

**From:** Matthew Scott, Kent Police and Crime Commissioner  
**To:** Kent and Medway Police and Crime Panel  
**Subject:** Annual Accounts 2015/16  
**Date:** 8 September 2016



### **Accounts 2015/16:**

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. The audited accounts can be found at [https://www.kent-pcc.gov.uk/extdocs/Final\\_GROUP\\_SofA\\_Template\\_2016.pdf](https://www.kent-pcc.gov.uk/extdocs/Final_GROUP_SofA_Template_2016.pdf). Please find attached as Appendix A, the Narrative Report to the accounts. Under new code requirements this replaces the 'Foreword'.
2. The accounts have been audited by the External Auditor; Ernst & Young, and were signed off with an unqualified opinion on 12 August, some six weeks ahead of the national deadline, on both the accounts and the overall approach to securing value for money as required.
3. The accounts show a real underspend for the year 2015/16 of £5.5m, after excluding accounting adjustments required under International Financial Reporting Standards (IFRS), and it is this amount which is added to usable reserves. The key reasons for the underspend are vacancies within Police Pay totalling £0.7m; a considerably higher vacancy rate for police staff than budgeted equating to £4.6m and overachieved income from further collaboration with Essex around full cost sharing for IT Services, £4.1m. These are offset by the cost of redundancies and ill-health retirements as well as the additional cost of injury payments above the budgeted £3.5m, and an overspend on non-pay costs mainly on delivery partners, agency staff and consultancy funded from vacancies on pay totalling £0.4m. The underspend has been added to the capital reserve to finance future investment which helps avoid recourse to more expensive external borrowing over the life of the programme and into the early years of a new Comprehensive Spending Review (CSR) after 2019/20.
4. Conversely, on a fully IFRS compliant basis, the overall balance on the Comprehensive Income and Expenditure Account for 2015/16, is an apparent £467m surplus for the year compared to a deficit of £662m in the previous year. These are not real surpluses or deficits that impact on the council tax payer or usable reserves. Rather, in accounting terms, they mainly reflect the impact of year on year changes in the calculation of long term pension costs as assessed under IFRS. The apparent surplus for 2016 on that basis reflects a reduction in key actuarial discount rates when calculating pension liabilities, but is a useful reminder of the volatility in the surplus/deficit position under IFRS year to year. Indeed, it is highly likely that the surplus under IFRS for 2015/16 could shift to an equally significant deficit under IFRS at the end of 2016/17 due to likely negative changes in the pension discount rate during 2016.
5. In terms of the balance sheet, long term assets, mainly land and property, stand at £207m as at 31 March 2016 compared to £197m the previous year. The difference is largely due to valuation changes as determined by the specialist external valuation advice under the rolling valuation policy. However, net worth – which also takes into account net current assets and more significantly, long term liabilities - shows a negative net worth of £2.8 billion. Again very largely explained by the fact that the assessed long term liability at 31 March 2016 is £2.9 billion under IFRS accounting. This is a measure of the long term cost of such pensions to society and ultimately part of the national tax bill to be met by all future taxpayers in the long term. It is not a cost falling on the Police and Crime Commissioner (PCC), or council tax payers.
6. General reserves stand at £5.6m and ear-marked reserves stand at £56.9m, with £31.6m of this set aside for capital investment in key innovations, such as mobile technology, as well as other programmes over the next 5 years. The remainder of ear-marked reserves deals mainly with risk and the cost of change. For example £4m for grant cut volatility; £3.1m for Insurance; £6m for future redundancy and ill health retirement costs; £5.9m to support policy led initiatives and £2.0m for exceptional policing operations or major investigations (e.g. Operation Stack, further protests at Dover).



7. More broadly, Kent Police are subject to a formal inspection regime undertaken by Her Majesty's Inspectorate of Constabulary (HMIC). This regime is a vital part of the assurance that the PCC seeks in holding the Force to account for value for money. As well as specific national studies, the HMIC regime covers an annual assessment of the three main themes for each Force, namely, efficiency, effectiveness and legitimacy. For 2015, the latest available, for the whole of the legitimacy theme, Kent was the only Force to achieve an outstanding rating. In the efficiency element, Kent secured an outstanding grade for financial management and sustainability reflecting the work of both the Office of the Police and Crime Commissioner and the Force. In addition, the HMIC annually publishes comparative Value for Money Profiles which continue to show Kent is an efficient Force on virtually all the key measures.

**Other Financial Matters:**

8. As the Panel will appreciate, with some two thirds of income coming in the form of government grant, the PCC, and thus Force finances, are heavily influenced by decisions arising from the CSR. The current CSR was set last November and runs through to the end of 2019/20. We await any changes post-Brexit but we do not expect any consequent impact in the current year. However, indications that public finances will tighten considerably over the short to medium term have been well trailed. It is very possible that the current CSR will be reopened over the medium term and in particular, the latter half of the current CSR through to 2019/20. It is too early to translate into an informed impact on policing grant, if any, at the current time. Consequently our current planning assumptions and consequent savings plans remain in place for the short and medium term but the position will be kept under review pending any national official announcements. The first of which is expected to be the Autumn Statement.
9. As the Panel will be aware, the context of the above is the size of the national grant "cake" for policing. How that "cake" is distributed to individual forces depends upon a complex formula. Following the unfortunate failed formula review last year, we await any firm plans by Government to launch a new review during the current CSR period – it is anticipated the soonest any new formula could be implemented is 2018/19. It should be noted that the current medium term savings target of £33m makes no allowance for any grant changes.

**Narrative Report 2015/16**

This narrative report is deemed to have the same meaning as the "narrative Statement" in the accounts and audit regulation 2015.

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 2015/16 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 2016. The accounts have been prepared in accordance with the appropriate Codes of Practice 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 latest CIPFA LAAP Bulletins.

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.

**Structure of the accounts**

The Accounts begin with this Narrative Report followed by 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 have a 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. This 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 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 are 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.

- The Police Officer Pension Fund Account – This statement was established under the Police Pension Fund Regulations 2007 (SI 2007 No. 1932) and is administrated on behalf of the Chief Constable by Kent County Council. The Statement identifies the benefits payable in the financial year which has been offset against the contributions taking the account balance to nil. The Fund is topped up by the Group if contributions are insufficient to meet the cost of pension payments. The statement also includes the benefits payable and contributions in respect of the Milne v Gad case.

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.

Other than the new 'Narrative Statement', there have been no significant changes in accounting policy or disclosure requirement.

### **General Context and Medium Term Challenge**

In the Spending Review on the 25 November 2015 the Chancellor announced that the total budget for policing would be protected in real terms and that local force budgets would be protected in cash terms. Both assertions require each Police and Crime Commissioner (PCC) to set the maximum precept increase allowed in each of the next four years.

On the 17 December, the Policing Minister announced the general grant allocation for each force area for 2016/17. In 2016/17, no PCC will face a cash reduction in "direct resource funding" assuming precept income is increased to the maximum available. For policing, direct resource funding is deemed by Government to be the sum of formula funding plus legacy council tax grants plus precept. The actual cash cut to formula grant funding for 2016/17 was 0.6% for all PCCs. The PCC for Kent introduced a precept increase to £5 for Band D properties.

Despite the precept increase, the combination of grant reductions and spending pressures means a savings gap in 2016/17 of £8.7m but with a delivery plan identified and implemented by the Chief Constable by the beginning of the year.

The Home Office has yet to issue specific local allocations for future years. For the purpose of current planning, it is assumed Kent loses an additional £1m in grant each year from 2017/18 onwards. In addition, it is assumed the cost of the new "Apprenticeship Levy" will be £1.3m for Kent Police. If these grants (and special levy) assumptions are combined with a roll forward of normal wage and price assumptions and an assumption of 2% precept increases from 2017/18 onwards, the savings gap over the 4 years to 2019/20 is £30m. However further top slicing of grant and/or increased cost pressures would add to the £30m gap. For that reason a 10% contingency has been added, in the latter two years, to make a total savings challenge of £33m over the four years to 2019/20. Furthermore, this gap does not take into account the possible impact of the Formula Review.

Clearly, the position locally is crucially dependent on the public sector spend and deficit targets and there must be a risk that economic conditions could put pressure on the current CSR settlement through to 2020.

The national funding challenge and uncertainty applies to all Forces. Building on the effective and timely response to previous CSR challenges leaves Kent Police well placed to deliver the future savings requirement but this will be on top of approximately £62m of savings delivered since 2011. Inevitably, such continuing savings as a result will impact on service delivery but the Chief Constable is committed to minimising the front line impact of future savings requirements as far as possible. 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 savings requirements. The response will involve more continuing investment 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 savings package and only after the level and timing of key funding changes have been confirmed.

## **Performance and value for Money**

As dealt with below the underspend against the original budget for the year is £5.5m. More broadly, Kent Police are subject to a formal inspection regime undertaken by Her Majesty's Inspector of Constabulary (HMIC). This regime is a vital part of the assurance that the PCC seeks in holding the force to account for VFM. As well as specific national studies, the HMIC regime covers an annual assessment of three main themes for each Force (referred to as the PEEL inspection) as follows: efficiency, effectiveness and legitimacy of the force. The efficiency element includes an assessment of the financial sustainability of the Force over the short and medium term. The review in 2015, Kent Police were graded as 'good', 'good' and 'outstanding' respectively. Kent was the only force in the country to secure 'outstanding' for legitimacy and within the efficiency element secured an 'outstanding' grade for financial management and sustainability.

In addition, the HMIC also publish key VFM statistics for all police forces annually. This is another key source of assurance. Kent is shown to be relatively very efficient compared to other Forces on most measures, especially as regards net cost per head and policing precept per average property.

As referred to earlier, the Force have shown a consistent pattern of sensible forward planning and disciplined accelerated delivery of savings requirements but within a framework of clear service vision and use of technology and innovation to minimise front line impact.

## **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 2015/16 as calculated to reflect the impact on the local council tax payer shows an underspend of £5.5m. This underspend will be mainly utilised to augment capacity for future capital and investment reserves.

On a fully IFRS compliant basis, the CIES show the net cost of services at £300m, some £67m less than the previous year. However the two primary reasons for this are, first, impairments totalling £55m were charged in 2014/15 reflecting changes in valuation approach. Second, the net IAS19 adjustment in 2015/16 is some £18m less than the equivalent adjustment in 2014/15 due to a reduction in the externally assessed long term liability compared to the previous year. The overall operating deficit for the year is £97.8m compared to £176.6m in the previous year, explained mainly by the two key variations already mentioned. The total CIES is a surplus of £467.7m due to £1,031.8m change in the re-measurement of the net defined benefit liability as per the independent actuarial assessment.

## **The Balance Sheet**

Total long term assets as at 31st March 2016 stand at £207.4m, an increase of £19.5m on the previous year. The bulk of this is explained by revaluation increases on those properties valued at depreciated replacement cost which have increased by an average of 9% in the year, as assessed by the external valuation. Net current assets (i.e. net of current liabilities) stand at £64.3million, compared to £63.1million the previous year. However, net worth / assets stands at a deficit of £2.8 billion primarily because of the actuarial assessment of long term pension liabilities as at 31st March 2016 of £3 billion. This is some £0.5 billion more than the previous years and means that net assets overall are some £0.5 billion less than the previous year.

Usable reserves stand at £62.5m, an increase of £2.4m on the previous year. A number of variations explain this but the most significant is the underlying under-spend on normal operations of £5.5m for the year.

## **The Future**

The new Police and Crime Commissioner for Kent officially took up office on 11th May. Alongside coping with the medium term financial challenge, he will be developing his interim Police and Crime Plan for the remainder of 2016/17 and for the medium term. His manifesto details the following six key plan priorities:

- Cutting crime and reducing re-offending
- Delivering Value For Money
- Visible, effective and dedicated policing
- Putting the victim at the heart of the justice system
- Tackling the misery cause by abuse, substance misuse and antisocial behaviour
- Revolutionising how people with mental illness interact with the Police in Kent