

ORIGINATOR: PCC CFO and CC CFO

PAPER NO: AC13/15

SUBMITTED TO: INTERIM AUDIT COMMITTEE – 24 SEPTEMBER 2013

**SUBJECT: PCC AND CC STATEMENT OF ACCOUNTS 2012/13
INCLUDING THE ANNUAL GOVERNANCE STATEMENTS**

SUMMARY:

1. The Police and Crime Commissioner's (PCC) Annual Governance Statement and Group Statement of Accounts are submitted to the Audit Committee for consideration in advance of their approval by the PCC on or before 30 September 2013.
2. The Chief Constable's (CC) Annual Governance Statement and Statement of Accounts are submitted to the Audit Committee for consideration in advance of their approval by the CC on or before 30 September 2013.
3. The external auditors require Letters of Representation signed by the PCC Chief Finance Officer and CC Chief Finance Officer before issuing their final audit opinion on the Statements of Accounts by 30 September 2013 (see Section 5).

RECOMMENDATION:

1. The Committee is recommended to consider the PCC's and CC's Annual Governance Statements and their respective Statements of Accounts.
2. Subject to the process described in paragraphs 6.1 and 6.2, the Committee is invited to recommend for approval the Statements of Accounts, and adoption of the Annual Governance Statements, by the PCC and CC.

DETAIL OF THE SUBMISSION

1. BACKGROUND:

- 1.1 Both the PCC and CC have been created under the Police Reform and Social Responsibility Act 2011 as new corporate entities (as Corporations Sole). These corporate entities have also been established as Schedule 2 (Accounts Subject to Audit) bodies under the Audit Commission Act 1998.
- 1.2 The Accounts and Audit (England) Regulations 2011 require authorities to follow “proper practices in relation to accounts” for the preparation of the Statement of Accounts. The Code of Practice on Local Authority Accounting in the United Kingdom (the Code) constitutes a “proper accounting practice” in England and Wales under the terms of Section 21 (2) of the Local Government Act 2003. PCCs in England and Wales are defined as local authorities under Section 23 (as amended by the Police Reform and Social Responsibility Act 2011) and are required, therefore, to follow the Code.
- 1.3 The Home Office Financial Management Code of Practice for the Police Service of England and Wales sets out that the Chief Financial Officer (CFO) of the PCC will be responsible for ensuring the production of the Statements of Accounts and the Group Accounts of the PCC, and the CC CFO has the same responsibilities on behalf of the CC. The legal framework indicates that the Statements of Accounts including the Group Accounts and the single entity financial statements should be produced in accordance with the Code’s requirements.

2. PCC AND CC ANNUAL GOVERNANCE STATEMENTS (APPENDICES A AND B)

- 2.1 At its meeting on 13 June the Audit Committee considered a draft PCC Annual Governance Statement (AGS) (paper AC13/9). Attached at Appendix A is an updated AGS for consideration by the Audit Committee in advance of its adoption by the PCC and approval of the PCC’s Statement of Accounts by the end of September.
- 2.2 The draft CC AGS is attached at Appendix B for consideration by the Audit Committee in advance of its adoption by the CC, and approval of the CC’s Statement of Accounts, by the end of September.

3. PCC STATEMENT OF ACCOUNTS 2012/13 (APPENDIX C) – KEY ISSUES

Income and Expenditure

- 3.1 The Comprehensive Income and Expenditure Statement (CIES) for the year ended 31 March 2013 (Appendix A, page 10) has been prepared in accordance with the 2012/13 statutory Code of Practice on Local Authority Accounting (the Code), which is based on International Financial Reporting Standards (IFRS).
- 3.2 These standards require that pension costs be accounted for as benefits are accrued by members of the pension schemes. However, the PCC is funded on an annual basis for benefits payable to current pensioners. The difference between required accounting charges and benefits funded amounts to £34.5m.
- 3.3 The CIES includes charges such as depreciation and credits including capital grants and the profit on disposal of fixed assets. However, the Revenue Budget and council tax are levied on actual costs only. The net additional accounting charges amount to £8.0m.
- 3.4 The deficit on the CIES does not include capital funded from revenue sources, including the Minimum Revenue Provision (MRP), which amounts to £3.4m.

- 3.5 After making these adjustments a surplus of £0.597m was realised. £2.418m was transferred to the General Reserve together with a transfer from Earmarked Reserves of £1.821m.
- 3.6 In summary, income received exceeded expenditure by £0.597m in 2012/13.
- 3.7 A reconciliation of the CIES surplus to the outturn position reported is set out in the Movement in Reserves Statement (MIRS) on page 9 of Appendix A. The main reconciling items included in the MRS are listed in the table below:

	£m
Deficit per I & E Account (Appendix A, page 10)	(38.8)
Pensions - Difference between required accounting charges and benefits funded	34.5
Net additional accounting charges in respect of Fixed Assets	8.0
Revenue Funding of Capital (including MRP)	(3.4)
Movement on the share of of Collection Fund Balances	0.0
Movement on the compensated absences account	0.3
Surplus for the year	<u>0.6</u>
Of which:	
Transferred from earmarked reserves	(1.8)
Transferred to the General Fund	2.4
	<u>0.6</u>

Long Term Liabilities

- 3.8 The pension liabilities of £944m shown in the Balance Sheet (Appendix A, page 11) represent the net projected pension liability of £915m in relation to the police officer scheme, with the balance of £29m relating to the police staff scheme (Local Government Pension Scheme).
- 3.9 Although the police pension liability rests with the PCC, the Home Office will fund any difference between amounts paid out and received on police pensions on an annual basis.
- 3.10 The net liability on the local government scheme will be covered by contributions over the remaining working life of employees, as assessed by the scheme actuary.
- 3.11 In addition to pension liabilities, long term liabilities also include £24.9m in respect of a PFI liability from the construction of Police Investigation Centres, £9.6m PWLB loan used to fund the PCC's Joint Property Programme with Suffolk County Council and £0.3m relating to finance leases.

Other Issues

- 3.12 There are a relatively small number of rounding differences within the Statement of Accounts, which are unavoidable, and do not detract from the accuracy of the figures.

4. CC STATEMENT OF ACCOUNTS 2012/13 (APPENDIX D)

Accounting for the transfer of functions to the new bodies

- 4.1 The Police Reform and Social Responsibility Act 2011 allows for the establishment of two new bodies, the PCC and the Chief Constable. The Code of Practice on Local Authority Accounting in the United Kingdom (the Code) sets out that a transfer of functions in full from the responsibility of one authority (or other public sector body) to another is required to be accounted for using the principles that apply to group reorganisations. The Code also sets out that merger accounting should be applied where the entity in which the interest has been acquired was 100% in public sector ownership both before and after acquisition by the local authority. The principle established in section 2.5 of the Code is such that local authorities (including Police Authorities) are deemed to be under common control. Therefore, overall government control of the body is unchanged.
- 4.2 The approach to merger accounting adopted by the PCC and CC is that the establishment of the police bodies may be accounted for using merger accounting i.e. per FRS 6 *Acquisition and Mergers*. This is presented in the financial statements by restating the financial performance, position and cash flows of the entities involved as if the service or function performed had always taken place in these entities. Assets and liabilities are required by the Code to be transferred at their carrying amount with certain exceptions specified within paragraph 2.5.2.1 of FRS 6.
- 4.3 On 22 November 2012 the assets, liabilities and reserves of Suffolk Police Authority were transferred directly to the OPCC (Suffolk). Statutory and local control arrangements determine that the PCC holds all the assets, liabilities and reserves including the police pension liability on his Balance Sheet and this will remain the case during this first phase of transition, as through the control framework it is clear that future risks and benefits flow to the PCC from these balances rather than to the Chief Constable.
- 4.4 It was established at stage 1 of the police reform measures mentioned above, that control and risk for all expenditure, income, assets and liabilities reside with the PCC and therefore the Chief Constable entity was in effect acting as an agent of the PCC throughout the reporting period. Therefore within the PCC's single entity financial statements, resources consumed at the request of the Chief Constable are shown as income and expenditure of the PCC. Due to the agency relationship between the PCC and the Chief Constable, the Chief Constable's accounts have been drawn up in accordance with the principles of IAS 18 - Revenue Recognition.

5. LETTERS OF REPRESENTATION

- 5.1 In addition to the Audit Committee consideration of the draft Statements of Accounts and Annual Governance Statements, the Committee is requested to consider draft Letters of Representation, which are required to be sent to the external auditors by the CFO's in advance of them issuing their opinion on the PCC and CC's financial statements.
- 5.2 The draft Letters of Representation are included for consideration by the Committee in the following paper AC13/16.

6. PROCESS FOR AUTHORISATION OF THE ACCOUNTS FOR ISSUE BY THE PCC AND CONSTABULARY

- 6.1 Unless any material changes are required either by the Committee as a result of their considerations at this Audit Committee meeting, or by the external auditors as a result of their final testing by the 30 September 2013:

- subject to a formal decision by the PCC, the Statement of Accounts of the PCC (Appendix A) will become the approved accounts, and together with the annual Governance Statement (AGS), be published on the PCC website, and
- subject to approval by the CC, the Statement of Accounts of the CC (Appendix B) will become the approved accounts, and together with the Annual Governance Statement (AGS), be published on the Constabulary website.

6.2 However, in the event that the statement requires further amendment, it is recommended that the Committee delegates authority to the PCC and CC CFO's, in consultation with the Chair of the Audit Committee, to update the statements as necessary on or before 30 September 2013.

7. FINANCIAL IMPLICATIONS

7.1 There are no financial implications of any significance arising from consideration of this paper.

8. OTHER IMPLICATIONS AND RISKS

8.1 There are no other implications or risks associated with consideration of this paper.

ORIGINATOR CHECKLIST (MUST BE COMPLETED)	PLEASE STATE 'YES' OR 'NO'
Has legal advice been sought on this submission?	Yes
Has the PCC's Chief Finance Officer been consulted?	Yes- PCC and CC CFO's are authors
Have equality, diversity and human rights implications been considered including equality analysis, as appropriate?	N/A
Have human resource implications been considered?	N/A
Is the recommendation consistent with the objectives in the Police and Crime Plan?	N/A
Has consultation been undertaken with people or agencies likely to be affected by the recommendation?	N/A
Has communications advice been sought on areas of likely media interest and how they might be managed?	Not considered necessary
In relation to the above, have all relevant issues been highlighted in the 'other implications and risks' section of the submission?	Yes