Report of the Chief Finance Officer for the PCC to the Chair and Members of Audit Committee
23rd June 2016

Executive and Presenting Officer: Mr M Porter, PCC CFO
Status: For Decision

Title: Statement of Accounts 2015/16 (Subject to Audit)

1 Purpose

1.1 Under the Account and Audit Regulations, local authorities, including Police and Crime Commissioners, are required to receive and approve the Statement of Accounts for 2015/16 before the end of June 2016.

1.2 The role of the Audit Committee in this process is set out in the terms of reference for this Committee and includes:

- Reviewing the Annual Statement of Accounts and make recommendations, or bring to the attention of the PCC or CC, any concerns or issues.
- To consider whether appropriate accounting policies have been followed and any changes to them.

1.3 Attached to this report are the Statement of Accounts for the Group and PCC; and also the Accounts for the Chief Constable.

2 Recommendations

Members are asked to:

2.1 To review the accounting policies as set out in the Statement of Accounts on pages 30 to 40 inclusive of Appendix 1, which the PCC Group has followed in producing these accounts. These policies are used consistently throughout the sets of accounts attached to this report.

2.2 To consider the analytical review of the accounts contained within the body of this report and specifically within paragraphs 3.10 to 3.29 below, to provide Members with confidence in the financial statements.

2.3 To review the Annual Statement of Accounts and make recommendations, or bring to the attention of the PCC or CC, any concerns or issues.

3 Reasons

3.1 The Statement of Accounts are a valuable source of information for a range of Stakeholders including, but not limited to:

- Public – Accountability
- Lenders – Security of Investments
- Partners – spending
- Government – spending levels and financial position

3.2 Preparation and publication is governed by legislation, regulations and Codes of Practice. (Over recent years there has been a concerted effort to bring UK public sector accounting in line with International Financial Reporting Standards (IFRS))

- Primary Legislation – eg. Local Government Finance Act
- Statutory Regulations – eg. Account and Audit Regulations
- Code of Practice – eg. International Financial Reporting Standards Code

3.3 The role of the Audit Committee in reviewing the statement of accounts is essentially to provide assurance to the PCC and CC and to the wider stakeholder base that they conform to proper practices.

3.4 Under the Account and Audit Regulations, local authorities, including Police and Crime Commissioners, are required to receive and approve the Statement of Accounts for 2015/16 before the end of June 2016.

3.5 The accounts are prepared in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom. This specifies the principles and

practices of accounting required to prepare a Statement of Accounts which gives a true and fair presentation of the financial position of the PCC and CC.

3.6 Appendix A provides members with a brief explanation of the format and purpose of the accounts.

3.7 The Statement of Accounts is presented subject to audit. The audited accounts and any amendments resulting from the audit will be presented to the September meeting of this Committee.

3.8 The public will be able to inspect the accounts and the accounting records from 1st July to 11th August and will also be able to question the auditors and to make objections. Formal notice will be provided on the websites of both the PCC and Force.

3.9 The statement of accounts appended to this paper detail, on pages 30 to 40 inclusive, the Accounting Policies that the PCC has used during 2015-16 and which underpin these accounts. These account policies have been used consistently within the 2 sets of accounts attached to this report. There have been no changes to accounting policy for the 2015/16 financial year in comparison to 2014/15.

3.10 The review of the Statement of Accounts has been undertaken with the following areas highlighted for Members information:

3.11 Comprehensive Income and Expenditure Statement (Page 22)
This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from precept. Authorities (including the PCC) raise precept to cover expenditure in accordance with regulations; this may be different from the accounting cost. The amount chargeable to precept is shown in the Movement on Reserves Statement.

3.12 This statement is impacted to a greater extent that others from the accounting entries required in relation to Pensions and also as a result of the technical accounting entries required to meet the statutory guidelines that differ significantly from the way that precept is raised and the budgets are managed and reported.

3.13 The table below sets out the entries included within the Comprehensive Income and Expenditure Account that are 'stripped' out to arrive at the 'actual Surplus/Deficit' for the financial year.

Total Comprehensive Income and Expenditure	**113,497**
MRP	1,870
Depreciation & Amortisation	(3,878)
Loss/(Gain) on the sale of non current assets	(40)
Net change in Pension Liability	(58,915)
Employers Pension Contributions	10,665
Recognition of capital grants	1,003
Movement in Accumulated Absences creditor	(248)
Movement in Precept debtor	(380)
Other transfers (to)/from reserves	(267)
Other transfers (to)/from reserves	1,855
(Surplus)/Deficit on Revaluation of PPE	292
General Fund Movements less surplus	(952)
Rounding	(3)
Acturial Gains / /loss on Pension Schemes:-	
Local Government Pension Scheme	2,686
Police Pension 1987	(89,530)
Injury Awards	4,115
Police Pension 2006	16,813
Police Pension 2015	684
Outturn	**(735)**

3.14 Movement on Reserves Statement (Page 24)
This statement shows the movement in the year on the different reserves held by the PCC, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local precept) and unusable reserves.

3.15 Usable reserves have increased by £876k to £15,603k

3.16 The Surplus or (Deficit) on the Provision of Services line shows the true economic cost of providing the PCC's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These are different from the statutory amounts required to be charged to the General Fund Balance for council tax setting purposes.

3.17 The Net Increase/Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the PCC.

3.18 Balance Sheet (Page 27)
The Balance Sheet shows the value as at 31st March 2016 of the assets and liabilities recognised by the PCC.

3.19 The net assets of the PCC (assets less liabilities) are matched by the reserves held by the PCC.

3.20 Property, Plant. Equipment, Intangible Assets and Assets held for sale have decreased by £2.1m which comprises spend of £4.5m,

revaluation of £0.292m. These increases are offset by in year deprecation charges of £3.8m and Net disposals of £2.9m.

3.21 The value of Debtors (long and short term) has decrease by £3.7m, primarily due to the payment of a debtor of £4.2m in respect of the reimbursement of the costs associated with the GAD V Milne case. The balance is offset by an increase in pre-payments of £1.6m and a further reduction of in "other Debtors "of £1m.

3.22 The value of Creditors (short and long term) has decreased by £3.3m, primarily as a result the payments of £4.2m relating to the GAD v Milne case. This has been offset by an increase in "Sundry Creditors" of £0.9m.

3.23 Provisions have increased by £1.8m, primarily as the result of the creation of additional provisions to address the costs associated with Strategic Contract Change and movements on the two Insurance provisions in line with Insurers assessment of outstanding case liability.

3.24 During the year the PCC has repaid £1.100m of loans no new ones were taken out, current borrowing is well within the limits approved by the PCC.

3.25 The Pensions Liability has increased by £114m and the above is offset by the increase in Unusable Reserves of £114m also. These increases are mainly as a result of changes in actuarial assumptions as detailed within the notes to the accounts.

3.26 The Usable Reserves of the PCC Group has a net increase of £0.9m; £2.9m transfers in, of which £2.0m related to Direct Revenue Funding of Capital and £2.2m out, of which £1.4M related to Injury Pension / Early / voluntary retirement payments. A detailed breakdown of the earmarked reserves number can be found at Note 8 of the accounts.

3.27 Whilst the 'Net Assets' of the PCC is showing an overall negative balance of £1,297m this is as a result of the large liability showing on the Pension Fund of £1,332m. Once this liability is removed, and it is not unreasonable to do this given that this liability is effectively under written by the Government, then the Net Assets would show as £35.3m in comparison to £35.3m in 2014/15.

3.28 <u>Cash Flow Statement (Page 29)</u>
The Cash Flow Statement shows the changes in cash and cash equivalents of the PCC during the reporting period. The statement shows how the PCC generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities.

3.29 The Group had a Net increase in cash in the year of £2.5m. This primarily relates to the first instalment of the Capital receipt from the sale of land at Ladgate Lane. (Police Headquarters)

4 Implications

4.1 Finance

There are no financial implications other then those mentioned above.

4.2 Diversity & Equal Opportunities

There are no issues arising from this report to bring to Members attention.

4.3 Human Rights Act

There are no Human Rights Act Implications from this report.

4.4 Sustainability

This report is part of the governance arrangements to oversee and assess the sustainable financial position of the PCC.

4.5 Risk

Incorrectly prepared Statement of Accounts may materially misrepresent the financial position of the PCC, CC and PCC Group, giving rise to risks to reputation, service and financial planning processes, as well as exposure to additional costs. Adherence to proper practices, the closure processes undertaken within the Force, combined with reviews by the PCC CFO and CC CFO are designed to mitigate such risks.

5 Conclusion

The role of the Audit Committee in reviewing the statement(s) of accounts is set out in the agreed terms of reference. This report is to provide Members of the Committee with the required information for them to discharge this role.

The PCC CFO is content to release these accounts for Audit having taken into account the responsibilities that he has for this process as set out on page 20 of the Group Accounts.

Michael Porter
PCC CFO

APPENDIX A

Narrative Statement

The Accounts and Audit Regulations 2015 (Local Audit and Accountability Act 2014) introduce two changes compared with the previous 2011 Regulations:

- Narrative reporting
- Period for the exercise of public rights

Narrative reporting: Regulation 8 of the 2015 regulations specifies a narrative statement must include comment by the authority on its financial performance and economy, efficiency and effectiveness in its use of resources over the financial year.

The narrative report therefore provides an analysis of:

- The development and the performance of the Force and Office of the PCC in the financial year and position at the end of the year
- The financial and non-financial performance indicators as relevant to the performance of the Force and Office of the PCC

Statement of Responsibilities

Sets out the responsibilities of the PCC and also the Chief Finance Officer in his role of Section 151 Officer.

Auditors Report

Mazars LLP audits the financial statements and the police pension fund accounting statements under the Audit Commission Act 1998 and give an opinion on whether the financial statements give a true and fair presentation of the financial position of the PCC and CC.

Accounting Policies

Accounting policies are the principles, bases, conventions, rules and practices that specify how the effects of transactions and other events are to be reflected in the financial statements.

Comprehensive Income and Expenditure Statement – This statement shows the accounting cost in the year of providing services in accordance with generally accepted accounting practices, rather than the amount to be funded from precept. PCCs raise precept to cover expenditure in accordance with regulations; this may be different from the accounting cost. The amount chargeable to precept is shown in the Movement in Reserves Statement.

Movement in Reserves Statement – This statement shows the movement in the year on the different reserves held by the PCC, analysed into 'usable reserves' (i.e. those that can be applied to fund expenditure or reduce local precept) and unusable reserves.

The (Surplus) or Deficit on the Provision of Services line shows the true economic cost of providing the PCC Group's services, more details of which are shown in the Comprehensive Income and Expenditure Statement. These

are different from the statutory amounts required to be charged to the General Fund Balance for council tax setting purposes.

The Net Increase/Decrease before Transfers to Earmarked Reserves line shows the statutory General Fund Balance before any discretionary transfers to or from earmarked reserves undertaken by the PCC.

Balance Sheet – The Balance Sheet shows the value as at 31st March 2016 of the assets and liabilities recognised by the PCC Group.

The net assets of the PCC Group (assets less liabilities) are matched by the reserves held by the PCC Group. Reserves are reported in two categories.

The first category of reserves is usable reserves, i.e. those reserves that the PCC Group may use to provide services, subject to the need to maintain a prudent level of reserves and any statutory limitations on their use (for example the Capital Receipts Reserve that may only be used to fund capital expenditure or repay debt).

The second category of reserves is unusable reserves and refers to those that the PCC Group is not able to use to provide services. This category of reserves includes reserves that hold unrealised gains and losses (for example the Revaluation Reserve), where amounts would only become available to provide services if the assets are sold; and reserves that hold timing differences which are shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

Cash Flow Statement – The Cash Flow Statement shows the changes in cash and cash equivalents of the PCC Group during the reporting period. The statement shows how the PCC Group generates and uses cash and cash equivalents by classifying cash flows as operating, investing and financing activities.

The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the PCC Group are funded by way of precept and grant income or from the recipients of services provided by the PCC Group.
Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the PCC Group's future service delivery.

Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the PCC Group.

Police Pensions Fund Account

The funding arrangements for the Police Pension scheme in England and Wales changed on 1 April 2006. Each PCC is required by legislation to operate a Police Pension Fund and the amounts that must be paid into and out of the Pension Fund are specified by regulation. A top-up grant is receivable, to the PCC, from the Secretary of State equal to the amount by which the amount payable from the Pension Fund for the year exceeds the amount receivable. The grant received is then transferred to the Pension Fund from the PCC.