Item 5

Warwickshire Police and Crime Panel
22 November 2013

Budget Monitoring - Quarter 2 (April-September 2013)

1. Purpose

This report provides an update on the financial forecast for 2013/14 across the alliance and for each entity. The presentation reflects the new pooled budget arrangements introduced to support the financial management arrangements in the alliance. It provides an overview on the workings and implications of the new cost pooling arrangements forecast on the revenue out-turn position, a statement on reserve position and a brief look forward to the emerging issues that will require consideration in the Medium Term Financial Plan (MTFP).

2. Cost Pooling Arrangements

The financial year 2013/14 is the first year of the full alliance cost sharing arrangements. The majority (75%) of alliance budgets have been pooled. There is now a joint force pooled budget managed by a single budget holder for cross alliance activity. This is the main management accounting information, which means that the budgets for each force are not managed separately. To work out the impact on each force budget, the finance team allocate the costs against each budget to each force on a 69:31 split, reflecting the agreed cost sharing.

There are also non pooled budgets of which the main budgets are estates, capital borrowing, police pensions and income. Pooled and non pooled will be reviewed as part of next year's budget deliberations.

The original collaboration model proposed that services would only be pooled once the restructure had taken place. The reasons why we have implemented the full cost pool from 1/4/2013 are as follows:

- The decision to implement the new policing model as one major change on 1/10/13. This is a significant part of the whole change programme.
- The differences in force structures and budget builds meant that it was complex to develop each cost pool in isolation.
- The fact that the cost sharing agreement of 69:31 works on the total budget of the alliance, but when each service area is considered separately there are winners and losers and we would be continuing the differentials over a longer period.

- All senior managers were in alliance posts managing joint teams. Although these teams may not be fully restructured, most are working as one team.
- The pooled budget will enable the restructuring of the budgets earlier in the process and will expose any historical budget issues that have resulted in recurring under-spends in each force over several years.

Grant Thornton was commissioned to review the cost pool and cost sharing proposals. They supported our view that we need to restructure the budgets over the medium term to reflect the change from historical cost structures to a new way of working. This would not be fully worked through until all work on structures and non pay change programmes was fully implemented. This fact will make consistent year on year comparisons more complex.

Historically each force has spent its budgets in different ways; Warwickshire spent a higher proportion of its budget on non pay and West Mercia on pay. The cost pooling arrangement will equalise this over each force. The first quarter one report highlighted this issue and proved that it was now appropriate to report management accounting information at the pooled level.

The new budget structure will be reflected in the 2014/15 budget.

3. Revenue Expenditure

3.1 The 2013/14 original budget across the Alliance of £295.4m was supported by £4.3m of reserves - £0.7m in Warwickshire and £3.6m in West Mercia. The budget has been revised in year to use an additional £2.071m of reserves to support PCSOs and Community Safety to give a revised budget of £297.468m.

The revenue budget is currently forecasting an £14.581m underspend after use of reserves. As there is currently a predicted in year underspend it is not anticipated that the £4.3 million budget reserve will be required. A summary table is attached as appendix 1. The variance is made up from:

- £6.4m - Police officer pay. The budget will be reduced next year.
- £6.2m - Police staff pay savings are being incurred as vacancies continue to be held pending restructures. These are effectively early delivery of 2014/15 staff savings, resulting in one off savings within the 2013/14 financial year.
- £1.2m - Supplies and Services. The savings on supplies and services reflect the 5% budget reductions taken as part of the change programme. There is a further 5% to be delivered in 2014/15. These have been complex budgets to pool. We are embarking on a programme of complete review of all these budgets.
- £2.3m – Income. We are currently expecting a favourable variance on this budget. This is mainly due to income from major investigations. It is impossible to predict at the start of the year the level of income associated with mutual aid, however, I am concerned that year on year this is an area

that produces significant year end favourable variances. The Finance team is reviewing all income budgets closely in order to assess accuracy of the baseline. This information will feed into our proposals for the 2014/15 budget.

The table below shows the expenditure by directorate across the Alliance before the use of reserves.

DIRECTORATES	**Revised Budget**	**Actual**	**Forecast**	**Variance**
ACPO Command	1.377	0.728	1.203	0.174
Enabling Services	57.092	23.902	55.922	1.170
Local Policing	151.531	73.322	145.710	5.821
Protective Services	66.536	30.549	61.678	4.858
Finance	5.865	1.656	4.380	1.485
Capital Financing	7.695	0.240	7.695	0.000
Pensions (Directly Funded)	3.621	2.589	4.868	(1.247)
Police & Crime Commissioner (WMP)	2.370	1.691	2.137	0.233
Police & Crime Commissioner (WP)	1.381	0.990	1.381	0.000
Total	**297.468**	**135.667**	**284.974**	**12.494**

The Warwickshire share of this underspend equates to £4.432 million.

4. Capital Expenditure and Financing

A summary of the capital programme is show in appendix 2.

Total spend to date in 2013/14 is £6.27m. This is considerably less than the budget for the year and I am expecting significant slippage into 2014/15. Finance challenged the profile of spend at the development stage and will be reviewing the profile of spend as we develop the budget for 2014/15. The slippage on capital spend may affect the delivery of savings plans and this will be considered alongside the review of programme delivery. The main reasons for the slippage are; a) over optimistic delivery plans, b) estates strategy not approved until the summer, c) focus on the people movement plan consumed significant resources.

Since the February budget approval, slippage from 2012/13 into 2013/14 totalling £4.6m has also been identified. This is now included in the 2013/14 capital budget. When the February budget report was produced it was anticipated that this would be spent within financial year 2012/13.

The current programme is heavily reliant on borrowing requiring some £55m over the life of the capital programme. We are considering a strategy of reducing borrowing requirements using revenue contributions from the in-year favourable variance. Positive cash flow over the last couple of years has meant that we have built up a balance of £40m of internally funded borrowing. This means that we have deferred the actual borrowing for these sums using existing cash resources. We have included in the revenue budget the cost of this borrowing. The revenue cost of borrowing will increase (and the MTFP currently reflects this increase) as we continue to progress the capital programme. Any reduction in real borrowing will help our budget deficits over the medium term and would be a sensible use of the one off in-year favourable variance. A final decision on this matter will be taken under consideration of the emerging medium term financial plan. For every £1m borrowing saved, we can reduce our revenue budget by £150,000 (for short life assets).

5. Reserves

The attached appendix 3 shows the opening balance of reserves, expected transfers out and expected closing balance.

It is the professional opinion of the Treasurer that the forces retain £6m as a general reserve in Warwickshire and £12m in West Mercia. This was approved in the February budget report.

New reserves established in 2013/14 continue to support specific PCC initiatives such as; retention of PCSO, expansion and retention of special constables, community initiatives and community ambassadors. The balances at the end of 2013/14 are therefore committed to these funds for the next 2 years.

It is expected that the £4.6m reserve to support Operation X will not spend the full reserve allocation by the end of 2013/14. Estimated spend in-year is £2.9m, leaving a balance of £1.7m to roll forward into 2015/16. The operation will continue to be monitored in light of the new policing model and additional performance that this project brings.

Consideration of the MTFP will review the strategic use/retention of reserves, in light of emerging pressures, unknown funding issues and emerging local and national policing priorities.

Medium term Financial Plan/Programme of Change

The MTFP will be remodelled over the next few weeks. The current plan shows that by 2018/19 the gap to be funded across the Alliance is £28.916m. This can be split across the two entities with a gap in West Mercia of £20.947m and Warwickshire of £7.969 million. There are some additional financial pressures that we will need to now build in:

- Top slicing of the police grant in 2014/15 for the additional cost of the IPCC at c£70m.
- Top slicing to pay for the innovation fund in 2014/15 at £50m.

The two force impact of these arrangements could be as high as £3.5m. This is not currently built into our budget plans. We will not know the final details until the draft settlement is announced around the 18th/19th December.

The current draft MTFP, including the top slicing indicated above is attached as appendix 4. This is clearly a working document at this stage and it continues to show no additional savings from the next phase of the change programme.

The current plans to deliver £34m of savings across the alliance are now well underway. The programme team is in the middle of a full review of progress, we will consider the results of this as part of the ongoing budget and MTFP development.

The finance team is currently preparing pay budgets, reviewing income and working through supplies and services budgets, so that we have as accurate a picture as we can for the first line of the MTFP. It is essential that this base is as accurate as possible as it forms the basis of future modelling.

6. Final Accounts

The final accounts process has been extremely challenging in both timescales and complexity. We had very late notice of the format of the accounts and the team then had to redo the accounts following a national decision by our auditors concerning the accounting for pension liabilities. The final accounts has been a huge technical exercise and has consumed significant resources in the team. The accounts were presented to the Audit Panel in September. Each organisation has been given an unqualified audit report and the team has been commended for their professionalism, standards and working papers. This is often the hidden element of work in finance, however, it presents to the public and our stakeholders an independent appraisal of the quality of the corporate financial management and value for money achieved across the two PCCs and CCs.

7. Conclusion

The anticipated favourable position identified in-year continues.

The long term financial position for policing remains challenging.

The savings plans are under review.

The early delivery of some pay related savings has enabled some in-year savings and enables some choices for the short and medium term planning.

We have four sets of unqualified accounts, this is of particular credit to the hard work and dedication of Jeff Carruthers and his team.