

For Information / Consideration	
Public/Non Public*	Public
Report to:	Joint Audit and Scrutiny Panel
Date of Meeting:	18th February 2014
Report of:	Chief Finance Officer
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Agenda Item:	5

FINANCIAL REPORTS FOR 2014-15

1. Purpose of the Report

1.1 As part of the annual financial cycle the following reports are produced to ensure financial probity:

- Precept Report
- Revenue Budget
- Medium Term Financial Plan
- 4 year Capital Programme
- Treasury Management Strategy
- Reserves Strategy

These reports are approved by the Commissioner (with feedback from the Police & Crime Panel in relation to the proposed change in precept).

1.2 The reports are brought to this panel as items for noting. However, below demonstrates the assurance that members can obtain from these reports.

2. Recommendations

2.1 Members are requested to note the financial reports provided and the explanation within this covering report relating to the assurance that can be obtained from the reports.

3. Reasons for Recommendations

3.1 This complies with good financial governance.

4. Summary of Key Points

FUNDING

4.1 The Commissioner received on the 18th December 2013 the provisional settlement of grants for the 2014-15 year. This form of funding accounts for 75% of total funding with the precept making up the remaining 25%.

- 4.2 The amount of police & crime grant received reduced by 4.8% compared with 2013-14. There is no action that can be taken to change this. However, the Commissioner did write to the Policing Minister and Home Secretary providing feedback on the proposed settlement. A copy of this letter is attached at **Appendix A**.
- 4.3 The amount of precept increase has a referendum limit of 2%. The commissioner could have considered going above this limit, but to do so would have incurred the cost of holding a referendum and if that failed also the cost of re-billing very household in Nottinghamshire. This was not considered viable option.
- 4.4 The Government has made the offer of a freeze grant for 2014-15. The Commissioner in considering this offer has had to consider the ability and willingness of the people of Nottinghamshire in being able to pay an increase on their Council Tax (which has a long term benefit to the financial position of the OPCC and Force), with that of accepting the freeze grant offer (which will increase the funding gap in 2016-17, when it expires).
- 4.5 The Commissioner has decided to increase the precept by 1.96% and decline the offer of the freeze grant. The longer term financial stability of the OPCC and Force was the main consideration behind this decision. This was also supported by the public views obtained in the consultation events and on-line survey.
- 4.6 This was reported to the Police & Crime Panel (3rd February 2014), which has the power to reject a change to the precept by saying it is too high or too low. The Panel supported the change and therefore no further deliberation by the Commissioner was required.
- 4.7 Members should therefore be assured that whilst all options are considered they are considered very carefully with the advantages and disadvantages being fully explored. The results of this process are made open and transparent in the meetings held and reports published.

REVENUE EXPENDITURE

- 4.8 Having calculated the total amount of funding available this has to be matched to the Commissioners and Force plans and revenue pressures for 2014-15. The gap identified for 2014-15 was a shortfall on funding of £12.7m.
- 4.9 During the year the Commissioner had an Independent Base Budget Review undertaken This confirmed that the Force were working on the appropriate areas to deliver efficiencies and all of the potential areas for savings were being incorporated into the Target Operating Model (TOM) – change programme.
- 4.10 It is a legal requirement to set a balanced budget for the next financial year.

- 4.11 The final budget proposed was a balanced budget, totalling £193.8m. Savings of £12.7m have been identified and a request to use reserves of £2m was granted in relation to one-off expenditure that did not make any future commitments on the revenue budget.
- 4.12 Members should be assured that the budget complies with the legal requirements of the Commissioner.

MEDIUM TERM FINANCIAL PLANNING (MTFP)

- 4.13 Having balanced the revenue budget for one financial year the Commissioner must have regard to the medium term and the pressures and commitments that are becoming known. For example the impact of the Governments Single Rate Pension Scheme on employers national insurance contributions - from 2016-17 this will cost the Commissioner and Force an additional £3.7m.
- 4.14 The Chief Finance Officer to the PCC builds in known pressures as they are understood and can be valued, together with assumptions in relation to funding available. This is then built into the pressures that the Force calculates in relation to pay awards, increments and inflation.
- 4.15 Over a four year period a financial picture as accurate as possible is developed and reported. This clearly identifies the future gaps in funding that will need to be met through the TOM (change programme) or collaboration with other forces and or partners.
- 4.16 The MTFP is also directly aligned with the workforce plan to provide and affordable workforce that can sustain performance levels and deliver a local policing model that the Commissioner approves.
- 4.17 Members should be able to obtain assurance that the Commissioner, through the Chief Finance Officer and the Force, takes a detailed account of the risks and opportunities available now and emerging over the medium term.

CAPITAL EXPENDITURE

- 4.18 Capital expenditure is required to ensure the appropriate assets are available for use by the Force in the achievement of the Police & Crime Plan priorities. This usually includes all assets of £10,000 or more.
- 4.19 The four year plan will include a very detailed plan of expenditure proposed for 2014-15 with outline plans for the following three years. This is now aligned with capital planning on a regional level, particularly in relation to IT investment.

- 4.20 Capital expenditure is financed from: a small amount of capital grant from the Home Office, capital receipts and prudential borrowing. The latter having revenue implications in relation to repayment of the debt. Revenue implications relating to the Minimum Revenue Provision (MRP) are also taken into consideration when planning capital expenditure. These revenue implications are included in the revenue expenditure budgets.
- 4.21 There are stringent rules relating to capital expenditure, capital financing and affordability.
- 4.22 Members should be assured that despite the economic climate the capital programme that is proposed ensures that the force will have the appropriate assets to fulfil their responsibilities.

TREASURY MANAGEMENT STRATEGY

- 4.23 This strategy underpins the capital expenditure and its proposed financing. It demonstrates over the medium term what financing is available and sets the parameters in which borrowing can be used.
- 4.24 There are indicators relating to treasury management and in relation to prudential indicators. These indicators define the levels in which the Chief Finance Officer can operate and which are affordable for the Commissioner.
- 4.25 Performance in relation to these indicators is provided in the autumn (half year report) and again as part of the year end outturn reporting.
- 4.26 The strategy itself also sets the parameters in assessing viability of financial organisations on the approved counter party list. Capita are the external advisors for Treasury Management and provide regular updates on counter parties and where they meet or do not meet the standards to be included on the Commissioners counter party list. Any variation from the levels and parameters set requires approval by the Commissioner in advance.
- 4.27 Members should be assured that there is a robust strategy and process in place that sets parameters to protect the financial assets of the Commissioner.

RESERVES STRATEGY

- 4.28 As with all public sector organisations there is a requirement to hold an appropriate level of reserves to ensure longer term financial viability.
- 4.29 The reserves strategy details the reserves that are held and how they can be used. There is a risk assessment in relation to the general reserve and details on the earmarked reserves and their use.

- 4.30 The level of reserves is kept under constant review and any request to use reserves has to be approved in advance by the Commissioner.
- 4.31 The current levels of reserves whilst healthy are not excessive in relation to other local bodies and the Chief Finance Officer makes a statement to that effect.
- 4.32 Reserves can only be used once and the possibility of replacing reserves becomes unlikely as revenue budgets continue to be squeezed. The best way to utilise reserves is to use it in providing pump priming financial resource to a project that once operational will deliver further savings. This is what is looked for in approving the use of reserves.
- 4.33 Members should be assured that an adequate level of reserves is in place and that there is guidance on how and when these reserves can be used.

5. Financial Implications and Budget Provision

- 5.1 None as a direct result of this report.

6. Human Resources Implications

- 6.1 None as a direct result of this report.

7. Equality Implications

- 7.1 None as a direct result of this report.

8. Risk Management

- 8.1 None as a direct result of this report.

9. Policy Implications and links to the Police and Crime Plan Priorities

- 9.1 This report complies with good governance and financial regulations.

10. Changes in Legislation or other Legal Considerations

- 10.1 None

11. Details of outcome of consultation

- 11.1 Not applicable

12. Appendices

- 12.1 Appendix A - Letter of Representation on funding 2014-15

The Rt. Hon. Theresa May MP
House of Commons
London
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c.c. Policing Minister
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6th January 2014

Dear Rt Hon. Teresa May

Provisional Settlement 2014/15

In response to consultation on the settlement for 2014-15.

The settlement announced is broadly in line with our estimates. However, only providing one years settlement impedes our ability for medium term financial planning. The lack of information for 2015-16 is especially frustrating. With the resources available in the Home Office it should have been possible to calculate how the impact of Autumn Statement on budgets on time for the settlement announcement.

As OPCC's we are able to work through such scenarios working from the assumptions we have already modelled. Why then is the Home Office unable to do this? But more importantly when will we know provisional figures for 2015-16?

This settlement also sees a significant amount of money being top sliced from police grant to fund the innovation fund, College of Policing and HMIC. This equates to 1.9% of total grant available for policing and would have gone a long way to protecting the front line.

The settlement report also fails to detail how long each of the elements of top slicing will continue to be funded this way. None of them seem to be one-off top slicing projects.

Again settlement with individual police areas makes no movement from the damping mechanism. Your letter states that it ensures all police areas are treated the same with a 4.8% reduction. However, this would only be the case if we were all operating from an equal base. Where each policing area actually receives the amount allocated in the funding formula. Only once this is in place would a 4.8% reduction actually be on an equal basis.

This brings me to the current review of the funding formula, it is frustrating to see that this seems to be being pushed further into the long grass. If the review is ever

finalised it will only provide equality if there is a move from the “floors” transitional equivalent over a set period of time announced with the revised formula. Are you able to provide assurance on when the review will be complete and the period of time for achieving full implementation?

Therefore, whilst the settlement for 2014-15 is broadly in line with our estimates this still leaves us £10m per annum on average to identify as savings (£13.6m in 2014-15). This is despite our willingness to collaborate wherever possible.

We still face more “unknowns” in our medium term financial planning, as the Home Office information is not forthcoming.

I hope that the Home Office can provide the answers as soon as possible.

Yours sincerely

A handwritten signature in black ink, appearing to read 'Paddy Tipping'.

Paddy Tipping
Police and Crime Commissioner