



DECISION PAPER

DECISION: 2018/19

DATE: 5 JUNE 2018

TITLE:

2017/18 FINANCIAL POSITION AS AT 31 MARCH 2018

REPORT BY: STEVE FREEMAN

Executive Summary

This report sets out the final revenue and capital budget position for the Police and Crime Commissioner's budget for the 2017/18 financial year. The Commissioner's longer term financial strategy has been clearly set out in previous reports and the impact of the final position in 2017/18 upon the financial strategy is also set out in this report.

Recommendations

The Police and Crime Commissioner is recommended to:

- Note the overspend of £2.826m on the Police and Crime Commissioner's Revenue budget for 2017/18 and the impact this has on reserves.
- Approve the transfer of £2.220m from the Operational Policing reserve in to the revenue budget to meet the overspend resulting from Operation Manilla
- Decrease the General Reserve by £0.606m to meet the remaining 2017/18 revenue budget overspend.
- Approve a reduction of £1.410m to the capital programme in 2017/18 giving a final approved programme of £36.229m
- Note the overspend of £0.165m on the capital programme
- Approve that £6.879m be carried forward into the 2018/19 capital programme to enable those projects that have been deferred or have slipped to be completed.
- Approve the value of the capital programme in 2018/19 for monitoring purposes at £23.676m
- Approve the transfer of £1.900m from the Commissioner's 'corporate budget' held for contributions to the capital programme in to the Chief Constable's delegated budget for ICT in 2018/19.

Signature

Clive Anderson

Police and Crime Commissioner

Date 5 June 2018

1. Background and Advice

1.1. Overview

The Commissioner has received regular reports throughout the financial year setting out the position for the revenue budget and the progress in the year in respect of the capital programme. In addition to reporting the year-end position, the impact that this has on the Commissioner's longer term financial strategy is considered as well as the overall financial health of the organisation.

Overall the Police and Crime Commissioner's budget position means that the organisation is well placed to meet the challenges ahead. Services have been maintained during a period of time when significant budget reductions have been required. Savings plans developed to meet the financial challenge and to close the budget gap have, in the main, been delivered and in some cases ahead of plans.

In 2017/18 a significant additional burden has been placed upon the Chief Constable in the use of his resources in the form of Operation Manilla which is managing the antifracking protest activity on Preston New Road near Blackpool.

Despite a claim for 'special grant' being made from the government to cover the costs of the operation only £1.4m was provided against a total cost of £7m. This pressure has resulted in an overspend on the revenue budget. In addition the government announced a pay award of 2% for 2017/18 which was double the amount anticipated within the revenue budget. This has delivered an additional cost of £1.4m in 2017/18 for Lancashire and, despite requests made, no additional funding was provided by government to meet this extra burden. This has also, therefore, resulted in an overspend on the revenue budget in 2017/18.

1.2. Revenue Budget 2017/18

The 2017/18 revenue budget for the PCC was set at £261.647m in February 2017 and after taking in to account the planned use of balances (£0.027m) by budget holders in order to meet known pressures was increased during the year to £261.674m. The yearend position shows spending of £264.500m giving an overspend of £2.826m (1.4%).

The table below sets out a summary position for the budget:

Position as at 31 March 2018					
Responsibility Area	Revised Budget	Spend		Variance	
	£m	£m		£m	%
Chief					
Constable Pay	198.485	201.142		2.657	1.34
ACC Territorial Operations	8.659	9.026		0.367	4.24
ACC Specialist Operations	5.405	6.342		0.937	17.34
Director of Resources	17.605	16.916		-0.689	-3.91
Deputy Chief Constable		5.769	0.327		6.01
Chief Constable DFM		239.195	3.599		1.53
Chief Constable non-DFM	17.550	18.165		0.615	3.50

Chief Constable – Total	253.146	257.360	4.214	1.66
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Police and Crime Commissioner

Office of the PCC	1.445	1.254	-0.191	-13.22%
Reducing crime and reoffending	0.960	0.995	0.035	3.65%
Community Safety & Partnerships	1.106	1.052	-0.054	-4.87%
Victims and Witnesses of Crime	0.500	0.561	0.061	12.22%
PCC DFM	4.011	3.862	-0.149	-3.70%
PCC non-DFM	4.517	3.278	-1.239	-27.43%
PCC - Total	8.528	7.140	-1.388	-16.28%

TOTAL BUDGET	261.674	264.500	2.826	1.08%
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1.2.1. Lancashire Constabulary

The overall overspend on the Constabulary revenue budget for 2017/18 is **£4.214m**.

The **main** elements of over and under spending that have contributed to this position are:

£2.220m	Impact of Operation Manilla on 2017/18 revenue budget: £6.943m Total cost of Operation Manilla <u>-£3.253m</u> Of this, cost met from within the existing revenue budget £3.690m <u>-£1.470m</u> of special grant awarded by the Home Office £2.220m Additional cost burden delivering an overspend in 2017/18
£1.365m	Advance recruitment of police officers and police staff to ensure that the core service delivery is met at a period of challenging and complex service demand
£1.292m	Impact of the non-consolidated pay award for police officers and staff
£1.320m	Overspend on overtime budgets across the force
£0.388m	Shortfall on income through the PoCA scheme
£0.511m	Costs associated with delivering operational reviews including costs of redundancies
(£1.980m)	Savings realised from the central retention of a 'turnover allowance' for staff costs and the zero based approach for non-staff costs budgets to drive out savings wherever possible.
(£0.444m)	Lower than forecast costs of Ill- Health retirements
(£0.397m)	Underspend on the revenue consequences of capital spending due to lower than forecast spend on the capital programme
(£0.834m)	Underspend on financing of borrowing due to a change in methodology for calculating the provision for the repayment of debt

It is therefore **recommended** that:

- **£2.220m** be transferred from the **Operational Policing reserve** in to the revenue budget to meet the overspend due to the cost of Operation Manilla.

- The **General Fund Reserve be reduced by £1.994m** as a result of the remaining overspend on the 2017/18 Constabulary revenue budget.

1.2.2. Office of the Police and Crime Commissioner

The Office of the Police and Crime Commissioner has delivered an underspending of £1.388m. The main element of the underspend has resulted from a change in accounting policy for the financing of borrowings. The PCC has approved a change to the method by which the minimum revenue provision (MRP) is charged to the revenue budget in respect of historic debt. In 2017/18 this has resulted in a saving of £0.834m

The PCC underspend also includes an underspend of £0.148m on the PCC Office budget due, in the main, to vacancies during the year, lower than budgeted pension costs and savings on the general office budget. There is also an underspend of £0.406m in respect of the interest paid on borrowings as a result of effective treasury management activity during the year and the re-phasing of the borrowing required to finance the capital investment programme in to future years.

It is therefore **recommended** that the underspend **increase the General Fund Reserve by £1.388m**.

1.3. Capital Programme 2017/18

The **revised capital programme for 2017/18** was approved at **£37.639m** in the monitoring report to the Commissioner in February 2018.

The following changes to the capital programme have subsequently been identified:

- A further, fully funded, addition to the Vehicle Replacement programme for the purchase of vehicles for the Ports and Prevent units funded by the National Counter Terrorism Policing grant (£0.043m).
- Following a review of the accounting treatment of the following elements within the capital programme the expenditure related to them has been met from the Revenue Budget and reduces the value of the capital programme in line with accounting guidance:
 - £0.838m Microsoft Enterprise Licencing Agreement
 - £0.615m SQL Licences

It is **recommended** that the Commissioner retrospectively approve these changes to give a final approved programme in 2017/18 of **£36.229m**.

1.4. Year-end position on the 2017/18 capital programme

A total of £29.515m has been spent on capital projects as summarised in the table below:

	£m
IT Strategy	6.005
Accommodation Strategy	18.079
Vehicle Replacement Programme	3.248
Other schemes	2.183
Total	29.515

The main elements of capital investment in 2017/18 include:

I.T. Strategy

- £3.135m Network Access and Security
- £0.596m Device upgrade and replacement
- £2.274m System replacement

Accommodation Strategy

- £17.438m West Division HQ
- £0.497m Facilities in East

Vehicle Replacement Programme

- £3.248m Vehicle replacement programme 17/18

Other Schemes

- £0.780m replacement of specialist equipment
- £1.375m Speed camera replacement on behalf of Lancashire Road Safety Partnership

The year-end spend of £29.515m has resulted in a variation against the programme of £6.714m. Of this £6.879m relates to schemes that have slipped and will be delivered in 2018/19 and future years, and £0.165m relates to overspending.

Full details of the year-end position are set out below:

	Revised Programme	Actual	Slippage	(Under) /Over spend
	£m	£m	£m	£m
IT Strategy	8.666	6.005	(2.835)	0.174
Accommodation Strategy	21.108	18.079	(3.021)	(0.008)
Vehicle Replacement Programme	3.769	3.248	(0.521)	-
Other schemes	2.686	2.183	(0.502)	(0.001)
Total	36.229	29.515	(6.879)	0.165

The slippage and underspend shown above is summarised as follows:

Scheme	Slippage £m	(under)/over Spend £m
IT Strategy		
Network access and security	1.614	0.259
Device upgrade and replacement	0.404	-
Systems replacement	0.817	(0.085)
	2.835	0.174
Accommodation Strategy		
HQ facilities – West	1.445	-
Rationalisation of Hutton HQ	0.721	-
Remedial repair - Skelmersdale	0.424	-
Facilities in East		(0.008)
Minor works	0.431	-

	3.021	(0.008)
Vehicle replacement programme	0.521	-
Other schemes		
OR Implementation costs	-	0.006
Specialist equipment replacement	0.007	-
Forensic Science collaboration	0.495	-
Average Speed Cameras	-	(0.007)
	0.502	(0.001)
Total	6.879	0.165

The net overspend will reduce the funding to support other schemes in future years.

Detail of slippage and spending for each project in the capital programme is included at annex A.

1.5. Financing of 2017/18 capital expenditure

The following table shows how the expenditure of £29.516m has been financed in 2017/18 and the resources earmarked to finance the carry forward into 2018/19 of £6.879m:

	£m
<i>Financing</i>	
Capital Grant/Contribution	1.832
Capital Receipts	0.630
Revenue Resources	1.104
Revenue Reserves	7.945
Unsupported Borrowing	18.004
TOTAL EXPENDITURE 2017/18	29.515
<i>C/F into 2018/19 and Sources of Finance:</i>	
Capital receipts	0.137
Capital Grant	0.765
Revenue Reserves	2.955
Unsupported Borrowing	3.022
Carry Forward into 2018/19	6.879

1.6. Capital programme 2018/19

It is proposed that the year-end position on the capital programme for 2017/18 be reflected in the programme for 2018/19. It is also proposed that the capital programme in 2018/19 be reduced in respect of the cost of ICT licences in accordance with accounting guidelines, as described in paragraph 1.3 of this report.

The impact these proposals have on the capital programme for 2018/19 is as follows:

Capital Programme 2018/19	£m
New starts 18/19	18.697

LESS	
Microsoft Enterprise licencing agreement	-1.150
SQL licences	-0.750
ADD	
Slippage from 2017/18	6.879
	23.676

The Commissioner is **recommended to approve** the value of the capital programme at £23.676m in 2018/19 as set out in the table above.

To meet the cost of licences within the revenue budget the Commissioner is **recommended to approve the transfer of £1.900m** from the Commissioner's 'corporate budget' held for contributions to the capital programme in to the Chief Constable's delegated budget for ICT in 2018/19.

1.7. Reserves

Taking the agreed movements and recommendations identified previously in this report for both the revenue budget and the capital programme into account, the year-end reserves position is:

	Position <i>Movement</i> Final Position as at		
	31/3/17	in 2017/18	as at 31/3/18
	£m	£m	£m
<u>EARMARKED RESERVES</u>			
Capital Funding Reserve	1.458	-1.458	-
Transition Reserve	19.475	-3.298	16.177
PCC Investment Fund	6.144	-0.146	5.998
Clothing Reserve	0.623	-0.152	0.471
POCA Equalisation Reserve	0.652	-0.012	0.640
PCCA/Drugs Forfeiture Reserve	0.175	0.091	0.266
VMU Reserve	0.040	0	0.040
Operational Policing Reserve	2.584	-2.220	0.364
Forensic collaboration reserve	-	0.332	0.332
LFSA operational reserve	-	0.074	0.074
Wellbeing reserve	-	0.025	0.025
Road Safety Reserves	3.175	-1.396	1.779

Total Earmarked Reserves	34.326	-8.160	26.166
<u>GENERAL RESERVES</u>			
DFM	2.542	-0.027	2.515
General Fund	9.873	-0.606	9.267
Total General Reserves	12.415	-0.633	11.782

1.7.1. Adequacy of Reserves

The general reserves (DFM and general fund) as at 31 March 2018 are £10.948m and represent around 4.1% of the 2018/19 budget of £267.755m. Other earmarked reserves total £26.166m including £16.177m held in the transition reserve and £5.998m in the PCC Investment Fund to mitigate against the risks of implementing the change programme and provide investment for the PCC's capital programme in 2018/19 and future years.

The PCC's Chief Finance Officer believes that the level of reserves remains appropriate in the context of the "Futures" programme and the potential reductions in funding and increasing cost pressures forecast for future years.

1.7.2. Investing for the future

In order to preserve the operational integrity and capability of the force in future years, whilst delivering the savings required, the PCC must consider a number of proposals that will change how the service operates.

It is recognised that, in order to deliver savings proposals to meet the funding gap faced by the PCC in future years, the way the police service is delivered will need to change significantly. It is also recognised that improving the efficiency in which assets such as buildings, infrastructure, IT networks, IT equipment and staff are used, is crucial if the level of service being provided is to be maintained whilst the way it is delivered changes.

In order to improve the efficiency of the service it has been identified that significant investment is therefore needed in these assets which is recognised in both the ICT and the Asset Management strategies.

These strategies have identified a number of projects that will ensure frontline policing is protected and made as efficient as possible in future years. These projects have been brought into the PCC's capital programme for 2018/19 and future years and include:

- The replacement of IT systems that ensure policing services can continue to be delivered in a secure and sustainable way
- Replacement of IT equipment to enable front line officers to operate as efficiently and productively as possible
- Reconfiguration of the accommodation used by the Constabulary in order to ensure it is used as efficiently and cost effectively as possible including the construction of a new Headquarters building in West division
- The programmed replacement of vehicles to ensure the fleet available to the Constabulary provides the most effective support for the delivery of policing service in Lancashire

This investment will help to deliver the permanent savings in the revenue budget that are required in future years to ensure that the PCC can provide policing services in Lancashire within the resources he has available.

The level of new resources available for capital is not sufficient to meet the scale of investment envisaged and therefore options for funding the investment programme have been considered. The PCC has therefore, as part of his long term financial strategy, set aside a significant proportion of his earmarked reserves to provide one off investment funding for proposals within the capital programme that will assist the Constabulary to deliver services in a secure and sustainable way.

The Commissioner's [reserves strategy](#) is reviewed each year considering the level of general reserves and the level of earmarked reserves available for investment in the capital programme.

This process ensures that all future investment decisions are considered against the resources available for investment each year and this in turn informs the Medium Term Financial Strategy and the setting of the annual revenue budget.

1.8. Future risks and opportunities

The PCC, in conjunction with the CC, has developed a multi-year financial strategy to continue the process of good financial planning which has ensured that over the current period of financial austerity, managing the reductions in government funding have been delivered in a secure and planned way. It is clear that the period of austerity will continue for a number of years and a total of more than £102m of savings are likely to be required over the period 2011/12 – 2021/22 of which £84m has already been identified.

The longer term financial position is reviewed on a regular basis and further savings of c £18m are currently forecast to be required for the period 2019/20 to 2021/22. This is a significant challenge for the PCC and the Constabulary and work is already underway to develop plans on how these can be achieved. The PCC and the Constabulary have a proven track record, as recognised by both HMIC and external audit reports, in their ability to identify and deliver financial savings and it is anticipated that this will continue. However, as the economic position becomes more difficult, it will be increasingly challenging to find savings on the scale required.

The level of funding and demand pressures for 2018/19 and future years remains uncertain.

Specific Risks include:

➤ *Future levels of top-slicing*

The PCC's MTFs includes the impact of previously announced top-slices to the national funding level for police services. No announcements have been made, however, on the level of top-slicing that will take place beyond 2018/19 therefore the estimated impact currently reflected in the forecast could be subject to change when future announcements are made.

➤ *Partner Funding for PCSOs*

The PCC is committed to ring-fencing police budgets that currently fund PCSOs however the overall funding available will be dependent upon the continuation of partner funding. Some funding for PCSOs is received from partners across Lancashire and is match

funded by the Commissioner. Several partners are providing funding in 2018/19 however the ability to continue to provide this support in future years is uncertain as a result of the financial constraints faced by our partners.

➤ ***Replacement of Airwave***

The emergency services communications network 'Airwave' was scheduled to be replaced by 2019/20. Lancashire Constabulary was initially amongst the first forces scheduled to transfer to the new network in 2017/18 and as a result will incur considerable capital expenditure in respect of equipment and infrastructure.

It has been made clear by the Home Office that the timetable for the implementation of the new network has been delayed and a specific implementation date has not been provided adding considerable uncertainty to the process. It is also unclear if the final deadline for completing implementation in 2019/20 will be met.

It has not been made clear how much the transition to the new system will cost but any further programme delays will have a significant cost for the policing service as a whole and individual forces within it. This cost is an additional burden to the expected costs of adopting the new system once it is in place.

These costs, once known will impact upon both the revenue budget and the capital programme and will have a significant impact on both

➤ ***Review of the Police Funding Formula***

The Home Office intended to implement a revised funding formula for policing in 2018/19 which will impact upon the amount of grant received by the Commissioner. A significant exercise has been undertaken by the Home Office in respect of developing the new formula which has not yet been published for review and consultation.

The Home Office has indicated that the review of the funding formula will inform the next Comprehensive Spending Review due in 2019 which will clearly influence the amount of funding Lancashire receives.

➤ ***Impact of cuts to Local Government funding***

Local Authorities face significant further budget reductions in future years. It is expected that this in turn will increase the demands faced by policing services particularly in relation to individuals with mental health issues. The impact of these changes is extremely difficult to forecast but as information becomes available it will be reflected in future iterations of the MTFS.

➤ ***Changing nature of Police demand***

The demand on police services is changing with a reduction in traditional high volume crimes. However, as recognised by the National Audit Office (NAO) crime levels are a limited measure of demand and do not show the full range of work carried out by the police. This situation is echoed in Lancashire, where recorded crime does not include all types of crime, it does not take account of complexity, nor does it take into consideration those emerging more complex risks and threats such as cyber-crime and child sexual exploitation, which have historically been under-reported. This changing profile within the context of continuing austerity requires the Constabulary to ensure that it places emphasis on driving out efficiencies wherever possible to increase the capacity to meet the challenge.

➤ ***Changes to the discount rate for pension costs***

The level of discount applied to employer's costs in respect of police pension payments in 2019/20 is to reduce which will in turn increase the costs for the employers. At this stage it is not possible to calculate the value of this change but it is expected to be a significant annual increase in cost.

➤ ***Managing the anti-fracking protests***

The anti-fracking protests are set to continue in to 2018/19 and the level of resource required to deliver this is entirely dependent upon the level of protest activity taking place.

Given the grant award decision made in 2017/18 by the Home office, the type of resource used for this operation will be under constant review to minimise the impact on the revenue budget.

➤ ***Governance of Lancashire Fire and Rescue Service***

The Commissioner has announced the decision to commission the development of a business case to examine the impact a change in governance for Lancashire Fire and Rescue service would realise for police and fire services in the county.

The business case will be subject to a public consultation exercise before potential submission to the Home Secretary to recommend a change. It is unlikely any decision from the Home Secretary would be made before June 2019.

1.9. Conclusion

The overall financial health of the Police and Crime Commissioner's budget at the end of the 2017/18 financial year remains strong. The PCC and the Constabulary have been able to demonstrate:

- Strong financial control through service redesign reviews that has led to significant savings and reprioritised investment
- Strong delivery arrangements through achieving the delivery of savings early and ensuring funding is available to support the costs of down-sizing the organisation in future years
- Flexibility in ensuring resources are targeted to priority areas and that high level service delivery is achieved
- Managing the significant impact of the operation in respect of the anti-fracking protests in the County within its budget and reserves

All of these are characteristic of organisations with well managed finances. These together with a strong balance sheet that has resources set aside to mitigate against identified risks, as well as risks that may emerge during a year, place the Commissioner in a strong position to manage the significant financial challenges in the years ahead.

2. Links to the Police and Crime Plan

Effective management of the revenue budget in conjunction with strong medium term financial planning including for investment in futures years is vital to enable the PCC to deliver the Police and Crime Plan

3. Consultations

None

4. Implications:

a. Legal

None

b. Financial

The financial implications are contained within the report

c. Equality Impact Assessment

None

d. Data Protection Impact Assessment

None

5 Risk Management

6. Background Papers

7. Public access to information

Chief Executive Officer (Monitoring Officer)

I have been informed 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 for Lancashire.

Signature..........Date...5th June 2018.....

Contact: Steve Freeman, Chief Finance Officer
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