**JOINT independent AUDIT COMMITTEE**

**Meeting to be held on Wednesday, 14 June 2023 at 10.00am in the Ribble Suite, The Exchange, County Hall, Preston**

**FINANCIAL POSITION 31 MARCH 2023**

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| --- |
| **EXECUTIVE SUMMARY**  The purpose of this report is to update the Committee on the financial outturn position for the financial year 2022/23 and comply with good financial management and Financial Regulations.  **RECOMMENDATION**  That the Committee notes the Police and Crime Commissioner decision to:   * Note the position on the Police and Crime Commissioner's Revenue budget for 2022/23. * Approve an increase of £0.469m to the capital programme in 2022/23 giving a final approved programme of £25.564m * Note the year end position for the capital programme * Approve that £6.369m be carried forward into the 2023/24 capital programme to enable those projects that have been deferred or have slipped to be completed. * Approve the value of the capital programme in 2023/24 for monitoring purposes at £44.614m * Note the position on the PCC's reserves |

1. **Background and Advice**
   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 enhanced through investment from the council tax precept set by the Commissioner for 2022/23 and the government funded uplift programme. The Constabulary has been undertaking a service redesign during 2022/23 that will be implemented in 2023/24.

* 1. **Revenue Budget 2022/23**

The 2022/23 revenue budget for the PCC was set at £338.243m in February 2022. The position at 31 March 2023 is set out below:

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | **Budget** | **Spend** | **Variance** | |
|  | **£m** | **£m** | **£m** | **%** |
| **Chief Constable:** |  |  |  |  |
| Pay costs | 266.551 | 264.155 | -2.396 | -0.90 |
| ACC Territorial Operations | 7.294 | 9.171 | 1.877 | 25.73 |
| ACC Crime | 3.416 | 3.947 | 0.531 | 15.54 |
| ACC People and Specialist Uniform Operations | 5.168 | 5.084 | -0.084 | -1.62 |
| Director of Resources | 29.412 | 29.057 | -0.355 | -1.21 |
| Deputy Chief Constable | 1.386 | 1.419 | 0.033 | 2.42 |
| Sub total | 313.227 | 312.833 | -0.393 | -0.13 |
| Non-DFM budget | 15.174 | 12.836 | -2.338 | -15.41 |
| **Total Constabulary Budget** | **328.401** | **325.669** | **-2.731** | **-0.83** |
|  |  |  |  |  |
| **PCC:** |  |  |  |  |
| Office of the PCC | 1.489 | 1.544 | 0.055 | 3.71 |
| Communications | 0.138 | 0.162 | 0.024 | 17.15 |
| Fighting Crime | 0.740 | 0.596 | -0.144 | -19.46 |
| Victim and Domestic Abuse services | 0.573 | 0.510 | -0.063 | -10.96 |
| Sub total | 2.940 | 2.812 | -0.128 | -4.35 |
| Non-DFM | 6.902 | 5.672 | -1.230 | -17.82 |
| **Total PCC** | **9.842** | **8.484** | **-1.358** | **-13.80** |
| **TOTAL BUDGET** | **338.243** | **334.154** | **-4.089** | **-1.21** |

* 1. **Year-end position**

The **Constabulary** revenue budget has **underspent by £2.731m (0.83%)** in 2022/23.

This position reflects a number of contributions that have been made into DFM reserves during 2022/23 for the following specific reasons:

|  |  |
| --- | --- |
| £m | Reason |
| 1.23 | Revenue contribution to capital programme – reprofiled into 2023/24 to match reprofiled spending |
| 0.22 | Underspend on ringfenced LRF grant – carry forward for earmarked LRF spending |

The Commissioner is **recommended to note the transfers into DFM reserves set out in the table above.**

The year-end financial position for the Constabulary revenue budget includes both pressures and underspends, the main elements being:

|  |  |
| --- | --- |
| Over/(Under) spend  (£m) | Area of under/over spending |
| -4.8 | Vacancy savings |
| 1.0 | Additional cost of staff pay award above budgeted forecast |
| 1.4 | Costs of agency staff to fill vacancies |
| 1.0 | Additional overtime in excess of budget |
| 0.8 | Cost of Ill Health retirements |
| 0.5 | Travel and subsistence |
| 0.3 | Hire of transport |
| 0.1 | Equipment |
| 0.2 | Vehicle parts |
| 0.4 | Driver training income |
| 0.2 | Insurance |
| 0.1 | Catering |
| 0.3 | 'Other costs' – items less than £0.1m in value aggregated |
| -0.1 | Rates |
| -0.4 | ICT costs |
| -0.3 | Taser cartridges |
| -0.3 | External trainer/lecturer fees |
| -0.8 | Saving from upfront pension contribution payment |
| -0.3 | Additional operation Palisade grant |
| -0.8 | Mutual Aid |
| -0.3 | Oracle saving |
| -0.1 | Operation safeguard |
| -0.2 | Cyber Crime grant funding |
| -0.6 | TOM implementation spend |
| **-2.7** | **Underspend** |

The Chief Constable has identified specific commitments in 2023/24 for which he proposes to set aside funds from the 2022/23 Constabulary underspend position (£2.731m).

Target Operating Model (TOM) implementation costs of £0.56m are forecast in 2023/24, the Chief Constable requests that this amount be set aside within the DFM reserve.

The Body Armour reserve has been utilised in full, the Chief proposes to set aside £0.75m in the specific Body Armour reserve to meet future requirements.

The Commissioner is **recommended to agree to these transfers into reserves as requested by the Chief Constable.**

If the Commissioner agrees to these specific contributions to reserves the **remaining underspend of £1.4m is recommended to be transferred into General Reserves** to support the revenue budget in 2023/24.

The **Office of the PCC** has an **underspend of £1.358m (13.8%)** the main elements being:

|  |  |
| --- | --- |
| Over/(Under) spend (£m) | Reason |
| -1.229 | Interest receivable greater than forecast (Interest rate increase) |
| 0.050 | Interest payable greater than forecast (Increase rate increase) |
| -0.051 | Financing costs lower than forecast |
| -0.128 | Office of the PCC costs savings including vacancy savings |

The underspend of £1.358m reflects the creation of two provisions for future expenditure:

* £131,500 for the cost of the Chairs of Domestic Homicide Reviews for which funding was agreed in 2022/23.
* £160,000 for the cost of a review undertaken by the College of Policing relating to an operation in 2022/23.

The Commissioner is **recommended to agree the provisions as set out above.**

The Commissioner is **recommended to transfer the underspend of £1.358m into general reserves to support the 2023/24 revenue budget.**

* 1. **Capital Programme 2022/23**

The **revised capital programme for 2022/23** was approved at **£25.095m** in the quarter 3 monitoring report to the Commissioner in February 2023.

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

|  |  |  |
| --- | --- | --- |
| **Description** | **£m** | **Source of funding** |
| Single on-line home project | 0.050 | Grant |
| Increase to endpoint replacement programme | 0.050 | Revenue budget |
| Telephone handsets | 0.004 | Uplift – revenue budget |
| Mobile Smart Devices | 0.050 | Uplift – revenue budget |
| Endpoint replacement programme | 0.012 | Uplift – revenue budget |
| NLEDS | 0.130 | Grant |
| Bamber Bridge refurbishment | 0.083 | Revenue contribution |
| Moor Farm SOCU refurbishment | 0.009 | Revenue contribution |
| Leyland Police station refurbishment | 0.006 | Uplift – revenue budget |
| Skelmersdale refurbishment | 0.028 | Revenue budget |
| Average speed cameras | 0.183 | Revenue budget |
| Specialised Equipment | 0.042 | Innovation Fund |
| Mobile ANPR | 0.011 | Revenue budget |
| ANPR | 0.010 | Grant |
| Forensic Science Academy | -0.198 | Revenue budget |
| Vehicle replacement programme | -0.002 | Additional grant |
| **Increase to capital programme** | **0.469** |  |

It is ***recommended*** that the Commissioner retrospectively approve these changes to give a final approved programme in 2022/23 of **£25.564m**.

* 1. **Year-end position on the 2022/23 capital programme**

A total of **£15.079m** has been spent on capital projects in this year:

|  |  |
| --- | --- |
|  | **£m** |
| IT Strategy | 6.973 |
| Estate | 4.343 |
| Vehicle Replacement Programme | 3.093 |
| Other schemes | 0.670 |
| **Total** | **15.079** |

The main elements of the spend summarised above are:

I.T. Strategy

* £0.697m Network Access and Security
* £3.681m Device upgrade and replacement
* £2.595m System replacement

Estate

* £1.501m Critical Policing Infrastructure Programme
* £0.210m Skelmersdale Station refurbishment
* £0.303m Solar Panel installation
* £1.268m Bamber Bridge – ISO accreditation requirement
* £0.917m 'Minor works programme'

Other Schemes

* £0.396m Replacement of specialist equipment
* £0.162m ANPR equipment and infrastructure
* £0.183m Average speed cameras
* £0.119m Regional collaborations

Spend in 2022/23 of £15.079m has resulted in a variation against the programme of £10.483m set out below:

|  |  |  |  |
| --- | --- | --- | --- |
| **SUMMARY** | Revised  Programme | Actual | Variation |
|  | £m | £m | £m |
| ICT | 8.172 | 6.973 | -1.197 |
| Estate | 11.109 | 4.343 | -6.766 |
| Vehicle Replacement Programme | 4.758 | 3.093 | -1.665 |
| Other schemes | 1.525 | 0.670 | -0.855 |
| **Total** | **25.564** | **15.079** | **-10.483** |

Detail of the variation for each project in the capital programme is included at Annex A.

* 1. **Financing of 2022/23 capital expenditure**

The following table shows how the expenditure of £15.079m has been financed:

|  |  |
| --- | --- |
|  | **£m** |
| ***Financing*** |  |
| Capital Grant/Contribution | 0.670 |
| Revenue Resources | 10.088 |
| Revenue Reserves | 0.647 |
| Borrowing | 3.675 |
| **TOTAL FINANCING 2022/23** | **15.079** |

* 1. **Capital programme 2023/24**

It is proposed that the year-end position on the capital programme for 2022/23 be reflected in the programme for 2023/24 with the impact on the capital programme as follows:

|  |  |
| --- | --- |
|  | **£m** |
| New starts 23/24 | 33.214 |
| ADD |  |
| Previously agreed re-profiled spend | 5.031 |
| Further reprofiled spending | 6.369 |
| **Capital Programme 2023/24** | **44.614** |

The Commissioner is **recommended to approve** the value of the **capital programme at £44.614m** in 2023/24 as set out in the table above.

* 1. **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 1/4/22** | ***Movement***  ***in 2022/23*** | **Final Position**  **as at 31/3/23** |
|  | **£m** | ***£m*** | **£m** |
| **EARMARKED RESERVES** |  |  |  |
| Capital Financing Reserve | 0.151 | *-0.050* | 0.101 |
| Employee/Public liability reserve | 0.685 | *0* | 0.685 |
| LCTS Reserve | 2.356 | *0* | 2.356 |
| Transition Reserve | 2.392 | *-0.647* | 1.746 |
| Clothing Reserve | 0.028 | *0.758* | 0.786 |
| POCA Equalisation Reserve | 0.547 | *0.156* | 0.702 |
| PCCA/Drugs Forfeiture Reserve | 0.286 | *0.103* | 0.389 |
| VMU Reserve | 0.008 | *0* | 0.008 |
| Operational Policing Reserve | 1.691 | *0* | 1.691 |
| Forensic collaboration reserve | 0.084 | *0* | 0.084 |
| LFSA operational reserve | 0.165 | *0.036* | 0.202 |
| Wellbeing reserve | 0.017 | *-0.017* | 0 |
| Regional Collaboration – Titan | 0.462 | *-0.422* | 0.040 |
| Regional Drugs Forensics collaboration | 0 | *0.120* | 0.120 |
| NDORS course reserve | 0.842 | *0.080* | 0.922 |
| Road Safety investment reserve | 1.792 | *-0.243* | 1.548 |
| **Total Earmarked Reserves** | **11.506** | ***-0.126*** | **11.380** |
|  |  |  |  |
| **GENERAL RESERVES** |  |  |  |
| DFM | 3.325 | *2.942* | 6.267 |
| General Fund | 9.382 | *2.758* | 12.140 |
| **Total General Reserves** | **12.707** | ***5.700*** | **18.407** |

* + 1. **Adequacy of Reserves**

The general reserves (DFM and general fund) at 31 March 2023 are £18.407m and represent around 5.1% of the 2023/24 budget of £361.127m. Other earmarked reserves total £11.380m including £4.102m held in reserves that provide investment for the PCC's capital programme in 2023/24 and future years.

The 2023/24 budget includes a contribution from general reserves of 3.011m which would reduce the level of general reserves to £15.396m (4.3% of the 2023/24 revenue budget).

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 2023/24.

* 1. **Future risks and opportunities**

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 recent economic conditions have increased the level of uncertainty for future cost pressures significantly.

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 and further savings of c £9.855m are currently forecast to be required for the period to 2025/26. This is in addition to the £7.875m of savings that will be delivered in 2023/24 and represent a significant challenge for the PCC and the Constabulary.

Business planning programmes are underway to develop proposals for how the further savings 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 continues to be extremely challenging, it will be increasingly difficult to find savings on the scale required.

The level of funding and demand pressures for 2023/24 and future years remains uncertain.

***Specific Risks*** include:

Inflation and pay award

* Recent announcements about the rate of inflation and the forecast of future rates indicate that there will be significant pressure placed upon budgets in future years. The level of inflation remains uncertain and will be closely monitored as part of the continuing financial planning process.
* In turn it is expected that this pressure will impact upon the level of pay award made to police officers and staff which will directly affect the PCC budget in future years.
* Every 1% increase in pay costs for Lancashire equates to increased budget requirement of approximately £3m.

Maintaining the Police Uplift

* The uplift programme has a direct impact on how the budget is managed
* The government has been clear that failure to deliver and maintain the uplift allocation would mean a reduction in funding
  + If we fall short of our uplift target by more than 35 officers we would lose £7m of funding
* This affects how savings can be delivered by the organisation as police officer pay represents around 58% of the total budget for the organisation
* 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
* This doesn't represent the best use of resources or maximise value for money

Delivering the capital programme

* The Commissioner has agreed an ambitious capital programme for 2023/24 which impacts directly upon the revenue budget and medium-term financial planning
* 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

* Recent announcements by both the Prime Minister and Chancellor have indicated that firm control over government spending in future years is necessary.
* There is therefore significant risk in any assumption on government funding in future years that will, undoubtably, be subject to significant pressure in future years.
* The MTFS therefore assumes no increase in government grants beyond 2024/25.

Additional government funding

* 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.
* 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.
* 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

* 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.
* 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.
* 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

* 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.
* 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%.
* 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. **Conclusion**

The overall financial health of the Police and Crime Commissioner's budget at the end of the 2022/23 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 downsizing the organisation in future years
* Flexibility in ensuring resources are targeted to priority areas and that high-level service delivery is achieved

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**:

* 1. **Legal**

None

* 1. **Financial**

The financial implications are contained within the report

* 1. **Equality Impact Assessment**

None

**Links to the Police and Crime Plan**

* 1. The Joint Independent Audit Committee provides a mechanism through which assurance can be sought and the public assured with regards to the probity, regularity and value for money of resources deployed in the pursuit of the Police and Crime Plan.

1. **Consultations**
   1. None
2. **Implications**
   1. **Legal**

There are no legal comments associated with this paper.

* 1. **Financial**

The financial implications are set out in the report now presented.

* 1. **Equality considerations**

There are no direct Equality implications in the consideration of this report.

* 1. **Data Protection Impact Assessment**

There are no direct Data protection implications in the consideration of this report.

1. **Risk Management**
   1. None
2. **Background Papers**
   1. Decision Report – 14 November 2022
3. **Public access to information**

Information in this form is subject to the Freedom of Information Act 2000 and other legislation.

Part 1 of this form will be made available on the PCC website within 3 working days of approval. Any facts/advice/recommendations that should not be made available on request should not be included in Part 1 but instead on the separate Part 2 form.