

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

PAPER MARKED



Report of	CHIEF FINANCE OFFICERS OF THE POLICE AND CRIME COMMISSIONER AND CHIEF CONSTABLE
Subject	STATEMENT OF ACCOUNTS
Date	WEDNESDAY 24 JULY 2019 – 10.00AM
Author :	MR MARTIN HENRY

Purpose of Report

1. To receive an update and seek approval for the 2018-19 Statement of Accounts for the Group, Police and Crime Commissioner and Chief Constable.

Recommendation

2. The Panel is asked to approve the Statement of Accounts for 2018-19 if they have been finalised by the time of the meeting.
3. The Chairman is requested to sign the respective Letters of Representation as part of the accounts approval process if he is in a position to do so at the meeting.
4. Should the accounts not be ready for approval by the time of the meeting the Panel is asked to delegate authority to the Chairman to approve the accounts and letters of representation once they have been prepared, the intention being that they are approved on or before 31 July 2019.

Background

5. The draft accounts for the Group, the Police and Crime Commissioner (PCC) and the Chief Constable (CC) were prepared by the statutory deadline of 31 May 2019 and certified as 'true and fair' by the PCC's and CC's Chief Finance Officers respectively.
6. Panel member Ashif Bhayat was briefed on the draft accounts and confirmed that he was happy with the content based on the briefing he received.
7. The external auditors (Ernst Young) commenced their audit after the draft accounts had been prepared and will present their findings to this JARAP meeting.
8. Since the draft accounts have been prepared there have been a small number of significant issues that have emerged for which the accounts need to be amended for.

Pension Fund adjustments

9. The most significant ones related to adjustments required on the information in the accounts relating to both the Police Pension Scheme and the Local Government Pension Scheme. The main issues are described in more detail below.

Local Government Pension Scheme – Estimate of Fund Assets

10. In recent years the deadlines for the preparation of the accounts have been continually brought forward. Currently, the first draft of accounts that have to be certified by the respective CFO's have to be prepared by the end of May. In order to achieve the timely closedown of accounts the County Council, who administer the Local Government Pension Scheme, use estimates for the performance of the Pension Fund in the final month of the financial year. It is accepted that these figures will differ from the final position, however it is an accepted practice as the differences are usually comfortably within materiality limits and therefore adjustments to reflect the actual figures are not required.
11. In previous years there has been an approximate difference between the estimates used and the actuals of approximately 0.5% of the valuations. However, for 2018-19 the difference is in the region of 2.5% which is on the boundaries of being a material difference. As a result the figures have been reworked and the revised figures will be incorporated into the final set of accounts.

McCloud Judgement

12. In 2015 the Government introduced reforms to public sector pensions, meaning most public sector workers were moved into new pension schemes in 2015. In December 2018 the Court of Appeal ruled that the 'transitional protection' offered to some members of the judges and firefighters' schemes amounted to unlawful discrimination. However, the implications of this ruling stretch to the Police and Local Government pension schemes.
13. At the time of preparing the draft accounts it had been determined that the Government would seek to appeal the decision and therefore whilst reference was made to the McCloud case in the accounts the outcome was uncertain and therefore the figures were prepared without the consequences of the McCloud case being included. This was the position taken across the Country.
14. However, the Government's permission to appeal was not granted by the supreme court and therefore there is more certainty about the final outcome. As a result of this the actuaries for the Police Pensions and the LGPS are in the process of revising the figures included within the accounts.
15. At the time of writing this report the revised figures had just been received. These then need to be incorporated into the revised accounts. Unfortunately the figures do not hit just one area of the accounts but flow right through them affecting all of the main statements contained within them (Income and Expenditure account, balance sheet, movements in reserves and so on).

Guaranteed Minimum Pension

16. Guaranteed minimum pension (GMP) was accrued by members of the Local Government Pension Scheme and Police Pension scheme between 6 April 1978 and 5 April 1997. The value of GMP is inherently unequal between males and females for a number of reasons, including a higher retirement age for men and GMP accruing at a faster rate for women. However, overall equality of benefits was achieved for public service schemes through the interaction between scheme pensions and the State Second Pension. The introduction of the new Single State Pension in April 2016

disrupted this arrangement and brought uncertainty over the ongoing indexation of GMPs, which could lead to inequalities between men and women's benefits.

17. As an interim solution to avoid this problem, GMP rules were changed so that the responsibility for ensuring GMPs kept pace with inflation passed in full to pension schemes themselves for members reaching state pension age between 6 April 2016 and 5 April 2021. This new responsibility leads to increased costs for schemes and hence scheme employers.
18. The draft accounts did not include this increased liability as there was uncertainty about whether it should be included or not. Since the draft accounts have been produced advice has crystallised and it is clear that we should at least seek what the impact could be to assess if the adjustments would begin to approach materiality levels.
19. At the time of writing this report we are still waiting for these figures to come back from one of the actuaries. Once we have received these figures we can assess if the adjustments are likely to be material and consequently determine if the accounts need to be amended for this adjustment too.

Pension Impact on the accounts

20. It is important to highlight that whilst all three of these adjustments relating to pensions will result in significant changes to the accounts, will run right through the accounts and will be for large amounts none of them actually impact on the bottom line or the usable reserves (the real cash backed reserves).
21. The adjustments are notional, technical accounting adjustments that seek to reflect the potential total pension liability on the two schemes. The liability may need to be addressed in future years through increased pension contributions following further actuarial reviews but for the purpose of these accounts they are notional 'non cash' adjustments.

Asset Valuation

22. At the time of writing this report there is an outstanding query on the value of an asset held by the OPCC. It is expected that this issue will be finalised shortly and if required the accounts will be amended to reflect the outcome.

Independent Inquiry Into Child Sex Abuse (IICSA)

23. The Independent Inquiry into Child Sexual Abuse will investigate whether public bodies and other non-state institutions have taken seriously their duty to protect children from sexual abuse in England and Wales.
24. Two ex-officers from the force have been given core participant status which means they will need to attend the inquiry and have the right to be represented at the hearing by various legal advisers.
25. Since the draft accounts were prepared some further information was received on the potential costs and consideration was given to whether a reserve should be included in the accounts for 2018-19.
26. It was determined that this was not required for 2018-19 owing to continued uncertainty and an inability to make a 'reliable' estimate of the costs. However, some narrative will be included in the Contingent Liability note highlighting the matter. It is likely that a reserve will be created for these costs in 2019-20.

Production of Amended Accounts

27. The statutory deadline for approval of the accounts is 31 July and the JARAP meeting is being held on 24 July. The revised accounts cannot be produced until the information has been received back from the actuary and at the time of writing this report some of this information was still outstanding. Once received the accounts will need to be amended to reflect the issues referred to above and Ernst Young will need to be satisfied with the adjustments.
28. As a result, it will not be possible for the revised accounts to be sent out with the agenda. If the accounts are ready prior to the meeting then they will be tabled at the meeting and the OPCC Finance Director will 'walk' panel members through them making reference to where the changes will have had an impact.
29. It is possible that the accounts may not be ready for the JARAP meeting and if this is the case the OPCC Finance director will give a verbal update and will seek delegated authority from the panel for the chairman of the panel to approve the accounts outside of the meeting with the intention being to do so on or before 31 July 2019.
30. This approach has been discussed with the Neil Harris from Ernst Young and the Chairman and both are supportive of this approach. This is the reason why the recommendations have been drafted as set out in paragraphs 2-4.

Implications

Financial: There are no direct financial implications stemming from this report

Legal: There are no direct legal implications stemming from this report although there is a statutory deadline to approve the accounts by the end of July.

Equality Impact Assessment: There are no EIA implications stemming from this report

Risks and Impact: None

Link to Police and Crime Plan: There is a statutory requirement to produce a Statement of Accounts on an annual basis.

List of Attachments / Appendices

OPCC for Leicestershire Annual Financial Report for 2018-19 (to follow)

OCC for Leicestershire Annual Financial Report for 2018-19 (to follow)

OPCC Letter of Representation 2018-19 (to follow)

OCC Letter of Representation 2018-19 (to follow)

Background Papers

None