

**THE OFFICE OF POLICE AND CRIME COMMISSIONER  
FOR DERBYSHIRE  
DECISION RECORD**

<b>Request for PCC Decision</b>	<b>Received in OPCC Date: 22 January 2019</b>	<b>OPCC Ref: 07/ 2019</b>
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**RESERVES STRATEGY 2019/20**

**Executive Summary:**

The report provided details of the Reserves Strategy for 2019/20 for approval.

**Decision**

1. The Reserves Strategy was approved.

**Declaration**

I confirm that I have considered whether or not I have any personal or prejudicial interest in this matter and take the proposed decision in compliance with the Code of Conduct for the Police and Crime Commissioner for Derbyshire. Any such interests are recorded below.

None

The above request has my approval.

**Signature**

Hardyal Dhindsa

**Date 22 January 2019**

**PUBLICATION SCHEME CONSIDERATIONS**

**Is the related Section B report to be published** Yes

The report contains commercially sensitive information.

**Is the publication of this approval to be deferred No**

If Yes, provide reasons below

**Date to be deferred to –**

NB Statutory Instrument 2011/3050 (as amended by SI 2012/2479) states that: *all decisions made by a PCC are in the types of information that must “be published as soon as practicable after it becomes available to the elected local policing body”.*

**OFFICER APPROVAL**

**Chief Executive or Nominee:**

I have been consulted about the proposal and confirm that financial, legal and equalities advice has been taken into account in the preparation of this report.

I am satisfied that this is an appropriate request to be submitted to the Police and Crime Commissioner

Name Andrew Dale

Date 22 January 2019

# STRATEGIC PRIORITIES ASSURANCE BOARD

<b>REPORT TITLE</b>	RESERVES STRATEGY 2019/20
<b>REPORT BY</b>	CHIEF FINANCE OFFICER
<b>DATE</b>	21 JANUARY 2019

## PURPOSE OF THE REPORT

To receive, consider and approve the Reserves Strategy for 2019/20.

## ATTACHMENTS

Police & Crime Commissioner / Derbyshire Constabulary – Reserves Strategy 2019/20

## RECOMMENDATIONS

1. To approve the Reserves Strategy for 2019/20.

## CONTACT FOR ENQUIRIES

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**1. OVERVIEW**

- 1.1 The Reserves Strategy underpins how the Commissioner's financial affairs are managed and how the Constabulary manages risk and investment.
- 1.2 This strategy should be read in conjunction with the Revenue and Capital Budget reports (also on this agenda) as it underpins both of those.
- 1.3 It will be noted that Reserves have fallen significantly and will continue to fall as they are used to underpin both the Medium Term Financial Strategy as well as the Constabulary's organisational change and investment plans. More detail of which can be found within the reports referenced above.
- 1.4 The strategy will be published on a specific section of the Commissioner's website to satisfy the Home Office's requirements on transparency of Police reserves. This will be the second year that has been published in this manner. Further details can be seen at:
- 1.5 <https://www.derbyshire-pcc.gov.uk/Finance-and-Grants/How-your-money-is-spent.aspx>

# **POLICE AND CRIME COMMISSIONER FOR DERBYSHIRE**

**AND**

# **DERBYSHIRE CONSTABULARY**

# **RESERVES STRATEGY 2019/20**



*Protecting Communities,  
Fighting Crime*



## 1. Proposal and Introduction

- 1.1 The Commissioner holds a number of reserves as part of his approach to maintaining a sound financial position and protecting Derbyshire Police to some degree from volatility in the risk in the budget going forward. The requirement for financial reserves is linked to legislation such as the Local Government Act 1992, which requires the Commissioner to “have regard” to the level of reserves needed to meet future expenditure when calculating a budget. Part of sound financial management is to assess the adequacy of these reserves and release those reserves no longer required.
- 1.2 A Review of Reserves is a key part of the Commissioner’s budget setting process. Consideration of reserve levels is linked to legislation for budget setting contained in both the Local Government Acts of 1992 (section 31A & 42A) and 2003 (section 25) and linked to section 114 of the Local Government Finance Act 1988.
- 1.3 Derbyshire Police is still facing significant financial pressures from general inflation, the impact of future pay awards, a need to update and upgrade the police estate as well as the continual need to keep pace with technology. There continues to be increasing demands on the service from the public and ever more focus on protecting the vulnerable and a whole range of “new” crimes, such as modern slavery and human trafficking that were never envisaged even a few years ago.
- 1.4 The responsible use of reserves has always played a key role to ensure that we are able to manage through the continued uncertainty. With an apparent end to government austerity, the level of uncertainty has reduced but not disappeared. We still need reserves to help cushion the impact of sudden unforeseen spending pressures. Reserves also play a big part in helping to meet the costs of change as we seek to reshape Derbyshire Police so that it can meet the new and emerging policing risks that it faces.
- 1.5 Due to the significant financial risks facing Derbyshire Police in 2019/20 and future years, it is essential that reserves provide a sufficient contingency to meet this risk and to ensure a robust budget. Consistent with the Medium Term Financial Strategy, it is recommended to maintain the balance at a minimum of £10.5m (£5.5m General Reserve and £5.0m Usable Earmarked Reserves).

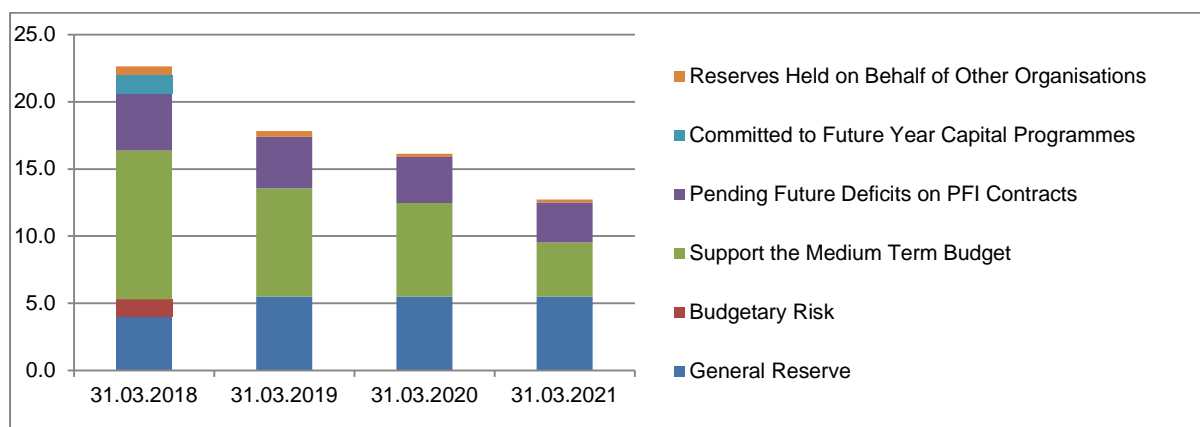
## 2. Review of Reserves 2019/20

2.1 As at 31/03/2018 the Commissioner's reserves were as follows:-

	Balance at 31/03/18	Estimated Balances at 31/03/19	Estimated Balances at 31/03/20	Estimated Balances at 31/03/21
	£000	£000	£000	£000
<b>GENERAL RESERVES</b>	<b>4,000</b>	<b>5,500</b>	<b>5,500</b>	<b>5,500</b>
<b>EARMARKED RESERVES – Usable</b>				
Budgetary Risk	1,325	0	0	0
Support the Medium Term Budget	11,082	8,066	6,968	4,033
Committed to Future Year Capital Programmes	1,464	0	0	0
<b>EARMARKED RESERVES – Non usable</b>				
Pending Future Deficits on PFI Contracts	4,206	3,840	3,435	2,990
Insurance	992	997	1,003	1,010
Reserves Held on Behalf of Other Organisations	658	424	239	192
<b>TOTAL EARMARKED RESERVES</b>	<b>19,727</b>	<b>13,327</b>	<b>11,645</b>	<b>8,225</b>
<b>TOTAL GENERAL AND EARMARKED RESERVES</b>	<b>23,727</b>	<b>18,827</b>	<b>17,145</b>	<b>13,725</b>

2.2 Each reserve has been assessed for its estimated balance as at 31st March 2019 and for the estimated additions or withdrawals from the reserve during 2019/20 and future years. Further detail can be found in the table below and at Appendix 1.

### Total Reserves



2.3 The above table, (based on this review of reserves), shows that the level of reserves is expected to decrease by £10m by 2020/21 to £13.7m. The actual balance at year end will depend on spend during the year and any year end service carry forwards from unspent revenue funds and/or unspent grant allocations.

## GENERAL RESERVE

- 2.4 The General reserve will be maintained at an adequate level to: -
- Provide a working balance to cushion the impact of uneven cash flows and avoid unnecessary short term borrowing.
  - Provide a contingency to cushion the impact of unexpected events or emergencies (risk), for example significant policing activity that cannot be contained within existing budgets.
  - Plan for potential major items of expenditure.
- 2.5 The appropriate level of reserves for this purpose will be determined and reviewed annually. The adequacy of the General Reserve Balance will be determined by assessing the financial risks associated with meeting continuing obligations to provide services. The Chartered Institute of Public Finance and Accountancy (CIPFA) has issued guidance about the factors which should be taken into account in determining the overall level of reserves and balances. These are: -
- Assumptions regarding inflation.
  - Estimates of the level and timing of capital receipts.
  - Treatment of demand-led pressures.
  - Treatment of savings.
  - Risks inherent in any new partnerships and collaborations.
  - Financial standing of Derbyshire Police (i.e. level of borrowing, debt outstanding, etc.).
  - Track record in budget management.
  - Capacity to manage in year budget pressures.
  - Virements and year-end procedures in relation to under and over-spends.
  - Adequacy of insurance arrangements.
  - An assessment of external risks.
  - Impact of major unforeseen events.
  - Level of Government support following major unforeseen events.
- 2.6 The General Reserve Balance will be reviewed and projections on future balances will be made at key points during the financial year, namely as part of the budget setting process and update of the Medium Term Financial Strategy.
- 2.7 In exceptional circumstances, the actual level of the General Reserve balance may fall below the level which is considered appropriate. This is consistent with the need to provide to meet short-term unforeseen expenditure. However, the actual level will be monitored against balances outlined in the Medium Term Financial Strategy. The plan will set out the level of planned balances, as well as confirming acceptable thresholds above or below the balance. If the balance falls outside of the planned tolerance



levels, a plan will be agreed by Derbyshire Police to restore balances to the appropriate level.

#### EARMARKED RESERVES - Usable

2.8 *To support the medium term budget* - under this heading a number of specific issues are addressed: -

- *Operational Funding and Investment Reserve* - This reserve is to assist with any 'funding gap' in the revenue budget over the medium-term and for investment in new/emerging/growing policing risk and threats. As such it provides a buffer so that any unexpected changes to the Constabulary's underlying cost base or revenue streams can be responded to in a measured manner.
- *PCC Grants and Commissioning Reserve* - This reserve has been set aside for crime prevention measures and other emerging priorities over the term of the Commissioners' office. It is currently used to temporarily fund the Commissioner's partnership, grant and commissioning initiatives and from 2019/20 for a period of two years contributing to investment in key policing priorities.
- *Devolved Budget Commitments (Carry-forwards)* - This reserve represents the underspending on devolved budgets which are carried forward to meet commitments that have yet to be incurred. The most common example would be where an order for goods/services has been raised but delivery takes place after 31st March.

2.9 *Committed to Future Year Capital Programmes includes: - a Contribution to Capital* is temporary in nature as it is used to hold revenue contributions to our capital programme until such a time as they are used to 'finance' capital expenditure. In reality, this reserve tends to remain at zero as transactions occur simultaneously within our financial accounts.

2.10 The Operational Priorities Reserve, which was set aside to manage budgetary risk, in particular to assist with urgent operational needs. However, the review has determined that this separate reserve is no longer required, as budgetary risk can be mitigated by the General Fund.

#### EARMARKED RESERVES – Non Usable (committed)

2.11 *Under this heading a number of specific issues are addressed: -*

- *Insurance* - This reserve is for future insurance liabilities that are not covered by the insurance provision. The insurance excess (or 'self-insured' element) on liability claims is set at £0.100m so the reserve is used for any large claims up to the amount covered by insurers.
- *Regional Collaborative Units* - This represents Derbyshire's share of Regional Collaborative Units reserves, these are mainly to be used for future capital purchases and asset replacement.
- *Pending Future Deficits on PFI Contracts includes: -*

- PFI Reserve – Ilkeston - This reserve is required to help the Force finance its commitments under a long-term PFI arrangement in Ilkeston. The Force receives grant related to this PFI arrangement but it does not cover all outgoings. The reserve allows the costs related to the PFI arrangement to be spread across the contract term rather than having a serious impact on the available budget for policing Derbyshire.
- PFI Reserve – Derby – As above but in respect of the PFI arrangement for a major police station in Derby city centre.

2.12 *Reserves Held on Behalf of Other Organisations includes: -*

This reserve contains monies held on behalf of the Derbyshire Road Safety Partnership (CREST) and contributions from other forces towards meeting the cost of the National Asset Recovery Team, as Derbyshire remains the accountable body.

### **3. Guidance on the Management of Reserves**

- 3.1 The Chartered Institute of Public Finance and Accounting (CIPFA) guidance on Reserves and Balances (LAAP bulletin 99 issued July 2014) advises that “Chief Finance Officers should take account of the strategic, operational and financial risks facing the authority. The assessment of risks should include external risks, such as flooding, as well as internal risks, such as the ability to deliver planned efficiency savings”.
- 3.2 The CIPFA guidance lists a number of assumptions to be considered when forming a budget, which although these directly link to the setting of a budget, the level of risk and uncertainty of these assumptions are be relevant in determining an appropriate level of reserves. Assumptions to consider include inflation, demand led pressures, delivery of planned savings and risks from new collaborations or ways of working.
- 3.3 It is important to differentiate between general and uncommitted reserves and reserves held for a specific purpose. It is only the general and uncommitted reserves that could be used to support “short term costs”.
- 3.4 CIPFA guidance says “Authorities should be particularly wary about using one off reserves to deal with shortfalls in current funding. Where such action is to be taken, this should be made explicit, and an explanation given as how such expenditure will be funded in the medium to long term”.

### **4. Review of Provisions**

- 4.1 In addition to earmarked and general reserves Derbyshire Police also hold provisions to cover the cost of third party claims where there is a clear liability, which is likely to result in a payment but the amount and timing of the potential payment is uncertain, as detailed in the table below.

Provisions	Liability Insurance £'000	Vehicle Insurance £'000	Total Provisions £'000
<b>Balance at 1 April 2017</b>	<b>1,001</b>	<b>234</b>	<b>1,235</b>
Provision in Year	182	203	385
Expenditure in year	(293)	(162)	(455)
Transfer to/from Insurance Reserve	(297)	(12)	(309)
<b>Balance at 31 March 2018</b>	<b>593</b>	<b>263</b>	<b>856</b>

- 4.2 The provisions above were based on the latest information as to the value of the potential liability. It is expected that provisions will be typically used within the financial year, except where the “time lag” on some claims being notified and settled is often over one year. The figures above are updated at each year-end when the financial statements are produced.

## 5. General Fund Reserve - Risk Assessment and Sensitivity/Scenario Appraisal

- 5.1 The estimated General Fund Reserve and Usable Earmarked Reserves of £23.727m represents 13.1% of the Budget Requirement (BR), as at 31<sup>st</sup> March 2020. This is expected to fall by 31<sup>st</sup> March 2021 to £13.725m a reduction of £10m, or 7.4% of the BR.
- 5.2 For the 2019/20 budget the level of General and Earmarked Reserves is marginally above the national average compared to other police forces.
- 5.3 The CIPFA guidance on reserves does not recommend a minimum level of reserves. It states that “Local Authorities should make their own judgments on such matters taking into account all the relevant local circumstances which will vary between Authorities”. CIPFA also state that “a well-managed authority with a prudent approach to budgeting should be able to operate with a relatively low level of reserves”.
- 5.4 A risk assessment of all 2019/20 budgets suggest that the maximum overspend in any year, if all services were subject to adverse pressures and where there isn’t any specific service related earmarked reserve, would be £8.7m or 4.8% of 2019/20 BR (see table below). An estimate should be added to reflect any, as yet unknown, in year budget pressures, say £1.8 million. This would result in a required Total Reserves of £10.5 million or 5.8% of BR. The current level of General Fund Reserve will cover 52.4% of this sum.

<b>Unforeseen / Unpredictable Risk</b>	<b>£m</b>
<b>Pay and Price Increases</b>	
Additional 1% increase: -	
Police Pay	1.0
Police Staff Pay	0.4
Police Staff Pension Contribution	0.4
Additional 10% increase: -	
Fuel costs	0.1
Utilities costs	0.1
<b>Capital Programme Risks</b>	
10% increase in tender costs for 25% of the capital programme	0.5
<b>Policing Pressures</b>	
Complex Murder Enquiry	1.0
Medium Range Murder Enquiry	0.5
Major Policing Operation e.g. public order	0.5
<b>Loss of Specific Grant</b>	
Impact of loss: -	
1% of general funding	1.1
10% of specific grant	1.3
<b>Over-spending</b>	
1% over-spend against budget	1.8
<b>Total</b>	<b>8.7</b>

- 5.5 The overall risk assessment is similar to the previous year, as some of the higher value areas of volatility that were identified as a high risk last year have continued to cause pressures on the revenue budget.
- 5.6 The risk remains as despite significant investment further pressures still remain, with a need to update and upgrade the rest of the police estate as well as the continual need to keep pace with technology.
- 5.7 Nationally Chief Constables believe the service is financially stretched. A reduction in real terms funding of police budgets of 21% (range 11% to 29%) has come at a time when the policing mission has been expanded and demand has grown.
- 5.8 The public and political expectation that policing should address crimes against the most vulnerable, (domestic abuse, child sexual exploitation, modern slavery, human trafficking, county lines, forced marriage and modern slavery) is resource intensive. Victims require safeguarding, investigations are often complex and partnership case management is intense. The ability to create significant efficiencies is limited in an area concerned with protecting very vulnerable people.
- 5.9 The threat from terrorism has increased and significant investment in counter terrorism policing has been provided to National Counter Terrorism Policing. Whilst the funding in some counter terrorism capabilities has grown it is worth reflecting that the majority of the police response to the London Bridge and Manchester attacks came from core policing resources. Even uplifts in areas such as armed policing with additional funds have required fiscal support from host force budgets.
- 5.10 The demand on policing is growing. This is reflected in additional demand through reports and call volumes but it is also apparent in the evidence being provided to police. The digital footprint in most investigations requires more time to process the work.

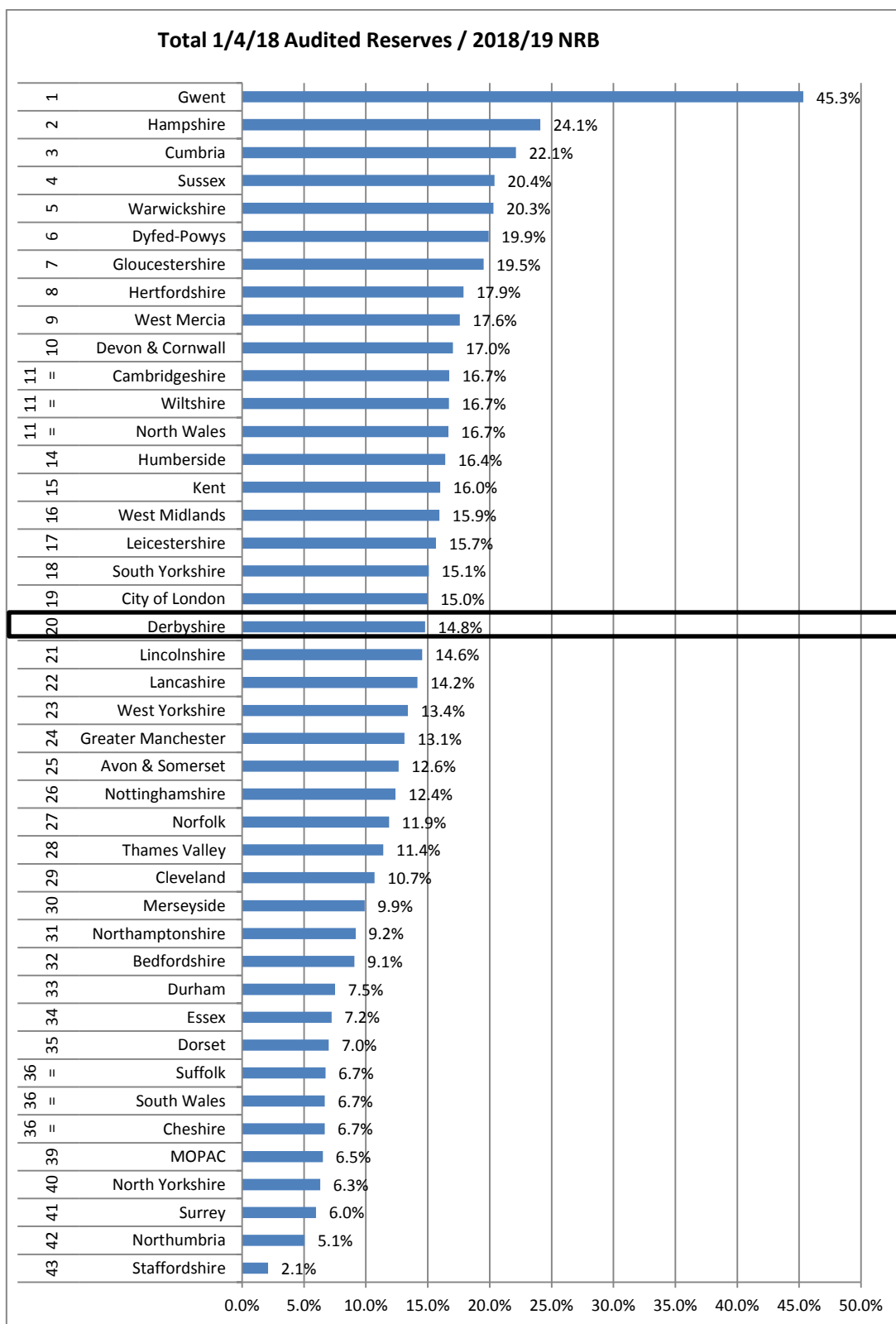
- 5.11 The service needs to respond to an increasingly digitally capable criminal requiring new technology capabilities and organisation.
- 5.12 Serious and organised crime is a threat becoming more widely regarded as a national security issue.
- 5.13 Finally the stretch on the police workforce is extensive. A period of pay restraint has seen wages fall in real terms. A smaller workforce is increasingly stretched against a growing demand with an attendant personal impact on staff.
- 5.14 A prudent risk based approach to budget setting and reserve levels will have mitigated some risks of an overspend, although it should be noted that in areas of high risk such as, the police estate, have already declared significant budget pressures over the past few years. It is vital that the improvement plan and medium term financial strategy for this service is delivered to reduce the levels of (financial) risk around this service.
- 5.15 The 2019/20 budget plans accommodate all the known immediate financial risks facing Derbyshire Police. Nevertheless risks continue to remain over future finance settlements, inflation and the impact of future pay awards, but also: -
- Contributions to Regional Organised Crime Units (ROCU) and East Midlands Serious and Organised Crime Unit.
  - Employer Pension rates.
  - Changes to the funding model for the National Police Air Service (NPAS).
  - Forensics (investment in digital technology and supplier pressure).
  - Introduction of the Emergency Services Network (ESN).
  - Impact of Brexit.
- 5.16 It is unlikely that all budgets will be adversely affected in the same year or that there will be no underspending arising from savings or additional income. The indicative level of balance for the General Fund of £5.5m is in line with the level of risk included in the 2019/20 calculation and reflects the need to keep an appropriate level of general reserve to manage known challenges, such as the increasing demand for service.
- 5.17 The 2019/20 budget to be presented in January 2019 will also include an assurance statement from the Commissioner's Chief Finance Officer about the adequacy of the proposed financial reserves, in accordance with the requirements of section 25 of the Local Government Act 2003.

## **6. Capital Programme**

- 6.1 It is assumed that in the circumstances of a significant overspend within the capital programme this will be covered by alterations to the timing of schemes within the capital programme; use of internal resources or from external borrowing within the approved Prudential Indicators. Any additional borrowing costs would have to be met from the Revenue Budget.

## **7. Comparison with Other Police Forces**

- 7.1 The Association of Police and Crime Commissioners (APCC) holds statistical data on the level reserves held by all Police Forces. Analysing the latest reserve data shows that Derbyshire's reserves have been falling faster than the national average over the past six years.
- 7.2 During the last audited financial year (2017/18) seven forces have bucked the trend and actually increased their level of reserves.
- 7.3 From being substantially above average in 2012, the level of reserves held by Derbyshire has now fallen and is now marginally above the national average, as illustrated in the graph below: -



## 8. Commissioner's Chief Finance Officer Statement

8.1 Derbyshire Police is continuing to face financial challenges. I am satisfied that the General Reserve and Earmarked Reserves are adequate for the Financial Plans for 2019/20 to meet any known or predicted liabilities over the period in which the liabilities are expected to become due for payment, if the following actions are undertaken: -

- The General Reserve has a minimum balance of £5.5m, equal to 3% of the Budget Requirement.
- Earmarked Reserves (as summarised in the table shown at paragraph 2.1) have estimated balances at the 2019/20 year-end totalling £11.6m.

However, it is important Derbyshire Police continue to plan for different scenarios and develop plans to deal with them. Reserves are on element of this and further reference is made to this in my Chief Finance Officer Statement in the Budget setting report.

## 9. Governance of Reserves

9.1 **Appendix 1** shows the projected balances of the reserves at the end of the current financial year and future years. These balances are based upon planned levels of spending. In the event of any unplanned expenditure occurring in the financial year current Standing Orders and Financial Regulations will apply.

9.2 The Reserves will continue to be reported as part of the regular Finance Monitoring Updates, the annual Statement of Accounts and subject to an annual review and challenge as part of the budget process.



Appendix 1

POLICE & CRIME COMMISSIONER FOR DERBYSHIRE  
STATEMENT OF LEVEL OF RESERVES AT 31 MARCH 2018 AND FORECAST LEVELS TO 31 MARCH 2021

	2018 / 19					2019 / 20			2020 / 21			2021 / 22		
	Balances at 31/03/18	Movements (to) / from Revenue	Transfers Between Reserves	Contributions to Capital	Balances at 31/03/19	Projected Movements (to) / from Revenue	Projected Contributions to Capital	Estimated Balances at 31/03/20	Projected Movements (to) / from Revenue	Projected Contributions to Capital	Estimated Balances at 31/03/21	Projected Movements (to) / from Revenue	Projected Contributions to Capital	Estimated Balances at 31/03/22
	£	£	£	£	£	£	£	£	£	£	£	£	£	£
<b>GENERAL RESERVES</b>	<b>4,000,000</b>	<b>-</b>	<b>1,500,000</b>	<b>-</b>	<b>5,500,000</b>	<b>-</b>	<b>-</b>	<b>5,500,000</b>	<b>-</b>	<b>-</b>	<b>5,500,000</b>	<b>-</b>	<b>-</b>	<b>5,500,000</b>
<b>EARMARKED RESERVES</b>														
<b>Useable:-</b>														
Operational Priorities	1,324,693	(38,000)	(1,286,693)		0			0			0			0
Operational Funding and Investment Reserve	6,775,866	(1,514,418)	362,693		5,624,141	(802,409)		4,821,732	(2,231,000)		2,590,732	(2,590,732)		0
Contribution to Capital	1,464,100			(1,464,100)	0		0	0			0			0
Carry-forwards	2,057,551	(1,248,100)			809,451	(185,000)		624,451	(47,000)		577,451			577,451
PCC Grants & Commissioning	2,406,474	(350,000)			2,056,474	(296,000)		1,760,474	(704,000)		1,056,474			1,056,474
Pensions	500,000		(500,000)		-			-			-			-
<b>Total Useable:-</b>	<b>14,528,684</b>	<b>(3,150,518)</b>	<b>(1,424,000)</b>	<b>(1,464,100)</b>	<b>8,490,066</b>	<b>(1,283,409)</b>	<b>0</b>	<b>7,206,657</b>	<b>(2,982,000)</b>	<b>0</b>	<b>4,224,657</b>	<b>(2,590,732)</b>	<b>0</b>	<b>1,633,925</b>
<b>Non-useable:-</b>														
PFI - Ilkeston	1,115,395	(66,941)			1,048,454	(64,991)		983,463	(72,978)		910,485	(81,542)		828,943
PFI - Derby	3,091,382	(299,639)			2,791,743	(339,988)		2,451,755	(372,043)		2,079,712	(406,602)		1,673,110
Insurance	991,879	5,455			997,334	5,485		1,002,819	7,521		1,010,340	10,103		1,020,443
<b>Total Non-useable:-</b>	<b>5,198,656</b>	<b>(361,125)</b>			<b>4,837,531</b>	<b>(399,494)</b>	<b>0</b>	<b>4,438,037</b>	<b>(437,500)</b>	<b>0</b>	<b>4,000,537</b>	<b>(478,041)</b>	<b>0</b>	<b>3,522,496</b>
<b>TOTAL EARMARKED RESERVES</b>	<b>19,727,340</b>	<b>(3,511,643)</b>	<b>(1,424,000)</b>	<b>(1,464,100)</b>	<b>13,327,597</b>	<b>(1,682,903)</b>	<b>0</b>	<b>11,644,694</b>	<b>(3,419,500)</b>	<b>0</b>	<b>8,225,194</b>	<b>(3,068,773)</b>	<b>0</b>	<b>5,156,421</b>
<b>TOTAL RESERVES</b>	<b>23,727,340</b>	<b>(3,511,643)</b>	<b>76,000</b>	<b>(1,464,100)</b>	<b>18,827,597</b>	<b>(1,682,903)</b>	<b>0</b>	<b>17,144,694</b>	<b>(3,419,500)</b>	<b>0</b>	<b>13,725,194</b>	<b>(3,068,773)</b>	<b>0</b>	<b>10,656,421</b>