

POLICE & CRIME COMMISSIONER FOR LEICESTERSHIRE JOINT AUDIT, RISK & ASSURANCE PANEL

PAPER MARKED

A

Report of	CHIEF FINANCE OFFICER/DIRECTOR OF FINANCE
Subject	STATEMENT OF ACCOUNTS 2012/13 INCLUDING LETTER OF REPRESENTATION
Date	TUESDAY 24 SEPTEMBER 2013 – 2.00 P.M.
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Summary

1. To present for approval the Statement of Accounts for the financial year 2012/13 for both the Office of the Police and Crime Commissioner (and Group) and the Office of the Chief Constable
2. The external auditors, PricewaterhouseCoopers, have reached the final stages of their audit of accounts in accordance with the Audit Commission Act 1998 and the Code of Practice issued by the Audit Commission. Draft statements were presented to members of the Joint Audit and Risk Assurance Panel (JARAP) on 28 June 2013. A separate report is also presented to JARAP (under agenda item D) which is from the external auditor identifying that there were no significant or material issues for consideration and that an unqualified audit opinion will be granted. In fulfilling the requirements as set out by Statute, the Chief Finance Officer/Director of Finance has included the Letters of Representation at Appendix 'A' which will be signed and attached to the signed Statement of Accounts before 30 September 2013.

Statement of Accounts 2012/13

3. The Statement of Accounts for both the Office of the Police and Crime Commissioner (and Group) and the Office of the Chief Constable will be available on the day of the meeting. Electronic copies have also been emailed to members of JARAP. No material amendments have been identified by the auditors during the course of their work.
4. A high level summary of the accounts is attached at Appendix 'B'.

Going Concern Assessment for the Office of the Police and Crime Commissioner (and the Group)

5. The "Going Concern" concept is one of the fundamental concepts that underpin the current accounting regime. The Financial Reporting Council (FRC), the United Kingdom's independent regulator responsible for promoting confidence in corporate

reporting and governance, has published Guidance to assist Treasurers and Directors when making their assessment of going concern. The Guidance is based on three principles covering the process which should be followed when assessing going concern, the period covered by the assessment and the disclosures on going concern and liquidity risk.

6. Under International Accounting Standard 1 (Presentation of Financial Statements), an entity is presumed to be a going concern. The Police and Crime Commissioner (PCC), under the remit of the Chief Finance Officer, has implicitly considered the ability of Office of the Police and Crime Commissioner (and the Group) to continue as a Going Concern, both as part of preparing the annual budget forecasts, the Police and Crime Plan, which embraces the Medium Term Financial Plan, and drawing up the annual financial statements.
7. The assessment has taken into consideration the budgetary pressures that the Office of the Police and Crime Commissioner (and the Group) will face up to 2016/17 and beyond. These are also described within the Medium Term Financial Plan, which has been continually updated and reviewed as and when new information becomes available throughout the financial year. The latest development of the Police and Crime Plan will include details of the change programme, which is designed to transform services and deliver over £20m in (revenue) savings by 2016. The ambition is to maintain delivery of the Police and Crime Plan within the resources available.
8. In making an assessment of the going concern, the changes caused by the Police Reform and Social Responsibility Act 2011 have been considered. These changes created two new corporation soles (Office of the Police and Crime Commissioner for Leicestershire and Office of the Chief Constable for Leicestershire) on 22 November 2012, and led to the creation of the Police and Crime Plan. Robust governance has been put in place which will ensure that the organisations can fulfil their purposes within clear and appropriate rules and regulations.
9. The assessment incorporates the presentation of the Annual Accounts for 2012/13, which the Chief Finance Officer is required to take into account and all the information available about the future prospects of the OPCC (and the Group), driven by the historical financial position of the organisation and the knowledge of the challenges it faces.
10. The view of the Chief Finance Officer is that the accounts, as presented, demonstrate satisfactory evidence that the organisation is currently sound in terms of its financial standing. This is particularly demonstrated through the on-going achievement of budget reductions, while maintaining service quality, robust reserves and a sound balance sheet.
11. Careful consideration will continue to be given to the Going Concern of the organisation as the economic backdrop continues to put significant pressure on police budgets. In addition, the potential impact of the Stage 2 staff and non-staff transfers between the Office of the Police and Crime Commissioner and Office of the Chief Constable will be monitored to ensure that both organisations can continue to fulfil their objectives.

Going Concern Assessment for the Office of the Chief Constable

12. The “Going Concern” concept is one of the fundamental concepts that underpin the current accounting regime. The Financial Reporting Council (FRC), the United Kingdom’s independent regulator responsible for promoting confidence in corporate reporting and governance, has published Guidance to assist Treasurers and Directors

when making their assessment of going concern. The Guidance is based on three principles covering the process which should be followed when assessing going concern, the period covered by the assessment and the disclosures on going concern and liquidity risk.

13. Under International Accounting Standard 1 (Presentation of Financial Statements), an entity is presumed to be a going concern. The Chief Constable (CC), under the remit of the Chief Finance Officer, has implicitly considered the ability of the Office of the Chief Constable to continue as a Going Concern, both as part of preparing the annual budget forecasts, identifying the resources required to satisfy the Police and Crime Plan (and therefore the Medium Term Financial Plan) and drawing up the annual financial statements. This assessment is closely linked to the Going Concern assessment of the Office of the Police & Crime Commissioner (OPCC) as prepared by the Chief Finance Officer.
14. The assessment has taken into consideration the budgetary pressures that the Office of the Chief Constable will face up to 2016/17 and beyond. These are also described within the Medium Term Financial Plan, which has been continually updated and reviewed as and when new information becomes available throughout the financial year. The latest development of the Police and Crime Plan by the OPCC will include details of the change programme, which is designed to transform services and deliver over £20m in (revenue) savings by 2016. The ambition is to maintain delivery of the Police and Crime Plan within the resources available.
15. In making an assessment of the going concern, the changes caused by the Police Reform and Social Responsibility Act 2011 have been considered. These changes created two new corporation soles (Office of the Police and Crime Commissioner for Leicestershire and Office of the Chief Constable for Leicestershire) on 22 November 2012, and led to the creation of the Police and Crime Plan. A governance framework has been put in place which will ensure that the organisations can fulfil their purposes within clear and appropriate rules and regulations. Under these arrangements the assets, liabilities and reserves were transferred from the previous Police Authority to the OPCC and remain under the OPCC's control. Also, under these arrangements the OCC fulfils its statutory functions within an annual budget made available by the PCC. The Police and Crime Plan for the period 2013 – 2017 is based upon the Force continuing to provide the policing elements of the plan. On this basis in making this Going Concern assessment for the OCC, the Chief Finance Officer has a degree of confidence that financial resources will continue to be transferred from the OPCC to the OCC to enable the Police and Crime Plan to be delivered.
16. The assessment incorporates the presentation of the Annual Accounts for 2012/13, which the Chief Finance Officer is required to take into account and all the information available about the future prospects of the OCC, driven by the historical financial position of the organisation and the knowledge of the challenges it faces.
17. The view of the Chief Finance Officer is that the accounts, as presented, demonstrate satisfactory evidence that the organisation is currently sound in terms of its financial standing. This is particularly demonstrated through the on-going achievement of budget reductions, maintaining service quality and the continued provision of financial resources from the OPCC.
18. Careful consideration will continue to be given to the Going Concern of the organisation as the economic backdrop continues to put significant pressure on police budgets. In addition, the potential impact of the Stage 2 staff and non-staff transfers between the Office of the Police and Crime Commissioner and Office of the Chief Constable will be monitored to ensure that both organisations can continue to fulfil

their objectives. The proposals for the Stage 2 transfer have to be submitted to the Home Office by the 16 September 2013.

Background Papers

None.

Implications

Financial: none. Legal: none. Diversity: none. Risk management: none.

Officers to Contact

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The Statement of Accounts 2012/13

The purpose of this Annex is to draw out from the inevitably detailed statutory accounts the main messages in order to provide Members of JARAP with suitable assurances.

Comprehensive Income and Expenditure Statement for the Office of the Police and Crime Commissioner ((OPCC) and the Group)

The revenue account shows performance on day to day operational expenditure and income, the net cost of which is met by police grant, revenue support grant, Leicestershire's share of the national non-domestic rate pot, and precept income.

The net budget to be met from those sources in 2012/13 was £169.6 million (and £0.840m for the OPCC). In the event, that budget was under spent by £3.838 million, or 2.26%. This surplus on the year has been utilised as follows:-

£3.838m has been placed in the budget equalisation reserve to be utilised as part of the implementation and support of the Change Programme, which will shape the force to live within the resources available by 2016/17 and also at the discretion of the Police and Crime Commissioner to support the Police and Crime Plan.

The respective values of the main sources of funding were as follows:-

£ 55.911m (33.0%) precept (this will differ to the Statement due to collection fund Adjustments)
£ 67.317m (39.7%) police grant
£ 0.882m (0.5%) revenue support grant
£ 45.490m (26.8%) national non-domestic rates

£169.600m

Comprehensive Income and Expenditure Statement for the Office of Chief Constable

The Office of the Chief Constable consumed resources on behalf of the Police and Crime Commissioner. For 2012/13 the Police and Crime Commissioner in consultation with the Chief Constable set a budget of £168.76m to be managed by the Office of the Chief Constable.

Reserves of the Office of the Police and Crime Commissioner (and the Group)

Earmarked reserves, including those mentioned above, amounted to £22.925 million at 31 March 2013. These will almost wholly be needed to support the revenue budgets for 2013/14 and beyond.

The non-earmarked Police Fund, retained for emergencies, amounted to £5.253 million at 31 March 2013. There are no proposals to use this fund at present.

Balance Sheet of the Office of the Police and Crime Commissioner (and the Group)

The Balance Sheet provides a snapshot view of the financial health of an organisation at a moment in time – in this case 31 March 2013. It lists the assets of the organisation, both long and short term, less its liabilities.

As mentioned within the Statement of Accounts, the future liability for police pensions has to be shown as a liability in the accounts, even though it will be several years before many of these officers start to draw their pensions, and that statutory arrangements are in place to fund the annual deficits (contributions to the pension fund less pensions paid out of it) in future. This treatment distorts the balance sheet bottom line and disguises the realistic financial status of the authority.

If this figure is stripped out the balance sheet shows a healthy financial position, as follows:-

The OPCC (and the Group) holds assets worth some £98 million, including property and vehicles worth £59 million, cash invested temporarily of £23 million, and debtors (money owed to it) of £13 million.

Liabilities (excluding the pensions distortion) total only £31 million, including loans outstanding of £15 million and creditors (money owed by it) of £11 million.

The net asset value of the authority of £67 million is represented by the reserves mentioned above, cash, and the accounts that reflect past movements on asset funding and revaluations.

Cash flow

An important element of the Office of the Police and Crime Commissioner (and the Group) accounts is the cash flow statement. It summarises the inflows and outflows of cash arising from the transactions with third parties for revenue and capital purposes resulting in the overall increase / decrease in cash book balance between the two years. It is not a particular measure of how the cash is invested during the year; this is reported in the annual Treasury Management Report. However, it does provide information on the liquidity of the Office of the Police and Crime Commissioner and the Group in terms of the increases and decreases in current assets and liabilities.