

Report to the Commissioner's Governance Board

Date: 1 March 2017

Title: Financial Monitoring and Savings Update

From: Chief Constable



INTRODUCTION

1. This update is based on the latest report on the financial forecast for both revenue and investment as presented at the Chief Officer Strategic Meeting on 24th January. It was based on expenditure and income to the end of December with the remaining three months forecast in conjunction with budget holders, budgetary information and historic trends.
2. This report also includes a commentary on the savings forecast for 2017/18 through to 2020/21 based on expected cost pressures and anticipated changes to funding over the same period.

REVENUE FORECAST

3. The revenue budget for 2016/17 is set at £278.4m with the latest forecast indicating a total spend of £277.7m or 99.8% of the overall budget. This 0.2% underspend equates to just under £0.7m which is planned to be transferred to reserves either to support investment in transformative technology or for the deferral of future savings. A proportion of this underspend could be used to support emerging policing initiatives or to address emerging training requirements from the College of Policing. These potential uses form part of the regular discussions between Force and Office of the Police and Crime Commissioner through the Chief Finance Officers.
4. The Chief Constable's CFO and PCC's CFO meet weekly and part of these meetings include robust vigilance of any budgetary variance. This helps ensure the Force is making best use of the resources available to it in the year and to plot the inter-dependencies between in-year budgets, investment plans, the medium term financial plan and the planned use reserves available to the Commissioner and Force.
5. The underspend arising from the process of people leaving the organisation being replaced by recruits and new starters contributes to the overall underspend for the force. A proportion of this has provided significant budgetary flexibility in-year and enabled the force to meet the cost of high profile policing operations such as those earlier this year at the port of Dover. It has also facilitated the use of specialist delivery partners in Estates, IT and Procurement in order to assist with the delivery of key transformational work streams securing benefits for the force.
6. It looks increasingly likely that the costs to Kent of the legal case Allard and others vs Devon and Cornwall Police will not fall against the revenue budget for this financial year. The costs of this case to Kent were estimated at around £0.5m and this has been included as expenditure in the current forecast. A revised estimate of the costs and likely timing of any cash outflow will be made as part of the Accounts Closure process and will be transferred to a specific provision or reserve at year end from the 2016/17 revenue budget to meet these costs. This is not therefore expected to materially affect the current financial forecast.
7. Considerable savings have been achieved in the financial year above the original target of £8.7m. The outturn for savings in 2016/17 is likely to be in the region of £12.0m (some business cases are yet to conclude and further non-pay savings are possible). This is an excellent force-wide achievement and backs up the additional savings over target in previous years. Unlike 2016/17 however, when these savings were re-invested into a new policing model, the Chief Officer Team with agreement from the Commissioner are using these savings to help offset cost pressures and reduce the future burden of savings. Further details on the savings requirement for the medium term are included later in this report.

INVESTMENT FORECAST

8. The Investment forecast is comprised of capital expenditure and the revenue consequences of capital schemes such as training. The agreed budget for 2016/17 was £18.9m and includes £3.7m brought forward from the previous year's programme to complete agreed and previously approved projects. As with the revenue budget the current forecast is based on April to December expenditure and income with forecasts provided by the main provisioning departments of Estates, IT and Transport.
9. The current year budget is forecast to be just over 81% spent (£15.3m) with the main reason for the variance being agreed slippage due to contractual negotiations and changes to requirements set nationally. Delivery of the Investment Programme is reviewed quarterly by the Chief Officer Team and at the Capital Management Board to which the PCC's CFO is also a member. This later board includes the heads of the provisioning departments and helps ensure thorough scrutiny of the programme.
10. Receipts from sales of non-operational land and buildings agreed as no longer required in Kent Police's estates strategy are expected to reach £2.85m by the end of the financial year. These receipts contribute to the reserves available to support future capital investment and are the result of extensive work from the Estates Team to ensure sale at the best possible price for Kent. The future forecast for sales is heavily dependent on the wider estates strategy which underpins the strategic policing aims of the force and OPCC including maintaining a visible presence in town centres. This plan remains under discussion within the Force and, once a firm proposal is agreed it will be discussed with the Commissioner and could form an addition to the Investment Programme outlined below.
11. The Chief Officer Team, Commissioner and Police and Crime Panel recently approved the £50.6m Investment Programme for the years 2017/18 to 2021/22. This is an ambitious programme of improvements and benefits orientated projects closely entwined to the Commissioner and Chief Constable's strategic vision. Funding for the programme is predominately from existing reserves, forecast sales and the annual Home Office Grant. Delivery of the future programme will be challenging for the main provisioning departments but assurance has been provided by them that it will be delivered but that co-dependencies exist for national or collaborative schemes.

SAVINGS

12. As described above the total forecast for savings to be achieved by the end of the financial year is £12.0m. This represents 38% (£3.3m) over the original target of £8.7m and continues Kent's excellent record of achieving savings in the year before the Police grant is reduced and cost pressures bite whilst continuing to deliver excellent levels of service to the county. This approach has helped ensure Kent Police is able to balance its budget without recourse to using reserves to bridge any funding gap.
13. At the outset of the current Comprehensive Spending Review (CSR) the savings target for the Force across the four year period was established as being £33.3m. The first two years of this have been achieved with a further two remaining. As time has progressed changes have been necessary to the Medium Term Financial Plan (MTFP). This includes additional cost pressures such as the Apprentice Levy; Auto-enrolment for Pensions; an increase in employer contribution rate for the Local Government Pension Scheme and the cost of the new Policing Model. In December 2016 the Home Office announced a further reduction to the Police Grant to support the Police Transformation Fund and increases for some centralised policing services. These, along with internal growth to meet legislative changes, regional pressures and some costs rising above inflation, have contributed to increased savings requirements for the Force.
14. The new policing model, New Horizon, aims to protect frontline resources in response to crime trends set out in the National Policing Requirement (including Counter Terrorism, cybercrime and vulnerability). The changes will put vulnerable people at the heart of Kent Police and include a specialist service for vulnerable adults and a dedicated service for children who go missing. The new model will go live in the autumn of 2017.

15. It is highly likely that austerity will not end with the current CSR and that Forces therefore need to plan to meet internal cost pressures such as salary and non-pay inflation through further budget cuts. The Force is planning for this eventuality in its MTFP and savings plans. The current forecast savings requirement for 2018/19 to 2020/21 are as follows:

Financial Year	Savings Requirement
2018/19	£9.8m
2019/20	£9.9m
2020/21	£6.2m
Total	£25.9m

16. The totals for each year are after a use of reserves of £5.1m to balance the 2017/18 revenue budget has been applied by the Commissioner. This intervention helps enable the force to effectively plan future savings and also fully understand the impact of any changes to the Police Allocation Formula. A further use of reserves of £3.5m has been agreed by the Commissioner for the same purpose and this reduces the 2018/19 savings total.
17. The Force is currently in the process of reviewing its proposals and savings plans in order to balance the revenue budget in each of these years. It should be noted that the above table is based on a set of assumptions and that these may change over time. They also do not include any effect of the proposed remodelling of the Police Grant Allocation Formula or any increases in Precept over 1.99% annually. These assumptions give considerable scope for change in either direction and are continually reviewed by the Force and PCC's CFO as well as being benchmarked both regionally and nationally.
18. The Force has an excellent record of achieving savings and although the above savings figures are higher than originally planned they remain achievable but challenging.