

Committee(s): Resources, Risk & Estates Committee (RREC) – for info	Dated: 27/05/2022
Subject: CoLP Provisional Revenue & Capital Outturn – 2021/22	Public
Which outcomes in the City Corporation’s Corporate Plan does this proposal aim to impact directly?	1
Does this proposal require extra revenue and/or capital spending?	N/A
If so, how much?	N/A
What is the source of Funding?	N/A
Has this Funding Source been agreed with the Chamberlain’s Department?	N/A
Report of: Commissioner of Police Pol 41-22	For information
Report author: Alistair Cook, CFO CoLP	

Summary

Members should note that the outturn position set out in this paper is provisional and subject to audit, finalisation of reserve movements and additional year-end transactions (particularly ‘Supplementary Revenue Provision’ in respect of accommodation rentals and revenue projects funded by Corporation), although these are expected to net to zero. Resource Risk and Estates Committee (RREC) and Police Authority Board (PAB) will be notified if there are material changes to this outturn position.

CoLP’s Q3 forecast (submitted to RREC and PAB in February 2022) was for a 21/22 revenue overspend of £1.2m. Those Committees were advised that the forecast was felt to be too prudent and that outturn was expected to reduce to a near-breakeven position.

Indicative year-end outturn shows an underspend of £2m, which represents a £3.2m movement from the Q3 forecast. £2m of this variance was mainly due to timing differences in some large, ‘one off’ areas of spend, such as firearms equipment and training, which are likely to require funding in 22/23. The remaining £1.2m arose from better use of National Lead Force grants to reduce its net operating costs, along with a £0.4m surplus on direct costs for the Economic Crime Academy due to increased levels of activity.

The underspend is not (materially) linked to salaries despite officer numbers undershooting against budget and uplift target levels. This is a result of the average cost of officers being higher than budget due to the rank (and PC probationers vs transferees) mix being higher than planned. This creates a risk to future Police finances that will require careful monitoring and correction through the significant recruitment programme in 22/23.

It is proposed to transfer the underspend to the Police General Reserve as well as to consolidate 'earmarked' reserves (excluding Proceeds of Crime Act (POCA) / Op Neutron¹) into the General Reserve. This will increase the General Reserve to £4.3m which, while remaining at a comparatively modest level, will provide enhanced 'self-help' in managing Police finance risks. A headline reserves strategy is proposed in the MTFP update paper submitted to this Committee. Subject to an assessment of 22/23 budget risks and opportunities in the coming months, a case may need to be made to PAB to approve drawdown from General Reserve for some of the elements of spend which have slipped into 22/23.

Capital outturn was £6.9m against funding of £12.4m. Excluding £6m of spend for Action Fraud and Fraud & Cyber Crime Reporting & Analysis Service (FCCRAS), there was a significant underspend on capital, especially for IT projects, caused by project slippage, which more than allowed for the addition of £2m refresh costs for the current Action Fraud system. For 22/23, apart from FCCRAS and near-term, business critical areas of capital spend, City of London Police (CoLP) is 'pausing' while it reviews its capital priorities and develops a coherent portfolio in line with Policing Plan roadmap, supported by better planning and resourcing of the agreed priorities. This should mitigate against the continuing project slippage that has occurred in recent years.

Budgetary profiling and forecasting processes will be reviewed by two new Deputy CFOs on arrival, also with a view to moving to a 'dashboard' approach to financial reporting which provides a clear line of sight to workforce numbers.

Recommendations

- i. That Members note the report.
- ii. That Members note that PAB will be asked to approve the proposed allocation of the £2m underspend to the General Reserve, along with the consolidation of other earmarked reserves into General Reserve as highlighted, when the final outturn is presented to June PAB

Main Report

Background

1. To deliver against CoLP's 21/22 Policing Plan priorities, the 21/22 budget was set to fund an establishment of 899 officers and 514 staff, less an assumed natural vacancy factor of 40, supported by a range of non-pay budgets, including that for Action Fraud. £5.6m of pay and non-pay savings and income generation measures were required to balance the budget. Budgeted officer numbers included Home Office's year 2 funded uplift of 43 (plus 30 Regional Organised Crime Unit (ROCU) & 7 Cyber Lead Force roles) The breakdown of funding for the budget, including the planned range of income-generating activities, is set out in Table 1.

¹ Op Neutron- this relates to a single significant seizure under POCA and a reallocation of relevant amount to the Force under the Asset Recovery Incentivisation Scheme (ARIS)

Table 1 – Breakdown of Funding

	£m	%
Core Home Office funding	70.2	46
Business Rates Premium	16.9	11
Pensions Deficit Grant	23.0	15
National Lead Force for Fraud	20.5	13
CT / Servator	6.6	4
Commercial Partnerships	13.8	9
Fees & Charges	4.3	3
Capital Financing / Other	(1.5)	(1)
Total Funding	153.8	100

NB Capital Financing (including Action Fraud loan repayment) is treated as negative funding in City Fund budgeting terms

2. Additionally, funding of £12.4m was provided to progress CoLP capital priorities, including £6m for Action Fraud refresh and FCCRAS, of which £4m was funded by Home Office.

Revenue Outturn

3. Table 2 provides an overall breakdown and comparison of original and final budget, Q3 forecast and outturn. The penultimate column (outturn excluding certain National Lead Force (NLF) additions) provides a comparison on a similar basis to budget and Q3 forecast and shows a £2m variance from Q3 forecast which is largely due to areas of non-pay spend (see para 4f). The final column adjusts for subsequent NLF additions, which increase the underspend by a further £1.2m (para 4h). While these additions were known about, they were treated as “net zero” for the budget and Q3 forecast, and include:
 - Higher Action Fraud extension costs offset by drawdown from Action Fraud reserve and (some of) the settlement payment.
 - Cyber Lead Force income and expenditure (excluding element for resourcing the 43 forces).
 - Income and expenditure for Fraud & Cyber Crime Reporting & Analysis Service (FCCRAS) Programme.
 - Income and expenditure for ROCU resourcing.

Table 2 – Outturn Compared to Budget & Q3 Forecast

OUTTURN COMPARED TO BUDGET & Q3 FORECAST	Original Budget	Final Budget	Q3 Forecast	Outturn excl. NLF adds	Outturn incl. NLF adds
	£m	£m	£m	£m	£m
Pay					
Officer pay	61.2	60.5	60.9	60.7	60.7
Staff pay	25.4	26.6	26.1	25.9	26.2
Overtime	2.2	2.2	2.3	2.7	2.8
Agency	1.1	1.1	1.1	1.12	1.32
Indirect Employee Costs	2.2	2.5	2.5	2.1	2.1
Pensions Deficit Contrib.	23	23	23	18.9	18.9
Total Pay	115.1	115.9	115.9	111.42	112.02
Non-Pay					
Premises Costs	2.5	3	3.8	3.96	3.96
Transport Costs	2.2	2.2	3	2.7	2.7
Supplies & Services / Other	34.2	32.7	33.5	31.4	38.4
Total Non-Pay	38.9	37.9	40.3	38.06	45.06
Total Expenditure	154	153.8	156.2	149.48	157.08
Force Income	-68.8	-67.9	-69.1	-64.4	-73.2
Net Expenditure	85.2	85.9	87.1	85.08	83.88
Funding	-85.1	-85.9	-85.9	-85.9	-85.9
(Under) / Over Spend	0.1	0	1.2	-0.82	-2.02

Reasons for variance

4. The key reasons for the variances in Table 2 are:
 - a. Officer & Staff pay – small headline variances hide underlying ‘price’ and ‘volume’ effects (see para 5).
 - b. Overtime - £0.5m additional final quarter spend for COP26 and other events, fully recovered by £0.5m additional income.
 - c. Officer Pensions Deficit contribution – £4.1m underspend, fully offset by £4.1m less grant. Outturn on this is dependent on calculation of the overall scheme deficit at year-end, as well as the outturn officer numbers by Force, and so will always vary from plan.

- d. Premises costs – overspend of £1m on budget, largely forecast throughout year due to New St rates (subject to appeal) and other costs being transferred to Police budget (as partial offset to savings made on decant accommodation, though not budgeted). £0.2m increase from Q3 forecast due to late incorporation of Wood St costs for Q1 (later exit than expected).
- e. Transport costs - £0.5m above budget due to higher Rail Delivery Group (RDG) officer rail subsidised travel costs, though slightly lower than Q3 forecast.
- f. Supplies & Services / other non-pay costs – biggest area of variance, £2.1m underspend against Q3 forecast (prior to taking account of additional NLF items treated as ‘net nil’ in budget and Q3 forecast – see 4h). This is largely due to timing differences, including:
- £0.4m – delay in purchasing firearms equipment linked to recruitment lag.
 - £0.3m – delay in firearms training linked to recruitment lag.
 - £0.5m – for Investigations & Intelligence, mainly due to secure-managed IT and other planned purchases / activities not occurring by year-end.
 - £0.3m - planned equipment / storage furniture purchases and professional fees for Local Policing did not take place prior to year-end.
 - £0.2m – Corporation IT recharge lower than forecast due to higher level of in-year savings being achieved.
- g. Income - £4.7m reduction on Q3 forecast (prior to taking account of additional NLF items assumed as ‘net zero’ in budget and Q3 forecast – see 4h), mainly due to reduced pensions deficit grant (see 4c).
- h. NLF additions – includes additional pay costs of £0.6m, non-pay costs of £7m and income of £8.8m for the areas set out in para 3. This has added £1.2m to the underspend and is due to £0.4m surplus on Economic Crime Academy direct costs (not forecast at Q3) and better charging of costs against NLF grants to reduce net operating cost of NLF compared to budget and Q3 forecast.

Pay & Workforce

5. Table 3 provides an analysis of pay and workforce numbers between budget and actual outturn. Most notably, while the budget provided for 874 officers after adjusting for natural vacancy factor, actual officer numbers, averaged across year, was 849. However, this shortfall in officer numbers did not lead to a comparable pay underspend as the average cost of officers was higher than that budgeted - due to rank, and probationer vs transferees, mix being higher. It will be vital for 22/23 - and future years - affordability to achieve the right balance of rank and probationer / transferee mix from CoLP’s significant recruitment programme.

Table 3 – 21/22 Pay Analysis

21/22 Pay Analysis	Officers		Staff		Total	
	FTE	£m	FTE	£m	FTE	£m
Establishment	899		514		1413	
Natural Vacancy Factor	-25		-15		-40	
Original Budget FTE & Cost	874	61.2	499	25.4	1373	86.6
Actual average across 21/22	849	60.7	497	25.9	1346	86.6
Actual cost of budgeted FTE		62.5		26.0		

NB workforce numbers exclude 30 ROCU / SOC officers plus 5 officers and 2 staff for Cyber Lead Force, all separately funded

Savings Plans

6. Table 4 shows the breakdown of £5.3m savings outturn against £5.6m plan (95% achievement), along with explanatory comments. £3.8m of this was delivered in line with plan, with £1.5m through other / additional measures. While overall achievement was positive, there remains risk to sustainability of some of these savings that will need to be closely monitored going forwards.

Table 4 – Savings Plans

Type	Savings Tracker	Target £'000	Outturn £'000	Variance £'000	Comments
Expenditure	Deletion of 37 Officer posts	2,300	2,300	0	Reductions to establishment and cost fully built into budget.
Expenditure	Average salary reduction through recruitment policy	400	0	(400)	Rank and PC probationer / transferee mix not achieved.
Expenditure	Agency	300	300	0	Reduced budget achieved, with £0.2m additional cost for NLF fully recovered.
	Total pay	3,000	2,600	(400)	
Expenditure	Supplies and services	100	400	300	Non-pay underspend not linked to activity 'slippage'
Expenditure	Support services review	500	500	0	Reduced police staff budget achieved by holding vacancies where possible / appropriate pending Corporate Services / staff review.
Income	Commercial activity & Income generation	400	1,200	800	Reduced net cost of NLF services (better use of grants) and increase in ECA net income due to higher activity levels.
Income	Digitisation of external services	100	0	(100)	
Income	Asset Recovery	200	200	0	POCA receipts excluding Op Neutron.
	Total non-pay	1,300	2,300	1,000	
Mitigation	Replacement savings	1,300	400	(900)	£0.2m IT savings from 20/21 budget position plus £0.2m reduction in IT recharges
	Total	5,600	5,300	(300)	

Reserves

7. Table 5 shows reserve movements during 21/22 and balances at end-21/22.
8. It is proposed to transfer the £2m underspend to the Police General Reserve as well as consolidate 'earmarked' reserves (excluding POCA / Op Neutron) into the General Reserve. This will increase the General Reserve to £4.3m which, while remaining at a comparatively modest level, will provide enhanced 'self-help' in managing Police finance risks. Also, subject to an assessment of 22/23 budget risks and opportunities in the coming months, a case may need to be made to PAB for drawdown from General Reserve for some of the elements of spend which have slipped into 22/23. The intention would be to close those reserves with zero balance, thereby rationalising down to 2 reserves.
9. The other notable reserve movement is receipt at year-end of £7.2m POCA income for Op Neutron (separated out in the table). Chief Officer Team has put a robust process in place for bidding against this money in line with POCA principles (particularly the need to evidence 'additionality' in and contribution to crime fighting) and is currently reviewing bids received.

Table 5 – Reserves Movements & Balances

	Opening Balance	Projected Spend	Transfer to General Reserve	Projected Closing Balance
	£m	£m	£m	£m
POCA	(2.2)	0.4		(1.8)
Op Neutron (part of POCA)		(7.2)		(7.2)
Action Fraud	(2.9)	2.6	0.3	0
Transformational Funding	(0.1)	0.0	0.1	0
Police Capital Financing Reserve	(0.5)	0.0	0.5	0
Earmarked Reserve - COVID 19	(0.4)	0.0	0.4	0
21/22 Underspend		(2.0)	2.0	0
General Reserve	(1.0)	0.0	(3.3)	(4.3)
Total	(7.1)	(6.2)	0	(13.3)

Capital Programme

10. There are two elements to the CoLP Capital Programme; the legacy schemes approved prior to 2020/21 and funded by the Corporation and by a specific loan for Ultra Low Emission Zone (ULEZ) Vehicles, and schemes approved through a £5m annual loan facility from the Corporation from 2020/21 onwards.

Legacy Programme

11. The Legacy Programme schemes are mainly large projects dealing with significant IT infrastructure or accommodation. They are largely complete, with the intention being to finalise implementation as quickly as possible. Table 6 provides a summary of these schemes.

Table 6 - Summary of Legacy Programme Schemes to 31 March 2022

CoLP Legacy Capital Budget 2021/22	Programme Budget	Approved budget drawdown	Outturn spend 21/22	Total Spend
	£000	£000	£000	£000
IT Related	13,401.7	13,401.7	733.0	12,221.0
Fleet	1,800.0	1,800.0	965.0	1,332.0
Accommodation	15,946.8	14,718.5	1,832.2	13,551.9
Ring of Steel (IMS / DRS)	2,569.2	2,569.2	-18.7	2,220.2
Legacy Capital Programme	33,717.7	32,489.3	3,511.5	29,325.2

12. IT Related schemes include the major IT Modernisation Programme, which accounts for £9.3m of the budget and £9.0m of spend (21/22 spend of £269k). The Digital Interview Recording System (DIRS) project accounts for a further £190k of spend in 21/22, and the HR Integrated system project £156k.

13. To be compliant with ULEZ requirements in the City, the City of London Corporation (CoLC) provided the Force with a loan of £1.8m to introduce ULEZ compliant vehicles. £1.3m has been spent against this, including £965k in 21/22.

14. The Accommodation schemes include the CoLP elements of the Decant Programme and Salisbury Square Development. Other than provision of Mounted Unit accommodation, the Decant Programme is now complete.

2021/22 Loan Funded Programme

15. The 21/22 budget was £12.4m - £3.5m carried over from 2020/21, £4.9m for the 2021/22 programme and £4m Home Office funding for FCCRAS. Table 7 provides a summary of these schemes. £6m of FCCRAS and Action Fraud spend was in line with budget. In other areas, particularly other IT schemes, there was significant slippage, which more than enabled £2m of development costs for current Action Fraud system to be absorbed. For 22/23, apart from FCCRAS and near-term, business critical areas of capital spend, CoLP is 'pausing' while it reviews its capital priorities and creates a coherent portfolio in line with the Policing Plan roadmap, supported by better planning and resourcing of priorities. This should mitigate against the continuing slippage on projects that has occurred in recent years.

Table 7 – CoLP Capital Priorities 2021/22

CoLP Loan Funded Capital	2021/22 Capital Budget	Approved budget drawdown	Outturn spend 21/22
	£000	£000	£000
IT Related	7,141.4	2,343.0	688.3
Equipment	67.9	0.0	0.0
Fleet	736.0	500.0	188.3
Accommodation	450.0	15.0	12.0
Action Fraud		2,041.3	2,041.3
FCCRAS Next Generation Ph1	1,653.0	1,653.0	1,284.5
FCCRAS Next Generation Ph2	2,347.0	2,347.0	2,685.2
Loan Funded Capital Programme	12,395.3	8,899.2	6,899.6

16. Supporting explanations for Table 7 include:

- IT-related spend of £688k was for Azure Migration, Custody CCTV upgrade and Forensics Network. There was minimal in-year spend on other projects, including Digital Investigation Intelligence, Surveillance equipment, Digital Asset Management, Command & Control, National Law Enforcement Data Programme, E-discovery tool, Wide Area Network replacement software and In-car audio / video equipment.
- The Equipment budget of £67.9k was allocated towards the purchase of Positive Lock Batons. It was decided to fund this from the revenue budget in 21/22, hence the nil capital spend showing above.
- Fleet spend of £188k relates to the delivery of the 20/21 vehicle replacement programme (long lead times).
- Accommodation spend of £12k relates to essential works for the Bishopsgate Armoury.
- Given timelines for the FCCRAS programme, the current Action Fraud contract needed to be extended. This included a refresh of the system to maintain its operation and security, costing £2m.
- £4m of FCCRAS spend, fully funded by Home Office, was to progress programme planning and procurement, including work on a phase 1 solution.

Alistair Cook

Chief Finance Officer, City of London Police

Alistair.cook@cityoflondon.police.uk