

Committee: Audit & Risk Management Committee	Date: 15/01/2019
Subject: Deep dive – CR23 Police funding	Public
Report of: Police Authority Treasurer	For Information
Report author: Alistair Cook Interim Head of Police Authority Finance	

Summary

Recent work to update Police medium-term finances has projected much higher current and future year deficits which, taking account of a beneficial 2019-20 Police settlement, accumulate to £79.4m across the medium-term, prior to mitigation. The Police reserve is now fully utilised, and there is a major risk to City Fund of a comprehensive mitigation strategy not being implemented to tackle deficits of this magnitude. Mitigation plans are to be reviewed by a sub-group of Police Committee in advance of the Resource Allocation Sub-Committee in January 2019, most immediately to ensure a balanced budget can be set for 2019-20.

The failure to identify in a timely way the quantum of the in-year and medium-term financial deficits also plays into the wider concerns Audit & Risk Management Committee has about the Force's financial management capability and the financial control weaknesses identified by Internal Audit.

Recommendations

Members are asked to:

- Note the risk to the City Fund posed by the increased magnitude of Police medium-term deficits.
- Seek assurance about progress with the in-year and medium-term deficit mitigation strategies.
- Seek assurance about progress on building CoLP financial management capability and on improvements to financial control (the latter of which is a separate item on the agenda for this Committee).

Main Report

Background

1. The risk to Police funding has been highlighted by previous work on the Police medium-term financial plan. The quantum of this risk has since grown.

2. The Corporate Risk register already contains a risk on Police funding (CR23) with a range of mitigations applied to it, the latest update for which is attached at Appendix 1.

Current Position

3. Recent work to update the Medium-Term Financial Projection for the December 2018 Police Committee, in partnership between the Police Authority and Force Finance teams, has projected a much higher level of financial deficit through to 2023-24. Taking account of a beneficial 2019-20 Police settlement, they accumulate to £79.4m across the medium-term, prior to mitigation.
4. In parallel, there has been a highly adverse movement in the Force's Q2 forecast; from a forecast underspend of £0.7m in Q1 to a forecast overspend, prior to mitigation, of £4.9m in Q2 (Police Authority Finance's assessment is slightly higher at £5.3m overspend). This has been caused mainly by a £5.8m increase in pay costs compared to the original budget, as a result of the budget significantly underestimating the costs of employing the planned workforce numbers, combined with spend on overtime and 'agency' resourcing. The increase has been largely masked until recently by an erroneous double inclusion by the Force of the £4.5m National & International City Grant, in income as well as funding, when loading the 2018-19 budget onto the system (NB it was not counted as income in the approved budget).
5. There is a major risk to City Fund if a comprehensive mitigation strategy is not implemented to tackle deficits of this magnitude, and members will wish to be assured about the plans and commitment for actively driving such a strategy. Current mitigations include:
 - The in-year mitigations on which the Force is embarked, which sum to an estimated £3.1m savings, leaving a residual 2018-19 deficit of about £2m. The scope for recurrence of these savings in future years needs to be confirmed, and then as appropriate rolled forward as part of the mitigation strategy for 2019-20 and subsequent years.
 - The delivery of efficiency savings arising from the Transform programme. An indicative savings range has been presented to the Police Committee and Efficiency & Performance sub-committee. These savings rise from an estimated £1.6m in 2019-20 to an annualised impact of £4.7-5.6m across the medium-term. It should be noted that the savings estimates are, at this point, highly indicative and that continuing challenge and detailed assurance processes need to be undertaken on the plans and capabilities to realise them. Also that full implementation of Transform outcomes and savings is targeted for 2025, and the savings estimates will only partially close the deficit gaps.
 - The reviews currently being undertaken of the options for reprioritisation of activities and resources, of new operational demands or pressures being faced by the Force, and of the level of financial contribution that funded

units are making. This work will enable decisions to be taken on the scope to further bridge the gap, by reducing expenditure and / or increasing income.

6. Papers on these potential mitigations will be submitted to a sub-group of Police Committee, which meets on 8 January 2019 to enable proposals to be formulated and recommended to the Resource Allocation Sub-Committee in January 2019, most immediately on the balancing of the 2019-20 budget.
7. The failure to identify in a timely way the quantum of the in-year and medium-term financial deficits also plays into the wider concerns Audit & Risk Management Committee has about the Force's financial management capability and the financial control weaknesses identified by Internal Audit (the latter of which is a separate item on the agenda for this Committee).

Options

8. As set out in paragraph 5.

Proposals

9. To be determined by a meeting of a sub-group of Police Committee on 8 January 2019, and then recommended to the January 2019 Resource Allocation Sub-Committee.

Corporate & Strategic Implications

10. Consideration will need to be given to the impact of mitigations on the Force's and Corporation's strategic objectives and outcomes. This will need to be impact assessed once there is more clarity on the range of mitigation strategies to be pursued.

Financial Implications

11. There is a risk to the City Fund arising from a potential failure to deliver a comprehensive mitigation strategy. As City Fund's revenue resources are predicted to fall considerably following a reset in the Business Rates retention system, significant ongoing financial support to the Police Force is not sustainable over the medium-term.

Conclusion

12. Recent work to update the MTFP has confirmed and significantly increased the magnitude of inherent financial deficits for the Police, and that these deficits will continue to increase over the medium-term in the absence of mitigation. The management of CR23 – Police funding is therefore very much about the vigorous identification and implementation of a range of mitigation strategies, most immediately in recovering the large forecast current year deficit and enabling a balanced budget to be set for 2019-20. This mitigation

strategy links closely to work needed to build Police financial management capability and operate effective financial controls.

Appendices

- Appendix 1 – Risk register extract for CR23 Police funding.

Alistair Cook

Interim Head of Police Authority Finance

T: 020 7332 3481

E: Alistair.cook@cityoflondon.gov.uk