

Report to the Commissioner's Performance and Delivery Board

Date: 7 June 2017

Title: Finance

From: Chief Constable



INTRODUCTION

1. This update is based on the final outturn for both revenue income and expenditure and investment and will form part of the Narrative Statement for the Kent Police Annual Accounts. As the year-end accounts are still in production at the time of writing this report the final figures may yet change slightly as the final accounts are reviewed and finalised in preparation for their audit in June and July.
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. It will also include a very brief comment around potential savings and cost pressures beyond this period.

REVENUE OUTTURN

3. The revenue budget for 2016/17 was set at £278.4m with the latest forecast indicating a total spend of £277.8m or 99.8% of the overall budget. This 0.2% underspend equates to £0.6m which is planned to be transferred to reserves to support investment in transformative technology and the agreed capital programme to enhance delivery of policing through the New Horizon model.
4. Currently the Annual Accounts for Kent Police are being produced by the Finance team and part of this process includes the production and review of the outturn for the year. As such it may be that through further analysis the underspend highlighted above may vary slightly as detailed analysis is undertaken of pre-payments, accruals and debtors. This is an ordinary part of the year-end work and any changes (even though nothing significant is expected) will be reported to the Chief Officer Team and the Office of the Police and Crime Commissioner.
5. The majority of the underspend is incurred through the early achievement of savings for the year and also of a higher than budgeted vacancy rate for Police Staff Employees. The budgeted vacancy factor for the year of 5.0% was exceeded with an actual of nearly twice that. This actual vacancy rate is a combination of a number of themes including redundancies through business cases; the delay between a member of staff announcing their intention to leave and a new member of staff joining the organisation and also of departmental managers holding vacancies whilst reviews are undertaken into matching demand against resources.
6. The legal case Allard and others vs Devon and Cornwall Police was not settled in terms of payments being made to serving or retired officers. This case remains subject to significant further work by both Legal Services and the Serious Crime Directorate. A disclosure on this legal case will be made in the Annual Accounts as a Contingent Liability.
7. Savings have been achieved in the financial year above the original target of £8.7m. The outturn for savings in 2016/17 was in fact slightly under £12.0m. This is an excellent force-wide achievement and backs up the additional savings over target in previous years. Unlike previous years, 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.
8. Budgeted transfers to reserves of £6.1m were made in 2016/17. These are due to Kent Police's excellent record of savings delivery prior to the 31st March 2017 resulting from the strategic savings in the year before government funding is reduced. These transfers to reserves will be utilised over the medium term primarily to fund the Commissioner's and Chief Constables ambitious plans for service improvement and modernisation.

9. The situation around an extension to the national contract for Airwave due to the ESN not being ready on the London Underground network by the cessation of the Airwave contract, due for 31st December 2019 remains unclear. Both Force and PCC CFOs continue to review the situation and receive updates from various national networks.
10. The likely cost of these delays to Kent varies considerably between around £8.0m and £1.8m although there is a view that these delays in a nationally supported critical IT improvement scheme should not cost individual forces. As reliable updates become available they will be reported to the Chief Officer Team and Commissioner.
11. At the time of writing this report no revenue (or investment) forecast for the 2017/18 financial year has been made.

INVESTMENT OUTTURN

12. The Investment budget 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 £4.6m brought forward from the previous year's programme to complete agreed and previously approved projects. As with the revenue budget the current figure is subject to small changes as the year-end accounts are produced.
13. The outturn for 2016/17 was just over 68% spent (£12.9m) with the main reason for the variance being agreed slippage due to contractual negotiations and changes to requirements set nationally. Whilst the reasons for the underspend are clear the movement between forecasts throughout the year and the final outturn is disappointing and has seen an increase in the underspend of £1.0m between February and March. The reasons for this were thoroughly explored at the April Capital Management Board with heads of the provisioning departments, Estates, IT and Transport, asked to explain the reasons for the movements and told to improve their forecasting as well as the viability of their plans.
14. Receipts from sales of non-operational land and buildings agreed as no longer required in Kent Police's estates strategy reached £2.17m for the financial year. 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.
15. The Chief Officer Team, Commissioner and Police and Crime Panel approved the £50.6m Investment Programme for the years 2017/18 to 2021/22 earlier this year. This is an ambitious programme of improvements and benefits orientated projects closely entwined to the Commissioner and Chief Constable's strategic vision. Departmental heads and programme managers have been invited to review these plans by the Force CFO to ensure deliverability in the timeframes outlined in the plan.

SAVINGS

16. As described above the total savings delivered in 2016/17 was £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.
17. 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. These inflationary increases are expected to cost in the region of a further £5m annually and without increases to the Government Grant or Precept, Kent Police will need to make further savings in order to balance the budget. The current forecast savings requirement for 2018/19 to 2020/21 are as follows:

Financial Year	Savings Requirement
2018/19	£9.3m
2019/20	£9.6m
2020/21	£6.2m
Total	£25.1m

18. 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.
19. The Force has shared savings plans with the OPCC and has set challenging but achievable goals for directorates across Kent Police in order to meet the above amounts. It should be noted that the above table is based on a set of assumptions and that these may change over time. Indeed one of the earlier assumptions was for the cost of Auto-enrolment to be £0.8m over two years. Due to a ruling by the Pensions Commissioner this assumption is now no longer valid and the likely cost is now considerably less than this. This has resulted in the savings requirement reducing to the £25.1m as outlined above. The effect of the proposed remodelling of the Police Grant Allocation Formula or any increases in Precept over 1.99% annually are also not included in the table above and 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.