

**Report to:** Police Authority  
**Agenda item:** 6  
**Date:** 16 June 2016  
**Subject:** Annual statement of accounts report  
**Sponsor:** Authority Interim Finance Director  
**For:** Information

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## 1. Purpose of Paper

- 1.1 The purpose of this report is to provide a brief commentary on the content of the BTP Fund annual statement of accounts.
- 1.2 Please note that while the accounts are two separate items (see Appendix A & B) for presentation to the Authority, the final version will be laid before Parliament as one document. This is as required by The Government Financial Reporting Manual (FReM).

## 2. Accounts Walkthrough session

- 2.1 Audit Committee members were invited to attend a walkthrough session on 27 May.
- 2.2 The Accounts attached are an updated version of that presented to the Audit Committee and walkthrough session.

The following changes have been made to the accounts:

- The Chief Executive and Chair statement has been reviewed and updated.
  - The principal risks and uncertainties ordering has been updated and wording reviewed.
  - The performance summary has been extended in order provide further commentary to explain achievement of strategic objectives.
  - The financial statements and notes have also been updated for amendments suggested by NAO and KPMG.
  - The financial performance analysis has been extended to explain key points arising from current year financial results
- 2.3 Some minor amendments may still be required to the annual report section subject to final external audit sign off of compliance with FReM, particularly in the remuneration report.

### 3. BTP Fund Accounts format

- 3.1 The format of the Accounts per FReM must now clearly be defined into three sections:

The Performance Report

Purpose: to provide information on the entity, its main objectives and strategies and the principal risks that it faces

The Accountability Report

Purpose: to meet key accountability requirements to Parliament.

The Financial Statements & notes

- 3.2 To match Audit Committee focus, this report will initially provide commentary on the financial statements section and will then continue with the remaining two sections.
- 3.3 The wordings of the accounts are to be sent to our designers. Please note, therefore that the final version will be far more stylised. Comments have been made against sections where a heavy design input is expected.

### 4. Financial Statements

- 4.1 There are six key points to note alongside the review of the financial statements content. These are also referred to in the finance report within the performance analysis section in the front end of the accounts:

- A prior year adjustment has been made in the accounts within the 2014/15 results. (see note 5 Item 3.2)
- An increase in staff costs charged in the Statement of Comprehensive Income compared to 2014/15. (see first page Item 3.2)
- A fall in the value of the pension deficit, despite an increase in the current year IAS19 pension charge. (see second page Item 3.2)
- A significant increase in trade and other payables. (see note 16 Item 3.2)
- An increase in provisions for liabilities in the current year compared to 2014/15. (see note 17 Item 3.2)
- A fall in cash reserves over the past two years. (see second and fourth page Item 3.2)

## 4.2 Prior year adjustment

During the year BTP identified an over-statement of property, plant and equipment (PPE) and intangible assets as at 31 March 2015 (and in prior years). This was as a result of inclusion within PPE and Intangibles of items that either did not exist, could not be verified or of duplicate entries in the Fixed Asset Register. A restatement of the financial statements was required given the magnitude of the change. The impact of the prior period amendment is as follows:

- Reduction of PPE opening balance by net book value of unsupported items pre 2014/15: (£4.7 million);
- Reduction in depreciation/amortisation charges as a consequent to changes in opening balances: £1.1 million ;
- PPE and Intangible items previously capitalised to assets in 2014-15 - now written back to revenue expenditure: (£1.3 million);
- Change in gains/(losses) revaluation charge consequent to in-year and opening balance adjustments: (£0.2 million);
- Total impact on netbook value of assets as at 31 March 2015 is a reduction in the asset values of **(£5.1 million)**

## 4.3 Staff Costs

There has been an increase of £32.8 million in staff costs, from £236.3 million in 2014/15 to £269.2 million in 2015/16.

The movement year on year consists of an increase in pension current services costs of £21.8 million (see 4.4 pension deficit and costs) and salary/wage related cost increases of £11.0 million.

Analysis of salary/wage cost increase:

Note

£4.9m Increase in pay (inc tax and NI)	1
£1.8m Gross pay accrual increase for March	2
£1.2m overtime movement	3
£0.5m IFRS holiday pay accrual	4
£1.0m Additional bank holiday pay	5
£0.7m Temporary Staff Costs	6
£0.7m Time off in lieu Accrual	7
<u>£0.2m</u> balancing figure- other allowances	
<b>£11m</b>	

Notes:

1. The increase in pay on the prior year is largely due to the firearms expansion growth, where a significant investment was made in increasing firearms officers because of the increased security threat. Other elements that contributed to the increase in pay included the increased number of employees, the 1% pay award given to all staff, the 1% spine point increase for police staff and an increase in staff to carry out Operation Canberra and Finance Transformation.

2. Gross 'odd days'/March salaries accrual (due but paid in April) increased by £1.8 million due to additional days owing and following correction/enhancement of underlying working paper calculations.

3. Overtime levels have increased due to specific operational requirements as a result of the increased security threat, Operation Canberra and backfill cover for vacancies locally.

4. Collation of outstanding leave data between the two annual leave calendar years from the leave database alongside revised and improved annual leave calculations in monetary terms led to an increase of £0.5 million in the year on year accrual, coded to staff costs.

5. Additional Bank Holiday pay is higher in financial year 2015-16 because there were two additional bank holidays compared to the prior year.

6. Temporary staff costs have increased in 2015-16 compared to the prior year in order to assist with a number of Force initiatives which included Force Transformation, Finance Transformation, and Operation Canberra.

7. BTP/A accrues for time off in lieu (toil). An improved calculation for outstanding toil and full review of underlying data led to an increase of £0.7 million from prior year.

#### 4.4 Pension Deficit and Costs

There has been an increase of £22.1 million in the current year IAS19 charge of £35.7 million in 2015/16 compared to £13.6 million in 2014/15 and a decrease in the pension deficit of £138.9 million to £491.4 million in 2015/16 from £630.3 million in 2014/15.

The pension charges get set at the beginning of the year as an estimate for closing the pension deficit gap. So any change between 13/14 and 14/15 will be incorporated into the 15/16 charge as the estimated costs of closing the pension gap. At the end of 14/15 the deficit increased dramatically up 76.8% (£273.8 million), this in turn resulted in the pension costs increasing. Other factors including higher staff numbers wages increases were negligible.

Secondly net pension liabilities decreased £138.9 million, 22.0% over the year largely as a result of a change in assumptions over the discount rate, retirement age, pension year on year movements as well and salaries and wages.

BTPA in coordination with the actuaries determined it reasonable and prudent to change the discount rate from 3.3% to 3.6%. The increase in the discount rate of 0.3% decreases the liability significantly. In addition the Authority slightly adjusted the salary increases for years three and four from 2% p.a. to 1% p.a. the impact of this is negligible. There were no other changes in the assumptions.

During the year the actuary updated the life expectancies of pension fund members. The changes were brought about to reflect updates in their knowledge over life expectancy brought about by additional data being included in their models. This resulted in life expectancy falling on average 0.2 years resulted in a decrease in liability.

In summary, the total actuarial gain totalled £194.9 million (includes the discount rate and life expectancy effect on liability and also the performance of investment assets held). This figure less the IAS 19 charges of £35.7 million and the net interest cost

on the pension liability of £20.3 million results in a £138.9 million reduction in total pension liabilities held.

For information, the IAS 19 calculation (£35.7 million) effectively represents the difference between the current service cost to be charged in year £65.4 million (calculated by actuary) less the employer contributions made in year £29.7 million.

#### 4.5 Trade and Other Payables

Trade and Other Payables have increased by £8.5 million, from £29.9 million in 2014/15 to £38.5 in 2015/16. This has been caused by an increase in trade creditors of £3.1 million due to timing of a year-end payment run (cleared in early April), and an increase in accruals of £5.4 million.

The accruals movement can be explained as follows;

- Gross 'odd days'/March salaries accrual (due but paid in April) increased by £1.8 million (see note 4.3)
- Overtime accrual increases of £1.2 million between years to meet requirements of the force (see note 4.3).
- An increase of £0.7 million from prior year (see note 4.3).
- Outstanding annual leave accruals the accounts report a £0.5 million increase (see note 4.3).
- Goods and services received but not yet invoiced or paid also increased by £0.7 million. This is a direct result of a drive to receipt purchase orders prior to year-end for all goods and services received within the financial year to auto-generate the accrual.
- Other smaller accrual and prepayment movements accumulate to a total £0.5 million.

#### 4.6 Provisions and other Liabilities

Provisions have increased by £2.3 million, from £1.3 million in 2014/15 to £3.5 million in 2015/16. The provisions held at 31-3-15 were reviewed and either released or reversed as appropriate.

Following an internal review of outstanding claims against the Authority an increase of £851k to provisions held was required. In prior years a decision was taken to exclude any individual claims under £50,000 in value. Following a review of all outstanding claims under this value it was deemed both prudent

and consistent with main accounting policies and provision assessments to provide for these claims.

An exercise to review BTP's lease contracts to identify total dilapidations on lease end dates lead to a reassessment of the total provision requirement. The dilapidations provision held against existing lease arrangements at 31-3-15 seemed inadequate (£250k). Methodology adopted and agreed with external audit meant a total dilapidations provision increase of £1.7 million was added to the balance sheet.

There was also a £403k reduction in other provisions for items assessed as not required, including an element of the force restructure provision carried forward from 31-3-15 but not required in 2015-16.

#### 4.7 Cash and Cash Equivalents

Cash balances held at 31 March 16 total £26.1 million. Cash balances held at year end reporting dates have fallen over the past two years by £11.1 million (£2.3 million between 31 March 15 and 31 March 16, £8.8 million between 31 March 14 and 31 March 15).

The net operating cash inflows over the past two years totalled £21.2 million whilst cash outflows relating to investing activities (purchase of assets) totalled £32.3 million.

During 2014/15 cash balances reduced by £8.9 million. The 2014-15 financial statements reported that total receivables increased by £3.7 million. Furthermore there was also a reduction in payables of £3.2 million. Both of which contributed to an overall reduction of operating cash inflows. Asset purchases (cash) in 2014/15 were also £2 million higher than previous year.

The further reduction to cash balances within 2015/16 (£2.2 million) reflects the difference between cash outflows / cash purchases of non-current assets and the total net cash inflows after allowing for increased creditors and provisions which contributed to increased net inflows.

## 5. Performance Report

5.1 The performance report is divided into two sections:

1. Performance overview
2. Performance analysis

## 5.2 Performance overview

The performance overview should be enough for the lay user to have no need to look further into the rest of the annual report and accounts unless they were interested in further detail or had specific accountability or decision making needs to be met.

Contents:

- Chief Executive and Chair's statement - This is a new addition for the current year and is an opportunity for the Chair and Chief Executive to highlight some key achievements in the year.
- A clear summary of what the Authority does and what the ambition and objectives are.
- A transparent report on BTPA's principal risks and uncertainties.

These do not directly reflect the strategic risks identified in the BTP & BTPA strategic risk registers however as a result of the recommendations of the governance review a more external facing and transparent perspective has been taken.

- A summary report on current year performance; both operationally and financially.

## 5.3 Performance Analysis

This section is an opportunity to report on the most important performance measures.

Contents:

- Detailed analysis of the operational performance-indicating achievement of strategic and annual objectives.

This section includes a high level dashboard to explain achievement of strategic objectives. A dashboard has also been provided by the Director of Capability and Resources showing progress made on the Transformation programme.

- Detailed analysis of current year financial performance compared to previous financial year results and the 2016/17 MTFP.

Previous financial year results in the 5 year analysis table have been restated to take into account the write off of fixed assets.

- Sustainability Report - Reporting on our "Going Green" plan - this plan ends in 2016. Details of the new plan 2016-2020 have been disclosed.



## 6. Accountability Report

6.1 The accountability report is divided into three sections:

- 1. Corporate governance report**
- 2. Remuneration report**
- 3. Audit report**

6.2 Corporate Governance Report

The purpose of the corporate governance report is to explain the composition and organisation of BTPA's governance structures and how they support the achievement of the objectives.

Contents:

- The directors' report which will include images of all Authority members, their terms and key BTPA responsibilities. This also provides detail on any responsibilities members have outside of BTPA.
- A statement of the accounting officer's responsibilities, as required by FReM.
- The governance statement which has already been provided to members. This has been written in accordance with guidelines from Managing Public Money. The key message here is that shortcomings have been identified but that work to respond to these is already in progress.

6.3 Remuneration Report:

Key content:

- Remuneration policies
- Terms of appointment of Senior Officers at BTPA and COG (Authority member information is now disclosed in the Directors' Report).
- Remuneration of Authority members- letters have been sent to members to confirm that they are happy with the figures included.
- Remuneration of Authority Officers and the Chief Officer Group
- Pay Multiples- This shows the ratio of the highest paid employee against the median remuneration for the organisation. This shows a slight increase in the ratio compared to the prior year.

- Pension disclosures – information to be provided by RPMI.
- Staff numbers
- Exit packages
- Gender split

#### 6.4 Audit Report:

The key disclosure here is the losses statement. We have disclosed the fixed asset write off; £1.3m in 2014/15 balance sheet and £3.78m in previous years' balance sheets.

**6.5 Financial information disclosed in the Accounts is being thoroughly scrutinised by our external auditors and the BTPA Executive team. Evidence to support these figures has been readily available for the Executive team and auditors to verify. Members should be aware however that the process of gaining assurance over the non-financial data disclosed has been more difficult.**

## 7. Recommendations

- 7.1 **Members are asked to note the report.**
- 7.2 **Members are asked to recommend to the Authority to approve the signing of the accounts by the Accounting Officer and submission to the NAO and Parliament.**