

A close-up photograph of a hand holding a brass key, positioned as if about to insert it into one of two keyholes on a metal door. The hand is on the left, and the key is held horizontally. The background is a blurred metal surface.


Police Sector Audit Committee Briefing

Quarter 1, March 2020



Contents at a glance





This sector briefing is one of the ways that we support you and your organisation in an environment that is constantly changing and evolving.

It covers issues which may have an impact on your organisation, the Police sector, and the audits that we undertake.

The briefings are produced by our public sector audit specialists within EY's national Government and Public Sector (GPS) team, using our public sector knowledge, and EY's wider expertise across UK and international business.

The briefings bring together not only technical issues relevant to the Police sector but wider matters of potential interest to you and your organisation.

Links to where you can find out more on any of the articles featured can be found at the end of the briefing.

We hope that you find the briefing informative and should this raise any issues that you would like to discuss further please contact your local audit team.



Government and economic news

EY Club Item

The outlook for the UK economy has improved over the last three months, with the decisive nature of the General Election result and the resulting clarity on the first stage of Brexit expected to provide a short-term boost to economic activity. The strong performance of the labour market in terms of new jobs – although less so in pay growth – suggests there may be more momentum than previously thought, and it appears the global slowdown may be bottoming out. Reflecting these factors, The EY ITEM Club's Winter Forecast has increased its projection for GDP growth to 1.2% in 2020 and 1.7% in 2021, compared to the 1% and 1.5% predicted in its last quarterly previous forecast.

Significant uncertainty may still exist, but we can be certain that change is coming. The UK is leaving the EU, the new Government has talked of an ambitious programme, the global policy consensus is under real pressure, and demographics, technology and the climate emergency will all impact the economy in the coming years. These factors may come together in new ways: concerns over the climate may lead to further reductions in trade, and support for localism that boosts towns may be possible through deploying technology in new ways. The economic outlook is challenging and now is the time for businesses to think creatively about their long-term strategy and plans to deliver it.

Budget 2020

Chancellor Rishi Sunak delivered his first Budget in the House of Commons on 11 March 2020, announcing the government's tax and spending plans for the year ahead. Key points have been summarised below.

Coronavirus – £30 billion stimulus package to counteract the COVID-19 outbreak, equivalent to 1.3% of GDP.

- ▶ This includes £5 billion for the NHS and other public services and £7 billion to businesses and families
- ▶ The government announced that statutory sick pay (SSP) will be paid to all those who choose to self-isolate, even if they aren't presenting any symptoms. Small- and medium-sized business will be refunded eligible SSP costs
- ▶ Local Authorities will be provided with £500mn hardship fund to support vulnerable people in the local area
- ▶ Small firms will be able to access up to £1.2mn of business interruption loans
- ▶ Business rates will be abolished for small business in the retail, leisure and hospitality sectors with a rateable value below £51,000

Personal taxation

- ▶ NIC threshold will be raised saving individuals £100 a year

Transport, Infrastructure and housing

- ▶ More than £600 billion to be spent on roads, rail, gigabit broadband and housing. This includes £12.2 billion for the Affordable Homes Programme and a commitment to create an average 300,000 homes a year
- ▶ Additional funding to help tackle potholes – £2.5 billion will be made available in 2020/21 then £500 million per year until 2024/25

Borrowings

- Public sector net borrowing is expected to increase by 0.3% to 2.1% of GDP in 2019/20 and rising to 2.4% and 2.8% in subsequent years

Environment

- The Plastic Packaging tax rate was confirmed at £200 per tonne of plastic packaging for manufacturers and importers whose products are less than 30% recyclable. This tax rate will be effective from April 2022

Investment in flood defences will double to £5.2 billion over the next five years. £320 million has been made available for communities affected by this year's winter flooding.

PWLB

Alongside the Budget, the Treasury launched a consultation on changes to the PWLB, which it said would attempt to "focus PWLB loans on service delivery, housing, and regeneration, and ensure that this money is not diverted into financial investments that serve no direct policy purpose. Once a workable system is designed and implemented, the government intends to cut the interest on all new loans from the PWLB."

The government said it would hold workshops with local authorities to develop rules that would prevent local authorities buying investment assets primarily for yield.

The consultation said: "Local authorities that wish to buy investment assets primarily for yield would remain free to do so but would not be able to take out new loans from the PWLB in the year in which they have bought the asset."

As a result of this budget, the Office of Budget Responsibility predicts a 1.1% GDP growth in 2020 and 1.8% in 2021 without taking into consideration the impact of COVID-19. This is in line with the EY Club Item predictions above.

Police Funding Settlement Announced

The Government has announced the biggest funding settlement for the police in more than a decade. The funding is aimed at helping the police to deliver on the additional 20,000 police officers which the Conservative Party included in their December 2019 manifesto.

The funding allocated to police will increase by more than £1.1 billion bringing the total allocation from the Home Office to £15.2 billion for 2021/22. This headline figure is dependent on Police and Crime Commissioner's taking full advantage of the option to maximise increases in the police precept. As a result, the core funding settlement (the police grant) will increase by more than 10% on the previous year. The additional funding will assist with the recruitment of the additional 20,000 police officers with 6,000 officers being targeted for recruitment by 31st March 2021.

Key priorities for the Home Office and the police include wider commitments to tackle organised crime as well as online abuse, county lines and serious violence.

The funding allocation comprises:

- £8,702 million in government grants, which represents an increase of £667 million on the previous year
- Flexible use of the £10 threshold for band D properties for police precept increases. If all PCC's were to increase at these levels, this would generate an additional £248 million

The settlement also includes £750 million which the Chancellor committed to in the previous budget aimed at helping police forces to meet their recruitment targets.

Local Government Pension Scheme (LGPS) news: Exit Pensions Credit Payments and Pooling

The Ministry of Housing, Communities and Local Government (MHCLG) has announced amendments to regulations which require funds to pay exit credits where pension liabilities have been overfunded. This announcement is in response to concerns that outsourced contractors are claiming exit payments on top of existing arrangements designed to share pensions risk. MHCLG stated that "it became clear that service providers were becoming entitled to exit credits where this would not have been the intention." In response to this MHCLG have proposed changes to the 2013 Regulations which will require LGPS administering authorities to consider the level of risk that an employer has borne in determining the amount of exit credits.

Critically, this change means that administering authorities will have discretion over the amount of exit credit paid. Responding to this announcement, actuary partner and pension advisor at Hymans Robertson, Richard Watson, said that "Amending regulations were needed to better reflect historic risk-sharing arrangements"; however, there is a fear that the new discretionary powers for funds may lead to more claims and disputes from outsourced contractors. The LGPS Advisory Board has been called upon to issue guidance on how to interpret the new regulations.

In other LGPS news the government has estimated that the shift to mandatory pooling of assets has saved more than £155mn between November 2015 and March 2019. It has also estimated that the total savings that will be achieved through asset pooling by 2033 is in the region of £2bn.

In a response to the growing climate emergency, that many local authorities have officially recognised, one LGPS asset pool, Brunel Pensions Partnership, has announced a five-point plan to increase the green credentials of its investments and to divest from investments in companies with high carbon emissions. This plan will include stress-testing its portfolios under a range of climate scenarios such as alignment of emissions with the benchmark set in the Paris Climate Agreement. The Government minister for pensions has welcomed the move saying that they have their full support.



Accounting, auditing and governance

The local public audit environment

In our last briefing we highlighted the outcome of the Brydon review which was focused on the quality and effectiveness of audit in the UK and Ireland. We note that the recommendations seek to enhance transparency, including more focus on resilience, internal control and the public interest, for the benefit of investors and stakeholders (including the public). It has also increased the responsibility of boards, audit committees and auditors. A number of the recommendations go to the heart of what we do as auditors and will require pragmatic implementation.

Running side by side with the Brydon review has been the MHCLG review of local government financial reporting and audit, led by Sir Tony Redmond. We now expect the Redmond review to report its findings and recommendations this summer. These reviews, as well as the Competition and Markets Authority and Kingman reviews, have been carried out during a period of significant challenge for local public auditors and local government audited bodies.

On 10 February 2020, Janet Dawson, EY's UK Government and Public-Sector Assurance Leader, wrote to the audit committee chairs and chief finance officers (CFOs) of the local government

bodies EY audits under its contract with Public Sector Auditor Appointments (PSAA) Ltd. The letter focused on the concerns we all share regarding the timetable for financial reporting and auditing, audit fees and the regulatory, contractual and legal context of delivering local government external audit. The key messages Janet highlighted were:

- ▶ We believe the current timetable and expectations for financial reporting and external audit are unsustainable and need to change
- ▶ Because of our views on the factors driving an unsustainable timetable, to ensure we deliver the best quality audit, we have informed PSAA, the NAO and the Local Public Audit Stakeholder forum that we will be scheduling a number of 2019/20 external audits for completion after the 31st July 2020
- ▶ We do not believe the existing scale fees provide a clear link with both a public sector organisation's risk and complexity, and the audit profession context for cost and fee increases, including the attractiveness of audit, investment in technology, innovation and the regulatory environment

- ▶ In the face of all these unprecedented factors, we still remain committed to deliver high quality sustainable local public audit that serves the public interest and stakeholder needs. It is clear therefore that audit fees for local public audit will have to rise

At the end of February, PSAA emailed CFOs with an update on audit matters. PSAA referenced several of the issues highlighted in Janet's letter and stated that it is encouraging audited bodies and local auditors to have early dialogue about when the audit will take place and the likelihood of additional audit work being required which may lead to a fee variation proposal.

Your Audit Partner has been discussing the proposed timing of your 2019/20 external audit with your CFO and a current estimate of your audit fee and will communicate with the audit committee in due course.

PSAA Report on the Future Procurement and Market Supply Options Review

On 4 March PSAA released a report it commissioned from independent consultants to inform its future procurement and market supply options review project. The consultants were asked to capture the views of current and potential local public audit providers on how to structure a future procurement approach and audit contracts in order to maximise a sustainable audit supply in the next procurement exercise. The report's summary findings were that the sustainability of audit supply will be difficult to achieve and will depend to a great extent of factors that are outside PSAA's control.

Specific findings to note:

- ▶ A lack of experienced local public auditors is the main threat to the future sustainability of the market
- ▶ It will be difficult to bring in new providers to the market due to a lack of enthusiasm for entering the market in its current state, barriers to entry and a lack of belief from these providers that they would not be successful against the existing providers in a tender exercise

- ▶ All existing providers highlight that their risks have increased significantly since they bid for the current contracts and fees have not increased to compensate for the increased risk and the timing of local audits

The report suggests some options for PSAA including changing the balance of price and quality in its tender evaluation arrangements and considering the number and size of contracts. However, the report recognises that some of the issues that impact the future sustainability of local audit are outside of PSAA's control, including the:

- ▶ Fragmentation of the market for procurement of public sector audits (including distinctive arrangements in local government, health and central government)
- ▶ Accreditation regime for local audits
- ▶ Timing of local authority audits
- ▶ Regulatory regime for quality checking of audits

PSAA have shared the report publicly to inform the debate and support the work ongoing to strengthen the system of local public audit.

In the next quarter, we will be publishing thought leadership papers and thereafter a series of articles setting out our point of view on several areas that we believe are critical to secure the future sustainability of local public audit.



Regulation news

Noticeable Differences in Police and the Services they Provide

In its latest thematic Police Effectiveness, Efficiency and Legitimacy Inspection Report (PEEL), Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services (HMICFRS) have highlighted concerns around the consistency of the services provided by police forces across England and Wales. In the report 'Divergence under Pressure' HMICFRS have found that a number of forces across England and Wales are struggling to understand demand in their respective area. As a result, police forces are failing to understand their demand appropriately and to adequately plan for the future.

Reporting on their 'Effectiveness' assessment of the 43 police forces in England and Wales HMICFRS concluded on the following gradings:

- ▶ Outstanding: 1
- ▶ Good: 35
- ▶ Requires Improvement: 6
- ▶ Inadequate: 1

In contrast to the prior year report 8 forces had improved their year on year performance, and 3 forces had deteriorated in performance specifically on the Effectiveness assessment

A key finding from the report was the divergence of service that victims of crime across England and Wales receive. Acknowledging that all victims of crime had a right to expect that forces would allocate an individual to their crime with the appropriate skills, HMICFRS concluded that in many cases this simply isn't the reality for many victims. For example, 8 forces were flagged as needing to improve their allocation of resources for appropriately trained staff. A further 4 forces were found to allocate resources so poorly that this was a specific cause of concern.

Resource capacity was a common feature in those forces flagged with HMICFRS acknowledging that this was a cause for concern. This is partly reflected in the statistics which show that the likelihood of the police bringing someone to justice following an investigation is decreasing. Across England and Wales a suspect was charged in 7.8 % of cases investigated down from 9.1 % the previous year. 10 forces were specifically highlighted as needing to improve their understanding of the outcomes of their investigations to ensure that they are effectively pursuing justice on behalf of their victims. It was found that there are often stark

differences in how crime is investigated. On further investigation there are often many causes as to why this can be. It can often be a combination of the increase in crime, the increasing complexity of those crimes and the fact that there are fewer police officers investigating those crimes. Whilst acknowledging that these changes aren't necessarily uniform in how they fall upon individual forces the report highlights the variance in responses and the challenges posed. Key characteristics such as strong and determined leadership, management and a focused level of scrutiny were all common in the forces perceived to be better at rising to the challenges. Given the wide variation experienced by victims, HMICFRS are introducing a victim's experience assessment into future PEEL assessments.

The one specific area of the latest 2018/19 PEEL inspections which showed the greatest variety was the Efficiency assessment. 6 forces were graded as outstanding and 3 as inadequate. This variation is greater than the other 2 assessments – Effectiveness and Legitimacy. One of the central tenets underpinning the Efficiency assessment is the concept of demand. Put simply, if a force doesn't fully understand it's demand then it will struggle to meet that demand in an efficient manner. The government's proposed recruitment of an additional 20,000 police officers will have the biggest impact in those forces with a good understanding of demand.



Key questions for the audit committee

Budget 2020

How does the Budget 2020 impact your police force?

Has your authority assessed the impact of the coronavirus on day-to-day operations?

Police Funding Settlement Announced

What is the latest position regarding the additional police officers in your force?

Local Government Pension Scheme (LGPS): Exit Pensions Credit Payments

Is your authority impacted by the change in regulation regarding LGPS payment of pensions exit credits?

How is your authority's LGPS scheme achieving value for money through asset pooling?

The local public audit environment

Are you clear on the timing of your 2019/20 audit and an indication of the fees being proposed by your auditor?

PSAA Report on the Future Procurement and Market Supply Options Review

Have you read PSAA's report and considered what your perspectives are on the steps that should be taken to support the future sustainability of local public audit?

Noticeable Differences in Police and the Services they Provide

Are you aware of the latest PEEL Inspection results for your Force? Is there any learning or action required as a result of the latest findings? If so, does this have any impact on the strategic or operational risk registers?

Find out more

EY Club Item

https://www.ey.com/en_uk/growth/ey-item-club/ey-item-club-winter-forecast-2020

Budget 2020

<https://www.gov.uk/government/publications/budget-2020-documents/budget-2020#executive-summary>

<https://www.bbc.co.uk/news/uk-politics-51832634>

Police Funding Settlement Announced

<https://www.gov.uk/government/news/policing-gets-biggest-funding-boost-in-decade-to-put-more-bobbies-on-the-beat>

Local Government Pension Scheme (LGPS): Exit Pensions Credit Payments

<https://www.publicfinance.co.uk/news/2020/02/lgps-funds-given-discretion-over-employer-exit-payments>

<https://www.publicfinance.co.uk/news/2020/02/pooling-lgps-schemes-has-saved-ps155m-four-years>

<https://www.publicfinance.co.uk/news/2020/01/lgps-pension-pool-demands-action-climate-change>

The local public audit environment

<https://www.gov.uk/government/consultations/review-of-local-authority-financial-reporting-and-external-audit-call-for-views>

https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/852960/brydon-review-final-report.pdf

PSAA Report on the Future Procurement and Market Supply Options Review

<https://www.psaa.co.uk/wp-content/uploads/2020/03/PSAA-Future-Procurement-and-Market-Supply-Options-Review.pdf>

Noticeable Differences in Police and the Services they Provide

<https://www.justiceinspectorates.gov.uk/hmicfrs/wp-content/uploads/peel-spotlight-report-diverging-under-pressure-2018-19-overview.pdf>

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