

Appendix B

Annual Accounts 13/14 - Foreword

The Police Reform and Social Responsibility Act 2011 (the Act) replaced Police Authorities with elected Police and Crime Commissioners and created two corporations sole, the Office of the Commissioner and the corporation sole in the Chief Constable. In line with the Act and the related Policing Protocol, The Police and Crime Commissioner is ultimately responsible for the combined group account; both income and expenditure.

Accordingly, this Statement of Accounts records the expenditure and income of the Group for the financial year 2013/14 for the combined accounts for the Police and Crime Commissioner for Kent and the Chief Constable for Kent and its financial position at the 31 March 2014. The accounts have been prepared in accordance with the 'Code of Practice on Local Authority Accounting' and the 'Service Reporting Code of Practice' (SeRCOP) published by the Chartered Institute of Public Finance and Accountancy (CIPFA). The accounts have also been produced in accordance with International Financial Reporting Standards (IFRS) and the CIPFA LAAP Bulletin 98A 2014

The former Kent Police Authority was dissolved on 21 November 2012 and the newly created corporation sole for the Police and Crime Commissioner for Kent was created on 22nd November. All assets, liabilities, staff employment contracts, property, plant and equipment transferred to the corporation sole which is the Police and Crime Commissioner for Kent (PCC for Kent). All this happened seamlessly under the regulation and mirrored the pre-existing responsibilities of Police Authorities. (This has been referred to as 'stage 1'). From April 2014, all assets, liabilities and contracts remain in the name and ownership of the Commissioner but all Police Officers and the vast majority of police staff, formerly under the direction of the Chief Constable, had their employment contracts formally transferred to the Chief Constable. Conversely pre-existing staff serving the Commissioner and Force communication staff have been retained under the formal employ of the Commissioner. In the latter case the intention is to create a shared communication and engagement function to serve both the Commissioner and the Chief Constable. This whole process is referred to as 'stage two' and each Commissioner had the ability to reach their own decisions and settlement with their respective Chief Constable as part of the process. All stage two agreements had to be approved by the Home Secretary.

The Act requires that each corporation sole has its own Statement of Accounts for the financial year and that these be brought together in a group statement of accounts also. These accounts presented in this document cover those of the PCC and the Group for Kent Police which includes the corporations sole of the Chief Constable for Kent and the Police and Crime Commissioner for Kent.

The Accounts begin with a statement of the responsibilities of the PCC for Kent and her Chief Finance Officer in relation to the management and reporting arrangements for the PCC for Kent's resources (page 6). The PCC for Kent and Chief Constable for Kent's 'Annual Governance Statement', which broadens the coverage of the previous Statement of Internal Control to embrace all of the organisation's key governance processes and safeguards, is shown starting on page 7. The Auditor's Report appears at page 12 and the Summary of Accounting Policies as note 1 on page 25.

The main financial statements comprise:

- The Comprehensive Income and Expenditure Statement - This 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. This distinction is very important in interpreting the overall position.

Authorities raise taxation to cover expenditure classified in accordance with regulations; this will be very different to the accounting cost.

- The Movement in Reserves Statement - shows the movement in the year of the different reserves held by the Police and Crime Commissioner for Kent, analysed into 'useable' (i.e. those that can be applied to fund expenditure or reduce local taxation) and other reserves. The surplus or deficit on the Provision of Services line shows the true economic cost of providing the PCC's services for Kent, 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 Police and Crime Commissioner for Kent.

- The Balance Sheet - shows the value as at the Balance Sheet date of the assets and liabilities recognised by the Police and Crime Commissioner for Kent. The net assets of the Police and Crime Commissioner for Kent (assets less liabilities) are matched by the reserves held here. Reserves are reported in two categories: The first category of reserves are usable reserves, i.e. those reserves that the Police and Crime Commissioner for Kent 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 that may only be used to fund capital expenditure or repay debt). The second category of reserves is that which the Police and Crime Commissioner for Kent is not able to use to provide services. This category 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 shown in the Movement in Reserves Statement line 'Adjustments between accounting basis and funding basis under regulations'.

- The Cash flow Statement - shows the changes in cash and cash equivalents of the Police and Crime Commissioner for Kent during the reporting period. The statement shows how the Police and Crime Commissioner for Kent 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 operations of the Police and Crime Commissioner for Kent are funded by way of taxation and grant income or from the recipients of the services provided by the Police and Crime Commissioner for Kent. Investing activities represent the extent to which cash outflows have been made for resources which are intended to contribute to the Police and Crime Commissioner for Kent's future service delivery. Cash flows arising from financing activities are useful in predicting claims on future cash flows by providers of capital (i.e. borrowings) to the Police and Crime Commissioner for Kent.

In addition to these primary statements there are a number of notes which help explain the figures, including a set of accounting policies showing the approach the Police and Crime Commissioner for Kent has taken in compiling the accounts.

General Context

As explained last year, as part of the Government's deficit reduction programme, and like the rest of the public sector, Kent Police has had to cope with the grant reductions set out in the Government 'Comprehensive Spending Review' for the four years 2011/12 to 2014/15. This is referred to as CSR1 and in broad terms amounts to some 20% real reductions in grant funding for police forces over that period. In a local context government grant in one form or another contributes nearly 75% of Kent Police's funding. Against a back-drop of normal inflation and increasing demand for visible, neighbourhood policing, coupled with grant cuts from CSR1, required Kent Police to find £50m of on-going savings over the period. The

Chief Constable and the previous Police Authority recognised the challenge and put in place a robust savings plan based around a new operational policing model for Kent, new ways of working and better use of technology. Inevitably, however, this has required the loss of some 500 police officers and 700 police staff. The Police and Crime Commissioner accepted this plan in the main which delivered the target cost base saving of near £50m and a new operating model by the end of 2013/14, i.e. a year early.

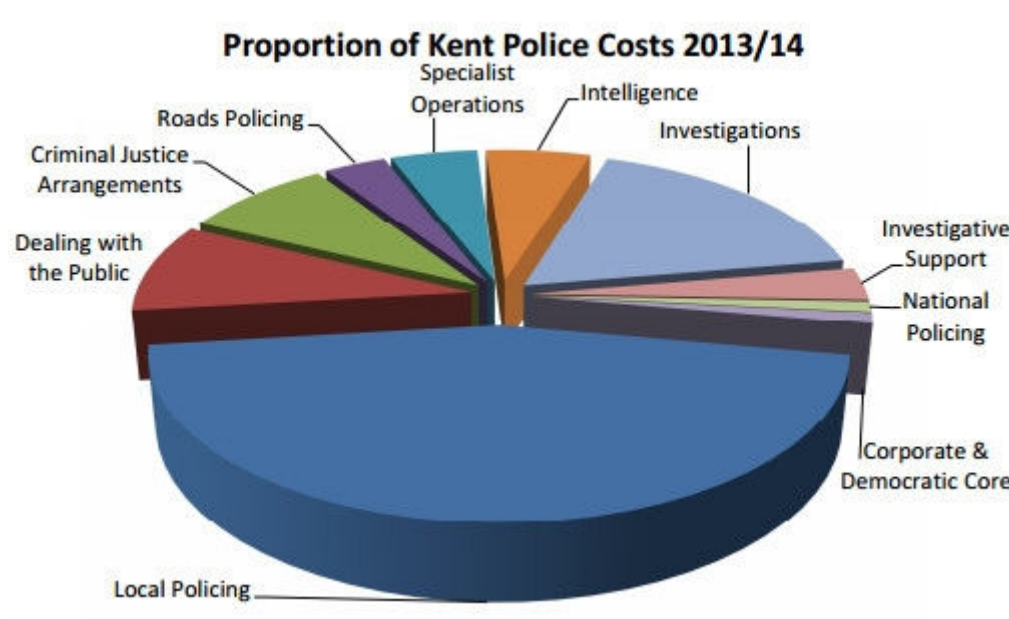
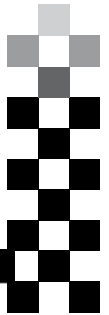
The fiscal challenge does not end with CSR1. The government has announced a further round of grant cuts starting in 2015/16 as part of a new comprehensive spending review round. This is referred to as CSR2. The CSR2 announcement has only set out additional grant cuts for 2015/16 of 5%. The Commissioner's current Police and Crime Plan assumes CSR2 required additional grant cuts of 5% in each of 2015/16, 2016/17 and 2017/18. The net result, on best but prudent current information, is that the Force will need to plan for some £20m of additional savings from 2015/16 as a result of CSR2; with potentially up to £15m more savings in each of 2016/17 and 2017/18 if the same level of grant cuts persist into those years also.

Building on the effective and timely response to CSR1 leaves Kent Police well placed to deliver further savings as a result of CSR2. Inevitably, however, continuing grant cuts will impact on staff numbers and front line service delivery. The Commissioner and Chief Constable are committed to minimising the front line impact of future savings requirements. Ensuring visible, local and cost effective policing remains at the core of how Kent Police will respond to the further challenges arising from CSR2. The response to CSR2 will involve more detailed work on innovation and demand management, alongside efficiency, to identify options to deliver necessary savings in a way that both minimises front line policing impacts but ensures that any such impacts are implemented last in any saving package and only after the level and timing of key funding changes have been confirmed.

The Comprehensive Income and Expenditure Statement

International Financial Reporting Standards require that the total future liabilities for the cost of pension payments to past and present employees are fully reflected in the Balance Sheet, and that their change during the year is reflected in the Comprehensive Income and Expenditure Statement. Excluding notional costs shown in the accounts to comply with international accounting standards, primarily for pensions and depreciation, the Kent Police revenue budget for 2013/14 as calculated to reflect the impact on the local council tax payer shows an underspend of £8.1m. Much of this is attributable to accelerated pro-active cost reduction initiatives across the Force to meet CSR1. This level of underspend is similar to that which was anticipated at the time of setting the Revenue Budget for 2014/15, and will be utilised primarily to bolster risk provisions and supplement the capital fund but the PCC has decided to allocate £1m for the use of the Chief Constable. Note 27 to these accounts explains how the final accounts reconcile to the management accounts used by the Commissioner and the Chief Constable during the course of the year to monitor spending. It also provides additional information to readers of the accounts on where expenditure is incurred and on what.

This chart below shows the proportion of total expenditure allocated to functions of the service. The Glossary at the end of accounts explains the categories of costs in the table below. Looking ahead the Commissioner remains absolutely and robustly focused on the delivery of her Police and Crime Plan, which include her various manifesto promises.



Summary

As described earlier, the outlook for police grant funding for Kent in the medium term remains challenging with the likelihood of further savings required from 2015/16 on top of those delivered or required up to 2014/15. However, a combination of clear priorities, good planning, effective systems of internal control and budget monitoring, and a coherent medium term plan, leave the Commissioner for Kent and the Chief Constable in a relatively robust position to address these challenges but the likelihood of further savings. The favourable outturn for 2013/14 has contributed to this position.

Looking ahead the Commissioner remains absolutely and robustly focused on the delivery of her Police and Crime Plan, which include her various manifesto promises. At the core of that is her determination to put victims at the heart of the system and to protect local visible neighbourhood policing as far as possible.