

**West Mercia
Police and Crime Commissioner and
Chief Constable**

Report to the West Mercia Police and Crime panel

**Finance Update
Quarter 4 2013/14**

SUMMARY:

This report provides the final year-end position on the revenue and capital financial outturn for 2013/14.

1. Purpose

- 1.1 The purpose of this report is to provide the Police and Crime Panel with the year end financial position. This report includes:
- The revenue out-turn for 2013/14
 - The capital expenditure out-turn for 2013/14
 - Progress update on the alliance programme (2011/12 - 2014/15)
 - Governance and development update for the next phase of the programme (2015/16 - 2018/19)

2. Background

2.1 Cost Pooling Arrangements- Revenue

The cost pooling arrangements for the alliance are complex and as an innovative arrangement there is no model for us to follow. It is worth re-iterating the issues so that the limitations of the interim arrangements can be understood. In April 2014 we went live with the new system across the alliance with standardised budget structures. This will significantly improve our ability to produce timely relevant management information.

- 2.2 The 2014/15 budget has been built in the new financial and organisational structure. This will continue to change as we work through the remaining change programme, however, it is important to understand that changes of this significance across both forces will make year on year comparisons almost impossible until we move into 2015/16.

- 2.3 The financial year 2013/14 was the first year when the alliance between Warwickshire and West Mercia became fully operational. The new policing model went live in September 2013 and all of the senior departmental managers were in place from April 2013. Although not all the new structures had been put in place, services across the alliance were being managed under a single management structure. To support managers to deliver a single service it was decided to “pool” all budgets unless they were classified as non-pooled under the collaboration agreement. The non-pooled budgets include; estates, capital borrowing, police pensions and income. The two Offices of the Police and Crime Commissioner

(OPCC) are also non-pooled. Any specific force or PCC initiatives are also budgeted as non-pooled and charged to the relevant force or OPCC.

- 2.4 Managing two different budget structures and two different financial systems has been a complex arrangement for 2013/14. Some of this complexity was managed by budgeting at a service level. Historically each force spent its budgets in different ways; Warwickshire spent a higher proportion of its budget on non-pay whilst West Mercia had a higher proportion of spend on pay. The 2013/14 budgets were constructed on this historic format for each force i.e. they did not reflect the new pattern of spending that would arise from the joint working and cost sharing. The finance team ensures that actual spend against the budget is shared in the proportion 69:31, reflecting the agreed cost sharing in the collaboration agreement. The cost sharing model and pooling arrangements were independently verified by Grant Thornton.
- 2.5 In pooling the budgets in 2013/14 the team mapped all budgets onto the pooled structure and has used this for budget monitoring. This single set of management accounts has enabled managers to see just one budget across the alliance simplifying the management accounting process. However, it has been complex to manage the relationships between the management accounting and financial accounting required to ensure the integrity of the separate organisations.
- 2.6 For assurance purposes internal audit was asked to review our processes so that PCCs and CCs could be confident in the integrity of their own statutory accounts and management accounting data. The audit report has provided the necessary assurance. This will be further verified through the external audit process.
- 2.7 The cost sharing split of 69:31 West Mercia: Warwickshire will be subject to further review to ensure its continued relevance.

2.8 Cost Pooling Arrangements - Capital

The model for cost sharing capital and funding capital is also complex. There has been limited joint investment in 2013/14 and we have used the 69:31 cost sharing ratio for cost sharing as this is considered appropriate for the specific circumstances. This may not apply to all situations going forward.

3. 2013/14 revenue budget

- 3.1 Table 3.1 shows the budget variance analysis across the pooled budgets. Tables 3.2 and 3.3 show the budget variance across Warwickshire and West Mercia respectively including the non-pooled spend. The tables show all spend including spend originally earmarked for reserves.
- 3.2 The net base budget for 2013/14 across the Alliance is £295.4m. This figure includes planned use of budget reserve of £4.2m in total; £0.7m relates to Warwickshire and the remaining £3.56m in West Mercia).
- 3.3 The net budget requirement for the Alliance is £291.135m. West Mercia's net budget requirement is £200.966m with Warwickshire's being £90.169m

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- 3.4 The total spend across the alliance at the end of the financial year is £281.2m. This gives an under-spend in total of £9.9m. This includes the use of an additional £7.4m in the form of a revenue contribution to capital and spend originally planned against specific reserves of £3.0m in Warwickshire and £0.4m in West Mercia. In other words, all spend including that on earmarked reserves has been funded from the base budget. There has been no draw down from reserves as originally planned.
- 3.5 The impact of the total spend on the year-end reserve position will be that reserves will not be required in-year, strengthening the position to support the Medium Term Financial Plan for 2014/15 to 2017/18 and enabling the funding of emerging priorities and the invest to save programme.

Table 3.1 Pooled budget variance analysis

| | Revised Budget | Actual | Variance |
|---|---------------------------|----------------|-----------------|
| | £m | £m | £m |
| Police Officer Pay | 157.521 | 149.319 | 8.202 |
| Police Staff Pay | 74.358 | 70.276 | 4.082 |
| PCSO Pay | 8.872 | 8.051 | 0.821 |
| Police Pensions | 3.621 | 4.700 | (1.079) |
| Other Employee Costs | 3.136 | 2.347 | 0.789 |
| Premises | 12.108 | 10.572 | 1.536 |
| Transport | 8.410 | 8.481 | (0.071) |
| Supplies and Services & TPP | 35.960 | 32.085 | 3.875 |
| Capital Financing | 7.696 | 15.083 | (7.389) |
| Total Expenditure | 311.682 | 300.914 | 10.766 |
| Income | (14.387) | (19.665) | 5.278 |
| Net Budget / Spend variance | 297.295 | 281.249 | 16.044 |
| Less reserves transferred in | (1.898) | | (1.898) |
| Variance total spend to net budget | 295.397 | 281.249 | 14.146 |
| Less notional spend against other reserves | 0.000 | (3.323) | 3.323 |
| Total variance to net budget | 295.397 | 277.926 | 17.469 |
| Budget Contribution from Reserves | (4.262) | | |
| Net Budget Requirement / contribution back into reserves | 291.135 | 281.249 | 9.886 |

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Table 3.2 Warwickshire budget variance analysis

| | Revised Budget £m | Actual £m | Variance £m |
|---|-------------------------|----------------|----------------|
| Warwickshire | | | |
| Force Pooled - 31% | 83.167 | 77.058 | 6.109 |
| Force Non Pooled | 13.181 | 16.935 | (3.754) |
| Income | (6.034) | (7.796) | 1.762 |
| Total Force | 90.314 | 86.197 | 4.117 |
| OPCC | 1.381 | 1.152 | 0.229 |
| Net Budget / Spend variance | 91.695 | 87.349 | 4.346 |
| Less reserves transferred in | (0.821) | | (0.821) |
| Variance total spend to net budget | 90.874 | 87.349 | 3.525 |
| Less notional spend against other reserves | | (3.023) | 3.023 |
| Total variance to net budget | 90.874 | 84.326 | 6.548 |
| Budget Contribution from Reserves | (0.705) | | |
| Net Budget Requirement / contribution back into reserves | 90.169 | 87.349 | 2.820 |

Table 3.3 West Mercia budget variance analysis

| | Revised Budget £m | Actual £m | Variance £m |
|---|-------------------------|----------------|----------------|
| West Mercia | | | |
| Force Pooled - 69% | 186.752 | 171.361 | 15.391 |
| Force Non Pooled | 25.004 | 33.098 | (8.094) |
| Income | (8.353) | (11.870) | 3.517 |
| Total Force | 203.403 | 192.589 | 10.814 |
| OPCC | 2.197 | 1.312 | 0.885 |
| Net Budget / Spend variance | 205.600 | 193.901 | 11.699 |
| Less reserves transferred in | (1.077) | | (1.077) |
| Variance total spend to net budget | 204.523 | 193.901 | 10.622 |
| Less notional spend against other reserves | | (0.300) | 0.300 |
| Total variance to net budget | 204.523 | 193.601 | 10.922 |
| Budget Contribution from Reserves | (3.557) | | |
| Net Budget Requirement / contribution back into reserves | 200.966 | 193.901 | 7.065 |

3.6 The following paragraphs provide a brief commentary on the significant variances against budget.

3.7 Police Pay £8.202m under-spend

£2.4m is an under-spend on overtime and the implementation team. These have both been reduced from the budget in 2014/15. In total £4.6m has been removed from the officer pay budget in 2014/15. The main element of the under-spend is vacancies. This is currently being addressed as part of a significant recruitment campaign.

3.8 Staff Pay £4.082 under spend

The under-spend is largely down to vacancies, the most material under-spends can be seen in the following business areas:

| Business Area | Average No of Vacancies | Under spend £m |
|----------------------|--------------------------------|-----------------------|
| People Services | 15 | 0.968 |
| Operational Support | 61 | 1.768 |
| Forensics | 14 | 0.399 |
| ICT | 15 | 0.310 |
| PVP | 38 | 0.670 |
| Total | 128 | 4.115 |

Staff pay budgets in 2014/15 have been reduced in line with the implementation of the blueprint savings. The vacancies shown above are not part of normal turnover; they are as a result of the change programme. Some £3.3m of staff pay has been removed from the 2014/15 budget.

3.9 Premises £1.536m under-spend

£0.799m – Maintenance: This under-spend was caused by delays to the programme whilst resources were re-directed to support the implementation of the new policing model.

£0.395m – Utilities and Other Energy Costs: A provision of £0.150m for Carbon Reduction commitments was no longer required and written back to revenue. The remainder of the saving in this area was largely due to the mild winter.

£0.250m – Contract Cleaning: The new contract was implemented in November 2013 releasing savings. £0.400m has been removed from 2014/15 budgets as a result of the new contract.

A total of £0.806m of savings has been removed from Estates budgets in 2014/15.

3.10 Supplies and Services £3.875m under-spend

£1.457m – ICT Costs: A combination of supporting the implementation of policing model, supporting the change programme and designing their own change programme has meant resources have been directed away from the planned

programme of work. This is also reflected in the under-delivery on the capital programme. The ICT budget for 2014/15 has already been reduced by £0.367m with a further £0.137m identified in year. There are plans to reduce the budget by a further £0.5m and these will be identified during the 2015/16 budget setting round.

£1.017m – Cost of Change: A budget was set aside to contribute towards the cost of change in year and this has not been fully utilised.

£0.929m - Forensic Costs: By reviewing the nature of Forensic submissions and redefining the rules around what type of evidence is submitted, the service has managed to remove £0.334m from 2013/14 and 2014/15 budgets to contribute to the current savings target. However, this service will be reviewed further as part of the 2015/16 budget process to assess the potential for further savings which is reflected in the large under-spend this year.

3.11 Capital Financing £7.389m overspend

The PCC approved a strategy of utilising in-year favourable variances to offset borrowing as part of their 2014/15 budget report and medium term financial plan. An additional revenue contribution to capital of £7.4m has been made to support the capital programme. The programme is heavily reliant on borrowing and this strategy will assist with ongoing reductions in revenue budgets. We currently have plans to borrow £53m and have 'internally' borrowed some £40m, which will also need to be financed. The revenue budget contains the full cost of this borrowing. Any contributions we make to the capital programme will reduce the need for borrowing thus reducing the future impact on revenue budgets. We will use these revenue savings to contribute to the delivery of savings in 2015/16. This will be the first year of the new change programme.

3.12 Income £5.278m under spend

The main elements of this under spend are:

- ◆ Fees and charges £1.2m
- ◆ Government grants of £1.16m
- ◆ Other grants and reimbursements of £2.2m which is mainly mutual aid and the badger cull

The income budget for 2014/15 has been increased by £2.8m to reflect the ongoing trends on income. This will be subject to annual review as part of the budget and business change process.

4. Capital expenditure and financing

- 4.1 At Quarter 3 the out-turn forecast was £13.6m, this reduced to £12m by the year end. The balance of £21.4m will slip to the remaining years of the programme. The approved MTFP included a £30m budget in 2014/15. This will increase to £31.6m. It should however be noted that business leads actually requested a budget of £44m in 2014/15. This is a deliberate strategy to over programme with an aim of achieving the financial projections approved and increasing the speed at which investments to improve services are made.

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4.2 Table 4.1 shows the out-turn position on spend and funding for 2014/15 across each sub total.

The main reasons for the slippage are:

- Over optimistic delivery plans
- Estates strategy not approved until the summer
- Focus on the people movement plan (implementation of new policing model) consumed significant resources
- Programme included projects that required detailed business case submission

4.3 There is a clear focus both within the Force and through the OPCC to enhance the rate of delivery on capital, in particular, ICT, so that the benefits on service and efficiencies can be implemented.

4.4 A new Property Board has been established and has clearly demonstrated the benefit of bringing all partners together to adopt a transparent and strategic approach to the delivery of this element of the capital programme.

4.5 Investments through the capital programme will play a key role in the programme of change.

Table 4.1 Capital Programme

| | Current Budget 2013/14 | 2013/14 Out-turn | Forecast Slippage & Underspend |
|--|---------------------------------------|-----------------------------|---|
| | £m | £m | £m |
| Total West Mercia ICT Replacement Programme | 3.108 | 1.595 | 1.513 |
| Total Warwickshire ICT Replacement Programme | 1.536 | 486 | 1.050 |
| Total West Mercia ICT Strategy | 1.162 | 116 | 1.046 |
| Total Warwickshire ICT Strategy | 380 | 97 | 283 |
| Total ICT Joint Strategy | 7.560 | 2.190 | 5.370 |
| Total West Mercia Estate Services | 9.892 | 5.946 | 3.946 |
| Total Warwickshire Estate Services | 5.079 | 291 | 4.788 |
| Total Joint Estate Services | 554 | 0 | 554 |
| Total West Mercia Vehicles, Plant and Equipment | 2.664 | 1.173 | 1.491 |
| Total Warwickshire Vehicles, Plant and Equipment | 1.489 | 221 | 1.268 |
| Total Joint Equipment | 100 | 0 | 100 |
| Total Capital Programme | 33.524 | 12.115 | 21.409 |

4.6 Table 4.2 summarises the planned funding of the programme in 2013/14 and the proposed funding arrangements. This maximises the use of the revenue contribution to capital and the receipt of innovation grant from the Home Office which was not planned.

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Table 4.2 Funding the Programme

| | Original Funding Plan £m | Out-turn Funding plan Total £m | West Mercia £m | Warwickshire £m |
|-----------------------------------|---|---|--------------------------------|---------------------------------|
| Capital receipts | 2.730 | 0.411 | nil | 0.411 |
| Home Office grant | 2.767 | 0.289 | nil | 0.289 |
| Specific grants and contributions | 250 | 0.960 | 0.934 | 0.026 |
| Other external contributions | nil | 0.369 | nil | 0.369 |
| Revenue contributions | nil | 10.086 | 9.388 | 0.698 |
| Borrowing | 27.777 | nil | nil | nil |
| Total | 33.524 | 12.115 | 10.322 | 1.793 |

5. Reserves

- 5.1 The budget report of February 2014 was based on the expected out-turn position as at the end of Quarter 3. Table 5.1 shows the expected position as agreed in the budget report February 2014 and the final out-turn position. It can be seen that Warwickshire reserves have out-turned exactly as forecast and West Mercia will have strengthened its reserve position to the value of £3.8m. The latter has been added to the budget reserve.
- 5.2 The financial position will mean that the resources agreed in the MTFP reserve strategy will be available for new investment in PCC priorities, invest to save projects and to support the revenue budget over the life of the MTFP.

Table 5.1- Summary of Forecast and Actual Opening Reserve Balances

| | West Mercia (Budget report estimate Feb 2014) £m | West Mercia Opening Balance April 2014 £m | Warwickshire (Budget report estimate Feb 2014) £m | Warwickshire Opening Balance April 2014 £m |
|--|---|---|---|--|
| Total | 49.3 | 53.1 | 33.2 | 33.1 |
| Budget Reserve | 24.7 | 29.2 | 9.4 | 9.3 |
| PCC Priorities - Rural, Business and Cyber | 5.0 | 5.0 | 2.5 | 2.5 |
| Invest to Save | 6.9 | 6.9 | 3.1 | 3.1 |
| Operation X | nil | nil | 1.7 | 1.7 |
| Operational Reserve | nil | nil | 10.5 | 10.5 |
| General Reserves | 12.0 | 12.0 | 6.0 | 6.0 |

6. Alliance savings programme

- 6.1 The alliance programme was the mechanism by which both forces intended to deliver their financial savings over the life of the previous MTFP (2011/12 -

2014/15). The target was £34.5m. To date £41.5m has been identified, the additional savings of £7m have been found from a review of the base budgets and income budgets. This has been reinvested by the PCCs as part of their budget report in February 2014, funding additional PCSOs, community initiatives, adopting a policy of up-front recruitment of student officers, supporting a programme to expand Specials.

- 6.2 The full savings are not planned to be delivered until 2015/16, however, there is a risk that some £2.1m will slip into 2016/17 and that £1m will not be delivered. The position will be reviewed at the end of each quarter and the impact on the MTFP considered. Work continues to find alternative ways of bringing these forward, and will be mitigated by ongoing vacancies.

7. Programme requirement 2015/16 - 2018/19

- 7.1 The new change programme has been launched. We require an additional £2m across the alliance (£0.5m Warwickshire and £1.5m West Mercia). The programme StraDA (Strengthening and Deepening the Alliance) has embedded the OPCC within the new Governance arrangements and plans to take a holistic review of the organisation and its processes and practices. An update on progress will be included in the next update. It is anticipated that the first £2m of savings needed for 2015/16 will be found by a review of base budgets, income and review of capital funding.

8. Conclusion

- 8.1 There has been a net contribution to reserves of £9.9m. This is £3.8m higher than expected at quarter 3 and the agreed reserve strategy approved in the MTFP.
- 8.2 The approved budget for 2014/15 and MTFP strategy included the decision to use 2013/14 in-year under-spends as a revenue contribution to capital. The results have enabled an increase in the anticipated revenue contribution to capital outlay (RCCO) by £7.4m. Overall borrowing has been reduced by RCCO and additional capital grants. This will have a positive impact on the future savings required.
- 8.3 Favourable variances continue to occur across the board. In the main these are one-off early delivery of savings or delays to recruitment. The early delivery of savings is identified in the report and has been removed from the budget in 2014/15.
- 8.4 Income continues to exceed planned budgets and we will continue to monitor this at each budget review.
- 8.5 The long term financial position for policing remains challenging with a further gap of £29m emerging from 2015/16 onwards, however, the reduction in borrowing requirements will assist in the identification of the 2015/16 budget reductions.
- 8.6 The MTFP and underlying assumptions, approved in February, will need to be kept under close review.