



RECOMMENDATION REPORT

DECISION: 30/2024	DATE: 10 DECEMBER 2024
TITLE: FINANCIAL POSITION AS AT 30 SEPTEMBER 2024	
REPORT BY: STEVE FREEMAN	
Executive Summary This report sets out the monitoring position for the 2024/25 revenue and capital budget at 30 September 2024.	
Recommendations The Police and Crime Commissioner is recommended to: <ul style="list-style-type: none">• Note the position on the Police and Crime Commissioner's Revenue budget.• Approve a revised capital investment programme in 2024/25 of £43.802m• Note the position for the capital programme• Note the position in respect of Treasury Management• Note the position on reserves	

1. Background and Advice

1.1. Overview

1.1.1. This report provides the Commissioner with the latest position in respect of the financial health of the organisation. This includes:

- The position for the PCC's revenue budget for 2024/25,
- The capital programme for 2024/25 and future years,
- The position on reserves, and
- A summary of Treasury Management activity for the period.

1.2. Revenue Budget 2024/25

1.2.1. The Revenue Budget for 2024/25 was set at £367.087m but following the announcement of the Police officer and staff pay award from September 2024 (an increase of 4.75%) additional funding has been provided by government to meet this additional burden. This has resulted in an additional grant of £4.148m for Lancashire and has increased the revenue budget in 2024/25 to £371.235m.

1.2.2. The forecast year-end budget position is:

	Budget £m	Forecast £m	Variance	
			£m	%
Chief Constable:				
Pay costs	304.915	305.749	0.834	0.27
ACC Territorial Operations	7.442	7.513	0.071	0.95
ACC Crime	3.728	4.105	0.377	10.11
ACC Specialist Uniform Operations	5.577	6.376	0.799	14.33
Chief Operating Officer	34.564	35.044	0.480	1.39
Deputy Chief Constable	1.526	1.687	0.161	10.55
Sub total	357.752	360.474	2.722	0.76
Non-DFM budget	7.924	5.351	-2.573	-32.47
Total Constabulary Budget	365.676	365.825	0.149	0.04
PCC:				
Office of the PCC	1.797	1.862	0.065	3.62
Communications	0.130	0.130	-	-
Fighting Crime	1.004	0.889	-0.115	-11.45
Victim and Domestic Abuse services	0.678	0.728	0.050	7.37
Sub total	3.609	3.609	-	-
Non-DFM	1.950	1.950	-	-
Total PCC	5.559	5.559	-	-

TOTAL BUDGET	371.235	371.684	0.149	0.04
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1.2.3. A small overspend of £0.149m (representing 0.04% of the budget) is shown however it is expected that the budget will be in balance at the end of the financial year.

1.2.4. Whilst the budget position is broadly in balance there are a number of under and overspends that offset each other. The main elements of under and overspending identified are:

	£m	
Cost pressures:		
Pay	0.513	The main pressure on the pay budget is an overspend on the agency staff budget, due, in the main, to a significant level of vacancies in police staff roles
Overtime	0.350	There continues to be a pressure on the overtime budget, at this stage it is hoped this will be brought back in line with the budget by the end of the year but a present represents a budget pressure
Training income	0.448	Resources are focussed on the training of new officers recruited in to Lancashire Constabulary. This has limited the ability to generate income through courses offered to external forces/organisations
Regional Toxicology	0.441	The regional toxicology collaboration led by Mersey Police has been in development for some time. The collaboration was due to go live in Quarter 4 of 2023/24 but has been delayed. This has resulted in the renewal of the contract with ASI for forensic services at a significant increase in cost.
Ill-health pensions	0.358	Compensation payments for injury settlements form part of this cost and are index linked, this pressure reflects the inflationary impact this has on the budget.
Dangerous Dogs	0.083	New legislation in respect of XL Bully dogs has resulted in a significant increase in costs, particularly in kennelling due to the increased seizures.
Major investigations	0.245	A number of major investigations have taken place during the year putting a pressure on the budget
Operation Eskin	0.949	Cost incurred by Lancashire in response to the murder of three children in Southport and the subsequent protests and incidents of disorder
Cost mitigations:		

Confiscations	-0.427	Additional one-off income from confiscations from criminals in 2023/24 that has been realised in 2024/25
Pension contribution	-0.814	The proactive management of the payment of police staff employer pension contributions has generated a saving against the budget
Contribution from reserves	-1.408	Specific reserves have been set aside to deal with budget pressures in 2024/25
Operation Eskin	-0.793	It is expected that the government will provide funding for 85% of the costs of operation Eskin under the existing 'special grant' rules
Dangerous dogs	-0.163	DEFRA grant is expected in respect of dangerous dogs
Additional income	-0.336	Income in respect of specific policing operations

1.3. In setting the 2024/25 budget, savings of £5.9m were identified:

	£m
Departmental savings	1.0
Changes to Operating Model	2.7
Reduced cost of energy	2.2
Total	5.9

1.3.1. These savings are on track to be delivered in full this financial year.

1.4. Capital Programme 2024/25

1.4.1. The revised capital programme of £43.720m for 2024/25 was approved by the Commissioner in agreeing the quarter one financial monitoring report.

1.4.2. In quarter 2 a contribution of £0.082m from the road safety reserve has been made to fund the replacement of average speed cameras giving a revised programme of £43.802m for 2024/24.

1.4.3. The Commissioner is ***recommended to approve the revised capital programme of £43.802m for 2024/25.***

1.4.4. At 30 September 2024 £25.240m of spend has been committed against this programme and the forecast spend at the end of the year is currently £46.667m:

	Programme £m	Committed £m	Forecast £m
ICT	11.150	6.833	11.150
Estate	26.209	15.855	29.074
Vehicle Replacement Programme	5.175	2.085	5.175
Other schemes	1.268	0.467	1.268
Total	43.802	25.240	46.667

1.4.5. The year-end forecast spend will be scrutinised during quarter 3 and if the 2024/25 programme needs to be revised the Commissioner will be provided with a proposal in the quarter 3 monitoring report.

1.4.6. The main elements of the forecast spend for the year, summarised above are:

I.C.T.

- £1.939m Network Access and Security
- £2.571m Device upgrade and replacement
- £6.141m System replacement
- £0.499m Development and innovation

Estate

- £2.407m Critical Policing Infrastructure Programme (CPIP)
- £2.600m Operational bases and divisional HQs
- £4.500m Chorley Police Station
- £11.666m Pendle Police Station
- £1.300m Refurbishment of custody suites
- £2.175m Minor works programme

Other Schemes

- £0.198m Replacement of specialist equipment
- £0.697m ANPR equipment and infrastructure

1.5. Treasury Management

1.5.1. Lancashire Constabulary’s Finance department took over the role of Treasury Management from Lancashire County Council (LCC) on 12/7/24. Treasury Management is the responsibility of the Police and Crime Commissioner, but the financial management of the Chief Constable’s budget heavily impacts on the liquidity of the organisation and as a result, a brief summary is reported here for information.

1.5.2. The following chart shows the Treasury Management position as at 30/9/24.

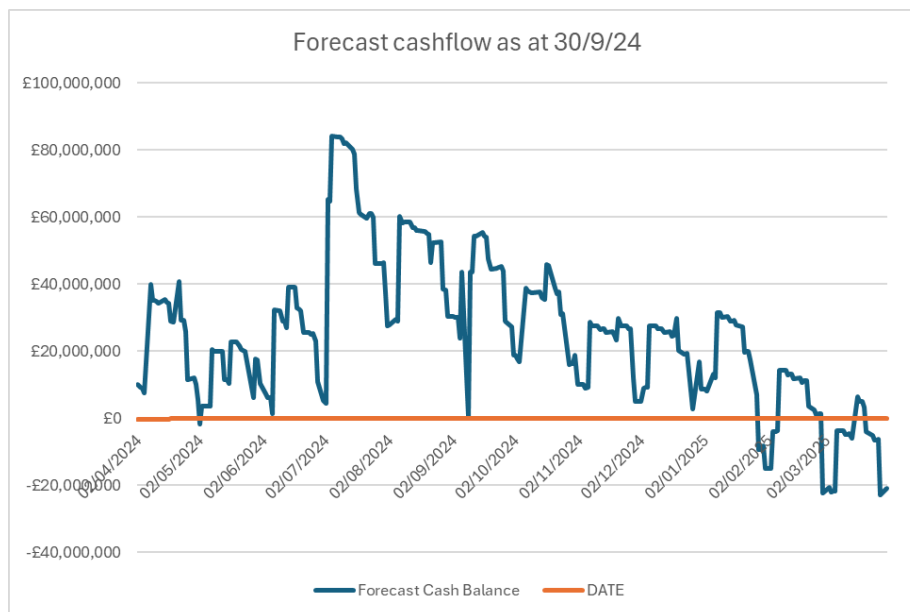
	31.3.24 Balance £m	Movement £m	30.9.24 Balance £m	30.9.24 Rate %
Long-term borrowing				
- PWLB	42.362	-1.437	40.925	1.55% to 4.88%
Short-term borrowing	50.000	-5.000	45.000	0.75% - 5.80%
Total borrowing	92.362	-6.437	85.925	
Short-term investments	9.497	+27.793	37.290	4.94%- 5.25%
Cash and cash equivalents		+2.048	2.048	1.7%
Total investments	9.497	+29.841	39.338	

Net borrowing	82.865	-36.278	46.587	
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1.5.3. The Capital Funding Requirement (CFR) is the underlying need to borrow for historic capital expenditure. The CFR was £77.565m at the beginning of the year and was covered by a mix of long-term and short-term borrowing. In the first half of the year, due to the receipt of the pension grant in July and the capital expenditure on the main accommodation schemes being profiled towards the end of the year, cash balances have been high, particularly in quarter 2 with the highest balance being around £84m.

1.5.4. This position on cash balances has resulted in the finance department mainly carrying out investment activities since the onboarding of the Treasury Management function. These have been predominantly overnight investments with the HM Treasury Debt Management Office. For the period 12/7/24 to 30/9/24, this investment activity has generated £0.528m in interest.

1.5.5. The chart below summarizes the forecast cashflow balances as at 30/9/24 which shows a reducing liquidity position, particularly in quarter 4. This is due to the combination of the development of Pendle Police Station that is underway, the commencement of the refurbishment of the new Chorley Police Station and the maturity of short-term loans arranged by LCC.



1.5.6. In quarter 3, the department will be reviewing current loans and will enter into new loan agreements in the region of £25m to fund the capital works and to cover the year-end predicted reduction in cashflow. This will ensure the liquidity of the organisation over the remainder of the financial year.

1.5.7. These are likely to be short-term arrangements due to the anticipated reduction in the Bank of England base rate over the next 12 months.

1.6. Reserves

- 1.6.1. General reserves (DFM and general fund) brought forward in to 2024/25 were £19.6m representing 5.3% of the 2024/25 budget of £361.7m. Other earmarked reserves total £9.7m including £2.6m held to provide investment for the PCC's capital programme in 2024/25 and future years.
- 1.6.2. During 2024/25 a contribution will be made from the General Reserve in to the revenue budget of £3.011m. Contributions totalling £1.408m will also be taken from the DFM reserves as identified in this report. This will leave general reserve balances at £15.2m (4.2% of the revenue budget and in line with the reserves strategy)
- 1.6.3. The PCC's Chief Finance Officer believes that the level of reserves remains appropriate and in particular, the level of general reserves is considered sufficient to meet any unexpected or unusual financial issues during the financial year 2024/25 (In line with the PCC's published [Reserves Strategy](#)).

1.7. Future risks and opportunities

- 1.7.1. The PCC, in conjunction with the CC, maintains a multi-year financial strategy to deliver efficient and effective financial management for the organisation. The provision of the three-year financial settlement in 2022/23 has assisted with medium-term financial planning however economic conditions over that period increased the level of uncertainty for future cost pressures.
- 1.7.2. The longer-term financial position is reviewed regularly based on best estimates of the likely level of cost pressures, grant income and council tax receipts. Based on this environment a 'funding gap' of nearly £17m has been identified to 2026/27. This will require a significant level of further savings being made by the PCC and Chief Constable and will impact directly on the shape of future services.
- 1.7.3. The Constabulary has an on-going business planning programme that will work to develop proposals for how the further savings can be achieved.
- 1.7.4. 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 continues to be challenging, it will be increasingly difficult to find savings on the scale required.

Specific Risks include:

Inflation and pay award

- 1.7.5. The rate of inflation has fallen in recent months and current forecasts expect the rate to remain consistent in the coming months. However, the rate of inflation is different for different types of expenditure and certain cost areas remain difficult to predict. For example, the cost of vehicle insurance for Lancashire has almost quadrupled in the last 4 years which is significantly higher than the effect of the average inflation rate.
- 1.7.6. Costs such as this will be closely monitored as part of the continuing financial planning process in preparation for setting the 2025/26 budget.
- 1.7.7. Any change to pay has a significant impact for the revenue budget with pay related costs accounting for more than 80% of total spending.
- 1.7.8. The impact of the annual pay award is therefore the main issue faced in setting budgets. In September 2024 pay will increase by 4.75% and forecast increases in future years are uncertain.
- 1.7.9. Every 1% increase in pay costs for Lancashire equates to increased budget requirement of approximately £3m.

Maintaining the Police Uplift

- 1.7.10. The uplift programme has a direct impact on how the budget is managed.
- 1.7.11. The government has been clear that failure to deliver and maintain the uplift allocation would mean a reduction in funding.
- 1.7.12. This affects how savings can be delivered by the organisation as police officer pay represents around 58% of the total budget for the organisation.
- 1.7.13. A risk has been identified nationally that this could lead to staff being made redundant and police officers filling staff roles to meet savings targets whilst maintain the uplift number of officers.
- 1.7.14. This doesn't represent the best use of resources or maximise value for money.

Delivering the capital programme

- 1.7.15. The Commissioner has agreed an ambitious capital programme for the forthcoming period which impacts directly upon the revenue budget and medium-term financial planning.
- 1.7.16. There is a risk that both internal and external factors could delay the delivery of projects which will in turn impact upon the budget position and future years of the programme.

Future government funding

- 1.7.17. The Chancellor recently stated that the financial settlement for policing will be announced in December. It is expected that this will

provide confirmation of funding for 2025/26 with outline spending plans for future years.

- 1.7.18. A one-year settlement limits the ability to deliver effectively financial management in the medium to longer term as it is difficult to engage in efficient long-term planning.
- 1.7.19. There is therefore significant risk in any assumption on government funding in future years that will, undoubtedly, be subject to significant pressure in future years.
- 1.7.20. It is considered appropriate however, to assume a small increase in government funding in future years and the MTFSS assumes a 1% increase in such funding each year beyond 2024/25. There is clearly a risk that this may not be realised.

Additional government funding

- 1.7.21. The three-year funding announcement made by the Minister of Policing in December 2021, and the financial settlements subsequently provided, gives greater certainty to inform financial planning over the spending review period.
- 1.7.22. There continues to be a significant amount of additional funding for a number of areas including for Serious Violence, Violence Against Women and Girls and for Victims of Domestic and Sexual Abuse over the three-year funding period. Access to such funding requires a process of bidding that can be done against extremely short timescales. Successful bids can then require spending to be completed in a short space of time which can put pressure on resources and decision making.
- 1.7.23. The amount of funding for these area remains uncertain at this time and will be announced in the coming months.

Emergency Services Network (ESN) - Replacement of Airwave

- 1.7.24. The emergency services communications network 'Airwave' replacement programme has already 'slipped' by several years. There is a financial consequence of a delay in moving over to the new system that is not yet clear.
- 1.7.25. There is also a capital requirement for the equipment that will be required to operate on the new system that will impact upon future years' capital investment programme.
- 1.7.26. The financial impact of these is not yet fully known with estimated provision included in the draft capital programme based on best available information. When further information is received from the Home Office the financial forecast will be updated

Impact of the Police Pensions Remedy

- 1.7.27. The Government introduced changes to public sector pensions and introduced revised pension arrangements for Police Officers in 2015. As part of the implementation a series of protection measures were put in

place to protect those officers within 10 years of their normal retirement date.

1.7.28. This policy was successfully challenged in the Courts and was found to be discriminatory on the basis of age. The Government has recently announced its proposals to remedy the discrimination. Whilst these proposals will take some time before they are in place, initial indications are that the cost of administering the remediation will be an additional cost on police forces and the ultimate cost of the remedy may require an increase in employer contributions of 10%.

1.7.29. This will form detailed discussion with the Government and the extent to which sufficient funding is made available will be a key element of the discussion.

1.8. Conclusion

1.8.1. The overall financial health of the Police and Crime Commissioner's budget 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 downsizing the organisation in future years.
- Flexibility in ensuring resources are targeted to priority areas and that high-level service delivery is achieved.

1.8.2. 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(s) 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

