

Agenda No. 6(1)

Warwickshire Police Authority – 29 June 2009

Financial Outturn Report 2008/09

Report of the Assistant Director of Resources (Finance)

Summary

This report outlines Warwickshire Police's financial outturn position for revenue and capital budgets as at 31st March 2009.

Recommendations

1. That the report be received and noted.
2. That the revenue carry forward budgets be approved as set out below at paragraph 4.
3. That the capital under spend be carried forward to 2009/10 as set out at paragraph 5 and detailed at Appendix C.
4. That the capital determinations and prudential indicators be approved as set out in paragraph 6 and attached appendices.
5. That the Authority approves the recommended method of calculating Minimum Revenue Provision (MRP) for 2008/09 and 2009/10 as detailed at paragraph 10.

Background / Introduction

This report outlines the Authority's outturn for revenue and capital expenditure for the 2008/09 financial year and provides an analysis of the main variances and the effect on reserves and the Authority's financial strategy.

- 1.1. The Police Authority set a net revenue budget for 2008/09 of £91,608k which was in part supported by the use of £4,698k reserves and was approved at the Police Authority Meeting held on 20th February 2008.
- 1.2. The following amendments were made to the revenue budget during 2008/09.
 - As a result of the change in accounting treatment for Rule 2 Grants the budget requirement has reduced by £1,495k to £90,113k
 - The Police Authority has agreed to adjust the budget to reflect the revised phasing of the backlog repair and maintenance programme (£826k) and the Body Armour Programme (£224k) and the resources

released have been transferred to specific reserves to fund this expenditure in future years.

- 1.3. The revised budget is therefore £89,063k and is supported by the use of £3,648k of reserves.

Revenue Outturn Position

2.1 The revenue outturn for 2008/09 is £83,944k compared to the budget of £89,063k. Appendix A attached provides a subjective comparison of budget and outturn. The key issues are set out below.

2.2 Income

2.3 Specific Grants shows a variance of (£3,204k), which predominantly relates to the grant income received from the Home Office of £3,045k to support Operation Westbere.

2.4 The variance for Customer & Client Receipts of (£275k) is additional income that reflects external funding that the force has been successful in attracting to fund policing activities.

2.5 Police Pay

2.6 The under spend on police pay is (£804k), largely due to vacancies within Protective Services that is partially offset by an over spend on Local Policing to provide resilience. As part of the development of the financial management arrangements, and the Medium Term Financial Planning Strategy (MTFPS) the approach to budgeting for police pay has been refined to take account of turnover.

2.7 Police Overtime

2.8 The variance on police overtime is £1,056k, and includes overtime that is offset by additional income. Local Policing have had a need for overtime for policing Coventry City football matches, and to ensure that minimum staffing levels are met. Protective Services over spend is due to the extent of proactive and reactive operations as well as covering for the vacancies in the Directorate. Recognising that there are issues in this area, the Police Authority has approved additional budget for 2009/10 and alongside this, Right Service First Time and the changes to the shift system, should reduce the need for overtime.

2.9 Police and Staff TOIL

2.10 The police TOIL expense of £374k and staff TOIL of £42k are both one off expenses following a decision to reduce officer and staff TOIL balances. These figures include the TOIL payments for the Bulldog Bash event, further information on this operation is in paragraph 2.3 below.

2.11 Staff Pay

2.12 Staff pay is under spent by (£1,516k) which is broadly in line with previous forecasts and is due to vacancies, predominantly in the Local Policing Directorate.

2.13 Pensions

2.14 The police pensions under spend of (£105k) relates to ill health retirements for police officers the cost of which is borne by the force, and is due to fewer ill health retirements in the year than was anticipated.

2.15 Supplies and Services

2.16 This area is under spent by (£773k). By far the largest element of this (£755k) relates to the Service Developments budget that is detailed below and as reported previously a carry forward budget is required to support planned activities in 2009/10. The balance is made up of small variances across the Directorates.

2.17 Capital Financing

2.18 The variance against budget for this area is (£912k). Of this, (£520k) relates to revenue funding that was set aside to fund capital expenditure. Following the revision of the reserves strategy, the capital expenditure has been funded from capital grant and the £520k will be a revenue under spend which can be transferred to reserves to support revenue expenditure in future years.

2.19 The balance of the variance against budget for this area is (£392k) which relates to a budget set aside for loan charges for new loans which were planned in 2008/09 which were not subsequently needed due to the delays in the capital programme which are explained below.

3. Operations and Service Developments

3.1 Bulldog Bash

3.2 The expenditure for Bulldog Bash was £662k, compared to a forecast of £960k that included £160k for TOIL. However many officers chose not to receive payment for TOIL and this has resulted in the reduction in expenditure against forecast by £140k. Additionally, mutual aid payments were less than anticipated. The balance of this under spend will be returned to revenue reserves.

3.3 In developing the budget and MTFPS, Warwickshire Police decided not to make specific financial provision for policing this event in future. Consequently consideration will need to be given to how this forthcoming event will be resourced.

3.4 Westbere

3.5 The full year expenditure on this operation is £1,019k, and grant income was received in the year of £3,045k, leaving a net under spend of £2,026k which will replenish reserves used to fund prior year expenditure. The operation will continue into 2009/10 and a further grant submission will be made to the Home Office.

3.6 Service Developments – The variance for 2008/09 is a net under spend of (£755k). The majority of this relates to the previously reported under spend on Bulldog Bash together with planned expenditure for service development projects of £547k that will now be completed in 2009/10 and the funding for which will need to be carried forward. There is also an over spend of £166k (as reported to previous meetings) that relates to 150 Forward savings that have not been achieved in 2008/09.

Revenue Carry Forward

3.7 In previous years, cost centre variances have been automatically carried forward. At the end of 2007/08 this practice was changed as the reserves were needed for planned events such as the Bulldog Bash and Operation Westbere.

3.8 At the end of 2008/09, there is an overall under spend of £5,119k. Appendix D outlines £1,820k of requests to carry forward resources to fund expenditure in 2009/10. These fall into the following categories:

- Service Development projects that are already committed as reported previously to the Authority.
- Externally funded projects where the income is ring fenced and must be carried forward under the terms of the grant.
- Carry Forward balance already set aside in 2007/08 for the purchase of an armoured land rover which has been committed in early 2009/10.
- Force wide requirements – this includes £250k for investment in the public confidence measure, £14k for necessary upgrade to the Duty Management System (DMS) and £37k to fund the final implementation of Right Service First Time.
- Directorate requests

3.9 At the recent meetings of the Audit Committee and Resources Panel, the Treasurer and members reviewed the draft Statement of Accounts and revised forecast reserves position for the medium term. In light of this forecast position, it is recommended that the Authority approve contributions to reserves as detailed at Appendix E, and that the carry forwards are limited to the following:-

- Service Developments that are already committed £547k
- Externally funded projects where the income is ring fenced £159k

- Force wide projects £301k
- Total Carry Forward reserve £1,007k

3.10 The impact of the outturn on the reserves is explained in more detail in section 7 below and at Appendix E. The Statement of Accounts has been produced on the assumption that this recommendation will be approved.

Capital Outturn Position

3.11 On 20 February 2008 the Police Authority approved a 5-year capital programme including a capital budget for 2008/09 of £8,057k.

3.12 During the year the programme has been updated to reflect the following issues and the revised programme was approved by the Police Authority at its meeting on 23 February 2009. These changes result in a revised capital budget for 2008/09 of £11,417k as set out in Appendix B, along with the funding for the programme.

- Addition of approved carry forward budgets from 2007/08 of £1,698k
- Slippage within the programme between 2008/09 and 2009/10 of £3,622k
- Projects removed from the programme of £0,375k
- Movement of budget for the Uninterrupted Power Supply (UPS) project between IT and Property headings.
- In addition, there have been revenue contributions to capital outlay (RCCO) of £520k.

3.13 In considering the MTFPS and reviewing the level of reserves, the Authority decided to fund the contribution to the Justice Centre from borrowing with the intention of releasing resources to support future revenue spend. Further investigation has revealed that the original funding for the Authority's contribution was from various capital sources and as such cannot be used to support the revenue budget. Therefore while the revised capital budget and provisional capital outturn reflected the Authority's original decision, the final outturn and capital determinations have been adjusted to reflect proper accounting treatment.

3.14 The Authority is the lead partner for the Justice Centre, consequently all project costs are included within the Authority's Statement of Accounts, but excluded from the Authority's budget monitoring reports. As such, it is shown separately within Appendix C for completeness and consistency with the Statement of Accounts.

3.15 The capital outturn and funding breakdown for 2008/09 of £3,556k is detailed in Appendix C and is some (£2,722k) less than

the final capital budget of £6,278k. The following paragraphs provide a brief explanation of the key variations.

3.16 Property & Estates

The budget for 2008/09 is £2,434k, compared to expenditure of £1,570k giving a variance to budget of £864k. The bulk of the variance is required to be carried forward to 2009/10 in order to fund the delayed projects as outlined below.

- Rugby (Phase 3) – This project has been delayed due to potential additional works being evaluated during the year. This resulted in the tender value exceeding £3,500k, which then had to be tendered within the EU, resulting in an additional delay of 4 months. £251k is required to be carried forward.
- Uninterrupted Power Supply – This project has been re-phased due to several unexpected delays, including the discovery of asbestos in the ground, adverse weather conditions and substructure problems. £120k is required to be carried forward to 2009/10, but the project is not expected to experience delays beyond this.
- Police Headquarters – This project relates to the major works at the Headquarters site and has been delayed due to section 106 planning approval. £102k is required to be carried forward to 2009/10. Continuation of this development is subject to the submission of a detailed business case.
- Ryton Accommodation – This project requires £77k to be carried forward to 2009/10. The delay has been due to several partner agencies being involved in the project causing delays in agreement and signing of the lease.
- Special Branch New Accommodation – This project relates to the relocation of Special Branch within the Headquarters site to improve the security of the accommodation. There is a carry forward requirement for this project of £71k, following delays in relocating the Community Safety team to Warwick. This is part funded by ACPO TAM grant of £43k. Carry forward is permitted on this grant provided that expenditure is committed.

3.17 Vehicle Fleet

Expenditure for 2008/09 is £1,179k, compared to a budget of £1,388k, giving rise to a variance of £209k. This is partly due to postponement in the replacement of 12 vehicles due to their low mileage. This under spend is required to be carried forward to 2009/10 to replace these vehicles in 2009/10.

3.18 Communications / IT Replacement

Expenditure for the year is £251k, compared to a budget of £1,074k. Of the £823k variance, there is a need to carry forward £809k, the remaining balance is a net under spend across a variety of projects. The main carry forward requirements are set out below:-

- Command & Control – An under spend of £434k is required as carry forward budget in 2009/10 due to a delay in resolving contract issues for the supply of this project.
- Data Network Upgrade – A delay in implementing the multi media contact centre due to technical systems problems has resulted in the requirement to carry forward £212k for this project.

3.19 Information Management (IM) Strategy

Expenditure for the year is £446k compared to a budget of £1,126k, resulting in an under spend of £680k. There is an under spend of £41k relating to savings across a number of projects and a carry forward request for £639k relating mainly to the projects below:-

- Storage Capacity – Delays on this project were as a result of uncertainty over funding following the capping decision in the early part of the year and delays in finalising the supply contract due to difficulties in agreeing support and ongoing maintenance plans. There is a request to carry forward £150k for this project to 2009/10.
- Mobile Network Access – There is an under spend of £120k on this project as it was postponed due to a delay in the announcement of government funding. The budget is requested to be carried forward to 2009/10.
- Revenue funded projects that have not yet commenced amounting to £190k.

3.20 Force Equipment

This variance of (£146k) relates to several small projects that are being funded from grants and contributions brought forward from previous years. The largest element of the variance relates to conversion to digital photography that will now take place in 2009/10. The funding for this project needs to be carried forward.

Capital Expenditure Determinations

3.21 Capital Funding determinations include all capital expenditure, including that of the Justice Centre project.

- 3.22 Under S.42 (2)(g) of the Local Government and Housing Act 1989 the Police Authority agrees to capitalise expenditure of £9,926,518 to be met out of money provided by other persons (e.g Police Capital Grant from the Home Office, specific grants and contributions from Justice Centre Partners.)
- 3.23 Under S.60 of the Local Government and Housing Act 1989, the Police Authority agrees to apply useable capital receipts totalling £1,676,616 to meet expenditure incurred for capital purposes.
- 3.24 The prudential indicators based on the capital outturn for 2008/09 are attached at Appendix F. (to follow)

Reserves

- 3.25 The MTFPS included a review of reserves balances to ensure that the forecast reserves position within the three-year plan was adequate for the Authority. This has been reviewed again in light of the changes to the proposed treatment of the Justice Centre contribution and the actual outturn position at the end of 2008/09 financial year. Appendix E shows the breakdown of reserves balances and includes the movements outlined below.
- 3.25.1 Carry Forward Reserve – This reserve holds specific revenue reserves that are approved to be carried forward into future years to support planned expenditure. The requirement to increase revenue reserves to support the MTFPS means that this year, it is proposed that these only include the projects that have a requirement to carry forward the resource for a defined purpose. It is also proposed that these are prioritised to only include Force wide projects rather than in previous years where all cost centres have carried forward under and over spends.
- 3.25.2 Insurance Reserve – Public and employer liability claims falling below the excess of £100,000 fall on the Authority. Although some provision is made for these claims within the annual revenue budget, this reserve represents specific provision relating to outstanding claims and is reviewed annually with our insurance brokers. The Calcutt case has been specifically provided for this year by adding £500k to the existing £100k cover the potential liability of between 250k and £750k on this case.
- 3.25.3 Budget Reserve – This reserve is set aside to support revenue expenditure. There has been a transfer in to this reserve of £6,336k from Revenue Reserve for Capital. The movement on this reserve in the year represents the requirement for revenue support approved in 2008/09 and the addition of the net revenue under spend and contribution from Operation Westbere of £2,026k.

- 3.25.4 Body Armour Reserve – This earmarked reserve has been set aside to fund the body armour replacement programme and has a year end balance of £174k that is expected to be used in full in 2009/10.
- 3.25.5 Section 106 reserve – this is an earmarked reserve for a specific purpose, totalling £16k
- 3.25.6 Revenue Reserve for Capital – This reserve was set aside from revenue under spends in previous years to support the capital programme. The balance of £6,336k was transferred to Budget Reserve as approved by the Police Authority at its meeting on 20 February 2009.
- 3.25.7 Repair & Maintenance Reserve – This reserve is set aside to fund the repair and maintenance backlog at the Headquarters site. The programme was reviewed in year to provide for essential repairs to ensure property is safe secure and watertight only. A contribution of £148k was made to support expenditure in 2008/09 and a transfer of £1,000k was made to other reserves as approved by the Police Authority on 20 February 2009.
- 3.25.8 The Invest to Save reserve was set aside as a one off for 2009/10 to support the Financial Management Arrangements project, the delivery of the Sustainability Strategy and to increase the capacity of the Financial Investigation Unit to deliver more incentivisation income from the Proceeds of Crime Act.
- 3.25.9 The Westbere reserve was set aside to provide for the expected 2009/10 costs of the continued investigation. However, a bid will be submitted to the Home Office for this expenditure and as the Force has already incurred the 1% of net revenue budget from its own reserves, this may not be required and could contribute to Budget reserve.
- 3.25.10 Justice Centre Sinking Fund – This reserve was set aside by the Justice Centre project to fund repairs and maintenance expenditure in future years and is not available to the Authority.
- 3.25.11 Justice Centre Interest on balances – This reserve has been set aside from interest earned by the fund held on behalf of the Justice Centre partnership. It is to fund future year's expenditure on the Justice Centre project and it is expected to be used in full in 2009/10 to fund capital expenditure. This reserve is not available to the Authority.

Permanent and Temporary Virements

- 3.26 The significant virements between Directorates during the year are shown in the table below.

**Service Development
Allocations**

£'000

SERVICE DEVELOPMENTS	-4,279
RESOURCES	1,472
PERFORMANCE AND STANDARDS	251
LOCAL POLICING	299
PROTECTIVE SERVICES	1,058
CORE FUNDING	1,050
CORPORATE FINANCES	149
Operation Contingency	£'000
PERFORMANCE AND STANDARDS	-812
LOCAL POLICING	216
PROTECTIVE SERVICES	596
Special Priority Payments (SPP)	£'000
CORPORATE FINANCES	-738
RESOURCES	5
PERFORMANCE AND STANDARDS	1
LOCAL POLICING	491
PROTECTIVE SERVICES	241
To reflect change in treatment on interest received for Justice Centre	£'000
CORPORATE FINANCES	565
RESOURCES	-565

Statement of Accounts

3.27 The Accounts and Audit regulations 2005 require that the Authority approve the Statement of Account by the 30 June 2009, these are included in the agenda of this meeting as a separate item. The accounts have been produced in accordance with legislative and professional requirements. The audit will be carried out during July and it is expected that the Audit Commission will be able to issue an unqualified opinion by the 30 September 2009.

Minimum Revenue Provision (MRP)

3.28 The Authority is required to consider it's method of calculating Minimum Revenue Provision for capital expenditure. The Authority is asked to approve the method set out below for the 2008/09 financial year.

3.29 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 came into force on 31 March 2008. The regulations require the Police Authority to approve an Annual Statement of Minimum Revenue Provision. MRP is the amount set

aside from revenue for the repayment of debt principal. Under the old regulations this was 4% of the principal outstanding. The Authority has always set aside a sum greater than 4% and therefore made voluntary contributions towards the repayment of debt. The new regulations require that the Authority determine an amount of MRP, which it considers to be prudent.

- 3.30 The Secretary of State for Communities and Local Government has issued guidance under section 21(1A) of the Local Government Act 2003. This states that “the broad aim of prudential provision is to ensure that debt is repaid over a period that is either reasonably commensurate with that over which the capital expenditure provides benefits”
- 3.31 Under the transitional arrangements, contained in the Secretary of States guidance, for the 2008/09 financial year the Authority has calculated MRP in accordance with the Regulatory Method. Under the Regulatory Method MRP is equal to 4% of the Capital Financing Requirement, in accordance with the former regulations as if they had not been revoked. For 2009/10 the Authority will adopt the Asset Life (Equal Instalment Method) for capital expenditure incurred in 2008/09. Under the Asset (Equal Instalment Method) Life method, where capital expenditure on an asset is financed wholly or partly by borrowing, then MRP is determined by reference to the life of the asset and an equal amount charged in each year.
- 3.32

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