



west midlands
police and crime
commissioner



AGENDA ITEM 07

**JOINT AUDIT COMMITTEE
2nd July 2020**

STATEMENT OF ACCOUNTS 2019/20

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 Account and Audit (Coronavirus) (Amendment) Regulations 2020 came into force on 30 April 2020 and delayed the required publication date of audited accounts for the financial year beginning in 2019 until 30 November 2020. The draft Police and Crime Commissioner and Chief Constable Accounts have been completed in accordance with this amendment and they 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 2019/20 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 are to be audited by Grant Thornton UK (LLP).
- 2.2 The Statement of Accounts for 2019/20 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 2019/20

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 £540.9m deficit in 2018/19 to a £291.1m deficit in 2019/20.

Details of the financial outturn for 2019/20 was presented to the Strategic Policing and Crime Board. The table below summarises the outturn position.

<i>Revenue Expenditure</i>	<i>Budget 2018-19 £m</i>	<i>Actual 2018-19 £m</i>	<i>Variation + (-) £m</i>
Employee costs	516.4	509.9	(6.5)
Premises costs	18.4	18.6	0.2
Transport costs	6.0	6.0	0.0
Supplies and Services	42.9	40.9	(2.0)
Agency costs	13.0	13.1	0.1
Capital Financing	10.4	12.9	2.5
Income	(49.6)	(52.7)	(3.1)
Police Force (Excl. WMP2020 project costs)	557.5	548.7	(8.8)
WMP2020 project costs	22.4	11.0	(11.4)
Police Force (Incl. WMP2020 project costs)	579.9	559.7	(20.2)
Police and Crime Commissioner			
Office for Police and Crime Commissioner	2.5	2.4	(0.1)
Commissioned Services	10.4	6.7	(3.7)
Police and Crime Commissioner	12.9	9.1	(3.8)
Net Cost Police Services	592.8	568.8	(24.0)
Other Contributions to (from) Reserve	(20.6)	(2.7)	17.9
Net Contribution to (from) Budget Reserves	(2.4)	3.7	6.1
Net Budget Requirement	569.8	569.8	0.0

- 3.2 It is worth noting that the revenue budget outturn of £569.8m 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 33 of the Accounts) shows the Group with a deficit for the year on the provision of services of £291.1m. 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:

<i>2018/19 £m</i>		<i>2019/20 £m</i>
7,985.0	Police Officers' Unfunded Scheme	7,611.4
369.8	Police Staff Funded Scheme	307.8
8,354.8	Total Net Liability	7,919.2

- 3.5 There has been an decrease in the pension liability of £435.7m. This actuarial adjustment is due to reductions in the assumed increase in salaries and in 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 (AGS)** 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 Constables 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 £957.6m, which is different to the £569.8m 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)	957.6
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)	(495.7)
Amounts excluded by the IFRS code that do affect the General Fund Balance for Council Tax setting purposes (e.g. RCCO, MRP)	106.0
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	1.9
Net cost of General Fund services (as per the Financial Outturn)	569.8

- 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 2018	Trf to reserves in 2018- 19	Trf from reserves in 2018- 19	Trf between reserves in 2018-19	Balance at 31 March 2019	Trf to reserves in 2019- 20	Trf from reserves in 2019- 20	Trf between reserves in 2019-20	Balance at 31 March 2020
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Capital reserve	(1,176)	0	1,176	0	0	0	0	0	0
Budget reserve	(19,101)	0	22,962	(9,081)	(5,220)	(3,760)	0	(153)	(9,133)
Self-funded insurance reserve	(9,429)	(2,123)	2,724	0	(8,829)	(2,995)	3,036	0	(8,788)
Devolved Budget reserve	(27,882)	(2,495)	18,682	8,059	(3,637)	(2,376)	1,734	0	(4,278)
Uniform and protective equipment reserve	(8,897)	0	4,120	0	(4,777)	0	0	0	(4,777)
Major incidents	(2,153)	0	0	0	(2,153)	0	0	153	(2,000)
PoCA income reserve	(832)	0	250	0	(582)	0	250	0	(332)
Change Programme (inc Risk) reserve	(1,022)	0	0	1,022	0	(12,359)	0	0	(12,359)
Carry Forward Reserve	0	(19,074)	0	0	(19,074)	(4,528)	19,074	0	(4,528)
Police Property and Misuse of Drugs Act reserve	(804)	(227)	175	0	(857)	(126)	175	0	(808)
National Contingency reserve	(2,000)	0	910	0	(1,090)	0	0	0	(1,090)
Earmarked Reserves	(73,297)	(23,919)	50,997	0	(46,219)	(26,144)	24,270	0	(48,092)
General Fund Reserves	(12,042)	0	0	0	(12,042)	0	0	0	(12,042)

The Change Programme and Carry Forward reserves allow us to carry forward unspent elements of project and departmental budgets where the profile of spend has slipped and reallocate in the following year to continue the development of the project or the provision of the service. The devolved budget reserve holds carried forward balances of funding and income ringfenced for use by specific departments. The Budget Reserve will continue be used to support the medium term financial plan and it is hoped that implementation of changes will deliver a balanced budget going forward in the near future.

- 4.7 The PCC's **Balance Sheet** is set out on page 37. 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 represents the value of the assets in their current use, and does not represent a market value for disposal purposes. Due to the unrealised effect of COVID-19 at the Balance Sheet date, the valuers employed by the PCC have reported under material valuation uncertainty regulations and advised that there is a need for frequent review of the portfolio.
- (b) **Net Current Assets** – There has been an increase of £12.3m in the value of net current assets. There has been an increase of £3.8m in the value of current assets as a result of a movement of investments from long to short term as they approach maturity dates. Current liabilities have reduced by £8.5m as a result of changes in the value of creditors.
- (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. New loans of £15m were taken out in 2019/20 to support the estates programme signed off by the PCC in March 2018.
- (d) **Earmarked Reserves** – At 31st March 2020 stood at £48.1m. The total has increased by £1.9m 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 decreased by £439m in 2019/20 as a result of actuarial adjustments to pension assets and liabilities due to changes in the estimation rates used by the Actuaries.

4.9 The **Cash Flow Statement** is set out on page 38. 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:

	31/03/19 £'m	31/03/20 £'m	Change £'m
Cash	7.0	29.2	22.2
Short Term Investments	61.2	46.3	(14.9)
	68.2	75.5	7.3

- 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 55 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 66 identifies all capital expenditure during the year incurred on behalf of the PCC, compared to the expenditure planned in the year. The PCC spent £42.6m on capital items compared with a planned programme of £65.6m, equivalent to 65% of the programme. The Estates Strategy underspend is due to agreed changes to the timeline for delivery of the programme of work and will be required to be carried forward into 2020/21. On the back of the lessons learnt dealing with the COVID 19 we will revisit the Estate Strategy to consider whether the programme needs to be reshaped or resized. BAU ICT planned work was delayed as resources were taken up with implementation of WMP2020 systems and will now be carried out in 2020/21.

5. INSPECTION AND AUDIT OF ACCOUNTS

- 5.1 The annual Audit of the accounts takes place from 29th June. The period during which local electors or their representative may formally ask questions of the PCCWM or the External Auditor commenced on 29th June following publication of the draft Accounts on 26th June 2020.

6. RECOMMENDATIONS

- 6.1 The Committee is asked to note the contents of the draft Statement of Accounts for 2019/20 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 2020 and the income and expenditure of each entity for the end of that financial year.

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