

**LINCOLNSHIRE POLICE AUTHORITY
FINANCE AND PERFORMANCE COMMITTEE
8th JUNE 2010**

SUBJECT		FINANCIAL GOVERNANCE REPORT 2009/2010	
REPORT BY	CHIEF CONSTABLE AND TREASURER		
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SUMMARY AND PURPOSE OF REPORT			
The purpose of this report is to provide details of those financial and procurement activities required under Financial & Contract Regulations to be reported to committee on an annual basis.			
RECOMMENDATION	<i>That the report be noted.</i>		

A. SUPPORTING INFORMATION

1. INTRODUCTION

1.1. The purpose of this report is to provide members with a comprehensive annual report on those Financial and Procurement activities requiring an annual report under Financial & Contract Regulations. The report is broken down into the following five sections:

- Debt Recovery
- Charging for Special Police Services
- Procurement
- Insurance Services
- Treasury Management

2. DEBT RECOVERY

2.1. All Divisions and Departments complete a debtor's invoice request form as soon as practicable following the occurrence of a debt. This form provides details of the specific debt, which is then entered into the financial system (eFinancials).

2.2. The financial system produces an invoice that is forwarded immediately to the debtor. Debtors are informed on the invoice that payment should be submitted to the Finance Department at Headquarters within 30 days. Debtors are encouraged to pay by BACS rather than cheque or cash whenever possible, thus reducing processing costs and improving security.

2.3. The Force raises invoices for a variety of reasons, but only a small proportion relate to transactions of a "commercial" nature.

- 2.4. The majority of the number and value of invoices are to public bodies (other police forces, local authorities and Central Government Departments) and relate to the recovery and recharge of incurred costs. These amounts are raised as required and fluctuate greatly between different points in the year. For example, the quarterly recharge to Humberside Police for Police Pensions contributions (pre 1974) increases the amount raised significantly at that point in time (Approximately £200k per quarter).
- 2.5. During the financial year 2009/10 1,392 invoices were raised with a total value of £7.3 million (including VAT where applicable).

Credit Control

- 2.6. The Finance Department operate the following credit control procedures:
- Monthly statement of accounts issued to each Debtor
 - Assign Debtors to specific Exchequer Officers increasing ownership
 - Specifically designed invoices to give contact names & numbers for queries
 - Introduce targets and indicators to monitor performance
 - Monthly review of performance by management

Debt Outstanding at 31st March 2010

- 2.7. The following table shows the amount of debt outstanding at the end of the last financial year.

Type of Debtor	£'000	% Total debt
Individuals	11.2	0.6
Companies	49.5	2.5
Public Bodies	1915.2	96.9
Total Outstanding	1,975.9	100.0

- 2.8. This table shows the age profile of the outstanding invoices

	Up to 30 days	30 – 60 days	60 – 90 days	Over 90 days	Total
Amount Outstanding £'000	1,885.7	27.1	11.2	51.9	1,975.9
%	95.4	1.4	0.6	2.6	100.0

Performance

- 2.9. The consistent hard work of the Exchequer Officers has resulted in the continued improvement in debt recovery. The performance regarding debt overdue between financial years can be seen from the graph at Appendix A.

- 2.10 The debt over 90 days was a key target for reduction. The majority of the invoices falling into this category are subject to challenge/query by the debtor. The graph attached at Appendix B shows the progress made in the last three financial years. The debt peaked in May 2006 at £362,000 but closed this last year at £51.9k a reduction of 85.7%.
- 2.11 The second key indicator set was the average number of days that an invoice was due for payment (known as Debtor Days). This indicator was been on average just above the target of 60 days at 61.2 days for the year.

Debt Write Off

- 2.12 Debts, which were raised in the financial year 2009/10, are charged back to their respective cost centre, while previous year's outstanding invoices are charged to the bad debt provision. The debt write off summary is shown below:

Debt Written Off	Write off total £	Number of invoices
Pre 2009 invoices	10,269.60	39

- 2.13 The largest debt written off was for an individual for the amount of £1,688.35. The majority of other write offs were small individuals debts, with an average write off value of £263.32.
- 2.14 Bad debt relief on the VAT element was reclaimed where applicable.

3. CHARGING FOR SPECIAL POLICE SERVICES

- 3.1 The ACPO Policy for charging for Police Services was presented to the previous Finance and Strategy Committee on 25th May 2007. The meeting considered the costing and scoring methodology to determine the level of charges and approved the proposed approach. The following table summarises the income received in 2009/10.

	2007/08 Charged £'000	2008/09 Charged £'000	2009/10 Charged £'000
West Division	137.3	174.4	251.7
East Division	31.6	44.1	20.8
South Division	19.8	13.0	44.1
Total	188.7	231.5	316.6

- 3.2 Due to changing arrangements around a number of events it is considered unlikely that income will remain at 2009/10 levels in future years.

4. PROCUREMENT

- 4.1. The Procurement section seeks to secure best value in all aspects of procurement through the delivery of a professional procurement service to the Force. This manifests itself through the provision of advice, award of contracts and the undertaking and/or implementing of the most suitable procurement

arrangements and requirements for the Force's divisional and departmental needs. In 2009/10 the unit awarded 115 contracts with a total value of £13.3 million compared to 87 in the previous year with a value of £6.4 million. These contracts are detailed in Appendix C.

- 4.2. From the award of these contracts it is estimated that savings totalling £1.350 million have been achieved in 2009/10. This compares to recorded savings in 2008/09 of £0.536 million.
- 4.3. In addition Lincolnshire Police utilise many government/police and local authority collaborative/framework arrangements for a wide range of goods and services. It is estimated up to around 100 arrangements are or have been utilised. Spend on these arrangements varies year to year dependant on revenue/capital requirements but is estimated to be as a minimum in excess of £2 million pounds per annum.
- 4.4. During the year 37 contracts were required to be awarded without competition comprising a total value of £3.158 million. A description of these contracts together with a justification from the user of the services is given in Appendix D.
- 4.5. Following competition on 6 occasions contracts were awarded to suppliers with other than the lowest price resulting in a total premium paid of £1.010 million over the period of the contract. These contracts are detailed in Appendix E.

5. INSURANCE SERVICES

- 5.1. The Authority's insurance cover was subject to competitive tender under EU rules in the Autumn of 2009, in order that new arrangements could commence on 1st November 2009, for a three year period with an option to extend the contract for two further individual years. Following a detailed evaluation supported by the Authority's professional advisors contracts were awarded to the following main providers.

➤ Property	- Zurich Municipal
➤ Business Interruption	- Zurich Municipal
➤ Computer	- Zurich Municipal
➤ Public /Employers Liability	- Zurich Municipal
➤ Fidelity Guarantee	- Zurich Municipal
➤ Motor Fleet	- Zurich Municipal
➤ Personal Accident and Travel	- Risk Management Partners (AIG)
➤ Engineering including Inspection	- Risk Management Partners (AIG)

- 5.2. The following table provides an analysis of the cost of insurance for the whole year following the new tender:

COST	
Type of Cover	2009/10 £'000
Multi Liability Policy	86.1
Motor	54.0
Computer	15.0
Fidelity Guarantee /	9.0
Engineering / Travel	8.6
Property & Business Int.	45.5
Total	218.2

- 5.3. It should be noted that these figures refer to the premiums payable for the annual period of insurance (1st November to 31st October). This represents a significant saving on the previous arrangements of £377.8k per annum. It should be noted that improvements in cover were also obtained in the level of cover.
- 5.4. A summary of the cover provided under each policy is set out at Appendix F.
- 5.5. Insurance cover is provided for Members of the Authority as well as Police Officers, Support Staff and members of the Special Constabulary. Volunteers are also covered.
- 5.6. In terms of advice, claims handling and renegotiations of premiums, the Authority's brokers, Hendersons Insurance, are utilised.
- 5.7. As claims are dealt with retrospectively Gallagher Bassett will continue to act as the administrators for Risk Management Partners in settling claims prior to 1st November 2009. Zurich will utilise their own in house provision.

Claims History

- 5.8. The following tables summarise the claims experience over the period from October 2001 to 29th April 2010 the latest period for which figures are available. These show the amount of claims paid and outstanding. It should be noted that small claims are handled in Force and are not included in these figures. Year to date figures are included for the current year.
- 5.9. In the tables below the Sum of Net paid column relates to the actual amount paid out in respect of claims, the Sum of Remaining Reserve represents the estimate of the amount still to be paid in respect of claims, with the Sum of Total Experience therefore being the total cost of the claims.

Computer Claims

- 5.10. Only one claim has been made during the period:

Policy Year	Total Cost £'000
1 st October 2001 – 30 th September 2002	-
1 st October 2002 – 30 th September 2003	-
1 st October 2003 – 30 th September 2004	59.4
1 st October 2004 – 30 th September 2005	-
1 st October 2005 – 30 th September 2006	-
1 st October 2006 – 30 th September 2007	-
1 st October 2007 – 30 th September 2008	-
1 st October 2008 – 31 st October 2009	-
1 st November 2009 – 29 th April 2010	-

Employers Liability Claims

Policy Year	Number of Claims	Sum of Net paid £'000	Sum of Remaining Reserve £'000	Sum of Total Experience £'000
1 st Oct 2001 – 30 th Sept 2002	3	32.5	-	32.5
1 st Oct 2002 – 30 th Sept 2003	4	111.8	-	111.8
1 st Oct 2003 – 30 th Sept 2004	9	108.5	-	108.5
1 st Oct 2004 – 30 th Sept 2005	6	28.9	-	28.9
1 st Oct 2005 – 30 th Sept 2006	5	61.4	19.0	80.4
1 st Oct 2006 – 30 th Sept 2007	7	298.9	326.5	625.4
1 st Oct 2007 – 30 th Sept 2008	9	19.0	79.7	98.7
1 st Oct 2008 – 31 st Oct 2009	4	-	38.0	38.0
1 st Nov 2009 – 29 th Apr 2010	-	-	-	-
Total	47	661.0	463.2	1,124.2

Public Liability Claims

Policy Year	Number of Claims	Sum of Net paid £'000	Sum of Remaining Reserve £'000	Sum of Total Experience £'000
1 st Oct 2001 – 30 th Sept 2002	24	18.9	-	18.9
1 st Oct 2002 – 30 th Sept 2003	45	56.5	-	56.5
1 st Oct 2003 – 30 th Sept 2004	35	22.7	-	22.7
1 st Oct 2004 – 30 th Sept 2005	31	26.8	-	26.8
1 st Oct 2005 – 30 th Sept 2006	47	70.5	-	70.5
1 st Oct 2006 – 30 th Sept 2007	34	37.8	-	37.8
1 st Oct 2007 – 30 th Sept 2008	2	5.3	494.7	500.0
1 st Oct 2008 – 31 st Oct 2009	-	-	-	-
1 st Nov 2009 – 29 th Apr 2010	-	-	-	-
Total	218	238.5	494.7	733.2

Motor Claims

- 5.11 All insurance matters relating to motor vehicle accidents are processed by TransLinc on behalf of the Authority. Insurance cover is provided for damage to third parties. The Authority is self-insured in respect of accidental damage to police vehicles as the premiums for comprehensive insurance would be far in excess of the cost of repairs.

Policy Year	Number of Claims	Sum of Net paid £'000	Sum of Remaining Reserve £'000	Sum of Total Experience £'000
1 st Oct 2001 – 30 th Sept 2002	49	94.3	-	94.3
1 st Oct 2002 – 30 th Sept 2003	53	35.3	-	35.3
1 st Oct 2003 – 30 th Sept 2004	40	161.1	-	161.1
1 st Oct 2004 – 30 th Sept 2005	100	151.7	6.7	158.4
1 st Oct 2005 – 30 th Sept 2006	113	151.6	32.3	183.9
1 st Oct 2006 – 30 th Sept 2007	74	196.1	17.9	214.0
1 st Oct 2007 – 30 th Sept 2008	50	43.8	50.2	94.0
1 st Oct 2008 – 31 st Oct 2009	60	75.1	97.6	172.7
1 st Nov 2009 – 29 th Apr 2010	11	1.2	40.6	41.8
Total	550	910.2	245.3	1,155.5

Other Policies

- 5.12 In the last five years, there have been no claims on the other policies held by the Authority.

6. TREASURY MANAGEMENT

Background

- 6.1 Treasury management is the management of the Police Authority's cash flows, its borrowings and investments, the management of associated risks and the pursuit of optimum performance or return consistent with those risks.
- 6.2 Under the terms of the Authority's Statement of Policy on Treasury Management, all executive decisions on investment, borrowing or financing are delegated to the Treasurer or through her to the Director of Finance. The delegation specifically provides that the Treasurer has authority to:
- (a) Undertake all money market transactions associated with the cash flow functions of the Authority including the raising and repayment of all loans within the limits determined by the Authority.
 - (b) Make all loans and advances to outside bodies in accordance with the policies and limits determined by the Authority.
- 6.3 Financial Regulations require that the Chief Constable and the Treasurer present a report on the activities of the Treasury management function for the preceding financial year.

2009/2010 Information

- 6.4 The financial year 2009/10 has seen a continuation of the uncertainty in the world financial markets. The Committee has received regular updates on the actions, which have been taken to provide a prudent, and secure Investment strategy for the Authority's funds. This has however been at cost of return with the receipts from investments declining, it is important to also set this in the context of historically very low base rates in the UK.
- 6.5 During the year CIPFA and the Department for Communities as issued guidance on treasury Management activities in Local Authorities. The Treasurer and Director of Finance are currently commissioning a piece of work by an external consultant to review the Authority's Treasury Management activities in order to provide the Authority with a set of operating rules that are in accordance with the current financial climate and those rules.
- 6.6 The eight activities of the Treasury Management function are:
- Cash Flow (daily balances and longer term forecasting).
 - Investing surplus funds in approved institutions.
 - Borrowing to Finance cash deficits.
 - Funding of capital payments.
 - Transferred borrowing.

- Management of debt.
- Interest rate management.
- Maintenance of Prudential Indicators

Cash Flow

- 6.7 The aim is to maintain daily bank balances at a minimum whilst ensuring that no additional borrowing is required, i.e. ideally no resort to overdraft facilities. All daily bank balances over £1,000 are invested, or transferred to the higher interest account with the HSBC.

Investments

- 6.8 Cash balances are invested to generate interest receipts. Security of capital is maintained by adherence to the approved list of institutions stipulated in the Treasury Management Policy. As part of the review of procedures following the instability in the financial markets the following practices were adopted:

- Weekly review of Fitch IBCA rating for each counterparty. The latest review is included at Appendix G. The loan limit being based on the following:

Rating AA+ to AA-	£5,000,000
Rating A+ to A	£4,000,000
Rating A-	£3,000,000

The rating is also amended by the Fitch Rating outlook so that a negative outlook would result in the institutions banding being reduced by one level.

- The loan activities have been further limited by no longer using Banks who are not based in the UK.
 - All loans where possible are placed in on call accounts with the main UK clearing banks. This has resulted in a reduced level of interest being received but is seen as lower risk. In the last few weeks this policy has been relaxed slightly to allow for a part of the portfolio to be placed in a fixed investment with one of the approved institutions for up to a 3 month. This enables slightly higher interest rates to be accessed while keeping risk low.
- 6.9 Interest receipts on investments of £148,891 were generated during the year compared to £922,951 in the 2008/09 financial year. The average rate of interest obtained was 0.82% compared to 5.25% in 2008/09.
- 6.10 Performance comparisons with industry standards are difficult due to ensuring a “like for like” comparison is made; in particular, allowing for the small amounts available to invest and the spread of institutions adopted. The KPI for investments in the financial year was set to be within 0.1% of the Bank of England average yearly rate of 0.5%.
- 6.11 Loans during the year were operated on an ‘on-call basis and therefore statistics regarding the size of loan and average length are no longer applicable.

Funding of Capital Payments

- 6.12 The Authority is able to borrow at advantageous rates from the Public Works Loans Board (PWLB). Appendix H shows loans taken out since the formation of the Authority.

Transferred Borrowing

- 6.13 The Authority's transferred borrowing relates to the Lincolnshire County Council debt of £1,300,000 transferred on the formation of the Police Authority at 1st April 1995. This balance was £572,000 at 31st March 2009 and £520,000 at 31st March 2010. The interest paid on the loan for 2009/2010 was £23,113 at a rate of interest of 4.23%.

Management of Debt

- 6.14 The objective is to achieve a debt maturity profile, which ensures that no one-year has a high level of repayments. This is a requirement under the Prudential Borrowing Guidelines, which are approved annually at the Budget setting meeting and also set the operational limits and boundaries for borrowing.
- 6.15 Appendix I shows in Graphical format the profile of outstanding debt and loan repayments for the current outstanding loans.
- 6.16 All loans are normally taken on the basis of equal instalment of principal (EIP), which ensures payments are spread evenly across the term of the loan.
- 6.17 The total debt outstanding at 31st March 2009 was £18,639,109, this includes capitalised loan interest of £201,516.

Interest Rate Management

- 6.18 Apart from the transferred borrowing, (which is based on a share of the average amount of interest paid on all Lincolnshire County Council debt) all long term debt is at fixed rates of interest. In the past the Treasurer and Director of Finance have considered possible restructuring of the loans outstanding in order to take advantage of lower interest rates. However, the indications are that savings through lower interest rates could well be offset by significant penalties for early termination of some of the loans. This is an area that will be further examined by the work of the external consultant.

Prudential Guidelines

- 6.19 The Authority's borrowing requirements are governed by the prudential code and in accordance with this code the Authority must determine the following borrowing limits and treasury management guidelines.
- 6.20 These are set as part of the Budget setting process in February each year; good practice dictates that these should be reviewed on a regular basis. Following the preparation of the final outturn figures for 2009/10, a summary of the main indicators has been produced and compared to the original set approved these are included at Appendix J.
- 6.21 The following commentary provides explanation of the main movements:

- The capital expenditure in 2009/10 has been £1,715k lower than forecast, mainly due to slippage on ICT schemes, biggest contributors being Crime & Intelligence and PND.
- The capital financing requirement is £3,339k lower than forecast. Mainly due to the reduced capital programmes in 2008/09 and 2009/10. Capital spend in 2008/09 was £5,665k compared to a forecast of £7,216k.
- The incremental impact of borrowing plans on band D council tax is impacted by the decrease in interest payable and MRP¹.
- The replacement for MRP is the amount of the loans repaid in the year, therefore falls in line with the reduced borrowing.
- The ratio of financing costs to net revenue stream is 1.90% compared to an original estimate of 2.17%, this reduction is mainly due to the reduction in the replacement for MRP.
- The actual net borrowing is £17,202k lower than the original estimate. This is due to a combination of two factors, borrowing has reduced from £25,468k to £18,770k. Investments have increased from £7,666k to £18,170k. Main differences for the borrowings is £1,731k less new loans in 08/09, £2,249k less new loans in 09/10 and £3,000k Grantham repayment now included. The change in investments is due to the change in the interest and investment income and the inclusion of the actual average annual interest rate of 0.82% compared to a forecast of 3%.
- The upper limit for fixed interest rate exposure is the net of the interest receivable and interest payable.
- The upper limit for fixed net outstanding principal is as per the net borrowing.
- The actual maturity structure of fixed rate borrowing during 2009/10 has kept within the upper limits set.

B. FINANCIAL CONSIDERATIONS

The cost of insurance in 2009/10 was £0.336 million. For 2010/11 the forecast for insurance premiums is £0.245 million this may be subject to review at the renewal in November. As there is an excess policy operated, there is an Insurance Reserve. At 31st March 2010, this amounted to £0.361 million after allowing for provisions of £0.389 million, making a total allowance of £750k.

Treasury Management is a crucial aspect of financial management, with the objective of maximising returns but with limited or no risk. The detailed financial aspects are set out in the report.

C. LEGAL AND HUMAN RIGHTS CONSIDERATIONS

The Police Act 1996 and the Code of Practice on Financial Management requires the Treasurer, in consultation with the Clerk, to advise the Authority on the safeguarding of assets, including risk management and insurance. Implementation of the arrangements is currently delegated to the Force.

¹ The Minimum Revenue Provision (MRP) represents the amount which the Authority is required to debit from its revenue account in respect of the repayment of loan debt.

Under Section 14 of the Police Act 1996, the Authority is required to set up and is responsible for the Police Fund. All money received must be paid into this fund and all expenditure met from it. The Secretary of State has issued a statutory code of practice under Section 39 of the 1996 Act. This recommends that day to day responsibility for financial management should be delegated to the Chief Constable within the scope of Standing Orders and Financial Regulations. Nonetheless, the Treasurer has a specific duty under the Code of Practice on Financial Management "to secure treasury management including loans and investments". However, for operational reasons, the Treasurer has delegated the daily management of loans and investment work to the Finance Director. The Treasurer receives a weekly progress report for monitoring purposes.

D. RISK MANAGEMENT

The Authority's insurance arrangements form a key part of the overall approach to risk management. The level of excess on policies are designed to balance risk and the cost to the revenue budget of insurance provision. This equation will be reviewed as part of the tendering process for the insurance cover.

The Authority and Force Risk Registers include sections on the Treasury Management activities; regular control and operational reviews are undertaken.

E. PERSONNEL, EQUAL OPPORTUNITIES AND DIVERSITY ISSUES

(including any impact or issues relating to Children and Young People under the Every Child Matters (ECM) framework.)

None specific.

F. REVIEW ARRANGEMENTS

A report will be submitted to the committee each year in relation to Insurance, Debtor and Procurement matters, with the results of the tender being reported to the first available meeting after award.

Treasury management issues will be reported to the Committee on at least an annual basis with update reports being provided on a regular basis.