

**Report of the Chief Finance Officer of the PCC
To the Police and Crime Commissioner for Cleveland**

21st October 2014

Status: For Information

2014/15 Budget Monitoring – Report to the end of September 2014

1. Executive Summary

1.1 Purpose of the Report

On the 18th February 2014 the PCC agreed the revenue Budget for 2014/15 which was based on the receipt of income totalling £134,253k. This report is to provide the PCC with an update on all areas of the budget, including forecasts of how much income will actually be received during the year, the progress against the budget to date and forecasts on the expenditure for the remainder of the financial year.

2. Recommendations

The PCC is asked to note:

- 2.1 The Office of the PCC's budget of £885k is expected to under spend by £140k at this stage of the financial year although further savings are being sought.
- 2.2 The Corporate Services budget of £9,160k is expected to under spend by £300k at this stage of the financial year although further savings are being sought.
- 2.3 The PCC has received confirmation that they will receive £425k more funding from the Home Office in 2014-15 from the Police Innovation Fund. £230k results from a successful bid in the current year and £195k of funding from a successful multiple year bid during 2013-14.
- 2.4 There is currently £388k within the PCC Initiatives budget that has yet to be allocated.
- 2.5 There is currently £32k within the Victims and Witnesses budget that has yet to be allocated.
- 2.6 It is currently forecast that the PCC will receive £570k more income in 2014/15 than per the revised budget. This will lead to an in year underspend.
- 2.7 The Force is currently forecasting an underspend of £2,250k.
- 2.8 The total forecast under spends for 2014/15, as at the end of September 2014, is £3,260k.

3. Reasons

3.1 When setting the budget for the financial year 2014/15 the PCC allocated the income forecast to be received during the year, of £134,253k, into the following areas:

- £885k to run the Office of the PCC
- £9,160k for Corporate Services
- £1,768k to support PCC Initiatives and Victims and Witnesses Services
- £121,405k to the Police Force
- £800k to the Capital Programme
- £915k to Earmarked Reserves
- £680k from General Reserves

The following sections will look at the above areas in more detail and provide updates and forecasts for each area, including any changes that have been made since the original budget was approved and set.

3.2 Income and Funding

The PCC set the budget based on receiving income and funding of £134,253k during 2014/15 from the areas summarised in the table below, the in-year changes, the actual levels of income forecast to be received and variances are shown below. In addition to current year figures the original budget set for 2013-14, the final budget for 2013-14 and the outturn are shown.

2013/14 Original Budget	2013/14 Final Budget	2013/14 Outturn	Summary of Income to be Received by the PCC	2014/15 Budget	In Year Changes	2014/15 Revised Budget	2014/15 Forecast Outturn	Variance
£000s	£000s	£000s	Funding	£000s	£000s	£000s	£000s	£000s
(50,249)	(50,249)	(50,249)	Police Grant	(49,443)	0	(49,443)	(49,443)	0
(1,698)	(1,698)	(1,698)	Community Safety Funding	0	0	0	0	0
(42,300)	(42,300)	(42,300)	RSG/National Non Domestic Rate	(40,313)	0	(40,313)	(40,313)	0
(94,247)	(94,247)	(94,247)	Government Grants	(89,756)	0	(89,756)	(89,756)	0
(27,608)	(27,608)	(27,608)	Precept	(28,797)	0	(28,797)	(28,797)	0
(800)	(800)	(800)	Council Tax Freeze Grant	(800)	0	(800)	(800)	0
(6,847)	(6,847)	(6,846)	Council Tax Support Grant	(6,868)	0	(6,868)	(6,868)	0
(35,255)	(35,255)	(35,254)	Precept related funding	(36,465)	0	(36,465)	(36,465)	0
(5,594)	(5,748)	(5,824)	Specific Grants	(5,619)	(425)	(6,044)	(6,056)	(12)
0	(28)	(28)	Victims and Witness Funding	(180)	(250)	(430)	(430)	0
(2,362)	(3,537)	(4,117)	Partnership Income/Fees and Charges/Misc Income	(2,233)	(67)	(2,300)	(2,858)	(558)
(7,956)	(9,313)	(9,969)	Other Funding	(8,032)	(741)	(8,773)	(9,344)	(570)
(137,458)	(138,815)	(139,471)	Total	(134,253)	(741)	(134,994)	(135,565)	(570)

3.3 In Year Changes

As reported at the end of June the PCC will receive £250k more funding than originally budgeted from the Ministry of Justice. In addition to this the Force has requested, and the PCC has approved, the release of £67k of partnership funding that was previously received by the PCC. The final area of additional funding changes to the original budget is in relation to the £425k that will be received during 2014-15 by the PCC from the Home Office Innovation Fund. These successful bids were supported by the PCC and the money has been allocated to the Force in line with the approved bids. Expenditure will be monitored against the grant requirements and returns submitted to the Home Office to receive payment of the funds.

3.4 Income Forecasts

As previously reported the vast majority of the income the PCC will receive during 2014/15 has already been agreed and little or no variances will be expected against the originally budgeted figures for Government Grant funding or Precept related funding.

3.5 The areas where variances may occur will predominantly be in relation to Partnership Funding, Fees and Charges and Miscellaneous Income with some minor variances possible against Specific Grants. In 2013-14, for instance, £2,013k more income than budgeted was received and of this £655k was due to over recovery of income which contributed to the under spend in 2013-14.

3.6 This trend of over recovery of income has continued into 2014/15. The higher than budgeted level of secondments that was seen during 2013/14 has continued into 2014/15, this is expected to generate around £400k more income than was budgeted for at the start of the year. In addition to this higher than expected income from collaborations and general income leads to a forecast under spend as a result of this additional income of £570k. This is significantly higher than the £320k that was reported at the end of June but more in line with the experience of 2013-14.

3.7 The trends around income will continue to be closely monitored over the coming year and the learning from 2013-14, combined with what happens in 2014-15 will better inform the 2015-16 budget and LTFP.

3.8 The Office of the PCC

The 2014-15 budget of £885k for the Office of the PCC is now £315k (or 26.3%) lower than the £1.2m budget inherited from the Police Authority. The 2014-15 budget is also £45k (or 4.8%) lower than the budget set in 2013/14 and is split into the following areas:

2013/14 Budget	2013/14 Outturn	2013/14 Variance	PCC Budget	Original 2014/15 Budget	2014-15 Forecast Outturn	2014-15 Forecast Over/(Under)
£000s	£000s	£000s	Category of Spend	£000s	£000s	£000s
590	556	(34)	Staff Pay and Allowances (Incl. NI and Pension)	585	580	(5)
1	0	(1)	Premises	1	0	(1)
332	277	(55)	Supplies and Services	292	202	(90)
7	8	1	Transport	7	9	2
0	(42)	(42)	Miscellaneous Income	0	(46)	(46)
930	800	(130)	Total Budget	885	745	(140)

3.9 Position as at the end of September 2014

The table at 3.8 above shows the forecast position for 2014-15. Forecasts show that expenditure for 2014-15 is expected to be lower than 2013-14 at £745k. This would therefore result in an under spend of £140k.

The underspend is higher than the £100k under spend forecast at the end of June as the income to be received from the North Yorkshire PCC, for the provision of the statutory functions of the PCC's CFO, was agreed since the last report and is now factored into the financial forecasts.

3.10 Corporate Services

In line with the agreement of the Home Secretary, and as per the requirements of the Police Reform and Social Responsibility Act 2011, there was a statutory transfer of staff from the employment of the PCC to the employment of the Chief Constable from the 1st April 2014. As part of this transition and the changes to governance that occurred from the 1st April 2014 there were certain budgets and responsibilities that either needed to sit with the PCC or which were agreed to sit with the PCC. These areas have been grouped under the heading of Corporate Services and include the costs of the PFI contracts, strategic contract management, asset management costs, treasury management and planning.

- 3.11 The Corporate Services budget for 2014/15 was set at £9,160k as per the table below. The table also reflects the forecast spend in all areas and the forecast outturn at this stage of the year.

Corporate Services Budget	Original 2014/15 Budget	2014-15 Forecast Outturn	2014-15 Forecast Over/(Under)
<u>Category of Spend</u>	£000s	£000s	£000s
Staff Pay and Allowances (Incl. NI and Pension)	180	188	8
Supplies and Services	57	38	(19)
Transport	3	2	(1)
PFI - Uraly Nook	1,710	1,696	(14)
PFI - Action Stations	5,110	4,937	(173)
Asset Management	2,100	2,000	(100)
Total Budget	9,160	8,860	(300)

- 3.12 The forecast underspend in this area has increased by £50k, to £300k, since the report in June. This results from the receipt of a rebate, due as part of the PFI Action Stations contract, in relation to the insurance premiums paid within the contract price.

3.13 PCC Initiatives and Victims and Witnesses Services

The PCC initially allocated a budget of £1,768k to support Community Safety and PCC Initiatives and deliver Victims and Witnesses services during 2014/15. £1,510k was allocated to the Community Safety and PCC Initiatives budget and £258k to Victims and Witnesses Services. The funding available to Victims and Witnesses services has since increased by £250k to £508k as a result of the additional funding referred to in 3.3. To date the following amounts have been allocated against the PCC Initiatives budget:

	2014/15
PCC Initiatives	<u>£000s</u>
Arrest Referral	259
Youth Offending	200
Adult Protection Contribution	27
Local Safeguarding Childrens Board Contribution	54
SARC Contribution	43
Crimestoppers Contribution	19
Criminal Justice Board Contribution	18
Cleveland Womens NetWork Support	4
Community Safety Initiatives	488
Safer Future Communities	10
Total PCC Initiatives Expenditure	1,122

- 3.14 Decisions in relation to the remaining £388k will be made as the year progresses and scrutiny of this expenditure and the services provided will take place at the Partners and Commissioning meetings.

- 3.15 The PCC takes over responsibility for the commissioning of some Victims and Witnesses Services from the 1st October 2014, with further areas to follow in April 2015. In preparation for this transfer of responsibility and to expand the services provided by both the SARC and Barnado's, in relation to sexual violence services, the PCC has approved bids from both organisations.
- 3.16 These approved bids in conjunction with the 'Competed Fund' bid means the PCC has so far made decisions to allocate the following funds, from the £508k now available in this area:

<u>Victims and Witnesses</u>	<u>£000s</u>
SARC	70
Barnado's	45
Eva Women's Aid	23
My Sister's Place	21
Arch - Advocacy, Counselling and Life Enhancement Services	16
Arch - Sexual and Domestic Violence Services	13
<u>Restorative Justice</u>	
RJ Co-ordinator Post	30
Total Victims and Witnesses	218
<u>MoJ Competed Fund</u>	<u>£000s</u>
Improving Victim Experience of CJS	108
Increasing Victim Safety and reducing intimidation	63
Supporting Young Victims	29
Building Confidence and Awareness	37
Total Competed Fund	237

- 3.17 The remaining £32k will be allocated, in line with the terms and conditions of the grant, as the year progresses.

4. Police Force

- 4.1 The vast majority of the funding available to the PCC has been provided to the Police Force. The Force was allocated a budget of £121,405k for 2014/15 at the start of the year, however in line with decisions made by the PCC this has increased by £403k. The summary of how this is forecast to be spent, including forecast outturns are included in the table below:

	Original 2014/15 Budget	Revised 2014/15 Budget	Forecast Spend in 2014/15	2014/15 Forecast (Under)/ Overspend
Police Force Financial Summary				
Police Force Planned Expenditure	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>
Pay				
Police Pay	70,558	70,565	68,450	(2,115)
Police Overtime	1,354	1,401	1,401	0
Staff Pay	6,441	6,441	6,441	0
Police Community Support Officer Pay	4,416	4,416	4,056	(360)
Pay Total	82,769	82,823	80,348	(2,475)
Major Contracts				
Custody and Medical Contract	3,368	3,367	3,167	(200)
Outsourcing Contract	19,058	19,058	18,958	(100)
Major Contracts Total	22,426	22,425	22,125	(300)
Non-Pay Budgets				
Other Pay and Training	276	298	298	0
Injury and Medical Police Pensions	2,360	2,360	2,360	0
Premises	3,811	3,811	3,761	(50)
Supplies and Services	5,645	5,972	6,664	692
Transport	1,762	1,762	1,762	0
External Support	2,356	2,356	2,239	(117)
Non-Pay Total	16,210	16,560	17,085	525
Total Planned Force Expenditure	121,405	121,808	119,558	(2,250)

- 4.2 The table below provides details of why the Force budget has increased:

Budget Changes	£000
2012/13 Innovation Bid Funding	195
2013/14 Innovation Bid Funding	230
Release of Partnership Funding	78
Transfer to Reserves	(100)
Total to end of September	403

- 4.3 Full details of the expenditure of the Force and the financial performance against their plans will be considered by the PCC as part of the quarterly scrutiny process. It is worth noting that the forecast under spend is only marginally higher than the £2,225k reported in June.

4.4 Reserves

The 2014/15 budget provided for £1,035k to be added to Reserves during 2014/15. This is made up of the following transactions:

- £800k contribution to Capital.
- £915k to Earmarked Reserves, £40k to the PFI Reserve and £875k to establish a reserve for ER/VR costs as part of delivering the reduced staffing costs needed to balance the budget in future years.
- (£680k) from the General Fund to support the establishment of the ER/VR reserve.

4.5 These transactions will occur as a matter of course during the 2014/15 financial year and will add to the Earmarked Reserves that existed as at the end of 2013/14 of £7,187k and reduce the General Fund from £7,031k as at the 31st March 2014 by £680k.

4.6 The PCC has so far made 2 decisions since the 2014-15 budget was set that will impact on the levels of reserves. £100k in relation to work to be done on developing a 'Web Chat Initiative' will take place in 2015-16, these funds have therefore been transferred from the 2014-15 budget in to Earmarked Reserves and will be made available to the Chief Constable during 2015-16 to deliver this initiative. In addition to this £14k has been released from Earmarked Reserves and allocated to the Force in relation to Partnership Funding that had been previously received.

4.7 It is important to recognise that these reserves are not fully 'cash backed' and that the cash has been used to reduce the requirement for borrowing within the organisation. Any significant use of these reserves may lead to the need to increase borrowing levels and therefore in turn may increase interest payments.

5. Overall Budget Summary

5.1 At the end of the second quarter of 2014/15 the follow table summarises the finances of the PCC, including forecasts of the expected outturn in each area. While the underspends forecast for this year are significant, it is important to recognise that the total forecast expenditure to be made in 2014-15 is still higher than the budget forecast to be set for 2015-16. This is shown in the table below.

	Original 2014/15 Budget	Revised 2014/15 Budget	Forecast Spend in 2014/15	2014/15 Forecast (Under)/ Overspend	2015/16 Forecast Budget
Funding	£000s	£000s	£000s	£000s	£000s
Government Grant	(89,756)	(89,756)	(89,756)	0	(85,268)
Council Tax Precept	(28,797)	(28,797)	(28,797)	0	(28,880)
Council Tax Freeze Grant	(800)	(800)	(800)	0	(800)
Council Tax Support Grant	(6,868)	(6,868)	(6,868)	0	(6,868)
Funding for Net Budget Requirement	(126,221)	(126,221)	(126,221)	0	(121,817)
Specific Grants	(5,619)	(6,044)	(6,056)	(12)	(5,638)
Witness and Victims Funding	(180)	(430)	(430)	0	(599)
Partnership Income/Fees and Charges	(2,233)	(2,300)	(2,858)	(558)	(2,462)
Total Funding	(134,253)	(134,994)	(135,565)	(570)	(130,515)
Office of the PCC Planned Expenditure	£000s	£000s	£000s	£000s	£000s
Staff Pay	585	585	580	(5)	560
Non Pay Expenditure	300	300	165	(135)	290
Total Planned Expenditure	885	885	745	(140)	850
PCC Initiatives/Victims and Witness	£000s	£000s	£000s	£000s	£000s
PCC Initiatives	1,510	1,510	1,510	(0)	1,450
Victims and Witnesses Services	258	508	508	0	615
Total Planned Expenditure	1,768	2,018	2,018	(0)	2,065
Corporate Costs	£000s	£000s	£000s	£000s	£000s
Total Corporate Costs	9,160	9,160	8,860	(300)	8,940
Police Force Planned Expenditure	£000s	£000s	£000s	£000s	£000s
Police Pay	70,558	70,565	68,565	(2,000)	68,615
Police Overtime	1,354	1,401	1,401	0	1,625
Staff Pay	6,441	6,441	6,361	(80)	4,060
Police Community Support Officer Pay	4,416	4,416	4,086	(330)	6,250
Custody and Medical Contract	3,368	3,367	3,262	(105)	3,220
Outsourcing Contract	19,058	19,058	18,938	(120)	17,385
Non-Pay	16,210	16,560	16,945	385	15,225
Total Planned Force Expenditure	121,405	121,808	119,558	(2,250)	116,380
(Surplus)/Deficit	£000s	£000s	£000s	£000s	£000s
(Surplus)/Deficit	(1,035)	(1,124)	(4,384)	(3,260)	(2,280)
Planned Transfers to/(from) General Fund	(680)	(680)	(680)	0	0
Contribution to Capital Programme	800	825	825	0	2,240
Planned Transfers to Earmarked Reserves	915	979	979	0	40
Net (Surplus)/Deficit After Reserves	0	0	(3,260)	(3,260)	(0)

6. Implications

6.1 Finance

There are no financial implications other than those mentioned above.

6.2 Diversity & Equal Opportunities

There are no issues arising from this report to bring to the attention of the PCC.

6.3 Human Rights Act

There are no Human Rights Act implications arising from this report.

6.4 Sustainability

This report is part of the process to establish sustainable annual and medium term financial plans and maintain prudent financial management.

6.5 Risk

While it is essential that savings are delivered to balance the budget in future years it is important that this is not at the expense of performance in the current year. The balance between performance and delivering financial savings will need to be closely monitored throughout the financial year.

There is a risk that this under spend increases as the financial year progresses as has occurred in the last few financial years.

7. Conclusion

7.1 The proposed 2014/15 budget underpins the PCC's objectives of:

- Retain and develop Neighbourhood Policing
- Ensure a better deal for victims and witnesses
- Divert people from offending, with a focus on rehabilitation and the prevention of reoffending
- Develop better coordination, communication and partnership between agencies to make the best use of resources
- Working for better industrial and community relations

It has become apparent that even at this early stage of the financial year that a significant under spend is going to develop in 2014-15. This is being driven, predominantly; by significant underspends within the Force on Police Officer salaries as a result of Officers leaving more quickly than budgeted. It is important that these under spends do not come at the expense of delivery against the PCC's objectives and the public's expectations of the service they should receive.

Michael Porter
PCC Chief Finance Officer

