



REPORT TO: POLICE AND CRIME COMMISSIONER FOR LANCASHIRE

REPORT BY: LISA KITTO, CHIEF FINANCE OFFICER

DATE: 13 June 2013

TITLE: 2012/13 REVENUE AND CAPITAL OUTTURN POSITION

EXECUTIVE SUMMARY

This report at Appendix A sets out the outturn position for the Police and Crime Commissioner's budget as at 31 March 2013. It shows the position for the end of the year for both revenue and capital, the impact on reserves and also sets out some of the issues that may impact on the OPCC budget in future years.

RECOMMENDATION

The Police and Crime Commissioner is asked to;

- note the total in year underspend of £5.608m of which £2.386m has previously been transferred to reserves.
- approve the following transfers to reserves;
 - £2.229m of the end of year underspend to the transition reserve to support the ongoing programme of organisational reviews that are needed to drive out savings in future years.
 - £0.892m of the end of year underspend on the non-DFM budget to general reserves
 - a contribution of £0.060m to the vehicle replacement programme
 - £2m from the funding equalisation reserve into general reserves
- approve the increase in the vehicle replacement programme of £0.101m to be funded by contributions from revenue budget contributions.
- approve the write-off to the Constabulary DFM budget of obsolete uniform and equipment stock in the amount of £0.020m
- note the underspend of £6.447m on the capital programme and agree that £6.125m be carried forward into 2013/14 to enable those projects that have been deferred or have slipped to be completed.
- note the transfers between schemes within the capital programme in 2012/13

Decision taken by the Police and Crime Commissioner for Lancashire:

Original decision, as set out in the attached report, approved without amendment (please delete as appropriate)	YES	NO
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Original decision required to be amended and decision as detailed below:

The reasons for the amended decision are as detailed below:

Police and Crime Commissioner: Comments

DECLARATIONS OF INTEREST

The PCC is asked to consider any personal / prejudicial interests he may have to disclose in relation to the matter under consideration in accordance with the law, the Nolan Principles and the Code of Conduct.

STATEMENT OF COMPLIANCE

The recommendations are made further to legal advice from the Monitoring Officer and the Section 151 Officer has confirmed that they do not incur unlawful expenditure. They are also compliant with equality legislation.

Signed: Police and Crime Commissioner Date:	Signed: Chief Officer: Date:
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Signed:	Signed:
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Chief Constable Date:	Chief Finance Officer: Date:
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Appendix A

The Commissioner has received regular reports throughout the financial year setting out the position for the revenue budget and the progress in the year in respect of the capital programme. This report now sets out the year-end position at 31 March 2013 including;

- The out turn position for the PCC's revenue budget and the capital programme
- The impact of the position on the PCC's reserves and a summary of the overall reserves at the end of the financial year
- A summary of any risks or opportunities that may impact on the budget in future years

REVENUE BUDGET 2012/13

The revenue budget for the Police and Crime Commissioner was set at £265.337m and increased through the planned use of balances to £267.086m in order to meet known pressures. The year-end position is spending of £263.864m giving a total in-year underspend of £3.222m. This position reflects the transfers of £2.386m to the transitional reserve that were agreed earlier in the year which means that in total the budget underspent by £5.608m. The table below sets out a summary position for the budget;

Out Turn Position at 31 March 2013				
Responsibility Area	Revised Budget	Spend	Variance	
	£m	£m	£m	%
ACC Territorial Operations	152.493	152.457	-0.036	0.0
ACC Specialist Operations	66.871	65.820	-1.051	-1.6
ACC People	10.251	9.768	-0.483	-4.7
Deputy Chief Constable	4.928	4.870	-0.058	-1.2
Director of Resources	27.693	27.662	-0.031	-0.1
Sub Total	262.236	260.577	-1.659	-0.6
Office of the Police and Crime Commissioner	1.821	1.697	-0.124	-6.8
TOTAL DFM BUDGET	264.057	262.274	-1.783	-0.7
Non DFM	3.029	1.590	-1.439	-45.7
TOTAL BUDGET	267.086	263.864	-3.222	-1.2

DFM POSITION

Lancashire Constabulary

The year-end position for the constabulary DFM budget is an under spend of £1.659m. The under spending has arisen, in the main, due to the number of vacancies maintained during 2012/13, tight budgetary control throughout the year and a spend less approach to ensure that spending was only incurred on essential operational activities. The main variances are set out below;

- An underspending on employee costs due to the management of vacancies (£1.143m)
- reduced spending on overtime (£0.379m)
- A number of 'other' savings from across the constabulary DFM budget (£0.098m)

In February 2013, the Commissioner agreed that the carry forward of DFM balances be reduced from 2% to 1% for 2012/13. At that time it was agreed that £2.296m be transferred to the transitional reserve to provide support for the programme of ORs that are in place to deliver the savings required as a result of the funding reductions. This position reported above reflects the previously approved transfer of £2.296m of under spending to the transitional reserve. Of the additional underspend of £1.659m that has arisen since then, it is proposed that £1.620m be transferred to the transitional reserve and that the remaining £0.039m be added to the vehicle replacement programme in order to ensure that sufficient funding is available to meet vehicle replacement costs.

Office of the Police and Crime Commissioner

The DFM budget for the Office of the PCC has underspent by £0.124m during 2012/13. This is mainly due to efficiencies on staffing and running costs of the PCCs office and a reduction in costs associated with the former Police Authority including member allowances.

The limit on the carry forward of DFM balance also applies to the Office of the Police and Crime Commissioner and therefore £0.117m of the underspend will fall into the transitional reserve with a contribution of £0.007m to the vehicle replacement programme. This is in addition to £0.090m that was transferred to the transition reserve during the year.

Non-DFM Budgets

The Non-DFM budget under spent by £1.439m in 2012/13. Of this, £0.492m relates to the early achievement of savings on the OR programme which was to assist in the delivery of savings over the current and future Comprehensive Spending Review (CSR) periods. Further savings were achieved through reduced borrowing to finance the capital programme (£0.342m), an underspend on the overtime contingency budget (£0.258m), and a reduction in the insurance provision (£0.100m). A further saving of £0.237m was achieved as a result of a change in the national pay award for the lowest paid workers for which budget provision had been made.

It is proposed that £0.492m be added to the Transitional Reserve, £0.055m added to the vehicle replacement programme and that the remaining £0.892 be added to general reserves.

DFM Summary

The decision to limit the carry forward of DFM balances to 1% at the end of 2012/13 means that the overall position on DFM balances has reduced from £4.265m to £2.427m. This is considered sufficient to manage the in-year risks within the OPCC and Constabulary DFM budgets.

OTHER ITEMS IMPACTING ON THE YEAR END POSITION

During the year the constabulary has been required to take part in a number of significant policing operations that have incurred costs over and above that which is planned for. These include the British Open, Preston Guild, London Olympics and most recently the Dale Cregan trial. In recognition of the additional costs incurred, the PCC received one-off grant funding of £1.487m for the support provided to the Olympics. The receipt of the grant has been reported

to the PCC earlier in the year it was agreed that this funding would be added to the Operational Policing Reserve. It is also proposed that the underspend on the OR programme of £0.492m be added to this reserve. This reserve is available to manage the financial impact of any unplanned events that may arise during a financial year.

Lancashire Constabulary received mutual aid support from 2 other forces and the North West Ambulance Service for the Dale Cregan trial. The costs of the trial (£0.799m) have been funded by a one-off grant from the Home Office and are reflected in the out turn position. The trial has continued into 2013/14 and the grant funding to support these costs will be reflected in the 2013/14 accounts.

As part of the vehicle replacement programme there is a need to replace a horsebox vehicle. In recognition of the cost of the replacement, it is proposed that a contribution of £0.60m to the vehicle replacement reserve be made. This contribution has been reflected in the outturn position but requires formal approval from the Commissioner.

Within the Business Support DFM year-end position £0.020m of obsolete clothing and equipment stock has been written off, and in line with the governance arrangements, approval from the Commissioner is also requested.

RESERVES

The level of reserves is reviewed throughout the year as part of the financial monitoring process. The level of reserves recommended below reflects the Chief Financial Officers opinion of the appropriate level of such resources in view of the future budgetary risks and pressures faced by the Office of the Police and Crime Commissioner in the coming years. In assessing the reserves, the Chief Finance Officer has considered the latest financial risks and also any changes in funding or legislation.

Earlier in the year the Commissioner agreed that the level of DFM balances that can be carried forward from 2012/13 to 2013/14 be reduced from 2% to 1% and that the balance be transferred to the transitional reserve to assist with the risks associated with delivering the level of savings required in future years as a consequence of the funding reductions. This decision applied to both the Constabulary and the OPCC budgets and a total of £4.408m and £0.207m respectively has been transferred to the transition reserve.

A decision was made by the former Police Authority to transfer £2m from general reserves and create a new Police Funding Equalisation reserve in recognition of the potential risks associated with the Localisation of Council Tax Benefits. At that time the development of schemes was still in the early stages and the potential risks were considered to be significant. The impact of the scheme have been addressed as part of the 2013/14 budget process and the reserve is therefore no longer needed. It is proposed that this reserve be closed and the funds transferred to the general reserve.

The Operational Policing Reserve is available to help fund any costs associated with any unplanned events that may occur during a financial year. Given that the costs of these events can be significant and that the threshold for any application for one-off grant funding to be considered by the Home Office is 1% of the net budget, the PCC has previously agreed a transfer of £1.240m during the year to the reserve realised through the receipt of grant funding towards the costs of policing major events.

Taking these into account, the year-end reserves position is:

	Position as at 31/3/12	Movement in 2012/13	Current Position as at 31/3/13	Recommen ded Movement s	Final Position as at 31/3/13
	£m	£m	£m	£m	£m
<u>EARMARKED RESERVES</u>					
Capital Funding Reserve	7.198	-0.512	6.686		6.686
Transition Reserves	5.904	-1.404	4.500	2.229	6.729
Police Funding Equalisation	0.000	2.000	2.000	-2.000	0
Clothing Reserves	0.504	0.026	0.530		0.530
POCA Equalisation Reserve	0.486	-0.174	0.312		0.312
PCCA/Drugs Forfeiture Reserves	0.098	0.035	0.133		0.133
VMU Reserves	0.028	0.015	0.043		0.043
Operational Policing Reserve	0.712	1.240	1.952		1.952
Road Safety Reserves	0.533	0.400	0.933		0.933
PCC IT Replacement	0.038	-0.038	0		0
Early Debt Repayment Reserve	-2.400	0.300	-2.100		-2.100
Total Earmarked Reserves	13.101	1.888	14.989	0.229	15.218
<u>GENERAL RESERVES</u>					
DFM	4.265	-1.838	2.427		2.427
General Fund	8.981	-2.000	6.981	2.892	9.873
Total General Reserves	13.246	-3.838	9.408	2.892	12.300

Other movements in reserves are:

- The application of £0.512m from the Capital Funding reserve to finance the capital programme in 2012/13
- Use of the transition reserve to fund the costs associated with the delivery of the OR programme including the cost of ill-health retirements. The reserve was also used to cover the cost of unsocial hours payments for which there was no budgeted provision in 2012/13. These payments and the funding mechanism was agreed by the former Police Authority following the publication of the Winsor report and recommendations which required the Authority to continue making the payments during the year.
- Net contributions to the operational policing reserve of £1.240m that have resulted largely from grant funding received during the year, i.e. one off Olympics grant.
- An increase in the Road Safety Partnership reserves from income generated by the partnership, which will contribute to the replacement of speed cameras.
- A transfer of funds held in the PCCs IT replacement reserve to the general reserve.
- The application of the remainder of the Non-DFM underspend (£0.892m) to general reserves

Adequacy of Reserves

The general reserves (DFM and general fund) as at 31 March 2013 are £12.3m and represent around 4.8% of the 2013/14 budget of £258.733m. Other earmarked reserves total £15.2m including £6.8m held in the transition reserve to mitigate against the risks of implementing the change programme. The Chief Finance Officer believes that the level of reserves remains appropriate in the context of the Organisational Change programme and the future reductions in funding.

CAPITAL PROGRAMME 2012/13

The capital programme for 2012/13 was set at £15.930m. This is £0.101m higher than the budget previously reported due to the fact that additional contributions from DFM balances have been made; £0.039m from Specialist Operations, £0.007m from the PCC and £0.055m from Non-dfm budget. A total of £9.483m was spent during the year resulting in an in-year underspend of £6.447m of which £6.125m has been carried forward into 2013/14 to reflect the fact that the delivery of some schemes has slipped (£2.765m) and that some schemes have been deferred to future years (£3.360m). In addition to this, there is an underspend of £0.322m on schemes that have been completed during 2012/13. Full details are set out below;

	£m
Revised Capital Programme 2012/13	15.930
Capital Spend 2012/13	<u>9.483</u>
Underspend	6.447
Represented By:	
Schemes deferred to future years	3.360
Underspends on schemes	0.322
Slippage	<u>2.765</u>
	6.447

Carry Forward into 2012/13

A total of £6.125m has been carried forward into the 2013/14 capital programme to reflect the fact that some planned expenditure has not been incurred within the anticipated timeframe. This funding is however still required to ensure that the relevant schemes can be completed. The main reasons for the carry forward are set out below;

Schemes to be Deferred

The following schemes were planned for 2012/13 but have not commenced in line with the original plans. The funding is still required in order for the schemes to be completed in 2013/14;

Digital Voice Recording (1.392m)

The ongoing issues around the suitability of tenderers to deliver the required product remain. Protracted tendering processes using NPIA's preferred suppliers through the national framework agreement have proved unsuccessful and negotiations are now underway to look at alternative solutions outside of the national framework. It is anticipated that the work will be completed in 2013/14.

Electronic Case Files (£0.600m)

This scheme has many interdependencies including mobile working and a revised or new custody case system. A full end to end digital solution from statement taking to custody processing to court is the desired solution and is currently being developed although there is no clear proposal at this stage therefore giving rise to a risk in delivery in 2013/14.

Disaster Recovery (£0.219m)

A solution for appropriate disaster recovery arrangements are in place and the work will commence in 2013/14.

Accrington Police Station (£1.089m)

This is being considered as part of the accommodation strategy and is also being considered through the BCU Review that will set out the operating footprint required.

Slippage

The significant areas of slippage include:

- £0.928m on the Integrated communications and control system where extended contract negotiations have resulted in spend not progressing as initially anticipated
- £1.253m on the Digital speed camera upgrade as a result of a delay in contract approval. We are currently in negotiations with a number of suppliers to provide an accredited solution.
- £0.347m in the vehicle replacement programme due to delays in the delivery of vehicles.

Scheme Underspends

The main underspends are in relation to the customer relationship management project (£0.400m) which is no longer required and savings on network & security projects (£0.074m). These are offset by an overspend on the HQ Main building extension of £0.155m.

Transfers

Within the 2012/13 programme it is recommended that the Commissioner agrees to a number of budget transfers to reflect the latest information regarding costs;

- £0.100m from data storage, £0.050m from New HQ server room, £0.160m from Telephony and server room and £0.350m from miscellaneous minor works into the HQ Main Building scheme
- £0.100m from the desktop replacement scheme into the Integrated Communications & Control System scheme

OVERALL POSITION ON THE 2012/13 CAPITAL PROGRAMME

In overall terms the programme has progressed in line with previous reports. A total of £9.5m has been spent on capital projects during the year and the following key projects have made significant progress or have been delivered;

- £0.465m on works to the Voice and Data infrastructure within the ICT framework

- £0.717m for the Enterprise licencing agreement
- £0.244m to improve the radio network
- £0.849m for works to improve and replace ICT systems
- £0.485m to improve the infrastructure for the handing of confidential information
- £2.445m for the extension works to the main HQ building to assist in the delivery of the constabulary's accommodation strategy
- £1.012m for repair and maintenance minor works schemes to maintain the accommodation portfolio
- £2.105m on the vehicle replacement programme

FINANCING OF 2012/13 CAPITAL EXPENDITURE

The following table shows how the expenditure of £9.483m has been financed in 2012/13 and the resources earmarked to finance the carry forward into 2013/14 of £6.125m;

	£m
<i>Financing</i>	
Capital Grant/Contribution	3.400
Capital Receipts	0.617
Revenue Resources	4.259
Unsupported Borrowing	1.207
TOTAL EXPENDITURE 2012/13	9.483
<i>C/F into 2013/14 and Sources of Finance;</i>	
Capital Grant/Contribution	1.297
Capital receipts	0.600
Revenue Resources	3.138
Unsupported Borrowing	1.090
Carry Forward into 2013/14	6.125

CAPITAL PROGRAMME 2013/14

It is proposed that the year-end position on the capital programme for 2012/13 be reflected in the programme for 2013/14 as follows:

	£m
Originally approved programme 2013/14	9.618
ADD	
Schemes deferred from 2012/13	3.360
Slippage from 2012/13	2.765
Additional contribution to Vehicle replacement programme	0.060
Revised programme 2013/14	15.803

The Commissioner is asked to note the position for the capital programme in 2013/14

FUTURE RISKS AND OPPORTUNITIES

The Commissioner has inherited a legacy from the Police Authority and the Constabulary of good financial planning which has ensured that over the current period of financial austerity, managing the reduction in government funding of 20% has been delivered in a secure and planned way. To date savings of £36m have been achieved. It is however clear that the period of austerity will continue beyond the current CSR period and the budget announcement in March 2013 has indicated that there will be further reductions to Police funding in the CSR to be announced in June 2013.

The longer term financial position is reviewed on a regular basis and after taking into account planned savings of £ 2.8m, savings of £10.5m in 2014/15 are likely to be required with a further £9.5m in 2015/16 and 2016/17. At £20m, this is a significant challenge for the Commissioner and the Constabulary and work is already underway to develop plans on how these can be achieved. The former Police Authority and the Constabulary have a proven track record in their ability to identify and deliver financial savings and it is anticipated that this will continue. However as the economic position becomes more difficult it will be increasingly challenging to find savings on the scale required.

There remain uncertainties around the funding for 2014/15 and in addition to this the Home Office is to carry out a review of the funding formula that is used to calculate funding allocations to PCCs. The new formula will be introduced for the 2015/16 financial year and brings with it additional uncertainty and risk in terms of planning for future years. The position will however be closely monitored and the Commissioner's financial forecast updated on a regular basis to ensure it reflects the most up to date position.