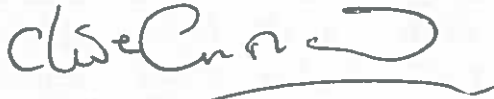




JOINT MANAGEMENT BOARD

DECISION: 2019/08	DATE: 12 JUNE 2019
TITLE: 2018/19 FINANCIAL POSITION AS AT 31 MARCH 2019	
REPORT BY: STEVE FREEMAN	
<p>Executive Summary</p> <p>This report sets out the final revenue and capital budget position for the Police and Crime Commissioner's budget for the 2018/19 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 2018/19 upon the financial strategy is also set out in this report.</p>	
<p>Recommendations</p> <p>The Police and Crime Commissioner is recommended to:</p> <ul style="list-style-type: none"> • Note the overspend of £0.903m on the Police and Crime Commissioner's Revenue budget for 2018/19 and the impact this has on reserves. • Approve the reduction to the General Reserve of £0.903m to meet the overspend on the revenue budget in 2018/19 • Approve a reduction of £0.008m to the capital programme in 2018/19 giving a final approved programme of £18.761m • Note the overspend of £0.017m on the capital programme • Approve that £3.429m be carried forward into the 2019/20 capital programme to enable those projects that have been deferred or have slipped to be completed. • Approve the value of the capital programme in 2019/20 for monitoring purposes at £29.395m 	
Signature	
Police and Crime Commissioner	
Date	12 th June 2019

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 2018/19 a significant additional burden has continued to be placed upon the Chief Constable in the use of his resources in the form of Operation Manilla which is managing the anti-fracking protest activity on Preston New Road near Blackpool.

Despite a successful claim for 'special grant' being made from the government to cover 85% of the 'additional' costs resulting from the operation there has still been a requirement to fund £1.713m of cost towards the operation from the constabulary's delegated revenue budget and reserves in 2018/19.

1.2. Revenue Budget 2018/19

The 2018/19 revenue budget for the PCC was set at £267.755m in February 2018 and after taking in to account the planned use of balances (£1.404m) by budget holders in order to meet known pressures was increased during the year to £269.159m. The year-end position shows spending of £270.062m giving an overspend of £0.903m (0.34%).

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

Position as at 31 March 2019				
	Budget £m	Spend £m	Variance £m %	
Chief Constable:				
Staff costs	205.768	206.970	1.202	0.58%
ACC Territorial Operations	10.361	11.947	1.586	15.31%
ACC Specialist Operations	2.791	3.067	0.276	9.89%
Deputy Chief Constable	4.618	4.745	0.127	2.75%
Director of Resources	19.061	18.559	-0.502	-2.63%
Head of Change	1.760	1.810	0.050	2.84%
Sub total	244.359	247.098	2.739	1.12%
Non-DFM budget	17.934	17.125	-0.809	-4.51%
Total Constabulary Budget	262.293	264.223	1.930	0.74%
PCC:				
Office of the PCC	1.398	1.372	-0.026	-1.86%
Communications	0.120	0.099	-0.021	-17.50%
Reducing Crime and Reoffending	0.837	0.757	-0.080	-9.56%

Community Safety	0.859	0.912	0.053	6.17%
Victim and Domestic Abuse services	0.181	0.184	0.003	1.66%
Sub total	3.395	3.324	-0.071	-2.09%
Non-DFM	3.471	2.515	-0.956	-27.54%
Total PCC	6.866	5.839	-1.027	-14.96%
TOTAL BUDGET	269.159	270.062	0.903	0.34%

1.3. Constabulary

The constabulary revenue budget has been **overspent by £1.930m** in 2018/19. In reaching this position a number of significant pressures have been offset by contributions from a number of sources of funding during the year. The main pressures managed in this way are:

Operation Manilla – the operation to manage the on-going protests at the fracking site on Preston New Road. In 2018/19 'additional' costs of £2.786m have been incurred, of which £2.368m has been funded by special government grant. The remaining £0.418m has been met from the Operational Policing Reserve.

Operation Bermuda – the investigation into deaths at Blackpool Victoria hospital has cost £0.342m in 2018/19. Funding for these costs has been provided as follows:

- £0.063m transferred from Operation Boron budget
- £0.191m has been funded from the overtime budget
- £0.088m has been transferred from the Operational Policing Reserve.

The **£1.930m overspend** includes both pressures and underspends on the budget in 2018/19, the main elements being:

Over/(Under) spend	Reason
£1.5m	Overspend on overtime reflecting the impact of increased demand in general for policing services and the stretch on resources resulting from major investigations and incidents alongside the impact of operation Manilla.
£1.2m	Overspend on pay costs reflecting the decision to forward recruit new officers to ensure resilience over the year and to meet increasing demand.
£0.7m	Impact of service reviews including one-off costs of redundancies, pension strain, additional training requirements and accommodation.
£0.5m	Additional costs associated with injury awards/gratuities and additional ill health retirements (2) more than budgeted (30).
£0.3m	Under recovery of PoCA income
(£1.5m)	Savings identified through the annual zero based budget approach taken from departmental budgets and held centrally.

(£0.3m)	Underspend on revenue costs associated with capital investment not incurred as a result of the lower level of capital expenditure than planned in 2018/19.
(£0.2m)	Savings within VMU (£0.081m) and in Estates (£0.092m) from savings on Energy costs and backdated charges for use of premises.
(£0.1m)	Mainly relates to recovery of VAT on seized vehicles.
(£0.1m)	Relates to additional course fee income

Whilst the principle of forward recruitment of officers remains in place the forecast for 2019/20 has been examined in detail and the timing of recruitment is planned to ensure that costs will be contained within the budget for the year.

The budget for overtime in 2019/20 has been increased to reflect the underlying level of spend that has been incurred in recent years where an overspend has occurred in each of the last three years. Constabulary are confident the costs of overtime will be contained within the increased budget in 2019/20.

It is therefore **recommended** that the overspend be met by a **reduction in the General Fund Reserve of £1.930m.**

1.4. Office of the PCC

There is an underspend of £1.027m in the main, 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 **increases the General Fund Reserve by £1.027m.**

1.5. Capital Programme 2018/19

The **revised capital programme for 2018/19** was approved at **£18.769m** in the monitoring report to the Commissioner in February 2019.

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

- Lancashire Road Safety Partnership spent £0.008m less on vehicles than previously planned, therefore the value of the capital programme has reduced by £008m and the contribution from the Road Safety reserve reduced by the same amount.

It is **recommended** that the Commissioner retrospectively approve this change to give a final approved programme in 2018/19 of **£18.761m.**

1.6. Year-end position on the 2018/19 capital programme

A total of **£15.349m** has been spent on capital projects as summarised in the table below:

	£m
IT Strategy	5.265
Accommodation Strategy	5.051

Vehicle Replacement Programme	2.904
Other schemes	2.129
Total	15.349

The main elements of capital investment in 2018/19 include:

I.T. Strategy

- £1.712m Network Access and Security
- £0.829m Device upgrade and replacement
- £2.724m System replacement

Accommodation Strategy

- £3.522m West Division HQ
- £0.868m Development of HQ site
- £0.645m Minor works programme

Vehicle Replacement Programme

- £2.904m Vehicle replacement programme 18/19

Other Schemes

- £0.420m Replacement of specialist equipment
- £0.166m Speed camera replacement on behalf of Lancashire Road Safety Partnership
- £0.484m ANPR equipment and infrastructure
- £0.961m Forensic Science partnership

The year-end spend of £15.349m has resulted in a variation against the programme of £3.412m. Of this £3.429m relates to schemes that have slipped and will be delivered in 2019/20 and future years, and £0.017m relates to under and over spending.

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

SUMMARY	Revised Programme	Actual	Slippage	(Under) /Over spend
	£m	£m	£m	£m
IT Strategy	6.622	5.265	(1.347)	(0.010)
Accommodation Strategy	6.452	5.051	(1.401)	-
Vehicle Replacement Programme	3.173	2.904	(0.269)	-
Other schemes	2.514	2.129	(0.412)	0.027
Total	18.761	15.349	(3.429)	0.017

BREAKDOWN	Slippage	(under)/over Spend
	£m	£m
IT Strategy		
Network access and security	(0.146)	
Device upgrade and replacement	(0.300)	
Systems replacement	(0.901)	(0.010)
	(1.347)	(0.010)
Accommodation Strategy		

HQ facilities – West	(0.010)	
HQ – Solar Panel installation	(0.211)	
Ormskirk refurbishment	(0.086)	
Remedial repair – Skelmersdale	(0.199)	
Pendle briefing base	(0.524)	
Minor works	(0.371)	
	(1.401)	
Vehicle replacement programme	(0.269)	
Other schemes		
ANPR equipment and infrastructure	(0.278)	
OR Implementation costs	-	0.027
Specialist equipment replacement	(0.100)	
Forensic Science collaboration	(0.034)	
	(0.412)	0.027
Total	(3.429)	0.017

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.

1.7. Financing of 2018/19 capital expenditure

The following table shows how the expenditure of £15.349m has been financed in 2018/19 and the resources earmarked to finance the carry forward into 2019/20 of £3.429m:

	£m
<i>Financing</i>	
Capital Grant/Contribution	1.996
Capital Receipts	0.243
Revenue Resources	1.057
Revenue Reserves	8.176
Unsupported Borrowing	3.877
TOTAL EXPENDITURE 2017/18	15.349
<i>C/F into 2019/20 and Sources of Finance:</i>	
Capital receipts	0
Capital Grant	0
Revenue Reserves	2.220
Unsupported Borrowing	1.209
Carry Forward into 2018/19	3.429

1.8. Capital programme 2019/20

It is proposed that the year-end position on the capital programme for 2018/19 be reflected in the programme for 2019/20 with the impact on the capital programme as follows:

Capital Programme 2019/20	£m
New starts 19/20	24.105
ADD	
Previously agreed re-profiled spend	1.861
Slippage from 2018/19	3.429
	29.395

The Commissioner is recommended to approve the value of the capital programme at **£29.395m** in 2019/20 as set out in the table above.

1.9. 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 as at 1/4/18	Movement in 2018/19	Final Position as at 31/3/19
	£m	£m	£m
<u>EARMARKED RESERVES</u>			
Transition Reserve	16.177	-1.394	14.783
PCC Investment Fund	5.998	-5.998	0
Clothing Reserve	0.471	-0.087	0.384
POCA Equalisation Reserve	0.640	-0.093	0.547
PCCA/Drugs Forfeiture Reserve	0.266	0.033	0.299
VMU Reserve	0.040	0	0.040
Operational Policing Reserve	0.364	1.551	1.915
Forensic collaboration reserve	0.332	-0.297	0.034
LFSA operational reserve	0.074	0.073	0.147
Wellbeing reserve	0.025	-0.010	0.016
Regional Collaboration	-	0.056	0.056
Road Safety Reserves	1.779	0.195	1.974
Total Earmarked Reserves	26.166	-5.971	20.195
<u>GENERAL RESERVES</u>			
DFM	2.515	-1.404	1.111
General Fund	9.267	-0.203	9.064
Total General Reserves	11.782	-1.696	10.175

1.9.1. Adequacy of Reserves

The general reserves (DFM and general fund) as at 31 March 2019 are £10.175m and represent around 3.56% of the 2019/20 budget of £286.085m. Other earmarked

reserves total £20.195m including £14.783m held in the transition reserve to provide investment for the PCC's capital programme in 2019/20 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. In particular the level of general reserves is considered sufficient to meet any unexpected or unusual financial issues during the financial year 2019/20.

1.9.2. 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 2019/20 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
- 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.

1.10. 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 £86m has already been identified.

The longer term financial position is reviewed on a regular basis based on best estimates of the likely level of cost pressures, grant income and council tax receipts. However the lack of multi-year funding settlements make this difficult to estimate with precision and in itself presents a significant risk. Based on this environment and further savings of c £18m are currently forecast to be required for the period 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 2019/20 and future years remains uncertain.

Specific Risks include:

➤ *Impact of Comprehensive Spending Review (CSR 2019)*

Funding for policing services beyond 2019/20 will be set out in the findings of the Comprehensive Spending Review that is scheduled to take place during the summer of 2019. Until these are published the level of funding available for PCCs remains uncertain.

➤ *Partner Funding for PCSOs*

Some funding for PCSOs is received from partners across Lancashire and is match funded by the Commissioner. Several partners have already removed or reduced their funding for PCSOs and a number have yet to confirm their commitment beyond 2019/20. The PCC remains committed to ring-fencing police budgets that currently fund PCSOs however the overall funding available will be dependent upon the continuation of partner funding.

➤ *Emergency Services Network (ESN) - Replacement of Airwave*

The emergency services communications network 'Airwave' programme has already 'slipped' by more than two years. There is a financial consequence of a delay in moving over to the new network that is not yet clear. There is also a separate capital requirement that will be required to operate on the new system that will impact upon future years' capital programme. The financial impact of these is not yet known and an estimated

impact is reflected in the capital investment programme based upon the best information currently available. When further information is received from the Home office the MTFS and the capital programme will be amended accordingly.

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

The impact of cuts to Local Authority budgets and service delivery within certain partner sectors continues to 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 measure but it has been identified that nearly 80% of calls received by the police relate to incidents that are not recorded as 'crime' with the vast majority relating to individuals with mental health issues that have reached a crisis point.

➤ ***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.

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

The anti-fracking protests are set to continue in to 2019/20 and the level of resource required to deliver this is entirely dependent upon the level of protest activity taking place. The revenue budget continues to meet all 'normal time' costs relating to the operation plus 15% of all additional costs. Special grant from the Home Office meets the remaining 85% of additional costs. This, therefore, remains a significant pressure on the policing budget.

1.11. Conclusion

Despite the overspend that has occurred, the overall financial health of the Police and Crime Commissioner's budget at the end of the 2018/19 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.....

Contact: Steve Freeman, Chief Finance Officer

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