



## JOINT MANAGEMENT BOARD

<b>ITEM 2016/04</b>	<b>DATE: 17 JUNE 2016</b>
<b>TITLE: REVENUE AND CAPITAL FINANCIAL POSITION AS AT 31 MARCH 2016</b>	
<b>REPORT BY: STEVE FREEMAN, CHIEF FINANCE OFFICER</b>	
<b>Appendix 'A' refers</b>	

### Executive Summary

This report sets out the final revenue and capital budget position for the Police and Crime Commissioner's budget for the 2015/16 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 2015/16 upon the financial strategy is also set out in this report.

### Recommendations

The Police and Crime Commissioner is asked to:

- Note the in-year overspend of £1.4m 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.
- Note that the net overspend position includes the one-off costs of the transformation of the organisation of £5.4m which have been offset in considerable part through net in-year savings of £2.6m
- approve the following transfers to and from reserves:
  - £2.772m from the transition reserve in to the Constabulary revenue budget to meet the overspend in 2015/16
  - £1.391m of the end of year underspend to the transition reserve to support the ongoing "Futures programme" that will drive out savings in future years.
- Approve the addition of £0.016m to the capital programme in 2015/16 giving a final approved programme of £24.242m
- Note the underspend of £10.189m on the capital programme and agree that £8.151m be carried forward into 2016/17 to enable those projects that have been deferred or have slipped to be completed.
- note the value of the capital programme in 2016/17 for monitoring purposes at £30.538m

Signature

Police and Crime Commissioner

Date: 17 June 2016

## **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 £30m 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 2015/16 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 2015/16**

The 2015/16 revenue budget for the PCC was set at £258.871m in February 2015 and was increased during the year through the planned use of reserves (£0.431m) and the 2014/15 council tax surplus (£1.090m) to £260.392m in order to meet known pressures. The year-end position shows spending of £261.773m giving an overspend of £1.381m (0.53%).

The table below sets out a summary position for the budget:

<b>Position as at 31 March 2016</b>				
<b>Responsibility Area</b>	<b>Revised Budget £m</b>	<b>Spend £m</b>	<b>Variance</b>	
			<b>£m</b>	<b>%</b>
<b>Chief Constable</b>				
Pay	197.021	194.609	-2.412	-1.22
ACC Territorial Operations	9.081	9.408	0.327	3.60
ACC Specialist Operations	8.537	8.905	0.368	4.31
Director of Resources	17.053	16.035	-1.018	-5.97
Deputy Chief Constable	1.789	1.861	0.072	4.02
<b>Chief Constable DFM</b>	<b>233.481</b>	<b>230.818</b>	<b>-2.663</b>	<b>-1.14</b>
Chief Constable non-DFM	15.194	20.629	5.435	35.77
<b>Chief Constable – Total</b>	<b>248.675</b>	<b>251.447</b>	<b>2.772</b>	<b>1.11</b>
<b>Police and Crime Commissioner</b>				
Office of the PCC	1.500	1.493	-0.007	-0.47
Community Safety & Partnerships	2.338	1.903	-0.435	-18.61
Victims and Witnesses of Crime	1.656	1.640	-0.016	-0.97
Grant income	-1.656	-1.636	0.020	1.21
<b>PCC DFM</b>	<b>3.838</b>	<b>3.400</b>	<b>-0.438</b>	<b>-11.41</b>
PCC non-DFM	<b>7.879</b>	<b>6.926</b>	<b>-0.953</b>	<b>-12.10</b>
<b>PCC - Total</b>	<b>11.717</b>	<b>10.326</b>	<b>-1.391</b>	<b>-11.87</b>
<b>TOTAL BUDGET</b>	<b>260.392</b>	<b>261.773</b>	<b>1.381</b>	<b>0.53</b>

### ***Lancashire Constabulary***

During 2015/16 the constabulary has delivered a total underspend of £2.7m within the Chief Constable's DFM budget that is largely attributable to savings arising from vacancies in both police officers and police staff (£2.4m) as well as a successful 'spend less' approach to non-staff budgets (£1.1m). This year end position also reflects that additional costs in respect of Compensatory time off (£1.1m), the operational cost of dealing with widespread flooding in December 2015 (£0.3m) and increased costs of holiday pay resulting from a successful legal challenge (£0.2m) have been contained within the existing constabulary DFM revenue budget.

There has also been significant cost pressure within the Chief Constable's non-DFM budget in respect of the cost of transforming the organisation in respect of redundancy and voluntary exit costs giving rise to an overspend of £5.4m in 2015/16.

The Commissioner has set aside money in the transition reserve to meet such costs as part of his medium term financial strategy and, as part of that strategy, agreed that any

costs of transformation that cannot be contained within the existing constabulary revenue budget would be met from this reserve. As a result it is **recommended** that £2.772m be transferred from the transition reserve in to the constabulary revenue budget to offset the costs of transformation in 2015/16 that cannot be contained within the overall revenue resources allocated to the Chief Constable.

As indicated above, some of the underspending identified in 2015/16 relates to the early delivery of savings planned for future years that have therefore already been factored into the medium term financial strategy and removed from the budget in 2016/17.

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

The Office of the Police and Crime Commissioner has delivered an underspending of £1.4m. The main elements of this are:

- An underspend of £0.4m on the community safety, partnerships and reducing crime and reoffending budgets that has arisen as service design for future years takes place, the underspend is non-recurring as the design for the service will be finalised during 2016/17
- An underspend of £1m in respect of the interest paid on borrowings as a result of effective treasury management activity during the year and the re-phasing of the borrowing required to finance the capital investment programme in to future years.

It is therefore **recommended** that £1.391m be transferred from the PCC revenue budget in to the transition reserve to provide funding that will assist in the delivery of the PCC's capital investment programme.

## **CAPITAL PROGRAMME 2015/16**

The revised capital programme for 2015/16 was approved at £24.226m as set out in the last monitoring report to the Joint Management Board in February 2016 that showed the position at 31<sup>st</sup> December 2015.

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 additional hand held devices financed through ACPO TAM grant in respect of Ports policing in the amount of £0.016m.

It is **recommended** that the Commissioner retrospectively approve the addition of this item to the capital programme giving a final approved programme in 2015/16 of £24.242m.

### **Year-end position on the 2015/16 capital programme**

In overall terms the programme has progressed broadly in line with previous reports. A total of £14.053m 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 (£3.5m)
- Device replacement programme (£4.7m)
- Systems replacements including case and custody (£2.2m)
- Vehicle replacement programme (£1.7m)

The year-end spend of £14.053m has resulted in a variation against the programme of £10.189m. Of this £8.151m relates to schemes that have slipped and will be delivered in 2016/17 and future years, and £2.038m relates to underspending. Full details are set out below:

	Revised Programme 2015/16	Actual at 31 March 2016	Slippage	Under/-Over spend
	£m	£m	£m	£m
IT Strategy	15.862	10.443	4.382	1.037
Accommodation Strategy	2.917	0.762	1.056	1.099
Vehicle replacement	3.451	1.725	1.726	-
Other schemes	2.012	1.123	0.987	-0.098
<b>Total</b>	<b>24.242</b>	<b>14.053</b>	<b>8.151</b>	<b>2.038</b>

### **Schemes that have 'slipped' and will be delivered in 2016/17 and future years**

Slippage of £8.151m has been identified in to futures years with the main elements being:

- *Infrastructure projects (£1.1m)*  
Work on infrastructure for data and telephony will take place in 2016/17.
- *Automatic Number Plate Recognition - ANPR (£0.9m)*

Work to upgrade and expand the ANPR network is ongoing and will extend into 2016/17.

- *Device upgrade and replacement (£0.8m)*

The roll out of handheld devices across the whole of the force will continue into 2016/17.

- *Digital Voice Recording (£0.3m)*

There has been a delay in the delivery of the hardware required to deliver the project which will be delivered in 2016/17.

- *Case and Custody system replacement (£0.4m)*

Replacement of the case and custody file system will be completed in 2016/17.

- *Accrington Police Station (£0.5m)*

The completion of the new town centre policing base will be completed in early 2016/17 following signing of lease for the new accommodation in Accrington

- *Digital Speed Camera Upgrade (£0.8m)*

Work to complete the upgrade of the digital speed camera network will continue in to 2016/17.

- *Vehicle Replacement Programme (£1.7m)*

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 £8.151m be carried forward into the 2016/17 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 £2.038m is made up, in the main, as follows:

- *Network access and security schemes (£0.5m)*
- *Device upgrade and replacement programme (£0.1m)*
- *System replacements programmes (£0.4m)*
- *Accommodation schemes (£1.0m)*

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

### **Financing of 2015/16 capital expenditure**

The following table shows how the expenditure of £14.053m has been financed in 2015/16 and the resources earmarked to finance the carry forward into 2016/17 of £8.151m:

	<b>£m</b>
<b><i>Financing</i></b>	
Capital Grant/Contribution	2.894
Capital Receipts	0.028
Revenue Resources	10.498
Unsupported Borrowing	0.633
<b>TOTAL EXPENDITURE 2015/16</b>	<b>14.053</b>
<b><i>C/F into 2016/17 and Sources of Finance;</i></b>	
Capital receipts	0.816
Revenue Resources	6.278
Unsupported Borrowing	1.057
<b>Carry Forward into 2016/17</b>	<b>8.151</b>

### **Capital programme 2016/17**

It is proposed that the year-end position on the capital programme for 2015/16 be reflected in the programme for 2016/17 as follows:

<b>Capital Programme 2016/17</b>	<b>£m</b>
Originally approved new starts 16/17	22.387
ADD	
Slippage from 2015/16	8.151
<b>Revised programme 2016/17</b>	<b>30.538</b>

The Commissioner is asked to note the revised value of the capital programme in 2016/17.



## **IMPACT ON RESERVES**

As part of his medium term financial strategy the Commissioner has set aside money in the Transition reserve to meet the costs of the transformation of policing services in Lancashire. The PCC has agreed that any such costs that cannot be met from within the annual revenue budget should be met from this reserve. As a result it is recommended that £2.772m is transferred from the transition reserve in to the constabulary revenue budget to offset the net costs of transformation in 2015/16.

The PCC's strategy also sets aside funding in the reserves to provide investment for the future of the service in Lancashire through his Capital investment programme. An underspending of £1.391m has been realised within the PCC's own revenue budget in 2015/16 and it is therefore recommended that this amount be transferred in to the transition to reserve to contribute to this future investment.

## **RESERVES**

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

	<b>Position as at 31/3/15</b>	<b>Movement in 2015/16</b>	<b>Final Position as at 31/3/15</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>
<b><u>EARMARKED RESERVES</u></b>			
Capital Funding Reserve	6.617	(3.319)	3.298
Transition Reserve	21.243	(7.507)	13.736
Clothing Reserve	0.611	0.044	0.655
POCA Equalisation Reserve	1.208	(0.544)	0.664
PCCA/Drugs Forfeiture Reserve	0.138	0.018	0.156
VMU Reserve	0.040	0	0.040
Operational Policing Reserve	2.584	0	2.584
Road Safety Reserve	2.220	0.936	3.156
PCC Investment Fund	3.737	2.530	6.267
Early Debt Repayment Reserve	-1.500	1.500	0
<b>Total Earmarked Reserves</b>	<b>36.898</b>	<b>(6.342)</b>	<b>30.556</b>
<b><u>GENERAL RESERVES</u></b>			
DFM	2.543	(0.432)	2.111
General Fund	9.873	0	9.873
<b>Total General Reserves</b>	<b>12.416</b>	<b>(0.432)</b>	<b>11.984</b>

## **Adequacy of Reserves**

The general reserves (DFM and general fund) as at 31 March 2015 are £12.0m and represent around 4.6% of the 2016/17 budget of £261.521m. Other earmarked reserves total £30.6m including £20.0m held in transition reserves and £3.3m in the capital funding reserve to mitigate against the risks of implementing the change programme and provide investment for the PCC's capital programme in 2016/17 and future years.

The PCC's Chief Finance Officer believes that the level of reserves remains appropriate in the context of the "Futures" programme and the future reductions in funding forecast for future years. This view recognises that there has been a significant, planned reduction in the level of earmarked reserves in line with the Commissioner's medium term financial strategy during 2015/16.

### **Investing for the future**

In order to preserve the operational integrity and capability of the force in future years, whilst delivering the savings required, the PCC 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 PCC 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 such as buildings, infrastructure, IT networks, IT equipment and staff are used, 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 PCC's capital programme for 2016/17 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
- Replacement of IT equipment to enable front line officers to operate as efficiently and productively as possible
- 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 PCC 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 PCC 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 PCC has committed £25m of his earmarked revenue 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 continue to be reviewed and if appropriate set aside in reserves to assist in meeting this investment programme.

## **FUTURE RISKS AND OPPORTUNITIES**

The PCC, in conjunction with the CC, 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 a number of years and a total of more than £90m of savings are likely to be required over the period 2011/12 – 2020/21 of which £63m has already been delivered.

The longer term financial position is reviewed on a regular basis and further savings of c £30m are currently forecast to be required for the period 2016/17 to 2020/21. This is a significant challenge for the PCC and the Constabulary and work is already underway to develop plans on how these can be achieved. The PCC and the Constabulary have a proven track record, as recognised by both HMIC and external audit reports, 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 2016/17 and future years remains uncertain.

Specific Risks are:

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

The amount of funding for policing that is 'top-sliced' by the Home Office before it is allocated to individual forces continued to increase in the 2016/17 settlement. It is widely anticipated that this pattern will continue and despite assurances that funding for policing will be protected (per the Chancellor of the Exchequer's 2016 budget statement) this is only at the national level and as top-slicing increases in each future year the allocations to individual forces will therefore continue to reduce.

- ***Demand for policing services***

The nature of the demand placed upon police forces is changing with pressure from incidents relating to vulnerability such as mental health issues increasing at a dramatic rate. This is exacerbated by funding reductions for local health providers and local authorities that are increasingly retreating from the provision of support in these areas. This in turn results in an increased demand for the police to intervene.

The nature of crime is also changing significantly, there is a huge increase in the level of cyber-crime, child sexual exploitation cases and human trafficking activity that are far more complex issues to investigate than the more traditional types of criminal activity and incur significant cost. As a result there is huge pressure being placed upon forces in meeting the demand they face from such crimes that has to be met from a reducing resource base.

- ***Government economic growth forecasts***

There is a significant amount of uncertainty about the level of funding for PCCs beyond 2016/17 as the Chancellor's forecast of economic growth for the forthcoming Comprehensive Spending Review period (to 2020/21) has been significantly downgraded since his budget announcement in March 2016.

As a result it is likely that there will need to be further cuts to departmental budgets in future years that could, in turn, impact adversely on the funding available for policing.

- ***Changes to the discount rate for pension costs***

The level of discount applied to employer's costs in respect of police pension payments in 2019/20 is to reduce which will in turn increase the costs for the employers. At this stage it is not possible to calculate the value of this change but it is expected to be a significant annual increase in cost.

## **CONCLUSION**

The overall financial health of the Police and Crime Commissioner's budget at the end of the 2015/16 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 emerge 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**

Effective management of the revenue budget in conjunction with strong medium term financial planning including for investment in futures years is vital to enable the PCC to deliver the Police and Crime Plan

## **3. Consultation**

## **4. Implications**

### **a. Legal**

There are no legal comments associated with this paper.

### **b. Financial**

Financial implications are contained in the report above

### **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
<b>LEGAL IMPLICATIONS – As above</b>	
<b>FINANCIAL IMPLICATIONS – As above</b>	
<b>EQUALITIES IMPLICATIONS – As above</b>	
<b>CONSULTATION – As above</b>	
<p><b>Director to the Office of the Police and Crime Commissioner (Monitoring Officer)</b></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>	