



**Lancashire
Constabulary**
police and communities together

JOINT MANAGEMENT BOARD

**ITEM 2
DECISION REF 05/2017**

DATE: 13 JUNE 2017

**TITLE: REVENUE AND CAPITAL FINANCIAL POSITION AS AT 31
MARCH 2017**

**REPORT BY: STEVE FREEMAN, CHIEF FINANCE OFFICER
Appendix 'A' refers**

Executive Summary

This report sets out the final revenue and capital budget position for the Police and Crime Commissioner's budget for the 2016/17 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 2016/17 upon the financial strategy is also set out in this report.

Recommendations:

The Police and Crime Commissioner is asked to:

- Note the in-year underspend of £4.054m 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 transfer of the year end underspend of £4.054m to the transition reserve to support the ongoing "Futures programme" that will drive out savings in future years.
- Approve the addition of £0.201m to the capital programme in 2016/17 giving a final approved programme of £24.796m
- Note the underspend of £2.198m on the capital programme and agree that £1.446m be carried forward into 2017/18 to enable those projects that have been deferred or have slipped to be completed.
- note the value of the capital programme in 2017/18 for monitoring purposes at £38.121m

Signature

Police and Crime Commissioner

Date: 13 June 2017

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 £13.4m 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 2016/17 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 2016/17

The 2016/17 revenue budget for the PCC was set at £261.521m in February 2016 and after taking in to account the planned use of balances (£0.060m) by budget holders in order to meet known pressures was increased during the year to £261.581m. The year-end position shows spending of £257.548m giving an under/overspend of £4.054m (1.54%).

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

Position as at 31 March 2017				
Responsibility Area	Revised Budget £m	Spend £m	Variance £m %	
Chief Constable				
Pay	193.109	194.208	1.099	
ACC Territorial Operations	8.606	8.195	-0.411	
ACC Specialist Operations	10.489	10.731	0.242	
Director of Resources	15.227	14.216	-1.011	
Deputy Chief Constable	1.963	1.967	0.004	
Chief Constable DFM	229.394	229.317	-0.077	
Chief Constable non-DFM	19.278	17.032	-2.246	
Chief Constable – Total	248.672	246.349	-2.323	-0.9
Police and Crime Commissioner				
Office of the PCC	1.421	1.905	0.484	
Reducing crime and reoffending	0.625	0.662	0.037	
Community Safety & Partnerships	1.940	1.116	-0.825	
Victims and Witnesses of Crime	1.740	1.690	-0.050	
Grant income	-1.740	-1.740	-	
PCC DFM	3.987	3.633	0.354	
PCC non-DFM	8.922	7.545	-1.376	
PCC - Total	12.909	11.178	-1.731	-13.4
TOTAL BUDGET	261.581	257.527	-4.054	-1.6

Lancashire Constabulary

During 2016/17 the constabulary has delivered a small underspend of £0.077m within the Chief Constable's DFM budget including a number of compensating under and over spends on individual elements:

£1.243m	Spend above budget on pay to meet specific in-year demand
(£1.067m)	Savings on non-staff budgets including: <ul style="list-style-type: none"> - £0.228m premises costs (energy, rent and rates) - £0.462m from increased income related to vehicle sales and recharges - £0.188m savings on transport costs (Car allowances, vehicle hire) - £0.240m Savings ion various supplies and services expenditure
(£0.324m)	Underspend on ICT running costs including reduced national ICT charges (£0.106m), reduced charges for Airwave (£0.113m) and lower costs of licence renewals (£0.078m).

The Constabulary non-DFM budget has realised an underspend of £2.246m including the following main elements:

£0.435m	Overspend due to the cost of implementing spending reviews, in the main relating to exit costs for staff.
(£0.300m)	Underspend arising from a lower than forecast cost of financing capital
£0.412m	Overspend on cost of ill-health retirements reflecting increased levels of both injury gratuities and pensions and higher ill health capitalisation costs. The number of ill health retirements in the year was 30 consistent with the budget.
(£2.860m)	Savings realised from the central retention of a 'turnover allowance' for staff costs and the zero based approach for non-staff costs budgets to drive out savings wherever possible.

The overall underspend on the Constabulary revenue budget for 2016/17 is **£2.323m** and it is therefore **recommended** that this amount be transferred to the transition reserve from the constabulary revenue budget to assist in the delivery of the PCC's capital investment programme in future years and to meet any costs of transformation for the organisation.

Office of the Police and Crime Commissioner

The Office of the Police and Crime Commissioner has delivered an underspending of £1.7m. The main elements of this are an underspend of £0.354m on the PCC DFM budget and an underspend of £1.376m 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 **£1.731m** 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 2016/17

The revised capital programme for 2016/17 was approved at £24.595m as set out in the last monitoring report to the Joint Management Board in February 2017 that showed the position at 31st December 2016.

Further, fully funded, additions to the programme have subsequently been identified under delegated approvals in line with the Commissioner's scheme of delegation as follows:

- Vehicle Replacement Programme £0.049m
 - Purchase of a trailer for the Rural & Wildlife Crime unit (£0.003m) funded by the PCC and 3 vehicles for the Ports unit (£0.046m) funded by National Counter Terrorism Policing Grant.
- HQ Operations Specialised Equipment Replacement Programme £0.024m
 - Resurfacing of the Mounted training arena funded by a contribution from the constabulary revenue budget.
- Mobile Handheld Smart Device Programme £0.004m
 - Samsung devices provided to PIF funded schemes.
- CCTV System - Heysham Ports £0.124m

- Replacement of the CCTV system at Heysham port funded by National Counter Terrorism Policing Grant.

It is **recommended** that the Commissioner retrospectively approve the addition of this item to the capital programme giving a final approved programme in 2016/17 of **£24.796m**.

Year-end position on the 2016/17 capital programme

In overall terms the programme has progressed broadly in line with previous reports. A total of £22.598m has been spent on capital projects as summarised in the table below:

	£m
IT Strategy	8.389
Accommodation Strategy	8.581
Vehicle Replacement Programme	3.693
Other schemes	1.935
Total	22.598

The main elements of capital investment in 2016/17 include:

I.T. Strategy

- £3.724m Network Access and Security
- £1.285m Device upgrade and replacement
- £3.380m System replacement

Accommodation Strategy

- £7.767m West Division HQ
- £0.462m Accrington Police Station
- £0.352m Minor works

Other Schemes

- £0.579m replacement of specialist equipment
- £0.331m costs of OR implementation and Early Action activity
- £1.025m Speed camera replacement on behalf of Lancashire Road Safety Partnership

The year-end spend of £22.598m has resulted in a variation against the programme of £2.198m. Of this £1.446m relates to schemes that have slipped and will be delivered in 2017/18 and future years, and £0.752m relates to underspending.

Full details of the **year-end position** are set out below:

	Revised Programme	Actual	Slippage	(Under) /Over spend
	£m	£m	£m	£m
IT Strategy	9.499	8.389	(0.386)	(0.724)
Accommodation Strategy	7.429	8.581	1.316	(0.164)
Vehicle Replacement Programme	4.618	3.693	(0.925)	-
Other schemes	3.250	1.935	(1.451)	0.136
Total	24.796	22.598	(1.446)	(0.752)

The slippage and underspend shown above is broken down as follows:

Scheme	Slippage £m	(under)/over Spend £m
IT Strategy		
Network access and security	(1.039)	(0.661)
Device upgrade and replacement	0.063	0.081
Systems replacement	0.590	(0.144)
CSP Penetration testing	-	(0.019)
	(0.386)	(0.724)
Accommodation Strategy		
HQ facilities – West	1.884	
Accrington Police station		(0.164)
Minor works	(0.568)	
	1.316	(0.164)
Vehicle replacement programme	(0.925)	
Other schemes		
Digital Speed camera upgrade	(0.602)	
Specialist equipment replacement	(0.008)	0.190
OR implementation and Early Action		(0.054)
Average Speed Cameras	(0.841)	
	(1.451)	0.136
Total	(1.446)	(0.752)

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

Financing of 2016/17 capital expenditure

The following table shows how the expenditure of £22.598m has been financed in 2016/17 and the resources earmarked to finance the carry forward into 2017/18 of £1.446m:

	£m
Financing	
Capital Grant/Contribution	1.641
Capital Receipts	8.585
Revenue Resources	4.360
Revenue Reserves	2.714
Unsupported Borrowing	5.298
TOTAL EXPENDITURE 2016/17	22.598
C/F into 2017/18 and Sources of Finance:	
Capital receipts	0.133
Revenue Reserves	2.630
Unsupported Borrowing	-1.316
Carry Forward into 2017/18	1.447

Capital programme 2017/18

It is proposed that the year-end position on the capital programme for 2016/17 be reflected in the programme for 2017/18 as follows:

Capital Programme 2017/18	£m
New starts 17/18	36.675
ADD	
Slippage from 2016/17	<u>1.446</u>
Revised programme 2017/18	38.121

The Commissioner is asked to **note** the revised value of the capital programme in 2017/18.

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. In 2016/17 all such costs have successfully been contained within the existing annual revenue budget so there is no requirement to draw down from the transition reserve for this purpose.

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. Underspensing of £4.054m has been realised within the overall revenue budget in 2016/17 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:

	Position as at 31/3/16	Movement in 2016/17	Final Position as at 31/3/17
	£m	£m	£m
<u>EARMARKED RESERVES</u>			
Capital Funding Reserve	3.298	-1.840	1.458
Transition Reserve	13.737	5.738	19.475
Clothing Reserve	0.655	-0.032	0.623
POCA Equalisation Reserve	0.664	-0.012	0.652
PCCA/Drugs Forfeiture Reserve	0.156	0.020	0.176
VMU Reserve	0.040	-	0.040
Operational Policing Reserve	2.584	-	2.584
Road Safety Reserves	3.155	0.020	3.175
PCC Investment Fund	6.268	-0.124	6.144
Total Earmarked Reserves	30.557	3.770	34.327
<u>GENERAL RESERVES</u>			
DFM	2.111	0.431	2.542
General Fund	9.873	-	9.873
Total General Reserves	11.984	0.431	12.415

Adequacy of Reserves

The general reserves (DFM and general fund) as at 31 March 2017 are £12.4m and represent around 4.7% of the 2017/18 budget of £261.647m. Other earmarked reserves total £34.327m including £25.619m held in transition reserves and £1.458m 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 2017/18 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.

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 2017/18 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 including the construction of a new Headquarters building in West division

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 £25.6m 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 £95m of savings are likely to be required over the period 2011/12 – 2019/20 of which £82.5m has already been delivered.

The longer term financial position is reviewed on a regular basis and further savings of c £13.4m are currently forecast to be required for the period 2018/19 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 2017/18 and future years remains uncertain.

Specific Risks are:

➤ **Specific Grant allocations**

Specific grants such as the Counter Terrorism Grant and funding for the provision of Victim Services are reviewed each year. No confirmation beyond 2017/18 has been provided in the final settlement for such grants and there remains a risk they could reduce in future years. Should there be any changes in grant provided for these services this may be offset by corresponding changes in expenditure requirements or a transfer of budget from another area of the service.

➤ **Future levels of top-slicing**

The PCC's MTFS includes the impact of previously announced top-slices to the national funding level for police services. No announcements have been made, however, on the level of top-slicing that will take place beyond 2017/18 therefore the estimated impact currently reflected in the forecast could be subject to change when future announcements are made.

➤ **Partner Funding for PCSOs**

The PCC is committed to ring-fencing police budgets that currently fund PCSOs however the overall funding available will be dependent upon the continuation of partner funding. Some funding for PCSOs is received from partners across Lancashire and is match funded by the Commissioner. Several partners have funding in 2017/18 and the remaining level of funding in future years remains uncertain.

➤ **Replacement of Airwave**

The emergency services communications network 'Airwave' is scheduled to be replaced by 2019/20. Lancashire Constabulary was initially amongst the first forces scheduled to transfer to the new network in 2017/18 and as a result will incur considerable capital expenditure in respect of equipment and infrastructure.

It has been made clear by the Home Office that the timetable for the implementation of the new network has been delayed and a specific implementation date has not been provided adding considerable uncertainty to the process. It is also unclear if the final deadline for completing implementation in 2019/20 will be met. It is clear how much the transition to the new system will cost but any programme delays will have a significant cost for the policing service as a whole and individual forces within it. There are known capital costs to be met by Lancashire for this project and additional contributions to reserves have been made as an attempt to mitigate some of these costs.

➤ **Review of the Police Funding Formula**

The Home Office intends to implement a revised funding formula in 2018/19 which will impact upon the amount of grant received by the Commissioner. The level of funding that Lancashire will receive will be entirely dependent upon the factors used to determine the new formula allocations and until more information is made available it is extremely difficult to forecast the specific impact on future years.

The previous attempt to deliver a new formula provided a range of potential outcomes for Lancashire from a loss of funding of £8.5m to a loss of funding of £25m. Clearly there is a significant risk that there could be a substantial loss of funding for Lancashire as a

result of this process and the MTFS has an indicative impact at the lower end of the range shown above however until the Home Office provides a final version of the formula with specific allocations there remains a high level of uncertainty in the forecast for future years.

➤ ***Impact of cuts to Local Government funding***

Local Authorities face significant further budget reductions in future years. It is expected that this in turn will increase the demands faced by policing services particularly in relation to individuals with mental health issues. The impact of these changes is extremely difficult to forecast but as information becomes available it will be reflected in future iterations of the MTFS.

➤ ***Changing nature of Police demand***

The demand on police services is changing with a reduction in traditional high volume crimes. However, as recognised by the National Audit Office (NAO) crime levels are a limited measure of demand and do not show the full range of work carried out by the police. This situation is echoed in Lancashire, where recorded crime does not include all types of crime, it does not take account of complexity, nor does it take into consideration those emerging more complex risks and threats such as cyber-crime and child sexual exploitation, which have historically been under-reported. This changing profile within the context of continuing austerity requires the Constabulary to ensure that it places emphasis on driving out efficiencies wherever possible to increase the capacity to meet the challenge.

➤ ***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 2016/17 financial year remains strong. The OPCC and the Constabulary have been able to demonstrate;

- Strong financial control 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
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>	