



**POLICE AND CRIME PANEL: 10 NOVEMBER 2017**

**2017/18 FINANCE REPORT – QUARTER 2**

**REPORT BY THE TREASURER**

**PURPOSE OF THE REPORT**

*To provide an update on the financial position at the end of September 2017 and the full year forecast compared with the revised budget.*

**1. NET REVENUE EXPENDITURE**

- 1.1. Net Revenue Expenditure in the year to September was £60,770k which is 49% of the full year Revised Budget.
- 1.2. The Forecast for the full year is predicting a net overspend of £1,048k, after a planned increased transfer from reserves of £1,029k. (This compares with a forecast overspend of £885k in the Q1 report). Any overspend at the year-end will reduce General Balances.

<b>NET REVENUE EXPENDITURE (NRE)</b>	<b>Spend to date £000's</b>	<b>2017/18 Revised Budget £000's</b>	<b>2017/18 Latest Forecast £000's</b>	<b>Variance (under) /over spend £000's</b>
OPCC	868	2,582	2,582	0
FORCE	59,902	120,385	122,462	2,077
<b>Total NRE</b>	<b>60,770</b>	<b>122,967</b>	<b>125,044</b>	<b>2,077</b>
Reserves - transfers to / (from)	(465)	(1,710)	(2,739)	(1,029)
<b>TOTAL</b>	<b>60,305</b>	<b>121,257</b>	<b>122,305</b>	<b>1,048</b>

- 1.3. The forecast Force overspend of £2.1m comprises: higher pay and employment costs +£1.6m, and higher overheads +£1.1m, partially offset by higher income (£0.6m).
- 1.4. Pay pressures include the latest announcements on pay awards for Police Officers and Staff, and also the higher police officer and overtime costs (explained in more detail in the appendix paras 1.4 to 1.8).
- 1.5. Overheads are higher, mainly in relation to Supplies and Services which includes an unallocated budgeted saving of £0.5m and direct operational support to significant investigations during the year.
- 1.6. Forecast income is higher, mainly in relation to reimbursements for provision of police officers on mutual aid to other forces, or reimbursements of specific operations. The corresponding expenditure is mainly within overtime budgets and police officer salary costs.

- 1.7. The £1.0m increase in planned transfers from earmarked reserves is as a consequence of the release of £0.7m previously earmarked for 'e-commerce and no longer required, and a release from the Major Operations Reserve (£0.3m) to cover the costs of Op River. Reserves are discussed in more detail below.
- 1.8. It should be noted that the forecast above does not yet reflect the statutory provision for the financing of capital investment relating to the increase in the capital financing requirement in 2016/17. This will be included in Q3.
- 1.9. More detail on Net Revenue Expenditure is provided in the appendix (para 1).

## 2. CAPITAL EXPENDITURE

- 2.1. The capital budget for 2017/18 is £11.1m (which includes £6.9m brought forward from previous years). Expenditure in the year to September was £1.1m and the full year forecast is now £9.2m, due to slippage against ICT schemes. This includes a substantial amount relating to Dorset's contribution to national programmes over which we have little control. It is thought highly likely that further slippage will occur.
- 2.2. More detail, including the funding implications, is provided in the appendix para 2.

## 3. USABLE RESERVES

- 3.1. Based on the revenue and capital forecasts for Q2, total usable reserves are forecast to reduce from £17m at 1 April 2017 to £13.4m at the year end, and to reduce further to £7.2m by 31 March 2021. More detail is provided at para 3 in the appendix.
- 3.2. The Panel have previously sought clarification on changes in the usable reserves position between the Budget and Precept forecasts presented in February 2016 and February 2017 and the final outturn position. The table below provides the actual Usable Reserves from the audited annual accounts and compares them to the forecasts provided for the precepts. Variations in the movement in reserves from forecast to outturn would be expected as a direct consequence of any revenue and capital outturn variances, and final capital financing decisions.

Reserves	Actual from Annual Accounts			Precept reports forecasts	
	31-Mar-15	31-Mar-16	31-Mar-17	Feb 16	Feb 17
	£m	£m	£m	£m	£m
For Capital purposes	1.8	1.8	1.8		1.1
For Revenue purposes					
Insurance	3.7			1.8	
Major Operations	1.2	1.2	1.2	1.0	
PFI	0.5			1.0	
Pensions	0.2				
Other/workforce change	1.2	2.7	2.7	3.6	2.7
<b>Total earmarked reserves</b>	<b>8.6</b>	<b>5.7</b>	<b>5.7</b>	<b>7.4</b>	<b>3.8</b>
General Balances	3.8	7.3	7.4	3.5	7.5
<b>Total Revenue Reserves</b>	<b>12.5</b>	<b>13.0</b>	<b>13.1</b>	<b>10.9</b>	<b>11.3</b>
Usable Capital Receipts reserve	4.8	3.9	3.9		
<b>Total Usable Reserves</b>	<b>17.3</b>	<b>16.9</b>	<b>17.0</b>		

#### **4. RISKS**

- 4.1. The forecasts present an overspend for the year, and an increased use of reserves. This may be indicative of a budget pressure going forward, for both the 2018/19 Budget and the Medium Term Financial Strategy, which will be considered in more detail throughout the budget preparation period.

#### **5. OTHER FINANCE RELATED ISSUES**

- 5.1. The Audited Statement of Accounts and Annual Governance Statement for 2016/17 were published on the OPCC's website within the statutory deadlines (end September), together with an unqualified audit opinion.
- 5.2. The budget timetable was reported to the Joint Independent Audit Committee in September.
- 5.3. In October a consultation response was submitted to the DCLG in relation to the 2018-19 Local Government Finance Settlement - technical consultation, presenting the case for PCCs to have the opportunities for multi-year settlements as do Local Authorities, and asking for greater flexibilities over precept increases.
- 5.4. With effect from December 2017 a new Independent Audit Committee has been formed covering both Dorset and Devon and Cornwall, which is expected to achieve improvements in economy, efficiency and effectiveness, in respect of this important governance activity.
- 5.5. Work has commenced on the procurement deep dive, and this is now expected to be reported to the Panel in February.

#### **6. REPORT DEVELOPMENT**

- 6.1. The presentation of financial information to the Police and Crime Panel is under review, together with the underlying processes for the preparation of information with a view to ensuring the accuracy, timeliness and relevance of the information being provided. It is expected that this report will become shorter over time, with the detailed information available as required.

## DETAILED FINANCIAL FORECASTS 2017/18

### 1. Net Revenue Expenditure

1.1. The forecast outturn for 2017/18, as at the end of the second Quarter is shown in the summary table below. Overall Dorset Police are predicting an overspend of £1m (0.9%), relating entirely to Force budgets.

Dorset Police	Type	Revised Plan £000's	Spend to date £000's	Forecast £000's	Over / (Under) £000's
Pay & Employment Costs					
	Officer Pay - Direct Costs	64,014	32,855	66,536	2,522
	Officer Overtime	2,530	1,700	3,205	674
	Injury / Ill Health Pensions	1,687	877	1,775	88
	PCSO Pay	4,366	1,854	3,654	(712)
	PCSO Overtime	20	15	33	13
	Police Staff - Direct Costs	35,325	16,804	34,330	(995)
	Police Staff - Alliance recharges	(2,931)	(1,609)	(4,514)	(1,583)
	Temporary or Agency Staff	61	556	879	818
	Police Staff Overtime	320	275	633	313
	Other Employee Expenses	974	578	1,089	116
	Restructure & Training	620	514	988	368
<b>Pay &amp; Employment Costs Total</b>		<b>106,986</b>	<b>54,418</b>	<b>108,609</b>	<b>1,622</b>
Overheads					
	Premises Related Expenditure	12,845	7,099	12,679	(167)
	Supplies and Services	2,888	2,270	3,723	835
	Communications & Computing	4,285	2,987	4,486	201
	Partnership and Collaboration	5,294	3,031	5,448	153
	Transport Related Expenditure	2,198	1,120	2,273	75
	Capital Financing	128	(4)	116	(12)
<b>Overheads Total</b>		<b>27,639</b>	<b>16,503</b>	<b>28,724</b>	<b>1,086</b>
Income					
	Specific Government Grants	(7,217)	(4,546)	(6,865)	352
	Interest / Investment Income	(130)	(49)	(73)	57
	Partnership Funding	(451)	(340)	(633)	(182)
	Reimbursed Services - Other	(79)	(359)	(141)	(62)
	Reimbursed Services - Police Forces	(250)	(59)	(790)	(539)
	Reimbursed Services - Public Bodies	(1,770)	(2,970)	(2,141)	(371)
	Sales, Fees, Charges and Rents	(4,070)	(2,372)	(3,824)	246
	Special Police Services	(272)	(323)	(405)	(133)
<b>Income Total</b>		<b>(14,240)</b>	<b>(11,018)</b>	<b>(14,872)</b>	<b>(631)</b>
Transfer To/From Reserves					
	Use of Reserves	(1,710)	(465)	(2,739)	(1,029)
<b>Transfer To/From Reserves Total</b>		<b>(1,710)</b>	<b>(465)</b>	<b>(2,739)</b>	<b>(1,029)</b>
<b>Grand Total</b>		<b>118,675</b>	<b>59,437</b>	<b>119,722</b>	<b>1,048</b>
OPCC	Type	Revised Plan £000's	Spend to date £000's	Forecast £000's	Under / Over £000's
	OPCC - General	1,130	489	1,131	0
	OPCC - Victims Funding	898	420	898	0
	OPCC - Victims Funding (Grant Funding)	(898)	(449)	(898)	0
	OPCC - Local Innovation Fund	757	138	757	0
	OPCC - Community Safety Fund	695	269	695	0
<b>OPCC Total</b>		<b>2,582</b>	<b>868</b>	<b>2,582</b>	<b>0</b>
<b>Grand Total</b>		<b>121,257</b>	<b>60,305</b>	<b>122,305</b>	<b>1,048</b>

### Locally Managed Budgets

- 1.2. The 2017/18 officer overtime budgets were frozen at the same level as in 2016/17 as part of the budget setting process. New controls have been introduced allowing Commanders greater discretion in the application of overtime. It is anticipated that the effects of this will result in a reduction in the forecast of £0.3m, which has been incorporated into the below figures.
- 1.3. Even though the Force is above establishment on overall officer numbers, a number of probationer officers are currently in initial training, and have not yet fed through to operational areas. In addition, officer abstractions for example through sickness and training, and support to major operations also require overtime to maintain appropriate workforce levels.

	<b>Revised Plan £000's</b>	<b>Spend to date £000's</b>	<b>Forecast £000's</b>	<b>Variance £000's</b>
Alliance Operations Department	286	309	575	289
Territorial Policing	850	682	1,213	363
Crime and Criminal Justice	484	382	702	218
Major Operations	711	235	566	(144)
Other budgets	199	91	147	(53)
<b>Sub-Total</b>	<b>2,530</b>	<b>1,700</b>	<b>3,204</b>	<b>675</b>
Major Operations income	(375)	(234)	(719)	(344)
<b>Total Overtime Expenditure</b>	<b>2,155</b>	<b>1,466</b>	<b>2,485</b>	<b>331</b>

### Employee Costs

- 1.4. Overall employee costs are projecting an overspend of £1.6m, which includes the £675k on overtime budgets shown above.
- 1.5. Police officer pay and on-costs is currently predicting a net £2.5m overspend. The key reason for this is that there have been fewer than anticipated police officer leavers in 2016/17 and the current year, resulting in current officer numbers exceeding the budgeted level. The Force currently has 1,253 full time equivalent (FTE) officers, compared with a budgeted 1,200 FTE officers. The future recruitment plan has been amended to reflect this.
- 1.6. PCSO pay is showing a significant underspend (£0.7m) due to a lower than budgeted number of FTE. The predicted year end position is 130 FTE against a budget of 145 FTE.
- 1.7. The current police staff pay areas are predicting an underspend of (£2.6m), which includes costs recharged to Devon and Cornwall as part of the Alliance arrangements. Across the Force and the Alliance, there are a number of vacancies, due in part to the restructure of departments that have only recently gone live in the Alliance.
- 1.8. Staff overtime and temporary and agency staff budgets are utilised to fill critical gaps in some departments, notably including the control room, road safety and disclosure. These budgets have overspent by £1.1m which reflects the demands faced by these departments to maintain performance with fewer than budgeted staff, and the expenditure is financed by vacancies in police staff posts. The net staff underspend is therefore £1.5m.

## Overheads

- 1.9. The principle issues within the non-pay budgets are currently in relation to the supplies and services, including the requirement to achieve £0.5m of in-year savings which was built into the base budget. These savings have yet to be fully identified and delivered, although further opportunities are anticipated.
- 1.10. Further overspend in this area relates to direct operational support to significant investigations during the year.

## Income

- 1.11. The income budgets are projected to over-recover by £631k. This relates primarily to reimbursements received for provision of police officers on mutual aid to other forces, or reimbursements of specific operations. The expenditure in this respect is mainly within overtime budgets and police officer salary costs.

## 2. Capital Projects

- 2.1. The capital programme has a 2017/18 budget of £11.1m which includes £6.95m brought forward from previous years. The programme is currently predicting an underspend of (£1.86m) mainly due to slippage against ICT schemes. It is expected that this variance will be carried forward to 2018/19 in full.

Capital Programme	Original Budget 2017/18 £000's	Brought Forward 2016/17 £000's	Total Budget 2017/18 £000's	Spend to date £000's	Forecast Spend £000's	Variance (Under) / Over £000's
Vehicle Replacement Programme	1,260	750	2,010	303	2,010	0
Minor Building works	870	879	1,749	355	1,864	115
ICT						
<i>Smarter Systems Programme</i>	390	2,779	3,169	(285)	1,983	(1,186)
<i>Emergency Services Network (ESN)</i>	500	500	1,000	0	240	(760)
<i>Duty Management System</i>	0	730	730	110	730	0
<i>Other ICT</i>	830	265	1,095	64	801	(294)
Total ICT	1,720	4,274	5,994	(111)	3,754	(2,240)
Equipment	270	1,045	1,315	509	1,586	271
<b>Total</b>	<b>4,120</b>	<b>6,948</b>	<b>11,068</b>	<b>1,056</b>	<b>9,214</b>	<b>(1,854)</b>

### **Funded By**

Home Office Grant	474	0	474	474	474	0
Revenue Contribution to Capital	0	0	0	0	0	0
Capital Receipts	5,646	3,637	9,283	582	9,104	(179)
Revenue Funding	(364)	0	(364)	0	(364)	0
Transfer to / (from) Reserve	(1,636)	3,311	1,675	0	0	(1,675)
<b>Total</b>	<b>4,120</b>	<b>6,948</b>	<b>11,068</b>	<b>1,056</b>	<b>9,214</b>	<b>(1,854)</b>

- 2.2. The long term nature of capital projects, with expenditure often incurred over two or more years, means that underspends resulting from slippage are to be expected. As an example, the duties management system is being progressed, but has numerous interdependencies with other systems that need to be carefully assessed before a new system is purchased. This budget is now expected to be spent in 2017/18, although given the complexity of this system further slippage is possible. Similarly, expenditure on other major systems may ultimately fall beyond the end of the current financial year.
- 2.3. Dorset Police brought forward £2.2m of unfunded capital expenditure into the current financial year. The consequential statutory provision for financing this capital expenditure (Minimum Revenue Provision) is not yet reflected in the revenue forecasting, pending discussions with our treasury management advisors to ensure the most appropriate method is applied. It is anticipated that such an adjustment will be included in the third quarter figures.

### 3. Reserves

- 3.1. The projected level of reserves and balances over the five years to 31<sup>st</sup> March 2021 is shown below.

	31/03/17 £m's	31/03/18 £m's	31/03/19 £m's	31/03/20 £m's	31/03/21 £m's
<u>Revenue reserves</u>					
For capital purposes	1.8	0.5	1.3	0.0	0.0
Major Operations Reserve	1.2	0.9	0.9	0.9	0.9
Change Management Reserve	2.7	1.8	0.9	0.0	0.0
<b>Total Earmarked Reserves</b>	<b>5.7</b>	<b>3.2</b>	<b>3.1</b>	<b>0.9</b>	<b>0.9</b>
General Balances	7.4	6.3	6.3	6.3	6.3
<b>Total Revenue Reserves</b>	<b>13.1</b>	<b>9.5</b>	<b>9.4</b>	<b>7.2</b>	<b>7.2</b>
<b>Capital Receipts Reserve</b>	<b>3.9</b>	<b>3.9</b>	<b>1.1</b>	<b>0.5</b>	<b>0.0</b>
<b>Total Reserves &amp; Balances</b>	<b>17.0</b>	<b>13.4</b>	<b>10.5</b>	<b>7.7</b>	<b>7.2</b>

- 3.2. The above projection of reserves assumes that the current year projected revenue deficit is funded from general balances
- 3.3. The Major Ops reserve will be reduced by £0.3m to cover the costs of Op River.

### 4. Changes from Original Budget to Quarter 2 Revised Budget

- 4.1. Below is a summary of changes from the original budget to the revised budget at the end of Quarter 2.

Dorset Police	Original Plan £000's	Alliance Recharging £000's	Other Minor adjustments £000's	Quarter 2 Revised Plan £000's
<b>Pay &amp; Employment Costs</b>				
Police Officer Pay	64,014			64,014
Police Officer Overtime	2,489		41	2,530
Police Officer Injury/III Health/Death Pensions	1,687			1,687
PCSO Pay	4,366			4,366
PCSO Overtime	20			20
Police Staff - Direct Costs	33,020	2,305		35,325
Police Staff - Alliance Recharges	(633)	(2,298)		(2,931)
Temporary or Agency Staff	61			61
Police Staff Overtime	325		(5)	320
Other Employee Expenses	1,003		(29)	974
Restructure, Training & Conference Costs	619		1	620
<b>Pay &amp; Employment Costs Total</b>	<b>106,971</b>	<b>7</b>	<b>8</b>	<b>106,986</b>
<b>Overheads</b>				
Premises Related Expenditure	12,839		6	12,845
Supplies and Services	3,978		(187)	3,791
Communications & Computing	4,233	52		4,285
Third Party Payments	4,391			4,391
Transport Related Expenditure	2,193		5	2,198
Capital Financing and Contributions	128			128
<b>Overheads Total</b>	<b>27,762</b>	<b>52</b>	<b>(176)</b>	<b>27,639</b>
<b>Income</b>				
Specific Government Grants	(7,217)			(7,217)
Interest/ Investment Income	(130)			(130)
Partnership Funding	(561)		111	(451)
Reimbursed Services - Other	(79)			(79)
Reimbursed Services - Police Forces	(250)			(250)
Reimbursed Services - Public Bodies	(1,778)		7	(1,770)
Sales, Fees, Charges and Rents	(4,070)			(4,070)
Special Police Services	(272)			(272)
<b>Income Total</b>	<b>(14,358)</b>	<b>0</b>	<b>118</b>	<b>(14,240)</b>
<b>Transfers to / From Reserves</b>				
Transfers to / From Reserves	(1,244)		(466)	(1,710)
<b>Transfers to / From Reserves Total</b>	<b>(1,244)</b>	<b>0</b>	<b>(466)</b>	<b>(1,710)</b>
<b>Grand Total</b>	<b>119,131</b>	<b>60</b>	<b>(516)</b>	<b>118,675</b>
<b>OPCC</b>				
OPCC - General	1,122		8	1,130
OPCC - Victims Funding	898			898
OPCC - Victims Funding (Grant Funding)	(898)			(898)
OPCC - Local Innovation Fund	309		448	757
OPCC - Community Safety Fund	695			695
<b>OPCC Total</b>	<b>2,126</b>	<b>0</b>	<b>456</b>	<b>2,582</b>
<b>Grand Total</b>	<b>121,257</b>	<b>60</b>	<b>(60)</b>	<b>121,257</b>