

**Decision No 2013/07**



**REPORT TO:** POLICE AND CRIME COMMISSIONER FOR LANCASHIRE  
**REPORT BY:** LISA KITTO, CHIEF FINANCE OFFICER  
**DATE:** 19 June 2014  
**TITLE:** 2013/14 REVENUE AND CAPITAL OUTTURN POSITION

## **EXECUTIVE SUMMARY**

This report sets out the final revenue and capital budget position for the Police and Crime Commissioner's budget for the 2013/14 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 2013/14 on the financial strategy is set out in this report.

## **RECOMMENDATION**

The Police and Crime Commissioner is asked to;

- note the in-year underspend of £5.389m on the Police and Crime Commissioner's Revenue budget and the year end position on reserves and that this reflects previously agreed transfers to reserves.
- approve the following transfers to reserves;
  - £3.992m of the end of year underspend to the transition reserve to support the ongoing "Futures programme" that will drive out savings in future years.
  - £0.632m to the Operational Policing Reserve
  - £0.765m to DFM reserves
- Approve the addition of a number of fully funded schemes to the capital programme in 2013/14 totalling £0.825m, bringing the total capital programme in 2013/14 to £18.520m
- note the underspend of £9.648m on the capital programme and agree that £9.483m be carried forward into 2014/15 to enable those projects that have been deferred or have slipped to be completed.
- note the value of the capital programme in 2014/15 for monitoring purposes at £17.288m

**Decision taken by the Police and Crime Commissioner for Lancashire:**

<b>Original decision, as set out in the attached report, approved without amendment</b> (please delete as appropriate)	<b>YES</b>	<b>NO</b>
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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.

<b>Signed:</b>  <b>Police and Crime Commissioner</b>  <b>Date:</b>	<b>Signed:</b>  <b>Chief Officer:</b>  <b>Date:</b>
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<b>Signed:</b>  <b>Chief Constable</b>  <b>Date:</b>	<b>Signed:</b>  <b>Chief Finance Officer:</b>  <b>Date:</b>
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## Appendix A

### 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. As well as considering the in-year position, the impact 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 £20m 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 2013/14 year-end position including:

- The out turn 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 2013/14**

The revenue budget for the Police and Crime Commissioner was set at £258.733m and increased through the planned use of balances to £259.259m in order to meet known pressures. The year-end position shows spending of £253.870m giving an underspend of £5.389m. This position reflects the transfers of £6.823m to the transitional reserve that were agreed earlier in the year. The table below sets out a summary position for the budget;

<b>Out Turn Position at 31 March 2014</b>				
<b>Responsibility Area</b>	<b>Revised Budget</b>	<b>Spend</b>	<b>Variance</b>	
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>%</b>
ACC Territorial Operations	146.586	144.755	-1.831	-1.25
ACC Specialist Operations	68.476	66.966	-1.510	-2.21
ACC People	7.610	7.318	-0.292	-3.84
Deputy Chief Constable	4.779	4.697	-0.082	-1.72
Director of Resources	28.774	27.974	-0.800	-2.78
<b>Sub Total</b>	<b>256.225</b>	<b>251.710</b>	<b>-4.515</b>	<b>-1.76</b>
Office of the Police and Crime Commissioner	2.112	1.881	-0.231	-10.9
<b>TOTAL DFM BUDGET</b>	<b>258.337</b>	<b>253.591</b>	<b>-4.746</b>	<b>-1.83</b>
<b>Non DFM</b>	<b>0.922</b>	<b>0.279</b>	<b>-0.643</b>	<b>-69.74</b>
<b>TOTAL BUDGET</b>	<b>259.259</b>	<b>253.870</b>	<b>-5.389</b>	<b>-2.08</b>

## **DFM POSITION**

### ***Lancashire Constabulary***

During 2013/14 the constabulary has delivered savings of £4.5m. This is largely attributable to savings arising from vacancies in both police officers and police staff as well as a successful 'spend less' approach to non-staff budgets. In addition to this there have been savings resulting from lower than anticipated repair and maintenance costs and energy bills. This underspend is in addition to £6.8m of underspending that was identified earlier in the year and which was transferred to the transition reserve to help manage the cost associated with downsizing the organisation including the implementation costs of organisational reviews that were agreed by the Commissioner as part of the approach to delivering savings in future years.

Some savings in 2013/14 related to the early delivery of savings planned for 2014/15 and have therefore already been factored into savings plans and removed from the budget in 2014/15. The constabulary is currently undergoing a recruitment process to recruit to a number of vacant police officer posts. The most effective and efficient way to recruitment is to train a cohort of new recruits at appropriate intervals rather than adopt an on-going approach. This means that some posts remain vacant until a new recruitment drive is undertaken and in doing so in-year savings are released on a short term basis until the posts are filled. The savings associated with these vacancies in 2013/14 will therefore not continue into 2014/15.

### ***Office of the Police and Crime Commissioner***

The Office of the Police and Crime Commissioner has delivered an underspend of £0.231m. Lower than anticipated claims on the Commissioner's hardship fund (£0.050m) have been realised and in addition to this there have been underspends on community safety projects (£0.08m), legal costs (£0.05m) and a general 'spend less' approach to non-staff budgets (£0.06m).

### ***Non-DFM Budgets***

Included within Non-DFM spending are additional costs of implementing the organisational reviews to deliver savings of £60m (£0.8m). These costs are offset by additional income from the recovery of outstanding court order settlements (£0.2m), lower than anticipated overtime costs for major incidents (£0.6m), and reduced borrowing costs and revenue consequence as a result of slippage on the capital programme (£0.5m).

## **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 £0.753m of the Constabulary underspend and £0.012m of the OPCC's underspend be transferred to the DFM reserve in order to maintain DFM reserves equivalent to the 1% limit.

## **Operational Policing Reserve**

In the event of an unforeseen major incident within a force area there is an expectation nationally that Police and Crime Commissioners are expected to fund up to 1% of their net budget before any further assistance from the Home Office is made available. In recognition of this, an Operational Policing Reserve was set up to mitigate against the risk of such an event. The reserve is currently at a level lower than the 1% expectation and it is recommended that £0.632m of the in-year underspend be transferred to the reserve in order to maintain it at the required level. In doing so, the Commissioner and the Constabulary have the assurance that funding is available to support unforeseen major incidents without affecting front line or service budgets.

## **Transition Reserve**

The transition reserve was set up some years ago in recognition that the government's period of austerity would result in significant budget reductions which would require significant levels of savings to be delivered. This would inevitably lead to costs 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 financial savings from a significant change programme in line with a challenging timescale. The period of austerity is envisaged to continue for some years to come and the call on the reserve remains significant. It is recommended therefore that the remaining underspend of £3.992m be transferred to the transition reserve to mitigate future financial risks.

## RESERVES

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

	Position as at 31/3/13	Movement in 2013/14	Current Position as at 31/3/14	Recommended Movements	Final Position as at 31/3/14
	£m	£m	£m	£m	£m
<b><u>EARMARKED RESERVES</u></b>					
Capital Funding Reserve	6.686	3.486	10.172	-4.538	5.634
Transition Reserves	6.729	3.179	9.908	3.992	13.900
Clothing Reserves	0.530	0.034	0.564		0.564
POCA Equalisation Reserve	0.312	0.242	0.554		0.554
PCCA/Drugs Forfeiture Reserves	0.133	0.060	0.193		0.193
VMU Reserves	0.043	-	0.043		0.043
Operational Policing Reserve	1.952	-	1.952	0.632	2.584
Road Safety Reserves	0.933	0.505	1.438		1.438
PCC Investment Fund	-	0.114	0.114		0.114
Early Debt Repayment Reserve	-2.100	0.300	-1.800		-1.800
<b>Total Earmarked Reserves</b>	<b>15.218</b>	<b>7.920</b>	<b>23.138</b>	<b>0.086</b>	<b>23.224</b>
<b><u>GENERAL RESERVES</u></b>					
DFM	2.427	-0.527	1.900	0.765	2.665
General Fund	9.873		9.873		9.873
<b>Total General Reserves</b>	<b>12.300</b>	<b>-0.527</b>	<b>11.773</b>	<b>0.765</b>	<b>12.538</b>

### **Adequacy of Reserves**

The general reserves (DFM and general fund) as at 31 March 2014 are £12.538m and represent around 4.7% of the 2014/15 budget of £266.024. Other earmarked reserves total £23.224m including £13.900m 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.

## **CAPITAL PROGRAMME 2013/14**

The revised capital programme for 2013/14 was approved at £17.695m as set out in the last monitoring report showing the position at 31<sup>st</sup> January 2014. A number of fully funded additions to the programme have subsequently been identified which need added to the 2013/14 capital programme. These include additions to the programme as a result of:

- a successful bid to the Home Office Innovation Fund for which the Commissioner received additional funding of £0.215m to support the Early Action Initiative which is being taken forward in partnership with Lancashire County Council;
- Home Office grant to support a regional collaboration for communication data stakeholder enablement for which Lancashire is the accountable body on behalf of the other forces involved in the collaboration (£0.545m).

Details of all the proposed additions to the capital programme are set out below:

<b>Scheme</b>	<b>Amount £m</b>	<b>Detail</b>	<b>Source of funding</b>
Vehicle Replacement Programme	0.126	Purchase of vehicles for Early Action Response project	Innovation Fund Grant
Mobile Office	0.071	IT requirements for Early Action Response project	Innovation Fund Grant
Body Worn Devices	0.018	Requirements for Early Action Response project	Innovation Fund Grant
Communication Data Stakeholder Enablement (CDSE)	0.545	Regional Collaboration scheme	Home Office grant
Vehicle Replacement Programme	0.010	Vehicle purchase	Sponsorship from Upholland Parish Council/ Southern Division
Vehicle Replacement Programme	0.020	Purchase of (Ports) van	ACPO (TAM) grant
Vehicle Replacement	0.013	Bikewatch scheme	H Division Road Safety revenue contribution
Miscellaneous Minor Works	0.022	Work at Preston police station to create Consultation Rooms	Funded by Division revenue contribution
<b>Total</b>	<b>0.825</b>		

It is recommended that the Commissioner approves the additions to the capital programme as set out above, and the corresponding funding, setting a final programme for 2013/14 of £18.520m.

## 2013/14 Capital Position

### OVERALL POSITION ON THE 2013/14 CAPITAL PROGRAMME

In overall terms the programme has progressed broadly in line with previous reports. A total of £8.872m 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 (£1.8m)
- Desktop replacement programme (£0.4m)
- Virtual desktop infrastructure to support mobile working (£1.1m)
- Systems replacements including communications control system and mobile data (£1.4m)
- Vehicle replacement programme (£2.3m)

The in-year spend of £8.872m has resulted in an in-year variation of £9.648m. Of this £5.493m relates to schemes that have slipped and will be delivered in 2014/15 and £3.990m relates to schemes that have been deferred. In addition to this, there is an underspend of £0.165m on schemes that were completed during 2013/14. Full details are set out below;

	£m
Revised Capital Programme 2013/14	18.520
Capital Spend 2013/14	<u>8.872</u>
<b>Variation</b>	<b>9.648</b>

Represented By:	
Schemes deferred to future years	3.990
Underspends on schemes	0.165
Slippage	<u>5.493</u>
	<b>9.648</b>

### **Schemes to be Deferred**

The following schemes were planned for 2013/14 but have not commenced in line with the original plans. This is due to the fact that accommodation needs are currently being reviewed in line with an estates strategy that is reviewing future accommodation needs in light of recent changes to the Basic Command Unit structure which were reviewed and streamlined to deliver revenue savings in future years. It is likely that the funding will still be required in 2014/15 and future years in order to ensure that accommodation meets future strategic needs:

<b>Scheme</b>	<b>£m</b>
Western HQ	2.000
Accrington Police Station	<u>1.990</u>
	<b>3.990</b>

### **Schemes that have 'slipped' and will be delivered in 2014/15**

The following schemes were due for completion in 2013/14 and have slipped and won't be delivered until 2014/15. Funding for these schemes is required in 2014/15 in order for the projects to be fully completed:

<b>Scheme</b>	<b>£m</b>
Digital Voice Recording	1.392
Digital Speed Cameras	1.253
Vehicle replacement programme	1.057
Automatic Number Plate Recognition (ANPR)	0.102
IT schemes	0.698
Disaster Recovery	0.349
Minor works and other schemes	<u>0.642</u>
	<b>5.493</b>

The slippage on the major schemes is detailed below:

- **Digital Voice Recording (£1.392m)**

The procurement and contract award for this project took longer than anticipated which resulted in the spending originally intended in 2013/14 to be delayed into 2014/15.

- **Digital Speed Cameras (£1.253m)**

This scheme was originally phased over two financial years, 2012/13 and 2013/14, and is funded from Road Safety Partnership contributions. There have been delays in progressing this as previous tender solutions had not been certified by the Home Office, resulting in a further tendering process which has only recently concluded with a consequential delay in spending. .

- **Vehicle Replacement Programme (£1.057m)**

Spending on vehicles has slipped in to 2014/15 to reflect when the vehicles will be delivered

- **IT Schemes/Disaster recovery (£1.047m)**

A re-phasing and re-prioritising of work has resulted in slippage in 2013/14.

## **Carry Forward into 2014/15**

As a result of the deferred schemes and the slippage of schemes set out above it is recommended that a total of £9.483m be carried forward into the 2014/15 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 £0.165m is made up of the following schemes. This is made up of an underspend of £0.790m largely as a result of planned expenditure on electronic case files not being incurred in line with anticipated timescales (£0.6m) and lower than anticipated accommodation costs (0.164m). This underspending is offset by additional costs for implementing the organisational reviews (£0.625m). The net underspend will be made available to support other schemes in future years:

<b>Scheme</b>	<b>+Over/-Under</b>
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	<b>Spend £m</b>
IT strategy	+0.012
Electronic Case Files	-0.600
Accommodation Strategy	-0.164
OR implementation costs	+0.625
Other schemes	-0.038
	<b>-0.165</b>

## **FINANCING OF 2013/14 CAPITAL EXPENDITURE**

The following table shows how the expenditure of £8.872m has been financed in 2013/14 and the resources earmarked to finance the carry forward into 2014/15 of £9.483m;

	£m
<b><i>Financing</i></b>	
Capital Grant/Contribution	3.395
Capital Receipts	0.939
Revenue Resources	4.538
Unsupported Borrowing	-
<b>TOTAL EXPENDITURE 2013/14</b>	<b>8.872</b>
<b><i>C/F into 2014/15 and Sources of Finance;</i></b>	
Capital Grant/Contribution	0.003
Capital receipts	3.818
Revenue Resources	1.672
Unsupported Borrowing	3.990
<b>Carry Forward into 2014/15</b>	<b>9.483</b>

## **CAPITAL PROGRAMME 2014/15**

It is proposed that the year-end position on the capital programme for 2013/14 be reflected in the programme for 2014/15 as follows:

	£m
Originally approved programme 2014/15	7.805
ADD	
Schemes deferred from 2013/14	3.990
Slippage from 2013/14	5.493
<b>Revised programme 2014/15</b>	<b>17.288</b>

The Commissioner is asked to note the position for the capital programme in 2014/15

## **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 £80m of savings are likely to be required over the period 2011/12 – 2017/18 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:

- ***IPCC Top-Slice***

In 2015/16 there are specific uncertainties in respect of: the level of 'top-slice' that will be applied to fund the IPCC. A total of £18m was top-sliced in 2014/15 and whilst the 2015/16 figures have not yet been announced they are expected to be higher than that applied in 2014/15.

- ***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 2020. The current forecast of reductions in funding in 2016/17 and 2017/18 reflects the current trajectory of the changes that have been implemented however there is a risk that this may underestimate future years cuts which would clearly impact upon the savings required.

- ***Cost Pressures***

There is also a risk that pay inflation will rise above the current forecast which is assumed at a 1% increase each year. Private sector pay has started to increase and pay increases generally are above inflation, this will undoubtedly lead to pressure for police officers and staff pay to increase at a level above 1% in future years.

- ***Formula Review***

The Home Office is to carry out a review of the funding formula that is used to calculate funding allocations to PCCs. The introduction of any new formula 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.

## **CONCLUSION**

The overall financial health of the Police and Crime Commissioner's budget at the end of the 2013/14 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.