INTERIM INDEPENDENT AUDIT COMMITTEE
27TH JUNE 2013

SUBJECT	**FINANCIAL STATEMENTS 2012/13**
REPORT BY	**CHIEF FINANCE OFFICER**
CONTACT OFFICERS	**STEPHEN QUINT, PRINCIPAL MANAGEMENT ACCOUNTANT** **TEL: 01522 558120**
SUMMARY AND PURPOSE OF REPORT To consider the 2012/13 Financial Statements which have been prepared subject to audit.	
RECOMMENDATION	***That the unaudited Financial Statements for 2012/13 be considered for review by our External Auditors KPMG.***

A. SUPPORTING INFORMATION

1. INTRODUCTION

1.1. This report introduces the formal Statement of Accounts for the PCC Group and the Chief Constable for 2012/13, both of which are attached to this report.

1.2. The Accounts for 2012/13 have been compiled in accordance with and as required by the Accounts and Audit Regulations 2003, 2006 and 2011, the Code of Practice on Local Authority Accounting 2012/13 and also the Service Reporting Code of Practice 2012/13. The accounting practices are largely consistent with International Financial Reporting Standards, but may be based on International Public Sector Accounting Standards or UK accounting practices in some instances.

1.3. CIPFA issued Local Authority Accounting Panel bulletin 96 'Closure of the 2012/13 accounts and related matters' to assist practitioners with the application of the requirements of the Code. The guidance in the LAAP bulletin has been considered when preparing the financial statements. Earlier in the process, we had followed LAAP 95 in determining our approach to the group accounts disclosures required by the creation of the PCC and Chief Constable entities.

1.4. The Accounts and Audit Regulations 2011 (Regulation 8) introduced a change to the process for the approval of the statements of accounts. The Chief Finance Officer should "sign and date the statement of accounts and certify that it presents a true and fair view of the financial position of the body at the end of the year to which it relates and of that body's income and expenditure for that year" no later than 30th June. In addition the Department for Communities and Local Government has indicated that it is good practice also to present the accounts to the Audit Committee giving early notification of the outcome of the previous financial year. These accounts are therefore presented for information prior to the final certification and submission for audit. Once certified by the respective

Chief Finance Officers, copies of the PCC and Chief Constable accounts will be published on the relevant websites with a clear notification that the accounts are subject to audit.

1.5. The accounts perform an important stewardship and accountability role for the use of public money. They are however required to be produced in accordance with the rules detailed in paragraph 1.2. The introduction of IFRS has created a technical and detailed document. This report is intended to introduce the accounts and its main features to aid scrutiny. The explanatory foreword to the statements provides an initial overview of the accounts and is a useful starting point.

1.6. The outturn spend and implications for the PCC's reserves were considered by the Resources Governance Meeting on 24 May 2013. The PCC's decisions on transfers to and from reserves have been incorporated into the statements presented here.

1.7. It is important to emphasise that the accounts reflect our share of assets, liabilities and costs incurred with partner agencies. This means that the PCC's figures in the main accounting statements and notes have been augmented with these arrangements as appropriate.

1.8. The accounts are subject to audit by the PCC Group's appointed external auditors, KPMG. This audit is underway and will culminate in a report to "those charged with governance" coming to the September meeting of this Committee. , which will include the audit opinion on the financial statements and the value for money opinion.

1.9. At this stage therefore the Committee are requested to consider the accounts and comment on their contents. Changes required to be made to the accounts will be subject to the certification referred to in paragraph 1.4 above.

2. PRIOR PERIOD ADJUSTMENTS

2.1. At its March meeting, the Committee set a materiality level of £100k as a guide for application of accounting policies. Careful reviews of the Code of Practice and associated guidance notes revealed an adjustment to the 2011/12 accounts which was considered material.

2.2. Consequently, the prior year comparative figures have been recalculated, and the financial statements and notes affected have been restated. The changes are described below, and relate to the valuation of assets held for sale.

- The old Grantham site was shown in the 2011/12 accounts as an asset held for sale at £1.2m.

- This valuation reflected the value used by the estate agent rather than the carrying value based on advice from our Chartered Surveyors Lambert Smith Hampton. The Code requires disclosure at the lower of fair value and carrying value, and as there was a £437k difference this was considered material.

- The impact of this change in the 2012/13 accounts is that it creates a profit on disposal when we process the final sale transaction. Our surveyor is clear that in normal market conditions we would not have achieved such a high sale price.

2.3. Making prior period adjustments necessitates additional disclosures in the accounts to explain the movement between the published accounts for 2011/12 and the new comparators for 2011/12. These disclosures are included in the Statement of Accounts as required at Note 58.

3. CHANGES FROM 2011/12

3.1. The Committee has previously considered the Accounting Policies which have been adopted to prepare the financial statements. They are included at note 1 to the accounts. The Committee were advised at their March meeting that the policies for retirement benefits would need to be refreshed when the actuarial assumptions for 2012/13 had been confirmed. This has now been completed.

3.2. One section of the accounting policies brought to the March meeting has now been deleted.

- *"Borrowing Costs: the PCC recognises borrowing costs of qualifying assets in the Comprehensive Income and Expenditure Statement (disclosed within Interest Payable) in the year in which the payments are made."*

- The new approach is that the PCC makes provision for the repayment of debt in accordance with the Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008. This requires the PCC to set a Minimum Revenue Provision which he considers prudent.

3.2. The 2012/13 accounts required assessment and disclosure of the transfer of ICT and furniture assets valued at £1,121k to G4S for £1 as part of the strategic partnership agreement.

- This is not a disposal with nothing in return, but rather is compensated by future lease payments being nil. In this case the Code says "it shall be deferred and amortised in proportion to the lease payments" rather than recognizing a loss on disposal.

- Hence, the value of £1,121k becomes a prepayment which is written down over the 10 year life of the contract.

- There is a finance lease arrangement as per IFRIC 12 decision tree. Accounting will follow IAS 17, Leases. A liability for £1,121k is also created and amortised over the life of the contract.

- The assets remain on the PCC asset register and are depreciated as normal.

3.3. The scope of collaboration has increased during 2012/13. The 2010/11 accounts recognised joint arrangements with East Midlands Special Operations Unit (EMSOU), Major Crime, the Technical Support Unit and the Sexual Assault Referral Centre (SARC). In addition to these, regional collaboration now includes services for Forensics and Occupational Health.

4. FINANCIAL STATEMENTS – GROUP ACCOUNTS STRUCTURE

4.1. The creation of the PCC and Chief Constable entities has led to the requirement for group accounts in 2012/13. The proposed methodology described at the March meeting was to produce consolidated figures for the group, then identify and separate out the elements to be reported in the Chief Constable accounts. It was recognised that this was an interim approach until Stage 2 of the PCC transition makes a more fundamental separation of responsibilities.

4.2. At the March meeting it was expected that costs in the PCC's Income & Expenditure Account would be limited to the running of the Office of the Police & Crime Commissioner, with all operational costs being transferred to the Chief Constable. The Chief Finance Officers felt that the local arrangements are better described by including police officer costs with the Chief Constable, and all other costs with the PCC.

4.3. There are two main documents in the group accounts: the Group Statement of Accounts, and the Chief Constable Statement of Accounts.

4.4. The Statement of Accounts for the Group is analogous to last year's Police Authority accounts. It includes all transactions for income and expenditure, assets and liabilities, reserves and commitments. It also contains an additional Comprehensive Income and Expenditure Statement showing the PCC alone.

4.5. The Statement of Accounts for the Chief Constable includes the costs of police officers salaries. As the Chief Constable does not have local authority status, the

costs are described in an 'Operating Cost Statement' rather than a 'Comprehensive Income and Expenditure Statement'. As a legal entity, the Chief Constable still has to comply with the legal format of accounts. Hence, the document includes a foreword, annual governance statement, accounting statements and policies and other disclosures.

5. FINANCIAL STATEMENTS

5.1. Only the PCC Group Statements are discussed here. As described at paragraph 1.7, these accounts have been prepared in accordance with the accounting requirements for joint arrangements. The accounts include the PCC's share of regional collaboration and work with the NHS on the SARC. All of the major statements include figures relating to these services.

5.2. The Accounts and Audit Regulations 2003 require authorities to carry out a review of the effectiveness of the system of internal control. This is now reported in the form of an Annual Governance Statement. As the statement ranges much wider than the financial transactions of the PCC it has been included as a separate part of the Accounts. This is an important statement which details the governance arrangements in operation during the year and highlights any significant governance issues.

5.3. The following paragraphs highlight the main financial statements and the key figures contained within.

Movement in Reserves Statement

5.4. This statement shows the movement on usable and unusable reserves during the year and the relationship to the Comprehensive Income and Expenditure Statement. The important column in this statement is the General Fund Balance. For 2012/13 the statement shows that the PCC achieved a deficit on its provision of services of £31 million. However, this figure is then adjusted in the statement for items which are not required to be funded by the PCC, giving a final transfer from the General Fund balance of £4k. This was in relation to regional collaboration activities.

Comprehensive Income and Expenditure Statement

5.5. This statement shows the resources consumed on services classified in accordance with the Service Reporting Code of Practice. These have been prepared utilising the Police Objective Analysis apportionment methodology. This requires the analysis of spend based on a series of assumptions mainly around the allocation of officers and staff. The new Force structure will have influenced the proportions of spend in each category. Significant variations in allocation between years have occurred which are subject to further examination.

5.6. The points to note within the Comprehensive Income and Expenditure Statement are:

- Taxation and non specific grant income – the £1m increase over 2011/12 comes from an increase to the top up of police officer pensions receivable from the Home Office.

- Actuarial gains or losses on pensions assets and liabilities – the continued poor investment returns expected in the long term mean that the scheme liabilities are valued at a high cost. This is the main reason behind the £108m actuarial loss in 2012/13.

- Total Comprehensive Income and Expenditure – the change in this figure from a £63.6 million expense to £138.2 million expense represents the downturn in pension balances forecast by the actuaries.

5.7. It is important to emphasise that the Comprehensive Income and Expenditure statement includes items required by the regulations for capital and pensions that do not form part of the PCC's requirement to raise council tax. Therefore, the account is not the same as that monitored by the Resources Governance Meeting during the year.

Balance Sheet

5.8. The balance sheet provides a summary of the PCC's position at 31st March 2013, bringing together all of the assets and liabilities.

5.9. The following points from the Balance sheet are highlighted:

- Fixed assets totalled £31.2 million at 31st March 2013. This is an increase on the previous year due to the £3.6 million in Assets Under Construction for the new ERP system t-police.

- The cash account figure shown on the balance sheet represents an in hand balance of £10.3 million at 31st March 2013. The actual position at the Bank was an accrued overdraft of £122k with £10.4 million being held as short term on call deposits.

- Long-term borrowing amounted to £16.1 million at 31st March 2013 with amounts due within one year totalling £2.1 million, giving a total outstanding borrowing of £18.2 million.

- Unapplied Grants of £423k due to grants being held for utilisation on capital schemes in 2013/14.

- The General Reserve was £5.7 million at 31st March 2013.

- Earmarked Reserves totalled £8.2 million at 31st March 2013.

- Provisions totalled £1.9 million at 31st March 2013.

- The IAS 19 requirement for pensions produces net liabilities of £1,002.1 million, leading to a 'negative' Balance Sheet.

- The negative Unusable Reserves total £997 million.

5.10. International Accounting Standard "Employee Benefits" (IAS 19) asks for the full accrued impact of pension costs to be incorporated into the PCC's Accounts. Hymans Robertson, an independent firm of actuaries, have assessed the PCC's

liabilities and estimate that a liability of £969.5 million exists in respect of the Police Pension Scheme and £32.6 million in respect of the Police Staff Local Government Scheme. It is a requirement that these liabilities are included in the Balance Sheet. The effect of including this liability significantly impacts the overall value of the PCC's Balance Sheet. This can be seen by the fact that the liabilities now exceed the total assets by £982 million. The IAS 19 assumptions are discussed further in secion 6 below.

Cash Flow Statement

5.11. The Cash Flow Statement removes all of the adjustments made to the accounts for accruals and non cash based adjustments such as IAS 19, and provides a summary of the change in cash and cash equivalents during the reporting period. The accounts show a net cash outflow of £3 million. This is the result of many different factors such as changes in the debtors and creditors position and use of grants.

Notes to the Accounts

5.12. The notes to the accounts are important because they provide a further breakdown or explanation of the figures included in the main statements. They changed considerably in their scope and depth following the introduction of IFRS and form the bulk of the reporting required. The following notes are highlighted:

- Note 1 – provides details of the accounting policies adopted by the authority for use in the preparation of the accounts.
- Note 7 – a table describing the movements on earmarked reserves has been provided.
- Notes 11 to 17 – provide details of fixed asset values and movements relating to depreciation together with disclosures on capital expenditure.
- Note 18 – provides disclosure on the PCC's Financial Instruments and details of the PCC's long term borrowing
- Notes 19 to 24 – provide further breakdown of the current assets and current liabilities included in the accounts.
- Notes 39 to 41 – disclose further details with regard to the income and expenditure incurred during the year.
- Notes 42 and 43 – explain the PCC's Joint Arrangements and their impact on the accounts
- Note 45 – provides details of the remuneration of senior staff.
- Note 48 – discloses details of Related Party Transactions.
- Note 54 – provides detailed disclosures on the adjustments required to be made to the accounts in order to comply with IAS 19 requirements.

- Note 57 – is required to provide details of events that have happened between the balance sheet date (31st March 2013) and the accounts being approved. It should be noted that events occurring up to the accounts being approved in September would be required to be reported here.

- Note 58 – describes the prior period adjustments from section 2 of this report.

Police Officer Pensions - Home Office Memorandum Account

5.13. The final statement included in the accounts shows the transactions relating to retirement benefits paid to Police Officers and how those costs are paid for by the Home Office.

6. ACTUARIAL ASSUMPTIONS

6.1. IAS19 - Employee Benefits is one of the financial reporting standards that the PCC must comply with when producing its Annual Accounts. IAS19's basic requirement is that an organisation should account for retirement benefits when it is committed to give them, irrespective of when they are paid out..

6.2. To calculate the cost of earned benefits for inclusion in the accounts, the scheme Actuary (Hymans Robertson) use certain assumptions to reflect expected future events which may affect those costs. The assumptions used are designed to lead to the best estimate of the future cash flows that will arise under the scheme liabilities. Any assumptions that are affected by economic conditions should reflect market expectations at the balance sheet date..

6.3. The assumptions used are attached for information.

B. FINANCIAL CONSIDERATIONS

The financial statements show the PCC's and Chief Constable's stewardship for the year 2012/13.

C. LEGAL AND HUMAN RIGHTS CONSIDERATIONS

The statements are prepared so as to comply with all relevant accounting requirements as described at paragraph 1.2 of the report.

D. PERSONNEL, EQUAL OPPORTUNITIES AND DIVERSITY ISSUES

(including any impact or issues relating to Children and Young People)

None specific.

E. RISK MANAGEMENT

There are risks associated with ensuring that the disclosures made in the accounts are in accordance with the legislation and codes of practice. Any issues with this compliance will be raised by the external auditors as part of their Governance Report to the September meeting of this Committee.

F. REVIEW ARRANGEMENTS

The Annual Governance Report on the 2012/13 accounts will be made to the September meeting of this Committee. Any material changes to the accounts identified at the audit will be reported to that meeting.

G. PUBLIC ACCESS TO INFORMATION

Information in this report along with any supporting material is subject to the Freedom of Information Act 2000 and other legislation.