



west midlands
police and crime
commissioner



AGENDA ITEM 9

**JOINT AUDIT COMMITTEE
28th June 2018**

STATEMENT OF ACCOUNTS 2017/18

1. PURPOSE OF REPORT

- 1.1 This report presents the statutory Statements of Accounts for the last financial year, subject to external audit.

2. BACKGROUND

- 2.1 The draft Police and Crime Commissioner and Chief Constable Accounts have been completed prior to their statutory deadline of 31 May 2018 and have been checked by the Chief Finance Officers of the office for the Police and Crime Commissioner and the Chief Constable as representing a true and fair view of the accounts for the 2017/18 financial year. The accounts are presented to the Joint Audit Committee to demonstrate good governance and transparency in its scrutiny role. A copy of the draft accounts are attached. The Accounts will now be audited by Grant Thornton UK (LLP).
- 2.2 The Statement of Accounts for 2017/18 have been prepared following the CIPFA Code of Practice on Local Authority Accounting in the United Kingdom. This interprets the International Financial Reporting Standards on which these accounts are required to be based.
- 2.3 Accounts are prepared for both the Police and Crime Commissioner and Chief Constable. This report is based on the consolidated accounts of both entities referred to as the group accounts or the accounts of the PCCWM group.

3. STATEMENT OF ACCOUNTS 2017/18

3.1 The Statement of Accounts sets out the financial position of the PCC and the Chief Constable, in accordance with formal legal and technical guidelines and, in particular:

- (a) Reflects adjustments required to deal with movements in reserves.
- (b) Includes a Comprehensive Income and Expenditure Statement (CIES) which shows the net cost for the year of the functions for which the Group is responsible and demonstrates how the costs have been financed.
- (c) Shows the re-measurements (formerly actuarial gains and losses) on the police and police staff pension schemes and the surplus or deficit on the revaluation of non-current assets as other Comprehensive Income and Expenditure within the CIES
- (d) Shows non-specific Government grants in the CIES as part of recognised capital grants then transfers them to the Balance Sheet depending on the presence or absence of particular grant conditions.
- (e) Presents a Balance Sheet which shows the assets and liabilities of the group and how these are financed from a mixture of useable and non-useable reserves.
- (f) Presents a Cash Flow Statement showing a net increase or decrease in cash and cash equivalents and how cash flows through the operating, investing and financing activities of the group.
- (g) Shows that the net cost of Police Services has moved from a £181.8m deficit in 2016/17 to a £216.6m deficit in 2017/18.

Details of the financial outturn for 2017/18 will be presented to the Strategic Policing and Crime Board. The table below summarises the outturn position.

<i>Revenue Expenditure</i>	<i>Budget 2017/18 £m</i>	<i>Actual 2017/18 £m</i>	<i>Variation + (-) £m</i>
Employee costs	469.7	480.9	11.2
Premises costs	17.2	16.8	(0.4)
Transport costs	8.0	6.8	(1.2)
Supplies and Services	39.3	41.0	1.7
Agency costs	14.7	14.7	0.0
Capital Financing	3.7	4.1	0.4
Income	(33.9)	(43.9)	(10.0)
Police Force (Excl. WMP2020 project costs)	518.7	520.4	1.7
WMP2020 project costs	23.2	13.1	(10.1)
Police Force (Incl. WMP2020 project costs)	541.9	533.5	(8.4)
Police and Crime Commissioner			
Office for Police and Crime Commissioner	2.1	2.1	0.0
Commissioned Services	9.3	6.2	(3.1)
Police and Crime Commissioner	11.4	8.3	(3.1)
Net Cost Police Services	553.3	541.8	(11.5)
Carry Forward Contribution to Projects	(9.2)	1.2	10.4
Carry Forward Contribution to PCC	0	3.1	3.1
Contribution to Uniform & Equipment Reserve	0	(0.5)	(0.5)
Contribution to ROCU Reserve	0	1.5	1.5
Other Reserve Contributions	0	(1.2)	(1.2)
Police Services after Carry Forward	544.1	545.9	1.8
Net Contribution to (from) Reserves	(18.2)	(20.0)	(1.8)
Net Budget Requirement	525.9	525.9	0.0

- 3.2 It is worth noting that the revenue budget outturn of £525.9m is presented differently in the Statement of Accounts due to technical accounting adjustments required to ensure the presentation in the Statement of accounts complies with IFRS.
- 3.3 As a result, the bottom line of the Comprehensive Income and Expenditure Statement (shown on page 31 of the Accounts) shows the Group with a deficit for the year on the provision of services of £216.6m. This is not a real cash deficit but an accounting view. The deficit is derived from material actuarial movements affecting the liabilities of the police and Local Government Pension Schemes which are explained in the table within paragraph 4.4 entitled Reconciliation to Net Operating Expenditure.
- 3.4 In accounting terms, we are required to include in the Accounts the total cost of net Pension liabilities (i.e. the difference between total future pension liabilities and the current value of assets), which are:

2016/17 £m		2017/18 £m
7,105.8	Police Officers' Unfunded Scheme	7,300.1
333.1	Police Staff Funded Scheme	342.6
7,438.9	Total Net Liability	7,642.7

- 3.5 There has been an increase in the pension liability of £203.8m. This is a comparatively minor actuarial adjustment and is due to slight changes in the discount rate at which pensions are paid, offset by salary and inflation rates.
- 3.6 The significant liability on police officer pensions, reflects the fact that the Scheme is unfunded. The liabilities on both pension schemes reflect actuarial assumptions based on the current economic and demographic position.
- 3.7 The net liability on police staff pensions, which is a funded scheme, reflects the national position and results from a review of recent stock market performance and the increasing cost of annual pensions. The accounts show the Local Government Pension Scheme split to show the assets and liabilities of the Commissioner separately from those of the Chief Constable.

4. THE MAIN ELEMENTS OF THE STATEMENT

The Statement of Accounts comprises the following main elements:

- 4.1 The **Narrative Report** is presented at the start of the Statement of Accounts and its purpose is to offer interested parties an effective guide to the most significant matters reported in the accounts. It should explain the financial position of the group and assist in interpretation of the financial statements. It must also contain a commentary on major influences affecting the income, expenditure and cash flow and provide information on the financial needs and resources of the group.
- 4.2 The **Annual Governance Statement** is included at page 17. This Statement is considered elsewhere on your agenda. There are separate AGSs for the PCC's accounts and the Chief Constable's accounts. The PCC AGS is signed by the Police and Crime Commissioner, his Head of Paid Staff and his Chief Finance Officer. The Chief Constable's AGS is signed by the Chief Constable and Chief Constable's Chief Finance Officer.
- 4.3 The **Comprehensive Income and Expenditure 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 taxation. PCCs raise taxation to cover expenditure in accordance with regulations; this may be different from the accounting cost. The taxation position is shown in both the Expenditure and Funding Analysis and the Movement on Reserves Statement. The Comprehensive Income and Expenditure Statement (CIES) shows the net cost for the year of the functions for which the PCC is responsible and demonstrates how that cost has been financed from general government grants and income from local taxpayers. The CIES also includes other recognised gains and losses of the PCC during the year within the total comprehensive income and expenditure of the PCC.

- 4.4 The Net Operating Expenditure in the Statement of Accounts is shown as £747.7m, which is different to the £525.9m shown in the Financial Outturn. The reason for this difference is due to a number of accounting entries which are adjustments between the accounts presented on an accounting basis and presented on a funding basis according to accounting regulations. These differences are explained in the table below:

Reconciliation of Net Operating Expenditure	£m
Net Operating Expenditure (as per the Statement of Accounts)	747.7
Amounts required by the IFRS Code that do not affect the General Fund Balance for Council Tax setting purposes (e.g. depreciation and pensions amendments)	(280.7)
Amounts excluded by the IFRS code that do affect the General Fund Balance for Council Tax setting purposes (e.g. RCCO, MRP)	79.6
Transfers to or from the General Fund Balance that are required to be taken into account when determining the Movement on the General Fund Balance for the year	(20.7)
Net cost of General Fund services (as per the Financial Outturn)	525.9

- 4.5 The **Movement in Reserves Statement** shows the movement in the year of the different reserves held by the PCC analysed into useable reserves (i.e. those that can be applied to fund expenditure or reduce local taxation, and other reserves. The total comprehensive income and expenditure 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. 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.
- 4.6 The statement includes items that do not affect tax payers directly but which are in the Comprehensive Income and Expenditure Statement (such as depreciation) and also items that do affect tax payers but are not part of the Income and Expenditure Account (such as revenue used to finance capital). A summary of these adjustments is shown in the note on page 78 of the accounts. The statement shows that in real terms, the General Fund balance remains at £12m. The details of these movements in individual reserves are shown in note 27 of the accounts and in the table below.

	Balance at 31 March 2016	Trf to reserves in 2016- 17	Trf from reserves in 2016- 17	Trf between reserves in 2016-17	Balance at 31 March 2017	Trf to reserves in 2017- 18	Trf from reserves in 2017- 18	Trf between reserves in 2017-18	Balance at 31 March 2018
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Capital reserve	(20,975)	0	14,250	0	(6,725)	0	5,550	0	(1,176)
Budget reserve	(30,150)	0	16,545	0	(13,605)	0	19,994	(25,492)	(19,101)
Redundancy and Equal pay reserve	(10,097)	0	0	2,000	(8,097)	0	1,258	6,839	0
Self-funded insurance reserve	(9,691)	(2,506)	3,909	(2,000)	(10,288)	(2,506)	3,365	0	(9,429)
Devolved Budget reserve	(12,275)	(9,367)	0	0	(21,642)	(15,357)	9,117	0	(27,882)
Uniform and protective equipment reserve	(3,015)	(1,729)	597	0	(4,147)	(429)	518	(4,839)	(8,897)
Major incidents	(2,153)	0	0	0	(2,153)	0	0	0	(2,153)
PoCA income reserve	(1,082)	0	250	0	(832)	0	0	0	(832)
Risk reserve	(1,022)	0	0	0	(1,022)	0	0	0	(1,022)
Budget Resilience reserve	(25,492)	0	0	0	(25,492)	0	0	25,492	0
Police Property and Misuse of Drugs Act reserve	0	0	0	0	0	(804)	0	0	(804)
National Contingency reserve	0	0	0	0	0	0	0	(2,000)	(2,000)
Earmarked Reserves	(115,952)	(13,602)	35,551	0	(94,003)	(19,096)	39,802	0	(73,297)
General Fund Reserves	(12,042)	0	0	0	(12,042)	0	0	0	(12,042)

The Capital reserve will continue to be used to support the capital elements of WMP2020 projects. The transfer from the reserve in 2017-18 represents capital funding for the development of project solutions under WMP2020. The devolved budget reserve allows us to carry forward unspent elements of project budgets where the profile of spend has slipped and reallocate in the following year to continue the development of the project. The Budget Reserve will continue be used to support the medium term financial plan and the Budget Resilience Reserve has been reabsorbed into this in response to future reductions in funding.

- 4.7 The PCC's **Balance Sheet** is set out on page 35. It shows the value as at the Balance Sheet date of the assets and liabilities recognised by the PCC. The net assets of the PCC (assets less liabilities) are matched by the reserves held by the PCC. Reserves are reported in two categories. The first category of reserves are useable reserves, i.e. those reserves that the PCC 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 may only be used to fund capital expenditure or repay debt). The second 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 as shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

4.8 The notes to the Balance Sheet are shown on pages 83-97. These have been prepared in accordance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Code of Practice and give detailed explanations of the various balance sheet entries. The following comments draw attention to the effects of the PCC's key financial policies and/or explain major variations between years:

- (a) **Property, Plant and Equipment** - The value of land and buildings, and police houses, represents the value of the assets in their current use, and does not represent a market value for disposal purposes. The value of Intangible assets will increase as software developed under the WMP2020 projects begins to be used across the Force.
- (b) **Net Current Assets** – There has been a reduction of £24.5m in the value of net current assets. There has been a reduction of £13.1m in the value of current assets as a result of a reduction overall in short term investments and cash equivalents. Current liabilities have increased by £9.6m as a result mainly of invoices processed through the payments system at year end, but not yet paid from the bank account and a slight increase in the annual value of Collection Fund and Payroll creditor accruals.
- (c) **Long Term Borrowing** - Represents the value of outstanding loans raised by the PCC and their predecessors to finance capital expenditure, in accordance with Government allocations.
- (d) **Earmarked Reserves** – At 31st March 2018 stood at £73.3m. The total has decreased by £20.7m in the year, reflecting the net movements in reserves. The table at 4.6 in this report (and in the accounts on page 82) shows the details of the individual reserves and their movements.
- (e) **General Balances** – The General Reserve has been maintained at £12m in accordance with the Budget Strategy.
- (f) **Capital Grants Unapplied** - Relates to Government Grants received in earlier years and Specific Grants given for funded projects, but not used because of the re-phasing of capital schemes.
- (g) **Capital Adjustment Account** - This account provides a balancing mechanism between the different rates at which assets are depreciated under IFRS and are financed through the capital controls system. The balance in this account is matched against fixed assets and is not available to the PCC.
- (h) **Revaluation Reserve** – This reserve holds the unrealised revaluation gains arising on the PCC's fixed assets. The balance in this account is matched against fixed assets and is not available to the PCC.
- (i) **Pensions Reserve** - This reserve is offset by the liability to pay police and police staff pensions. This reserve has increased by £209m in 2017-18 as a result of actuarial adjustments to pension assets and liabilities due to changes in the estimation rates used by the Actuaries. The pension reserve is normally expected to be fully offset by the pension liability, however when early repayments of monies owed to the Local Government Pension Scheme (LGPS) to pay for pension deficits on the police staff scheme are made in advance to cover a number of years, this is not the case. A payment of £9m was made to cover the past service deficit for 2017-18, 2018-19 and 2019-20. This treatment ensures that only the 2017-18 part of the

payment is shown in the Comprehensive Income and Expenditure Statement this year but as a consequence the pension liability and reserve are out of balance. This will resolve itself in 2019-20 when the final part of the payment is charged to the pension reserve..

- 4.9 The **Cash Flow Statement** is set out on page 36. It 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. The amount of net cash flows arising from operating activities is a key indicator of the extent to which the operations of the Group are funded by way of taxation and grant income or from the recipients of services provided by the PCC. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the PCC's future service delivery. Cash flows from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowing) to the PCC:

	31/03/17 £'m	31/03/18 £'m	Change £'m
Cash	51.4	20.8	(30.6)
Short Term Investments	29.1	46.6	17.5
	80.5	67.4	(13.1)

- 4.10 The **Statement of Accounting Policies** outlines the accounting policies applied by the PCC when constructing the accounts. These policies are in line with the CIPFA guidelines and are applied so that the accounts are consistent over time. A full review of accounting policies takes place each year and the changes to accounting policies for this year's accounts were presented to the Audit Committee in March. The Accounting policies adopted for the Chief Constables' accounts have been considered in relation to prevailing International Financial Reporting Standards.
- 4.11 The **Expenditure and Funding Analysis Note** on page 54 demonstrates to Council tax payers how the funding available to the authority for the year has been used in providing services in comparison with those resources consumed or earned by authorities in accordance with generally accepted accounting practices. The Expenditure and Funding Analysis also shows how this expenditure is allocated for decision making purposes between the Group's directorates. Income and expenditure accounted for under generally accepted accounting practices is presented more fully in the Comprehensive Income and Expenditure Statement
- 4.12 The **Capital Expenditure and Capital Financing Note** on page 64 identifies all capital expenditure during the year incurred on behalf of the PCC, compared to the expenditure planned in the year. The PCC spent £18.3m on capital items compared with a planned programme of £34.7m, equivalent to 53% of the programme. Delays were incurred in year as some of the WMP2020 schemes did not reach a development phase as soon as expected.

5. INSPECTION AND AUDIT OF ACCOUNTS

- 5.1 The annual Audit of the accounts takes place from 4th June. The period during which local electors or their representative may formally ask questions of the PCCWM or

the External Auditor commenced on 29th May following publication of the draft Accounts on 25th May 2017.

6. RECOMMENDATIONS

- 6.1 The Committee is asked to note the contents of the draft Statement of Accounts for 2017/18 which has been agreed by the Chief Finance Officer for each entity as representing a true and fair view of the financial position of the PCC and CC as at 31 March 2018 and the income and expenditure of each entity for the end of that financial year.

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Police and Crime Commissioner

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