

From: Ann Barnes, Kent Police and Crime Commissioner
To: Kent and Medway Police and Crime Panel
Subject: Annual Accounts 2014/15 and update on key financial matters
Item & Date: Item B2 22 September 2015

Executive summary:

This report introduces the Police and Crime Commissioner's accounts for 2014/15.

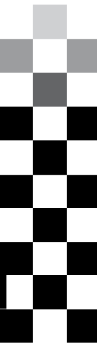
Accounts 2014/15:

1. The Annual Accounts run to over 100 pages due to the heavily prescribed reporting requirements falling on local government including police for this purpose. A link to the accounts can be found on https://www.kent-pcc.gov.uk/extdocs/Draft_GROUP_SofA_31032015.pdf. For this report, attached at Appendix A is the Foreword to the accounts.
2. The accounts are currently draft but the External Auditor, Ernst & Young has confirmed they expect to make an unqualified opinion on the accounts and the overall approach to securing value for money as required.
3. The accounts show an underspend for the year 2014/15 of £3.8m. This underspend has been used primarily to bolster redundancy and related costs.

Financial Update:

Key Planning Assumptions - CSR

4. The current medium term financial planning period runs for the four years to 2018/19, including the current year. The current year budget is £306.5m. As the Panel will know, some two thirds of funding comes in the form of government grant and around one quarter comes from the police element of the Council Tax; with each 1% increase raising £800,000 (the remainder is local fees and charges). On the spend side some 80% is pay related. As previously shared with the Panel, the current core planning assumptions are:
 - Successive cash cuts in grant of 5.2% per annum (7% in real terms) in each year from 2015/16 to 2018/19.
 - 2% increase in the precept (subject to the effective capping limit).
 - 1% for pay awards.
5. Based on those assumptions requires a saving of £61.7m to 2018/19, with the £14.5m required for the current year already delivered and plans being developed for future years. Savings required are not smooth over the period, and there is a particular spike in cost savings next year due to the imposed significant increase in employee National Insurance, falling on all relevant employers, from 2016/17. I will be looking to use Reserves to help smooth savings.



6. Two new significant issues now have to be factored into medium term planning. First, the Chancellor has set a national deficit reduction plan that now extends to 2019/20, one year later than set by the previous government. Effectively this adds another year of grant cuts to our current four year planning horizon. Based on current assumptions for grant loss and inflation, this adds around a further £14m to the £61.7m saving required to now take the plan to 2019/20, making £75.7m.
7. Second, as part of the Spending Review process, the Chancellor has asked government departments to model savings of up to 25% and up to 40% in real terms. Clearly this is a significant potential range as well as being a significant cut even at the low end. Rolling forward our own planning assumptions, assumes a cut of around 28% in real terms. At this stage, we will continue with those planning arrangements but I have asked the Chief Constable to think through the potential impact of the higher end range of cuts over the next four years.

Formula Grant Consultation

8. The context of the above is the possible cut in the national grant "cake" for policing flowing from the Spending Review. How that "cake" is distributed to individual Force areas depends upon a complex formula. Alongside, the Treasury announcement of its key Spending Review assumptions, the Home Office has launched a major consultation on a new formula. The consultation was launched on 21 July with an unreasonably short deadline of 8 weeks, mainly over the summer, to respond by 15 September.
9. The core of the proposals is to produce a so called simple formula covering the £7.3 billion of grant distributed to PCC's. The government propose the use of five elements as follows:
 - General Population – to allocate 24% of the "cake"
 - Council Tax base – to allocate 16%
 - Households with unemployed adults with dependent – to allocate 25%
 - "Hard Pressed" families – to allocate 25%
 - Bars per Hectare – to allocate 10% (i.e. pubs etc.)
10. However, in addition to the short notice of the consultation and no prior engagement with PCC's, the Home Office have released no supporting data or modelling of impact. In short, it is virtually impossible to provide meaningful informed answers to many of the consultation questions or to establish the impact overall or for Kent in particular.
11. Attached at Appendix B, is the Commissioner's response to the consultation. The Commissioner will be sharing this response and the broader financial context we face with Council leaders and other key stakeholders as part of partner engagement leading up to next year's budget.



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 2014/15 for the Police and Crime Commissioner for Kent and 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 2015. 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. All assets, liabilities, non-staff contracts, property, plant and equipment are under the ownership of the Police and Crime Commissioner for Kent (PCC for Kent). In relation to employment, from April 2014, 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 have been retained under the formal employ of the Commissioner. All these employment arrangements have been approved by the Home Secretary.

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 combined '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 11 and the Summary of Accounting Policies as note 1 on page 24.

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 by her. 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 in recent years, 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 two thirds 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 £47m of on-going savings over the period including 2014/15.

The fiscal challenge does not end with CSR1. The government implemented a further round of grant cuts in 2015/16 as part of a new comprehensive spending review round. This is referred to as CSR2. The CSR2 announcement set out additional grant cuts for 2015/16; namely 5.2%, which when coupled with normal pay and price inflation, necessitated savings of £14.5m in 2015/16. However, on the basis of published coalition government plans and independent commentary from the Institute of Fiscal Studies, the Commissioner's current Police and Crime Plan assumes grant cuts of 5% also in each of 2016/17, 2017/18 and 2018/19. The net result, on best but prudent current information, is that the Force will need to plan for some £61m of additional savings to 2018/19 including the £14.5m of confirmed savings for 2015/16.

Building on the effective and timely response to CSR1 leaves Kent Police well placed to deliver further savings as a result of CSR2 and beyond. 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 future further cuts in funding. The response 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 as far as possible 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 2014/15 as calculated to reflect the impact on the local council tax payer shows an underspend of £3.8m. This underspend will be utilised primarily to bolster redundancy and related provisions. Note 27 to these accounts explain 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.

Summary

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.