the difference between the capital charges made to the revenue account and the actual external capital financing costs incurred. The net surplus on this account is carried to the Summary Revenue Account.

	2003/04 £'000	2004/05 £'000
<b>Income</b>		
Capital Charges	(10,684)	(15,340)
Deferred Grant	(649)	(1,168)
	(11,333)	(16,508)
<b>Expenditure</b>		
External Interest	3,167	3,179
Interest on finance leases	-	-
Provision for depreciation	7,540	12,010
	10,707	15,189
<b>Net Expenditure/(Income)</b>	<b>(626)</b>	<b>(1,319)</b>

## REVENUE OUT-TURN 2004/2005

Under the Best Value Accounting Requirements the accounts are presented in a format that costs expenditure over a number of operational Service Headings. These costs include not only the direct cost involved but also apportioned costs in respect of capital charges, centrally held costs and the costs of administrative and support departments.

Operational costs in respect of levies paid to national agencies are shown separately as are other local unrecovered overhead costs.

2003/04 Net Expenditure £'000	DESCRIPTION	2004/05 Gross Expenditure £'000	2004/05 Gross Income £'000	2004/05 Net Expenditure £'000
33,665	Reducing Crime	45,895	(8,376)	37,519
197,742	Investigating Crime	231,995	(11,616)	220,379
<b>231,407</b>	<b>Crime</b>	<b>277,890</b>	<b>(19,992)</b>	<b>257,898</b>
150,853	Promoting Public Safety	194,963	(26,841)	168,122
52,048	Assistance to Public	64,032	(6,026)	58,006
<b>202,901</b>	<b>Policing in the Community</b>	<b>258,995</b>	<b>(32,867)</b>	<b>226,128</b>
1,234	Corporate & Democratic Core	1,345	(45)	1,300
0	Non-Distributed Costs	4,180	0	4,180
1,094	Levies to National Police Services	1,124	0	1,124
<b>436,636</b>	<b>Net Cost - General Fund Services</b>	<b>543,534</b>	<b>(52,904)</b>	<b>490,630</b>
0	Seconded Officers	6,950	(6,950)	0
(626)	Transfer from Asset Management Account		(1,319)	(1,319)
(4,919)	Interest Received		(6,158)	(6,158)
129,553	Interest and expected return on assets	158,537		158,537
(787)	Loan Charges Grant		(773)	(773)
<b>559,857</b>	<b>Net Operating Expenditure</b>	<b>709,021</b>	<b>(68,104)</b>	<b>640,917</b>
	<b>Appropriations</b>			
3,565	Financing of Capital Expenditure			3,586
(5,725)	Provision for Repayment of External Loans			(9,486)
9,413	To (from) Earmarked Reserves			(4,637)
(122,510)	Appropriation of Pensions Reserves			(169,780)
<b>444,600</b>	<b>Amount to be met from government grant and local taxation</b>			<b>460,600</b>
	<b>Source of finance</b>			
(54,717)	Council Tax Payer			(61,319)
	<b>Central Government Grants</b>			
(231,264)	Police Revenue Grant			(235,944)
(118,759)	Revenue Support Grant			(128,257)
(36,460)	Non-Domestic Rates			(35,030)
<b>(441,200)</b>	<b>Total external funding</b>			<b>(460,600)</b>
<b>3,400</b>	<b>Net General Fund Deficit/(Surplus)</b>			<b>0</b>
(9,442)	General Fund Balance Brought forward			(6,042)
(6,042)	General Fund Balance Carried forward			(6,042)

# SUMMARY REVENUE ACCOUNT

## Revenue Out-turn 2004/2005

Outturn 2003/04 £'000	Notes	Latest Budget 2004/05 £'000	Outturn 2004/05 £'000
285,930	Police Pay and Allowances 6	297,486	298,693
73,488	Civilian and Traffic Warden Pay and Allowances 6	84,622	85,023
4,106	Other Employee Expenses	4,811	4,479
<b>363,524</b>	<b>Sub Total Employee Costs</b>	<b>386,919</b>	<b>388,195</b>
43,255	Police Pensions (net)	62,099	63,755
13,897	Premises Related Costs	15,554	14,485
9,522	Transport/Travel Costs	10,684	11,080
38,549	Supplies & Services	44,807	43,363
12,286	Agency Expenses 2	9,116	9,894
10,859	Capital Financing Costs	11,281	15,532
(55,256)	External Income	(58,165)	(59,854)
0	Crime and Operations Contingency	147	0
0	Non-Distributed Costs	4,180	4,180
<b>436,636</b>	<b>NET COST - GENERAL FUND SERVICES</b>	<b>486,622</b>	<b>490,630</b>
(626)	Transfer from Asset Management Account 4	65	(1,319)
(4,919)	Interest Received	(5,741)	(6,158)
129,553	Interest and expected return on assets	158,537	158,537
(787)	Loan Charges Grant	(900)	(773)
<b>559,857</b>	<b>NET OPERATING EXPENDITURE</b>	<b>638,583</b>	<b>640,917</b>
	<b>APPROPRIATIONS</b>		
3,565	Financing of Capital Expenditure	3,468	3,586
(5,725)	Provision for Repayment of External Loans	(6,585)	(9,486)
0	Capital Element of Finance Leases	0	0
9,413	To (from) Earmarked Reserves	(5,086)	(4,637)
(122,510)	Appropriation of Pensions Reserve	(169,780)	(169,780)
<b>444,600</b>	<b>AMOUNTS TO BE MET FROM</b>	<b>460,600</b>	<b>460,600</b>
	<b>GOVERNMENT GRANTS AND LOCAL TAXATION</b>		
	<b>SOURCES OF FINANCE</b>		
(54,717)	Council Tax Payer	(61,319)	(61,319)
	Central Government Grants		
(231,264)	Police Revenue Grant	(235,944)	(235,944)
(118,759)	Revenue Support Grant	(128,257)	(128,257)
(36,460)	Non-Domestic Rates	(35,080)	(35,080)
<b>(441,200)</b>	<b>TOTAL EXTERNAL FUNDING</b>	<b>(460,600)</b>	<b>(460,600)</b>
3,400	<b>NET GENERAL FUND DEFICIT/(SURPLUS)</b>	0	0
(9,442)	<b>GENERAL RESERVE BALANCE</b>	<b>(6,042)</b>	<b>(6,042)</b>
	<b>BROUGHT FORWARD</b>		
(6,042)	<b>GENERAL RESERVE BALANCE</b>	<b>(6,042)</b>	<b>(6,042)</b>
	<b>CARRIED FORWARD</b>		

## 6. Capital Accruals

Capital expenditure is included in the accounts on an accruals basis.

## 7. Stocks and Stores

Stocks and stores are maintained for such items as vehicle spares, vehicle fuel, uniforms, stationery and catering provisions. Stocks shown in the balance sheet are valued at the lower of costs or net realizable value.

## 8. Provisions and Reserves

The purpose and nature of provisions and reserves maintained by the Authority are disclosed in the notes to the Balance Sheet.

## 9. Investments

External investments are shown in the balance sheet at cost less any provision required for loss in value.

## 10. Treatment of Grants

Net revenue expenditure is expressed before deducting government grants in support of the overall expenditure of the Authority (ie. police grant and revenue support grant). Other revenue grants are smaller and specific to particular aspects of the Authority's functions and have been shown as income in arriving at net expenditure.

The financing part of capital expenditure incurred from 1990/91 onwards no longer qualifies for revenue grants (due to a change of treatment by the Home Office). Instead, Capital grant is received to finance capital expenditure up to a prescribed limit. The Capital Accounting regulations require that this grant is taken to a Deferred Government Grants Account and brought into the Summary Revenue Account to offset the depreciation charge over the life of the asset. However, to the extent that this grant is not scheme specific, and a significant part of capital expenditure does not (by its specialist nature) add value to fixed assets, the grant is written off to the Capital Financing Reserve in the year of application. Specific capital grants are treated as deferred and written out over the life of the assets involved.

## 11. Pensions

The Police Pensions Scheme is unfunded and therefore net pension payments are charged against the year in which they are made, rather than being provided for by means of a pension fund. Pension payments to former civilians are funded through an employer's contribution to the West Midlands Metropolitan Authorities Superannuation Fund. The rate of contribution in 2004/2005 was 11.7%, and is 15.4% in 2005/2006. FRS17 now applies to these transactions, which are now shown in the Revenue Account, and fuller details of the pension position are set out in note 21 in the Balance Sheet.

The change had the following effects on the results of the prior and current periods:

- The overall amount to be met from Government grants and local taxation has remained unchanged, but the net costs of service are 2.4% higher after the replacement of employer's contributions by current service costs and Net Operating Expenditure is 36% higher than it would otherwise have been.
- The requirement to recognize the net pensions liability in the balance sheet has reduced the reported net worth of the authority, converting net assets of £220m into net liabilities of £3,089m.

# ACCOUNTING POLICIES

## General Principles

The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting published by the Chartered Institute of Public Finance and Accountancy (CIPFA). Guidance notes issued by CIPFA on the application of accounting standards to local authorities have in general been followed, and any exceptions to this are disclosed below.

### 1. Fixed Assets

Fixed assets are shown in the balance sheet at current valuation. Details of valuation methods are disclosed in the notes to the Balance Sheet.

### 2. Redemption of Debt

Under the Local Government Act 1985, outstanding loan debt relating to police services was transferred to WMPA from the West Midlands County Council on 1 April 1986. This debt is serviced by Dudley MBC within a Metropolitan Debt Administration Fund, and loan charges are reimbursed by the Police Authority to that fund, and are unaffected by the minimum revenue provision applicable under the Local Government and Housing Act 1989.

Loan debt incurred from 1 April 1986 is directly administered by WMPA. Instalments of principal are charged to revenue in accordance with the statutory minimum revenue provision, calculated at 4% of this debt, net of reserves set aside for debt redemption.

### 3. Leasing

The cost of assets which are purchased and subsequently financed by operational leases are shown in the summary capital account, but not in the balance sheet. Those financed by finance leases are shown in the balance sheet and the capital summary. Rental payments on these leases are charged to the revenue account, and associated future liabilities are disclosed in the notes. After 31 March 1990, finance leases have not been used.

### 4. Capital Receipts

In accordance with the Local Government and Housing Act 1989 a proportion of capital receipts has been set aside for the redemption of debt in future years, and transferred to the provision for credit liabilities account which now forms part of the Capital Financing Reserve.

### 5. Debtors and Creditors

Debtors and creditors have been accrued when preparing the revenue accounts of the Authority, except for certain instances where a receipts and payments basis is adopted to simplify transactions (e.g. utilities and police house rents receivable and inter account transfers in respect of certain expenses) contrary to the requirements of FRS 18. This policy is applied consistently each year to reflect 12 months' charges, and consequently does not have any material effect on the accounts.



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 are 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 financial statements.

## Opinion

In our opinion, the statement of accounts presents fairly the financial position of West Midlands Police Authority as at 31 March 2005 and its income and expenditure for the year then ended.

Date 29 July 2005

KPMG LLP  
Chartered Accountants  
Birmingham

KPMG LLP

# INDEPENDENT AUDITORS' REPORT TO WEST MIDLANDS POLICE AUTHORITY

We have audited the financial statements of accounts on pages 13 - 34.

This report is made solely to West Midlands Police Authority, as a body, in accordance with Section 2 of the Audit Commission Act 1998. Our work has been undertaken so that we might state to West Midlands Police Authority those matters we are required to state to it in an auditors' report and for no other purposes. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than West Midlands Police Authority, as a body, for our audit work, for this report, or for the opinions we have formed.

## RESPECTIVE RESPONSIBILITIES OF THE CHIEF FINANCIAL OFFICER AND AUDITORS

As described on page 5, the Authority's 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: A Statement of Recommended Practice. Our responsibilities, as independent 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 of the Authority and its income and expenditure for the year.

We review whether the statement on internal control on pages 6-8 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 financial statements. We are not required to consider, nor have we considered, whether the statement on internal control covers all risks and controls. We are also not required to form an opinion on the effectiveness of the authority's corporate governance procedures or its risk and control procedures. 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.

## Basis of Audit 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 financial statements. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the financial statements, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

The West Midlands Police Authority in conjunction with the Force continuously assesses the manner in which its corporate governance responsibilities are discharged as identified by the CIPFA/SOLACE guidance and has made a number of changes to the management and reporting arrangements to enable it to satisfy itself that its approach to corporate governance is both adequate and effective in practice. This is facilitated and co-ordinated, via the Finance and Legal Advisory Group, the Force Management Conference and the Risk Management Group.

Arrangements for the provision of internal audit are contained within the Authority's Regulations. The Treasurer of the Police Authority is responsible for ensuring that there is an adequate and effective system of internal audit of the Authority's accounting records and of its systems of internal control as required by the Accounts and Audit Regulations 2003. Internal Audit operates in accordance with the Code of Practice for Internal Audit in Local Government in the United Kingdom under the day to day control of the Head of Internal Audit, who acts independently. The Internal Audit Department plans and prioritises its work through a combination of assessment and review of the Authority's/Forces corporate governance arrangements, risk management processes and key internal control systems, supplemented by a programme of managed audit and fraud and corruption reviews and scheduled visits to Authority/Force establishments. The resulting work plan is discussed and agreed with Members, Chief Officers Group and shared with the Authority's external auditor. Reports, including an assessment of the adequacy of control and action plans to address weaknesses, are submitted to senior management as appropriate. Our review of the effectiveness of the system of internal control is informed by:

- the work of senior managers within the Authority/Force;
- the work of the internal auditors as described above;
- the external auditors in their annual audit letter; and
- reports by other independent inspection bodies (Audit Commission, HMIC, PSU etc).

We have been advised on the implications of the result of the review of the effectiveness of the system of internal control and a plan to address weaknesses and ensure continuous improvement of the system is in place as set out in section 5.

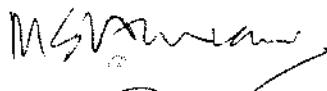
## 5. SIGNIFICANT INTERNAL CONTROL ISSUES

The Authority/Force recognises that the identification and analysis of risks faced by the organisation is one of the key aspects in providing this Statement. It is acknowledged that, whilst significant progress has been made in this matter, further work remains in 'embedding' the process throughout the Force/Authority and linking risks to corporate objectives. To this end, a series of 'awareness workshops' have been held for officers facilitated by Internal Audit to review and update the original risk registers. When completed, the results will be reported to the Police Authority and included in future workshops. It is envisaged that the risk management process will be progressed during the year to individual OCUs. In addition, arrangements are still in place to include reference to Corporate Governance (including Risk Management) implications on future Authority reports.

The on-going risk management process will also assess progress on managing the key strategic risks identified during the first round of workshops along with those risks identified during the recent workshops.

In approving this statement, the views of all appropriate senior managers have been obtained and suitable assurances obtained confirming their support to the statement.

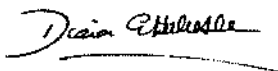
Treasurer



Chief Constable



Chairman



Risk workshops are held with senior staff groups whereby arrangements are in place for risk identification, assessment, management and monitoring for all key financial and operational risks. Risk registers now exist which are subject to regular review and update as required. This work is co-ordinated through the risk management group.

The Authority's/Forces core policy priorities are expressed in the Strategic Plan 2005-2008. The Plan is a joint commitment between the Police Authority and the Chief Constable to the people of West Midlands to deliver an increasingly high quality of service. Building upon real successes in recent years. The Plan identifies a number of strategic priorities, which are linked to actions and milestones that ensure effective delivery. Measurement of progress will be through key performance indicators with challenging targets. Additionally, the Authority / Force aim to achieve excellence ratings throughout the HMIC Baseline Assessment process. Everything in the Plan is aligned to the vision to: "Reduce crime and disorder and make our communities feel safer"

The plan develops the partnership role with CDRP's and in two Authorities with new Local Area Agreements. In addition, the Plan seeks to continue the development of such partnerships within Criminal Justice. Appropriate targets have been set within the overall Strategic Plan.

The Authority/Force acknowledges its responsibility for ensuring that an effective system of internal control is maintained and operated in connection with the resources concerned. The system of internal control can provide only reasonable and not absolute assurance that assets are safeguarded, that transactions are authorised and properly recorded, and that material errors or irregularities are either prevented or would be detected within a timely period. The system of internal control is based on a framework of regular management information, financial regulations, administrative procedures (including segregation of duties), management supervision, and a system of delegation and accountability. Development and maintenance of the system is undertaken by managers within the Authority/Force. In particular, the system includes:

- comprehensive budgeting systems;
- a robust medium term financial planning process;
- regular reviews of periodic and annual financial reports which indicate financial performance against the forecasts;
- setting targets to measure financial and other performance;
- the preparation of regular financial reports which indicate actual expenditure and income against the forecasts;
- clearly-defined capital expenditure guidelines; and
- as appropriate, formal project management disciplines.

The authority has a published Strategic Plan setting out strategic aims and reflecting national and local priorities. The Strategic Plan has been drawn up in consultation with staff, community and partners and is based on a needs assessment of the community and evaluation of alternatives.

The authority has put in place arrangements for setting top-level objectives, standards and targets. These targets are cascaded throughout the authority to meet service and individual objectives and are subject to on-going review and monitoring.

## 4. REVIEW OF EFFECTIVENESS

The West Midlands Police Authority has responsibility for conducting, at least annually, a review of the effectiveness of the system of internal control. The review of the effectiveness of the system of internal control is informed by the work of the internal auditors, the executive officers within the Authority and senior managers within the Force 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 in their annual audit letter and other reports.

The West Midlands Police Authority's regulatory framework clearly sets out the responsibilities of its members and executive managers, particularly the two statutory posts of the monitoring officer and section 151 officer. The Treasurer to the Police Authority in conjunction with the Force Director of Finance have been given the responsibility to review independently and report annually to provide assurance on the adequacy and effectiveness of the code of corporate governance and the extent of compliance with it.

## CAPITAL EXPENDITURE AND FINANCING

Capital expenditure in the year totalled £23.772m, (£13.909m 2003/2004) compared to a planned programme of £27.080m. The main reasons for the shortfall relate to delays in the building programme and the implementation of IT schemes.

Detailed analysis of the capital programme and its financing are set out in the capital accounts on page 17.

## BORROWING

Borrowing totals £47.668m, details being shown in note 10 to the Balance Sheet.

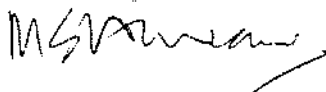
## FUTURE OUTLOOK

For the coming year 2005/2006 the Police Authority set a budget of £492.0m. This resulted in a precept requirement of £64.6m.

## TREASURER'S CERTIFICATE

I certify that the Statement of Accounts presents fairly the financial position of West Midlands Police Authority as at 31 March 2005 and its income and expenditure for the year then ended.

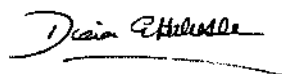
M S Williams CPFA  
Treasurer to the Authority  
Date: 29 July 2005



## CHAIR OF THE POLICE AUTHORITY CERTIFICATE

I certify that the Statement of Accounts has been approved by the Police Authority, at a meeting on 28 July 2005, in accordance with Section 3 of the Accounts and Audit Regulations 2003.

D Hoil-Alien  
Chair of Police Authority  
Date: 29 July 2005



## THE RESPONSIBILITIES OF THE TREASURER

The Treasurer is responsible for the preparation of the Authority's Statement of Accounts which, in terms of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in Great Britain ("the Code of Practice"), is required to present fairly the financial position of the Authority at the accounting date and its income and expenditure for the year ended 31 March 2005.

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; and
- complied with the Local Authority S.O.R.P.

The Treasurer has also:

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

## THE RESPONSIBILITIES OF THE AUTHORITY

The Authority is required:

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

# STATEMENT ON THE SYSTEM OF INTERNAL CONTROL

## 1. SCOPE OF RESPONSIBILITY

West Midlands Police Authority is responsible for ensuring that its business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

The West Midlands Police Authority also has a duty 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 West Midlands Police Authority is also responsible for ensuring that there is a sound system of internal control which facilitates the effective exercise of the West Midlands Police functions and which includes arrangements for the management of risk.

## 2. THE PURPOSE OF THE SYSTEM OF INTERNAL CONTROL

The system of internal control is designed to manage risk to a reasonable level rather than to eliminate all risk of failure to achieve policies, aims and objectives; it can therefore only provide reasonable and not absolute assurance of effectiveness. The system of internal control is based on an ongoing process designed to identify and prioritise the risks to the achievement of the Authority's policies, aims and objectives, to evaluate the likelihood of those risks being realised and the impact should they be realised, and to manage them efficiently, effectively and economically.

The system of internal control has been in place for the year ended 31 March 2005 and up to the date of approval of the annual report and accounts and, except for the internal control issues at section 5, accords with proper practice.

## 3. THE INTERNAL CONTROL ENVIRONMENT

The internal control environment contains a number of key elements against which the Authority/Force are able to establish and implement policies and monitor the achievement of objectives. These elements are contained in the following published policy documents which form the basis of the Authority's/Force's overall high level objectives.

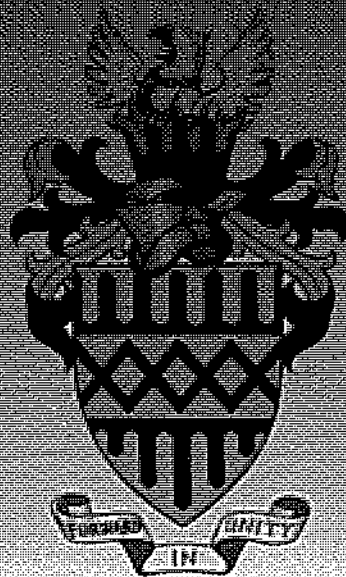
Strategic Plan  
Annual Local Policing Plans  
BVPP  
Supporting Strategies

These high level plans are supported by service and workforce plans, business and operational plans along with detailed work programmes containing relevant Performance Indicators and Targets which are reviewed and monitored on a regular basis.

The Authority/Force has developed and implemented a risk management strategy through a process involving Authority members and officers, Chief Officers Group, Senior Police Officers and Staff, External and Internal Audit and Risk Management Consultants.

# STATEMENT OF ACCOUNTS

## 2004-2005



**West Midlands  
Police Authority**  
The Community's Voice on Policing