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| <b>To:</b>              | The Sussex Police & Crime Panel                                  |
| <b>From:</b>            | The Sussex Police & Crime Commissioner                           |
| <b>Subject:</b>         | Financial Outturn Report 2016/17                                 |
| <b>Date:</b>            | 30 June 2017   |
| <b>Recommendations:</b> | That the Panel note and comment on the Financial Outturn Report. |

## **1.0 Introduction**

- 1.1 This report presents a summary of the revenue and capital outturn for 2016/17 subject to audit for the overall police fund under the direction of the Police & Crime Commissioner (PCC). It also sets out the decisions made under the Scheme of Consent regarding the use of and/or transfer of the surplus or deficit on revenue and capital budgets in line with the approved Reserves Policy.
- 1.2 The draft Annual Statements of Accounts 2016/17 were published earlier this month. They set out in detail the financial statements, disclosures, assets and liabilities of the Corporations Sole and the Group. The Statements are now subject to external scrutiny prior to their formal approval by the end of September.
- 1.3 It should be noted that the outturn is subject to audit and could change although, at this stage there is no reason to believe that there will be any material adjustments. It is proposed that the Chief Finance Officer and Director of Finance are authorised to approve any subsequent changes and report these to the PCC. The draft Statement of Accounts will be reviewed by the Joint Audit Committee on 11 July 2017 and final audited Statement of Accounts agreed and published by 30 September 2017.

## **2.0 Revenue Budget**

- 2.1 The 2016/17 revenue budget was approved by the PCC in February 2016 at £254.977m following:
- Total funding was protected in flat cash terms as long as PCCs maximised their ability to increase the precept as provided for in the new flexible referendum principles;
  - Government grant for Sussex was reduced by £0.9m (0.5%) to £164.9m.
  - The precept was increased by £5 generating £3m of additional income invested into digital forensics and protecting vulnerable people;
  - Provision for increases in pay and prices of £9.9m and inflation and other pressures of £1.2m;
  - The requirement to make a further £11.5m of savings;

2.2 During the year budget virements were agreed by the PCC as set out below.

|                                      | Budget<br>Original<br>£'000 | Budget<br>Virements<br>£'000 | Budget<br>Revised<br>£'000 |
|--------------------------------------|-----------------------------|------------------------------|----------------------------|
| Operational Delivery Budget          | 248,300                     | (301)                        | 247,999                    |
| Office of the PCC                    | 1,184                       | 341                          | 1,525                      |
| Community Safety                     | 1,635                       | 154                          | 1,789                      |
| Victim Support & Restorative Justice | 0                           | 0                            | 0                          |
| Other OPCC Financing Budgets         | 4,308                       | (1,535)                      | 2,773                      |
| Transfers to/(from) Reserves         | (450)                       | 1,341                        | 891                        |
| <b>Total Net Budget Requirement</b>  | <b>254,977</b>              | <b>0</b>                     | <b>254,977</b>             |

2.3 The PCC delegated a budget of £247.999m to the Chief Constable for 2016/17 to enable the discharge of the activities under his direction and control. This is referred to as the 'Operational Delivery Budget' within this report.

2.4 The revenue outturn 2016/17 in summary by key headings is as follows:

- £5.056m (1.98%) underspend on the revenue budget of £254.977m;
- £5.078m of the underspend was on the Operational Delivery Budget delegated to the Chief Constable;
- £0.022m net over spend on other budgets;
- Savings achieved in year of £9.3m;
- Budget pressures were contained (e.g. pay increase, inflation);
- General Reserves maintained at 4%

2.5 The net underspend of £5.056m for the year, reflects a consistent position to that forecast at Quarter 3 which projected a variance of £4.9m.

2.6 The variance summarised to the following budgets.

### Revenue Budget Outturn 2016/17

|                                      | To 31 March 2017 |                |                |             |
|--------------------------------------|------------------|----------------|----------------|-------------|
|                                      | Actual           | Budget         | Variance       |             |
|                                      | £000             | £000           | £000           | %           |
| Operational Delivery Budget          | 242,921          | 247,999        | (5,078)        | (2%)        |
| Office of the PCC                    | 1,354            | 1,525          | (171)          | (11%)       |
| Community Safety                     | 1,459            | 1,789          | (330)          | (18%)       |
| Victim Support & Restorative Justice | 0                | 0              | 0              |             |
| Other OPCC Financing Budgets         | 2,424            | 2,773          | (349)          | (13%)       |
| Transfers to/(from) Reserves         | 1,763            | 891            | 872            | 98%         |
| <b>Total Police Fund</b>             | <b>249,921</b>   | <b>254,977</b> | <b>(5,056)</b> | <b>(2%)</b> |

### 3.0 Operational Delivery Budget

- 3.1 A total of £249.921m was spent against the budget of £247.999m delegated to the Chief Constable for 2016/17 to enable the discharge of the activities under his direction and control.
- 3.2 Underspend of £5.056m primarily occurred against employee-related budgets; the cost of which represented 91.5% of the force's net spending for the year.
- 3.3 A summary breakdown of spend compared to budget is shown in the table below:

#### Operational Delivery Budget Outturn 2016/17

|   | Outturn         |                 |                   |
|---|-----------------|-----------------|-------------------|
|   | Actual<br>£'000 | Budget<br>£'000 | Variance<br>£'000 |
| Employees                                   | 222,417         | 227,034         | (4,617)           |
| Premises                                    | 10,943          | 10,536          | 407               |
| Transport                                   | 4,337           | 4,399           | (62)              |
| Supplies & Services                         | 33,977          | 31,910          | 2,067             |
| Third Party Payments                        | 7,766           | 8,263           | (497)             |
| <b>TOTAL EXPENDITURE</b>                    | <b>279,440</b>  | <b>282,142</b>  | <b>(2,702)</b>    |
| Grants                                      | (12,167)        | (12,328)        | 161               |
| Local Government/Partnership Funding        | (2,156)         | (1,299)         | (857)             |
| Sales, Fees Charges & Rents                 | (4,001)         | (3,282)         | (719)             |
| Special Police Services                     | (13,328)        | (13,074)        | (254)             |
| Reimbursed Services                         | (2,339)         | (1,925)         | (414)             |
| Secondments & Mutual Aid                    | (2,528)         | (2,235)         | (293)             |
| <b>TOTAL INCOME</b>                         | <b>(36,519)</b> | <b>(34,143)</b> | <b>(2,376)</b>    |
| <b>Net Operational Delivery Expenditure</b> | <b>242,921</b>  | <b>247,999</b>  | <b>(5,078)</b>    |

- 3.4 The employee related variance of £4.6m comprised underspends on Police Officer budgets of £4.2m and Police Staff budgets of £1.6m, alongside additional restructure and training costs of £1.2m as a result of the change and transformation programme.
- 3.5 The underspend in police officer budgets reflect a one-off impact in 2016/17 only - as plans were put in place to recruit additional police officers in the second half of the year. This was in line with revised workforce plans and future growth/investment plans as approved in the budget and Medium Term Financial Strategy. Recruitment timelines for key posts, does contribute towards the one-off nature of this underspend given specialist training and vetting requirements.
- 3.6 Change Programme
- 3.6.1 The multi-year and complex change programme has continued to deliver transformation across the force – delivering gross savings of £9.3m in 2016/17. £2.2m of the savings originally planned to be achieved in year have been moved forwards into 2017/18 and beyond.
- 3.7 Additional Income
- 3.7.1 The force achieved additional income of £2.4m in excess of budget during the year. Sussex Police income is primarily obtained through service agreements, charging for key events (e.g. football matches), partnerships, vehicle recoveries and secondment/mutual aid reimbursement.

### 3.8 Precept Investment

3.8.1 Additional revenue investment of £3m was approved as part of the 2016/17 budget, as a result of the increased precept approved by the PCC. This investment was directed to protecting children and vulnerable adults from exploitation and abuse and improving the Force's digital forensic capability as detailed below:

#### 3.8.2 Protecting Children and Vulnerable Adults

The precept increase for Public Protection enabled the increase in 30 Constable Posts and 15 Staff Posts. The increase in staff within the Safeguarding Investigation Unit (SIU's) has reduced officer case load which in turn has allowed for better quality investigations (serious sexual offence, high risk domestic abuse, and child sexual abuse/exploitation).

#### 3.8.3 Digital Forensic Capabilities

Investment of over £2m was also made available to deliver a Digital Forensics Transformation (DFT) Project to support all necessary examinations of digital devices across all investigation types. DFT service delivery is now based on a three-tier model to prioritise digital examinations against threat, risk, harm and vulnerability. These services are delivered both locally and through outsourcing to specialist organisations within improved timescales that meet the requirements of the criminal justice system to put the needs of the victim first. DFT has already delivered extended opening hours, including weekends, in order to provide better service levels, increased levels of expertise and enhanced equipment to improve the efficiency of these processes, and the purchase of a case management system to reduce the administrative burden of the examination process.

### 3.9 Transfers to/(from) Reserves

3.9.1 The base budget included an assumed transfer from the Delegated Budget Holder reserve of £0.45m to support specific cost pressures against the Chief Constable's Operational Delivery Budget but it was not required or actioned as the Chief Constable has managed this expenditure within budget.

#### 4.0 Office of the Police & Crime Commissioner

- 4.1 The budget for the Office of the Police & Crime Commissioner (OPCC) includes the costs of running an office to cover the statutory functions regarding community engagements, financial management, legal services and complaints handling. This budget reflects the OPCC revenue outturn for 2016/17.
- 4.2 The unaudited summary revenue outturn position is summarised in the table below.

##### OPCC Revenue Outturn 2016/17

|                                 | Actual      | Budget      | Variance      |                |
|---------------------------------|-------------|-------------|---------------|----------------|
|                                 | £m          | £m          | £m            | %              |
| OPCC Budget                     | 1.35        | 1.52        | (0.17)        | (11.2%)        |
| Community Safety                | 1.46        | 1.79        | (0.33)        | (18.4%)        |
| Victims and Restorative Justice | 1.95        | 1.95        | 0             | 0%             |
| Grant Income                    | (1.95)      | (1.95)      | 0             | 0%             |
| <b>Total</b>                    | <b>2.81</b> | <b>3.31</b> | <b>(0.50)</b> | <b>(15.1%)</b> |

- 4.3 The budget for the OPCC includes the costs of running an office to cover the statutory functions regarding community engagements, financial management, legal services and complaints handling.

|                                | Actual       | Annual Budget | Variance     |                |
|--------------------------------|--------------|---------------|--------------|----------------|
|                                | £000s        | £000s         | £000s        | %              |
| OPCC Staff Pay                 | 814          | 845           | (31)         |                |
| Other Pay Related              | 15           | 1             | 14           |                |
| Temporary/Agency Staff         | 0            | 5             | (5)          |                |
| Training & Conferences         | 13           | 9             | 4            |                |
| <b>Total Employees</b>         | <b>842</b>   | <b>860</b>    | <b>(18)</b>  | <b>(2.1%)</b>  |
| Premises Costs                 | 195          | 166           | 29           |                |
| Transport                      | 21           | 18            | 3            |                |
| Supplies & Services            | 256          | 262           | (6)          |                |
| Third Party Payments           | 12           | 35            | (23)         |                |
| <b>Gross Expenditure</b>       | <b>484</b>   | <b>481</b>    | <b>3</b>     | <b>0.6%</b>    |
| <b>Income</b>                  | <b>(173)</b> | <b>(34)</b>   | <b>(139)</b> |                |
| <b>Net Expenditure</b>         | <b>1,153</b> | <b>1,307</b>  | <b>(154)</b> | <b>(11.8%)</b> |
| Internal Audit                 | 131          | 125           | 6            |                |
| Legal Services                 | 16           | 20            | (4)          |                |
| External Audit Fees            | 54           | 73            | (19)         |                |
| <b>Office of the PCC Total</b> | <b>1,354</b> | <b>1,525</b>  | <b>(171)</b> | <b>(11.2%)</b> |

- 4.4 The approved budget of £1.184m was increased during the year to £1.525m through the virement process to bring forward resources from 2015/16 and to meet additional in year budget pressures. That budget was spent in full but additional unforeseen income resulted in a surplus of £171k.

- 4.5 In April 2017, after the end of the financial year, income totalling £0.171m was notified, that arose as a result of two key events (detailed below). Accordingly the income is accrued to match the expenditure in 2016/17.
- 4.6 Grant Funding Received – The Policing and Crime Act received Royal assent at the end of January 2017. The Act places a duty on policing bodies, fire and ambulance services to collaborate.
- 4.7 The Sussex PCC was one of eight early adopter PCCs that prepared a business case to determine a Local Business Case for fire and rescue governance options to deliver enhanced emergency services collaboration. The OPCC budget was increased by £0.150m to cover the costs incurred in preparing the business case.
- 4.8 During the last quarter the Association of Police & Crime Commissioners made a bid to the Police Transformation Fund for grant funding in return that the early adopters would share their knowledge and experience of preparing their business cases with other PCCs. In return those PCCs would receive a proportion of the costs they incurred as grant funding. The bid was successful and Sussex was awarded £0.150m in grant funding in May 2017 that fully offsets the consultancy costs for the preparation of the business. That sum will now be repaid and returned to reserves.
- 4.9 Civil Court Costs Awarded – During the year a budget increase was approved to pay for legal advice to address a persistent harassment complaint. A civil court hearing held on 24 April 2017 in the Matter of the Protection from Harassment Act 1997 awarded costs of £20,000 to be paid to the claimants (OPCC). A claim for damages was waived saving additional legal costs.
- 4.10 Community Safety Funding – The PCC set aside £1.789m in 2016/17 to support community safety partnerships, funding for local community groups that help reduce or prevent crime in Sussex and other initiatives during 2016/17.
- 4.11 The PCC protected community safety partnership funding in 2016/17 for the fourth year running despite significant budget pressures. A total of £1.399m was allocated to Brighton & Hove City Council, East Sussex County Council and West Sussex County Council and each of the 12 Community Safety Partnerships (CSPs) in Sussex. This has resulted in the CSPs delivering effective community safety activities to tackle anti-social behaviour, protect young and vulnerable people, improve road safety, reducing youth offending and prevent and tackle homelessness. The full £1.399m was spent, with £0.184m funded from the Ministry of Justice grant funded victims budget.
- 4.12 Other Community Safety – The budget was boosted by resources brought forward from 2015/16 used in part to fund the Haywards Health Warden pilot, pay a share of the costs of the anti-social behaviour recording IT system and a contribution to pan Sussex mediation services.
- 4.13 Safer in Sussex Community Fund – The PCC provides financial support (grant awards up to £5,000) to local organisations and projects that aim to reduce crime and improve community safety through the Safer in Sussex Community Fund (SiSCF). The PCC allocated £149k from her £230k SiSCF in 2016/17 and also utilised some of the victims grant to support 51 local projects across Sussex to tackle crime and improve community safety. The SiSCF was not distributed in full and the remaining balance will be carried forward to 2017/18. In total, £1.3m has been allocated to support 239 projects since the SiSCF was created in 2013.

- 4.14 A balance of £0.351m has been carried forward to 2017/18 for use.
- 4.15 Victims and Restorative Justice – The victims and restorative justice budget is funded in total by the grant received from the Ministry of Justice. The grant conditions state that only eligible expenditure up to the total grant amount is funded and any underspend should be returned.
- 4.16 To ensure that the grant was fully utilised a full review of all expenditure in other budgets was carried out and some applicable costs were moved the victims budget. Those costs included some grants that had been awarded via the SiSCF.
- 4.17 Further detail of the outputs and outcomes from the use of this grant can be found in the Annual Report 2016/17.

## 5.0 Other OPCC Financing Budgets

- 5.1 Other OPCC financing includes income and expenditure budgets which support the overall police fund budget but do not relate to specific operational or OPCC functions. A summary of the outturn position is set out below.

### Other OPCC Financing Budgets Revenue Outturn 2016/17

|                              | <b>Outturn<br/>£'m</b> | <b>Budget<br/>£'m</b> | <b>Variance<br/>£'m</b> |
|------------------------------|------------------------|-----------------------|-------------------------|
| Investment Income            | (0.76)                 | (0.50)                | (0.26)                  |
| Capital Financing            | 3.19                   | 3.19                  | 0.00                    |
| Pay and Price Contingency    | 0.00                   | 0.08                  | (0.08)                  |
| <b>Total Net Budget</b>      | <b>2.43</b>            | <b>2.77</b>           | <b>(0.34)</b>           |
| Transfers to/(from) Reserves | 1.76                   | 0.89                  | 0.87                    |
| <b>Total</b>                 | <b>4.19</b>            | <b>3.66</b>           | <b>0.53</b>             |

## 5.2 Investment Income

- 5.2.1 Investment interest is generated from cash holdings during the year. The level of cash holdings reflects the overall amount of cash backed reserves and timing of major cash inflows (grant and precept income) and cash outflows (salaries, pensions and other payments) during the year. Investments are placed in accordance with the Treasury Management Strategy and provide income based on risk and return on investment. A full report on 2016/17 investment performance will be considered by the Joint Audit Committee in July 2017.

- 5.2.2 The amount of Investment interest achieved for the year was £0.76m. This was higher than anticipated (£0.26m) due to better than expected interest rates being achieved during the year:

- average investment rate of return was 0.87%, compared to the 0.56% originally anticipated;
- average investments of £86.6m were held in year compared against £94m in the prior year.

### 5.3 Capital Financing

5.3.1 The capital financing budget includes costs of servicing the £4.5m loan balance outstanding with the Public Works Loan Board - interest payments and repayment of the loan via the statutory Minimum Revenue Provision (MRP) - and the annual revenue budget set aside to support capital and investment projects.

### 5.4 Pay and Price Contingency

5.4.1 The PCC holds a small contingency to cover additional costs in year that arise from unforeseen increases in the costs of pay and non-pay budgets that cannot be funded from within the total police fund budget. The budget commenced the year at £0.38m. During the year £0.30m of this budget was transferred to the OPCC to cover budget pressures including the fire and rescue business case, legal fees and outstanding business rates.

### 5.5 Insurance Liabilities

5.5.1 The PCC reviews the appropriateness of its insurance funding each year. Following a review by independent Actuaries Marsh (our insurance advisers) the group assessed the insurance liabilities in 2016/17 resulting in a net increase of £0.09m, giving a prudent provision consistent with previous years. This comprises an increase in the Insurance Reserve of £0.48m and a reduction in the insurance provision of £0.39m. The reduction in provisions is included within the Operational Delivery Budget and the increase of £0.48m in the insurance reserve is funded from the overall police fund underspend during the year.

### 5.6 Transfers to/from Reserves

5.6.1 The base budget included an assumed transfer from the Delegated Budget Holder reserve of £0.45m to support specific cost pressures against the Chief Constable's Operational Delivery Budget but it was not required or actioned as the Chief Constable has managed this expenditure within budget. This is reflected in the overspend variance on the budget line for transfers to/from reserves, which is offset by underspend variance on the Operational Delivery Budget.

## **6.0 Application of the Revenue Budget Underspend**

6.1 The 2016/17 underspend has been returned to reserves and will be used in accordance with the approved Medium Term Financial Strategy (MTFS) and 2017/18 budget.

6.2 The PCC has approved that the budget surplus of £5.056m is transferred to the following reserves:

- transfer £1.279m to Delegated Budget Holder Reserve to be used to fund Chief Constable and OPCC commitments for carry forwards to 2017/18;
- transfer of £3.77m to the Capital and Investment Reserve to be used to fund additional investment in on-going schemes and cost of change.



## 7.0 Capital and Investment Budget Outturn

- 7.1 The capital and investment programme is a multi-year plan designed to support business enablement and change projects to promote new ways of working and efficient use of resources. Current investment plans include provision for the approved estates strategy, fleet replacement programme and in-car technology development, ICT infrastructure and improvement plans, further development of mobile policing and implementation of a new finance and HR system via the new Enterprise Resource Planning (ERP) system for Sussex, Surrey and Thames Valley Police.
- 7.2 A key element of the capital programme is the Estates Strategy which aims to make sure that the property used for policing is in the right place, is fit for purpose and efficient. The Strategy is transforming the estate, freeing up resources and disposing of unsuitable properties that will generate capital receipts. The medium term financial strategy estimates capital receipts of some £18.5 million over the next four years that will be used to fund the capital programme and reduce the capital financing requirement. The cash injection will also be available to offset any potential need to borrow for capital purposes.
- 7.3 The Estates Strategy is exploring opportunities to rationalise the estate, reducing costs by providing efficient and affordable buildings. The future workforce will be smaller, but investment is required to enable officers and staff to be equipped and supported to work flexibly across the estate and offsite or within the community. This includes ICT investments and use of new technology to enable access to information remotely, whilst officers are on patrol or with partners, and to support flexible and agile working for staff.
- 7.4 The IT Strategy transforms the way we make use of technology to enhance day to day activity e.g. mobile policing and body worn video capability facilitates public facing interaction and efficiencies, central computer systems accessible from all sites across the Force support all staff by retaining individual profiles and facilitating flexibility
- 7.5 Evolving technologies with vehicles and related equipment will reduce the whole life costs of vehicles including fuel and maintenance costs and reducing CO2 emissions, in-car technology will also better support the policing priorities
- 7.6 2016/17 Capital Outturn
- 7.6.1 The capital and investment programme outturn spend is £21.9m, against a revised budget of £35.5m, representing an underspend of £13.6m.

### Capital Budget Outturn 2016/17

|                            | Actual<br>£m | Revised<br>Budget<br>£m | Variance over/<br>(under)spend |             |
|----------------------------|--------------|-------------------------|--------------------------------|-------------|
|                            |              |                         | £m                             | %           |
| IT Strategy                | 2.86         | 5.60                    | (2.74)                         | -49%        |
| Estates Strategy           | 13.26        | 20.34                   | (7.08)                         | -35%        |
| Fleet Strategy             | 3.25         | 3.24                    | 0.01                           | 0%          |
| Operational Investments    | 2.58         | 6.39                    | (3.81)                         | -60%        |
| <b>Total</b>               | <b>21.95</b> | <b>35.57</b>            | <b>(13.62)</b>                 | <b>-38%</b> |
| Net Carry Forward Requests |              |                         | (7.4)                          |             |

- 7.6.2 The PCC worked closely with the Chief Constable on the Estates Strategy during 2016/17 to ensure that a well designed and well located police estate will give Sussex communities confidence and provide a reassuring presence, whilst ensuring technology will also provide opportunities for other methods of contact. The PCC closely scrutinised the implementation of the Estates Strategy in 2016/17 ensuring that it continued to provide a working environment fit for 21st century policing, was cost effective and demonstrated an accessible community footprint.
- 7.6.3 The PCC has ensured that no police facility with a public reception will be removed until a suitable local alternative is identified.
- 7.6.4 Over the last year, this approach has resulted in a new public policing point at the Chequer Mead Arts Centre more centrally located in East Grinstead as well as the co-location of East Sussex Fire & Rescue Service in new facilities at Sussex Police Headquarters in Lewes. Significant refurbishment work has continued at the Brighton John Street police station during the year and is expected to be completed in 2017/18.
- 7.6.5 The PCC approved the acquisition of a new vehicle workshop in Crawley Down as part of a commitment to further deliver efficiencies from blue light service collaboration. The purchase of this site and the utilisation of fire service transformation grant will enable a fully equipped workshop that will service emergency services fleet across Surrey and Sussex. This will reduce the maintenance and repair costs for emergency vehicles and the acquisition cost of £4m will be offset by a planned sale of redundant workshop property and further revenue savings of £290,000 per annum.
- 7.6.6 The Estates Strategy has been part funded from the reinvestment of receipts generated from the sale of redundant or unsuitable estate. During 2016/17 the sale of Sussex House in Hollingbury, Ferring Police Station and one residential police house generated receipts of £513,000. These disposals also contributed to revenue savings of over £335,000 in the performance plan year, with further reoccurring savings planned each year.
- 7.6.7 During 2016/17 the capital programme also undertook:
- The IT Strategy programme continued to support computer and communications technology which plays an important role in the delivery of services to communities including mobile policing devices for front line staff and a joint desktop project with Surrey Police;
  - The Fleet Strategy expenditure covered the vehicle replacement and equipment programme;
  - Operational investments during the year included replacement and improvement of Automatic Number Plate Recognition (ANPR) equipment;
  - Development work on the new ERP system.

## 7.7 Capital Carry Forwards

7.7.1 The PCC having reviewed and scrutinised the outturn has approved the carry-forward of £7.4m to support the following capital projects.

| <b>Scheme</b>                               | <b>Amount<br/>£'000</b> |
|---|-------------------------|
| <b>Information Technology Strategy</b>      | <b>1,990</b>            |
| <b>Estates Strategy</b>                     | <b>1,596</b>            |
| Communications Technology & Body Worn Video | 246                     |
| Strategic Roads Policing Operations         | 130                     |
| Specialist Crime Digital Policing           | 886                     |
| Major Change ERP project                    | 2,568                   |
| <b>Operational Investments</b>              | <b>3,830</b>            |
| <b>TOTAL</b>                                | <b>7,416</b>            |

## 7.8 Capital Financing

7.8.1 The capital and investment financing strategy is based on use of Home Office and other external funding plus revenue funding, capital receipts and reserves in line with PCC approved Reserves Policy. Borrowing is not used to support the current capital investment plans.

7.8.2 The PCC approved the financing of the 2016/17 capital expenditure as set out in the table below.

### **Approved Capital and Investment Financing 2016/17**

| <b>Source of Funding</b>  | <b>Revenue<br/>Sources<br/>£m</b> | <b>Capital<br/>Sources<br/>£m</b> | <b>Total<br/>Financing<br/>£m</b> | <b>%</b>    |
|---------------------------|-----------------------------------|-----------------------------------|-----------------------------------|-------------|
| Home Office Capital Grant | 0.00                              | 1.07                              | 1.07                              | 5%          |
| Other Grants and Income   | 0.13                              | 0.60                              | 0.73                              | 3%          |
| Capital Receipts          | 0.00                              | 7.49                              | 7.49                              | 34%         |
| Revenue Funding           | 2.52                              | 0.00                              | 2.52                              | 12%         |
| Reserves                  | 9.82                              | 0.32                              | 10.14                             | 46%         |
| <b>Total</b>              | <b>12.47</b>                      | <b>9.48</b>                       | <b>21.95</b>                      | <b>100%</b> |

7.8.3 The use of Home Office capital grant is in line with the original approved capital financing plan.

7.8.4 Other grants and income from capital sources includes Home Office Innovation Grant for Mobile Policing, partner contributions received in previous years and applied during 2016/17 for ANPR and contributions for ANPR in vehicles at Gatwick. Other grants and income from revenue sources includes Home Office Innovation Grant for Mobile Policing, Home Office Transformation Grant for the South East Regional Integration Programme and contributions towards project costs from other forces in the South East Region.

- 7.8.5 Capital receipts of £0.52m were received in year from sale of surplus properties and assets. These receipts are used as a funding source but can only be used to fund expenditure that creates a capital asset. The amount of capital receipts used to fund expenditure in 2016/17 represents the maximum amount available.
- 7.8.6 Revenue funding and reserves are used to fund the balance of expenditure and can be used to fund capital or revenue items. Due to slippage in the capital and investment programme the use of reserves is lower than originally planned.
- 7.8.7 Individual capital and investment schemes are managed on a project basis as part of the overall approved annual capital and investment budget. Project spend incurred can include both revenue and capital expenditure items. Expenditure is assessed at year end as part of the annual accounts process to ensure we account for expenditure in line with approved accounting policy.
- 7.8.8 A strict definition is used to assess and determine whether expenditure can be classified as capital expenditure within accounting regulations. In general one-off small-value items and spend that does not add to the value of an asset, is charged to the revenue accounts.
- 7.8.9 A total of £12.47m of expenditure against the approved capital and investment budget has been assessed as expenditure, which cannot be capitalised. This amount will be charged to the revenue account and can be funded from the revenue budget and reserves as set out in the financing table above. The Operational Delivery Budget will increase by £12.47m funded by a corresponding transfer from reserves (£9.82m) and other revenue funding sources (£2.65m).

|   | <b>Actual<br/>£000</b> | <b>Budget<br/>£000</b> | <b>Variance<br/>£000</b> |
|---|------------------------|------------------------|--------------------------|
| Operational Delivery Budget   | 242,921                | 247,999                | (5,078)                  |
| Capital programme expenditure not meeting policy for capital assets | 12,469                 | 12,469                 | -                        |
| <b>Revised Operational Delivery Budget</b>                          | <b>255,390</b>         | <b>260,468</b>         | <b>(5,078)</b>           |

- 7.8.10 Outstanding debt previously borrowed to fund the capital programme remains at £4.5m with no further borrowing undertaken to finance capital expenditure.

## 8.0 Reserves

- 8.1 The PCC's total usable reserves after transfers as at 31 March 2017 are £63m.
- 8.2 The General Reserve is £10.8m (4%) of the 2016/17 net budget. The Reserves Policy sets a target of 4% for the level of the General Reserve.
- 8.3 A summary of all movements between and transfers to/from reserves based on the 2016/17 approved budget or otherwise approved by the PCC throughout the year and including the recommended transfers to reserves is shown in the table below:

|                                | <b>Balance at<br/>31 March<br/>2016<br/>£000</b> | <b>Transfers In<br/>2016/17<br/>£000</b> | <b>Transfers Out<br/>2016/17<br/>£000</b> | <b>Balance at<br/>31 March<br/>2017<br/>£000</b> |
|--------------------------------|--|--|---|--|
| <b>General Fund</b>            | <b>10,807</b>                                    | <b>0</b>                                 | <b>0</b>                                  | <b>10,807</b>                                    |
| Earmarked Reserves:            |  |  |   |  |
| Insurance                      | 3,623  | 479                                      | 0   | 4,102  |
| Operational                    | 2,450  | 0  | 0   | 2,450  |
| Capital & Investment           | 24,750   | 7,069                                    | (13,148)                                  | 18,681   |
| PFI                            | 12,794   | 0  | 0   | 12,794   |
| Asset Seizures                 | 365  | 337                                      | (306)                                     | 396  |
| Delegated Budget Holder        | 7,361  | 2,379                                    | (745)                                     | 8,995  |
| Sussex Safer Roads Partnership | 2,136  | 1,151                                    | (200)                                     | 3,087  |
| <b>Earmarked Reserves</b>      | <b>53,489</b>                                    | <b>11,415</b>                            | <b>(14,399)</b>                           | <b>50,505</b>                                    |
| <b>Capital Receipts</b>        | <b>8,870</b>                                     | <b>519</b>                               | <b>(7,494)</b>                            | <b>1,895</b>                                     |
| <b>Total</b>                   | <b>73,166</b>                                    | <b>11,934</b>                            | <b>(21,983)</b>                           | <b>63,207</b>                                    |

- 8.4 Transfers to/from reserves relate to movements in reserves, agreed by the PCC, as part of budget setting (February 2016) and throughout the year.
- 8.5 The base budget included an assumed transfer from the Delegated Budget Holder reserve of £0.45m to support specific cost pressures against the Chief Constable's Operational Delivery Budget but it was not required or actioned as the Chief Constable has managed this expenditure within budget. This is reflected in the overspend variance on the budget line for transfers to/from reserves, which is offset by underspend variance on the Operational Delivery Budget.
- 8.6 During the year the PCC has agreed the transfer of funding:
- from the Delegated Budget Holder reserve (£0.75m) relating to the carry forward of funding from 2015/16 for specific one off commitments;
  - to the Delegated Budget Holder reserve (£1.1m) relating to a planned surplus on the Operational Delivery Budget to be used to fund South East allowance costs (the £1,500 annual payment to officers) in 2017/18;
  - from the Capital and Investment reserve (£0.53m) to increase the Chief Constable's revenue budget for HQ Estates programme to reflect the revenue nature of repairs and maintenance investment expenditure on Force buildings
  - to the Capital and Investment reserve (£0.12m) related to specific revenue contribution to capital budget used to fund capital and investment programme schemes.

8.7 The PCC has approved the following additional revenue to capital transfers:

- to the Capital and Investment reserve (£0.03m) for a van conversion;
- to the Capital and Investment reserve (£0.06m) for in-vehicle ANPR;
- to the Capital and Investment reserve (£0.11m) in relation to fleet insurance write offs

8.8 In line with the agreement for Sussex Police hosting of the Sussex Safer Roads Partnership (SSRP) the surplus achieved in 2016/17 has been transferred to the specific partnership reserve in accordance with the reserves policy.

8.9 In line with the PCC Reserves Policy the surplus on the Proceeds of Crime (POCA) income and expenditure account (£0.03m) will be transferred to the Asset Seizure reserve.

8.10 The PCC has approved the following movements in reserves which are incorporated within the outturn report:

- transfer £0.479m to the Insurance Reserve to finance future claims in line with the independent Actuary's report;
- transfer £0.95m surplus achieved by SSRP to the SSRP reserve in line with the agreement for Sussex hosting SSRP;
- transfer £0.03m surplus on POCA to the Asset Seizure reserve in line with the PCC Reserves Policy;
- transfer £0.20m to the Capital & Investment reserve to fund capital from revenue underspend.

8.11 The PCC has approved the following final movements in reserves resulting from the outturn report position.

- transfer £1.279m to Delegated Budget Holder Reserve to be used to fund Chief Constable and OPCC commitments for carry forwards to 2017/18;
- transfer of £3.77m to the Capital and Investment Reserve to be used to fund additional investment in on-going schemes;
- use of £9.82m from the Capital & Investment Reserve to support the revenue element of the capital and investment expenditure in 2016/17.

**Recommended** – that the Panel note and comment on the Financial Outturn Report.

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**Office of the Sussex Police & Crime Commissioner**

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