



**Lancashire
Constabulary**
police and communities together

JOINT MANAGEMENT BOARD

ITEM 2	DATE: 12 JUNE 2015
TITLE: REVENUE AND CAPITAL FINANCIAL POSITION AS AT 31 MARCH 2015	
REPORT BY: STEVE FREEMAN, CHIEF FINANCE OFFICER	

Executive Summary

This report sets out the final revenue and capital budget position for the Police and Crime Commissioner's budget for the 2014/15 financial year. The Commissioner's longer term financial strategy has been clearly set out in previous reports and the impact of the final position in 2014/15 upon the financial strategy is also set out in this report.

Recommendation

The Police and Crime Commissioner is asked to;

- Note the in-year underspend of £10.264m on the Police and Crime Commissioner's Revenue budget and the year-end position on reserves and that this reflects previously agreed transfers to and from reserves.
- approve the following transfers to reserves;
 - £9.985m of the end of year underspend to the transition reserve to support the ongoing "Futures programme" that will drive out savings in future years.
 - £0.279m to DFM reserves
- Approve the addition of a fully funded scheme in respect of the purchase of an on-line course booking system for Driver Awareness training at a cost of £0.041m to the capital programme in 2014/15, bringing the total capital programme in 2014/15 to £17.246m
- Note the underspend of £8.208m on the capital programme and agree that £7.963m be carried forward into 2015/16 to enable those projects that have been deferred or have slipped to be completed.
- note the value of the capital programme in 2015/16 for monitoring purposes at £24.863m

Signature

Police and Crime Commissioner

Date

PART I

1. Background and Advice

Overview

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. In addition to reporting the year-end position, the impact that this has on the Commissioner's longer term financial strategy is considered as well as the overall financial health of the organisation.

Overall the Police and Crime Commissioner's budget position is strong and is well placed to meet the challenges ahead. Services have been maintained during a period of time when significant budget reductions have been required. Savings plans developed to meet the financial challenge and to close the budget gap have, in the main, been delivered and in some cases ahead of plans. This has resulted in some one-off savings that have been added to existing reserves and will be used to meet the financial risks and challenges ahead as the Commissioner seeks to identify and deliver up to a further £40m of savings in future years. The ability to call on reserves to invest in services and technologies that may deliver savings in future years or to help maintain service delivery through a transition period will become even more crucial as the period of austerity continues.

This report now sets out the 2014/15 year-end position including:

- The year-end position for the PCC's revenue budget and the capital programme
- The impact of the position on 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 2014/15

The 2014/15 revenue budget for the Police and Crime Commissioner was set at £266.024m and increased through the planned use of balances to £266.424m in order to meet known pressures. The year-end position shows spending of £256.160m giving an underspend of £10.264m (3.85%). The table below sets out a summary position for the budget:

Position as at 31 March 2015				
Responsibility Area	Revised Budget	Spend	Variance	
	£m	£m	£m	%
Chief Constable				
ACC Territorial Operations	148.058	143.809	-4.249	-2.87
ACC Specialist Operations	54.134	54.059	-0.075	0.14
Director of Resources	27.347	26.079	-1.268	-4.64
Deputy Chief Constable	8.054	7.742	-0.312	-3.87
Chief Constable DFM	237.593	231.689	-5.904	-2.48
Chief Constable non-DFM	17.097	14.574	-2.523	-14.76

Chief Constable – Total	254.690	246.263	-8.427	-3.31
Police and Crime Commissioner				
Office of the PCC	1.466	1.134	-0.332	-22.65
Community Safety	2.338	1.337	-1.001	-42.81
Victims and Witnesses of Crime	1.514	1.514	-	-
Grant income	-1.514	-1.555	-0.041	-2.71
PCC DFM	3.804	2.430	-1.374	-36.12
PCC non-DFM	7.930	7.467	-0.463	-5.84
PCC - Total	11.734	9.897	-1.837	-15.66
TOTAL BUDGET	266.424	256.160	-10.264	-3.85

Lancashire Constabulary

During 2014/15 the constabulary has delivered a total underspending of £8.4m. Within the Chief Constable's DFM budget this is largely attributable to savings arising from vacancies in both police officers and police staff (£4.1m) as well as a successful 'spend less' approach to non-staff budgets (£2.0m).

There has also been significant under and over spending within the Chief Constable's non-DFM budget with the main elements being: A planned £0.9m overspend in respect of 8 additional ill health retirements that has been offset by savings elsewhere within the revenue budget; An underspend of £2m following a review of staff terms and conditions and overheads (including car allowances and overtime); A £1.4m underspend realised through a review of all non-pay budgets (some of which, that have been determined to be recurring, have been removed from the 2015/16 budget).

The constabulary underspend position reflects additional one-off provisions having been made in respect of a likely increase in costs of claims not covered by insurance during 2014/15 of £1.5m and reflects a contribution from the transition reserve in to the revenue budget of £1.9m to meet costs specifically relating to the downsizing of the organisation.

As indicated above, some of the underspending identified in 2014/15 relates to the early delivery of savings planned for future years that have therefore already been factored into the financial strategy and removed from the budget in 2015/16.

Office of the Police and Crime Commissioner

The Office of the Police and Crime Commissioner has delivered an underspending of £1.836m. The main elements of this are: An underspend on staffing costs of £0.250m due to a number of vacancies being held unfilled during the year and the restructure of the office to deliver Victim Services in Lancashire that provided additional specific funding for a number of posts; £1m underspend on the Community safety budget that has arisen during a period of redesign for the service for future years, the underspend is non-recurring as the design for the service has been completed and the budget will be spent in full in 2015/16; An underspend of £0.463m in respect of the interest paid on borrowings as a result of effective treasury management activity during the year.

CAPITAL PROGRAMME 2014/15

The revised capital programme for 2014/15 was approved at £17.205m as set out in the last monitoring report to the Commissioner in March 2015 that showed the position at 31st December 2014.

	£m
Originally approved programme for 2014/15	7.805
Add (previously agreed):	
Schemes deferred from 2013/14	3.990
Slippage from 2013/14	5.493
Previously approved in-year changes to the programme	-0.083
Revised Capital Programme 2014/15	<u>17.205</u>

A further, fully funded, addition to the programme has subsequently been identified under delegated approvals in line with the Commissioner's scheme of delegation as follows:

- The purchase of an on-line course booking system for Driver Awareness training at a cost of £0.041m that has been fully funded from driver training course receipts within the revenue budget during 2014/15.

It is **recommended** that the Commissioner retrospectively approve the addition of this item to the capital programme giving a final approved programme in 2014/15 of £17.246m.

Year-end position on the 2014/15 capital programme

In overall terms the programme has progressed broadly in line with previous reports. A total of £9.038m has been spent on capital projects during the year and the following key projects have made significant progress or have been delivered;

- Network access and security (£2.6m)
- Device replacement programme (£0.7m)
- Infrastructure to support the network and mobile working (£1.1m)
- Systems replacements including communications control system and mobile data (£1.0m)
- Vehicle replacement programme (£2.1m)

The year-end spend of £9.038m has resulted in a variation against the programme of £8.208m. Of this £7.963m relates to schemes that have slipped and will be delivered in 2015/16 and future years, and £0.245m relates to underspending. Full details are set out below;

	Revised Programme 2014/15	Actual at 31 March 15	Variance	Slippage	Under (-) /Over (+) spend
	£m	£m	£m	£m	£m
IT Strategy	8.281	5.419	-2.862	-2.740	-0.122
Accommodation Strategy	3.050	0.491	-2.559	-2.575	+0.016
Other Schemes	2.621	1.065	-1.556	-1.417	-0.139
Vehicle Replacement	3.294	2.063	-1.231	-1.231	-
Total	17.246	9.038	-8.208	-7.963	-0.245

Schemes that have 'slipped' and will be delivered in 2015/16 and future years

Slippage of £7.963m has been identified in to futures years with the main elements being:

- *Data storage and disaster recovery projects (£0.630m)*
The final stage payments for these schemes will be made in 2015/16.
- *Automatic Number Plate Recognition - ANPR (£0.475m)*
Due to negotiations with local councils in respect of the siting of cameras, work has been delayed and will now take place in 2015/16.
- *Digital Voice Recording (£0.933m)*
There has been a delay in the delivery of the hardware required to deliver the project which is expected to be delivered in 2015/16.
- *West New Build (£1.850m)*
Delay in construction element of the project due to the due diligence process that has been undertaken for the preferred site.
- *Accrington Police Station (£0.499m)*
Works will take place in 2015/16 following signing of lease for the new accommodation in Accrington
- *Digital Speed Camera Upgrade (£1.253m)*
Delays in previous procurement exercise due to lack of Home Office certification. Further procurement process recently completed and works expected to take place in 2015/16

- *Vehicle Replacement Programme (£1.231m)*

This provision represents an equalised requirement over 5 year programme but actual expenditure will vary year on year. The unused part of this provision is required for future years' replacements.

As a result of the slippage of schemes set out above it is **recommended** that a total of £7.963m be carried forward into the 2015/16 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.

Scheme Underspends

The net underspend position of £0.245m is made up as follows:

- *Minor IT schemes (underspend of £0.122m)*
- *Accommodation schemes (overspend of £0.016m)*
- *Other schemes (underspend of £0.139m)*

This relates in the main to the Communications Data Stakeholder Enablement (CDSE) system project which has underspent but has had a matching reduction in grant received from the Home Office.

The net underspend will be made available to support other schemes in future years:

Financing of 2014/15 capital expenditure

The following table shows how the expenditure of £9.038m has been financed in 2014/15 and the resources earmarked to finance the carry forward into 2015/16 of £7.693m;

	£m
<i>Financing</i>	
Capital Grant/Contribution	3.174
Capital Receipts	3.036
Revenue Resources	2.677
Unsupported Borrowing	0.151
TOTAL EXPENDITURE 2014/15	9.038
<i>C/F into 2015/16 and Sources of Finance;</i>	
Capital receipts	0.865
Revenue Resources	4.749
Unsupported Borrowing	2.349
Carry Forward into 2015/16	7.693

Capital programme 2015/16

It is proposed that the year-end position on the capital programme for 2014/15 be reflected in the programme for 2015/16 as follows:

	£m
Originally approved programme 2015/16	16.900
ADD	
Slippage from 2014/15	7.963
Revised programme 2015/16	24.863

The Commissioner is asked to note the revised value of the capital programme in 2015/16.

IMPACT ON RESERVES

DFM Reserve

The overall financial framework within which both the Constabulary and the Office of the Police and Crime Commissioner work is a provision for a DFM reserve equivalent to 1% of the current year's budget to be retained by each organisation. This provides some flexibility to manage in-year fluctuations and costs that were unforeseen when the budget was set.

In line with this approach it is recommended that £0.259m of the Constabulary underspend and £0.020m of the OPCC's underspend be transferred to the DFM reserve in order to maintain DFM reserves equivalent to the 1% limit.

Transition Reserve

The transition reserve was set up in recognition that the government's period of austerity would result in unprecedented budget reductions which would require significant levels of savings to be delivered. This would inevitably lead to costs for the organisation associated with down-sizing including staff redundancy costs as well as the cost of investing in new technology and accommodation to ensure that more efficient and effective working practices could be developed to deliver longer term cash savings.

The reserve was also set up to provide financial protection against the risk of delivering savings from a significant change programme in line with a challenging timescale.

A number of approved calls have been made on the transition reserve during 2014/15 as follows:

	£m
Opening balance 1/4/2014	13.900
Costs of ORs and related downsizing costs	-2.054
Contribution to VDI/mobile data project	-0.300
Contribution to Pursuit Training project	-0.082
Digital Engagement – 'Do it online'	-0.049
Costs of OR within the capital programme	-0.157
	<u>-2.642</u>
Closing balance 31/3/2015	11.258

Following the outcome of the General Election it is now clear that the government's public sector spending plans will result in further austerity over the period to 2019/20 and the call on the transition reserve therefore remains significant.

In order to meet the significant challenges that this period of financial constraint will deliver it is vital that sufficient funding is set aside to meet the future costs of downsizing the organisation as well as provide a source of investment for projects that can deliver future on-going cash savings.

It is therefore **recommended** that the remaining underspend of £9.985m be transferred to the transition reserve to mitigate future financial risks and support the extensive investment programme set out in the Commissioner's capital programme for 2015/16 and future years.

RESERVES

Taking the agreed movements and recommendations identified previously in this report into account, the year-end reserves position is:

	Position as at 31/3/14	Movement in 2014/15	Current Position as at 31/3/15	Recommended Movements	Final Position as at 31/3/15
	£m	£m	£m	£m	£m
<u>EARMARKED RESERVES</u>					
Capital Funding Reserve	5.634	0.983	6.617		6.617
Transition Reserves	13.900	-2.642	11.258	9.985	21.243
Clothing Reserves	0.564	0.047	0.611		0.611
POCA Equalisation Reserve	0.554	0.654	1.208		1.208
PCCA/Drugs Forfeiture Reserves	0.193	-0.055	0.138		0.138
VMU Reserves	0.043	-0.003	0.040		0.040
Operational Policing Reserve	2.584	0	2.584		2.584
Road Safety Reserves	1.438	0.782	2.220		2.220
PCC Investment Fund	0.114	3.623	3.737		3.737
Early Debt Repayment Reserve	-1.800	0.300	-1.500		-1.500
Total Earmarked Reserves	23.224	3.689	26.913	9.985	36.898
<u>GENERAL RESERVES</u>					
DFM	2.664	-0.400	2.264	0.279	2.543
General Fund	9.873		9.873		9.873
Total General Reserves	12.537	-0.400	12.137	0.279	12.416

Adequacy of Reserves

The general reserves (DFM and general fund) as at 31 March 2015 are £12.416m and represent around 4.8% of the 2015/16 budget of £258.871m. Other earmarked reserves total £36.898m including £21.243m held in the transition reserve to mitigate against the risks of implementing the change programme. The PCC's 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.

Investing for the future

In order to preserve the operational integrity and ability of the force in future years whilst delivering the savings required in future years, the Commissioner must consider a number of proposals that will change how the service operates.

It is recognised that, in order to deliver savings proposals to meet the funding gap faced by the Commissioner in future years, the way the police service is delivered will need to change significantly. It is also recognised that improving the efficiency in which assets are used such as buildings, infrastructure and IT networks and equipment, is crucial if the level of service being provided is to be maintained whilst the way it is delivered changes.

In order to improve the efficiency of the service it has been identified that significant investment is therefore needed in these assets which is recognised in both the ICT and the Asset Management strategies.

These strategies have identified a number of projects that will ensure frontline policing is protected and made as efficient as possible in future years. These projects have been brought into the Commissioner's Capital Programme for 2015/16 and future years and include:

- The replacement of IT systems that ensure policing services can continue to be delivered in a secure and sustainable way
- The introduction of mobile devices that enable officers to spend as much time as possible providing policing services to the public away from desks
- Reconfiguration of the accommodation used by the constabulary in order to ensure it is used as efficiently and cost effectively as possible

This investment will help to deliver the permanent savings in the revenue budget that are required in future years to ensure that the Commissioner can provide policing services in Lancashire within the resources he has available.

The level of new resources available for capital is not sufficient to meet the scale of investment envisaged and therefore options for funding the investment programme have been considered. The Commissioner has therefore, as part of his long term financial strategy, set aside a significant proportion of his earmarked reserves to provide one off investment funding for proposals within the capital programme that will assist the constabulary to deliver services in a secure and sustainable way. The Commissioner has committed £12.5m of his current earmarked reserves towards such investment and will continue to assess future levels of reserves to determine if further amounts may be made available for the capital programme in future years.

As part of the Commissioner's financial strategy any future underspending on the Revenue budget will continued to be reviewed and if appropriate set aside in reserves to assist in meeting this investment programme.

FUTURE RISKS AND OPPORTUNITIES

The Commissioner in conjunction with the Chief Constable has developed a multi-year financial strategy to continue the process of good financial planning which has ensured that over the current period of financial austerity, managing the reductions in government funding have been delivered in a secure and planned way. It is clear that the period of austerity will continue for an number of years and a total of more than £100m of savings are likely to be required over the period 2011/12 – 2019/20 of which £60m has already been identified.

The longer term financial position is reviewed on a regular basis and further savings of c £20m are currently forecast to be required for the period 2015/16 to 2017/18. 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 Commissioner 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.

The level of funding and demand pressures for 2015/16 and future years remains uncertain. Specific Risks are:

- ***Top-Slices to the Police grant***

In 2015/16 a number of top-slices were taken from the Police Grant allocated to PCCs, some of which were identified in advance of the 2015/16 Settlement announcement however others were only identified as part of the announcement itself.

PCCs and forces have lobbied the Home Office to request that further top-slicing to the funding is minimised, if it has to occur at all, however it remains a significant risk to the budget setting process and the construction of the PCC's financial strategy.

- ***Home Office Reductions***

The ability of the Home Office to protect police budgets from reductions to the Home Office departmental funding is unknown and must be considered a significant risk going forward.

- ***Funding Predictions***

There is also greater uncertainty on the level of funding for PCC's beyond 2015/16 as the Chancellor has stated on numerous occasions that the current period of austerity will continue until at least 2019/20. This, in conjunction with the change in government as a result of the general election, means that the level of uncertainty in respect of future years funding makes the process of predicting future funding levels extremely difficult which may clearly impact upon the predicted level of savings required.

CONCLUSION

The overall financial health of the Police and Crime Commissioner's budget at the end of the 2014/15 financial year remains strong. The OPCC and the Constabulary have been able to demonstrate;

- Strong financial management through managing a series of significant organisational reviews that have led to significant savings
- Strong delivery arrangements through achieving the delivery of savings early and ensuring funding is available to support the costs of down-sizing the organisation in future years
- Flexibility in ensuring resources are targeted to priority areas and that high level service delivery is achieved

All of these are characteristic of organisations with well managed finances. These together with a strong balance sheet that has resources set aside to mitigate against identified risks, as well as risks that may merge during a year, place the Commissioner in a strong position to manage the significant financial challenges in the years ahead.

2. Links to the Police and Crime Plan

3. Consultation

4. Implications

a. Legal

There are no legal comments associated with this paper.

b. Financial

c. Equality considerations

There are no Equality comments associated with this paper.

5. Background Papers

6. Public access to information

Information in this form is subject to the Freedom of Information Act 2000 and other legislation.

Part 1 of this form will be made available on the PCC website within 3 working days of approval. Any facts/advice/recommendations that should not be made available on request should not be included in Part 1 but instead on the separate Part 2 form.

Officer declaration	Date
LEGAL IMPLICATIONS – As above	
FINANCIAL IMPLICATIONS – As above	
EQUALITIES IMPLICATIONS – As above	
CONSULTATION – As above	
<p>Director to the Office of the Police and Crime Commissioner (Monitoring Officer)</p> <p>I have been informed about the proposal and confirm that financial, legal and equalities advice has been taken into account in the preparation of this report. I am satisfied that this is an appropriate request to be submitted to the Police and Crime Commissioner for Lancashire.</p> <p>Signature.....Date.....</p>	