

Committee(s): Resources, Risk & Estates Committee (RREC) Police Authority Board (PAB)	Dated: 05/09/2022 27/09/2022
Subject: Q1 Revenue & Capital Budget Monitoring, 2022/23	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
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 58-22	For Information
Report author: Chief Finance Officer & Deputy CFO	

Summary

This report provides an early-year review of progress against the Force's revenue and capital budgets. A wide range of dynamic variables, particularly in the current environment, makes forecasting challenging at this point in the cycle and forecast confidence levels will increase as we move through Q2 and Q3. Also, while this paper follows the pattern of previous quarterly reports, it is proposed to transition towards dashboard and PowerPoint-style reporting from Q2. A first cut, high-level example of a potential dashboard is illustrated in Appendix 1, which brings together workforce and financial plans and progress – and will be developed further.

The overall Q1 projection is that the Force will outturn within its revenue budget envelope for 2022/23. However, within that are some significant fluctuations and the risks from this of tipping into an overall overspend position will require careful management. Pay underspends provide the main financial opportunity, particularly with officer levels being below the Year 3 Uplift target for much of the year. Offsetting pressures and risks include officer and staff pay deals being higher than budgeted, possible need to implement retention measures, increasing Action Fraud demand and TfL funding reduction. While CoLP will endeavour to absorb pressures within the 2022/23 budgetary envelope, elements such as higher inflation will increase downstream pressure on the Police Medium Term Financial Plan (MTFP) which may well require a case for drawdown from reserves and potentially other measures.

The budget approved by PAB in February has been allocated against a revised cost centre structure linked to the new Operating Model. With the scale of this change and number of recent vacancies in Finance, significant work is required on recoding to enable completeness of financial reporting by business area.

The early year prognosis is that the Force will achieve its £6.1m mitigations target, however further assessment will be needed for Q2 and Q3 to provide appropriately

robust assurance on this forecast. The report also highlights some risks to delivery of mitigations.

Pending a review of the CoLP Change Portfolio, £6.9m capital budget and funding (inclusive of £3m Home Office funding) has been allocated for Fraud & Cyber Crime Reporting & Analysis Service (FCCRAS), fleet replacement and a small number of other near-term priorities. It is expected that this budget will be fully spent or committed in year.

The report offers proposals around the governance over the use of Proceeds of Crime Act (POCA) funding between the Force and Police Authority (section 7).

A £1m budget for the Police Authority was approved for 22/23, funded from part of the Business Rate Premium increase. Work is being finalised to recode appropriate costs to support financial reporting against this budget from Q2.

Recommendation

Members are asked to note the report.

Main Report

1 Chief Officer Cash Limit Budget

1.1 Funding and income for 2022/23 totals £170.6m as shown in Table 1 below. To deliver against the CoLP's 2022/23 Policing Plan priorities, the budget was set to fund 993 officers and 516 staff less an assumed natural vacancy factor. This includes the Home Office's year 3 funded uplift of 59 officers. Funding / income has increased from the £163.8m which was approved by PAB in February 2022 as part of the budget settling process. This is due to recognition of funding for Cyber Lead Force and ROCUs (which were treated as 'net nil' in the budget setting paper), offset by corresponding expenditure.

Table 1 – Funding Streams

Funding	£'000	%
Core grant	74,329	44%
Business Rates Premium	20,200	12%
Specific Government Grants	59,966	35%
Partnership Funding	13,915	8%
Fees and charges	3,366	2%
Corporation - Contact Centre	680	0%
Corporation - Cyber Griffin BPR	700	0%
Use of POCA Reserve	500	0%
Capital Financing	(3,080)	
Total Funding and Income	170,576	

- 1.2 The items shown in Table 1 above provide the Gross Budget. The Core Grant and funding from City of London Corporation (CoLC) is held by the Police Authority until the end of the financial year, providing an in-year Net Budget of £92.8m, after adjusting for capital financing (£0.58m) and Action Fraud loan repayment (£2.5m) totalling £3.1m. These costs are treated as negative financing for Local Authority budgeting.
- 1.3 Therefore, the Chief Officer Cash Limited Budget is £92.8m.
- 1.4 Table 2 summarises the 2022/23 net revenue budget, the projected year end outturn as at Q1 and variances to Q1 against the year-to-date budget. Underspends / positive variances are shown in brackets:

Table 2 – 2022/23 Revenue Budget

	22/23 Latest Budget	Budget YTD	Actual (Q1 YTD)	Variance YTD	Projected Outturn	Proj Variance
	£m	£m	£m	£m	£m	£m
Pay						
Officers	68.0	17.0	14.8	(2.2)	68.3	0.3
Staff	27.4	6.8	6.4	(0.4)	27.4	0.1
Overtime	2.3	0.6	0.5	(0.0)	2.3	0.0
Agency	0.8	0.2	0.1	(0.1)	0.8	0.0
Indirect employee costs	2.1	0.5	0.2	(0.3)	2.1	0.0
Pensions Contrib.	23.0	0.0	0.0	0.0	23.0	0.0
Total Pay	123.6	25.1	22.1	(3.0)	123.9	0.3
Non-Pay						
Premise Costs	2.7	0.7	2.3	1.6	2.6	(0.1)
Transport Costs	2.4	0.6	0.1	(0.5)	2.4	0.0
Supplies and Services	29.4	7.4	5.2	(2.2)	29.3	(0.1)
Third Party Payments	8.9	2.2	0.6	(1.6)	8.7	(0.1)
CoL Support Services	3.2	0.8	0.2	(0.6)	3.2	0.0
Capital Charges	0.5	0.0	0.0	0.0	0.5	0.0
Non-Pay	47.0	11.6	8.4	(3.3)	46.7	(0.3)
Total Expenditure	170.6	36.8	30.5	(6.3)	170.6	0.0
Income						
Specific Grant	(60.0)	(10.6)	(1.0)	9.6	(60.0)	0.0
Partnership	(13.9)	(1.9)	(1.9)	0.0	(13.9)	0.0
Fees & Charges	(3.4)	(1.1)	(1.1)	0.0	(3.4)	0.0
Transfer from Reserves	(0.5)	0.0	0.0	0.0	(0.5)	0.0
Total Income	(77.7)	(13.6)	(3.9)	9.7	(77.7)	0.0
Funding	(92.9)	(23.2)	(23.2)	0.0	(92.9)	0.1
Underlying Deficit	0.0	0.0	0.0	3.4	0.0	0.1

- 1.5 While a few small projected variances (final column of Table 2) have been replicated from the financial system, the Q1 forecast is, in all 'material' respects, to budget.
- 1.6 A wide range of dynamic variables, particularly in the current policing environment, makes forecasting particularly challenging at this point in the cycle – and forecast confidence levels will increase as we move through Q2 and Q3. These challenges include both officer and staff pay deals being higher than budgeted, the impact of general price inflation, officer recruitment and rank mix variations compared to budget, possible need to implement retention measures, increasing Action Fraud demand, the reduction of £1.2m TfL income from roads policing and ongoing pressures from premises costs. It is expected that pay underspends at Q1 will mitigate the financial impact of these challenges in 22/23 but, in future years, elements such as higher inflation will increase downstream pressure on the Police MTFP which may well necessitate a case for drawdown from reserves and potentially other measures.

Pay budget / workforce management

- 2.1 The pay budget constitutes 73% of the expenditure budget and provides for a current establishment of 1,509 FTE, comprising 993 Officers and 516 staff. The pay budget incorporates a natural vacancy factor of £2.5m (approximately equivalent to 40 posts) plus a £1m savings target. CoLP is undertaking Corporate Services and Staff reviews, with the objective of baselining an affordable and efficient staffing model.
- 2.2 Table 3 sets out the actual position by month for Q1 and a forward projection by month for the rest of the financial year. It should be noted that this is only a forecast; it is particularly difficult to predict exactly when posts will be filled due to the timing and success of recruitment campaigns, probationer intake, and the vetting process. It is also difficult to predict rate and timing of leavers.
- 2.3 The position is closely monitored via the Force's People Board, which meets monthly. All recruitment is approved by People Board after confirming funding is in place for each post.

Table 3 – Actual workforce numbers for Q1 and forward projections

	Month	Staff FTE	Officers FTE	Total
Actual	April	469	865	1334
	May	473	862	1335
	June	468	860	1328
Forecast	July	473	845	1318
	August	476	891	1367
	September	479	988	1467
	October	482	981	1463
	November	486	978	1464
	December	489	967	1456
	January	492	1027	1519
	February	495	1009	1504
	March	498	1004	1502

Calculation of budgeted officers per month = 993 – 25 natural vacancy factor = 968

Calculation of budgeted staff per month = 516 – 15 natural vacancy factor – 18 savings = 483

- 2.4 As noted above, pay budgets for Q1 are underspent by £3m. Of this £2.4m is attributable to direct pay underspends resulting from vacancies. Largely due to the recruitment timeline for officer uplift, the actual workforce paid in Q1 was significantly below establishment. Whilst officer numbers have been in line with profiled plans for Q1, the plans for August and September are for large intakes, which will be crucial to delivery of the Year 3 Uplift target. At the time of reporting, the August intake of 50 officers has been successfully achieved and the Q2 report will provide a firmer indication of progress. While the budget and operational model are based on establishment FTE numbers, the Home Office uplift targets are based on headcount. A comparison of officer FTE and head count is contained in the dashboard at Appendix 1.
- 2.5 **Officer Pay Award:** In July 2022 the Home Office announced that from September 2022 all police officers will receive a £1,900 salary uplift including a 5% increase in London Weighting, equivalent to a 5% pay award. The 2022/23 pay budget, however, provided for a 2% increase in officer pay plus 1% for an assumed average increase in spine point progression. Early estimates suggest that, based on full establishment less natural vacancy factor, the financial impact is an increase in officer pay of some £2.3m per annum.
- 2.6 The Home Office announced additional funding of £70m in 2022/23, £140m in 2023/24 and 2024/25 to assist with affordability and the CoLP share of the £70m in 2022/23 has been confirmed as £0.5m. The allocation will be in the form of an unringfenced grant in line with current funding formula shares although the allocation mechanism for future years has not yet been determined. Assuming, however, that the funding will continue to be allocated according to current formula shares, CoLP is likely to be awarded £1m in both 2023/24 and 2024/25 leaving a potential officer pay pressure of £1.3m per annum compared to the assumptions built into the Force's MTFP.

- 2.7 **Staff Pay Award:** City Corporation has proposed a £1,300 salary uplift for all staff from July 2022 in addition to a 3% increase in London Weighting. CoLP estimate that this provides an average increase of 2.76% for all graded staff. This compares with an assumed 1% pay increase and 1% average increase in spine point progression for 2022/23 which was built into the staff pay budget. Whilst this offer has been rejected by the Trade Unions, for planning purposes it is assumed that staff pay will increase by an average of 2.76% in this financial year. Initial estimates suggest the full year impact could be £0.5m per annum from 2023/24.
- 2.8 Notwithstanding the significant downstream MTFP impact of the pay deals being higher than anticipated, considering current officer workforce projections and pay underspends in Q1 to date, early indications suggest that the increase in pay for both officers and staff can be contained within 22/23 budgets. However, the position will need to be closely monitored.
- 2.9 **Other Pay Costs:** Overtime and Agency costs are currently forecast to budget at Q1. There continue to be increasing calls on overtime arising from a range of operations, events and planned demonstrations (including Jubilee, Commonwealth Games, Extinction Rebellion (XR) and major crime). While Home Office is reimbursing some of these costs, recharging of XR costs for example is dependent on achieving overtime thresholds which adds risk to the budget. Keeping 'net' overtime and agency costs within budget will contribute £0.8m to the mitigations plan for 2022/23 (Table 4).
- 2.10 **Police Uplift Programme:** additional funding for the Year 3 officer uplift of 59 was £3.3m, including a £1m ringfenced element for which the level of payment is dependent on outcome against target. This provides for officer salary, ERNIC¹ and superannuation costs along with a modest contribution to 'on costs'. While a range of 'on cost' budgets, particularly IT, have been uplifted, there is a risk of insufficient provision for elements such as extensive recruitment campaigns, probationer training, uniform and lockers which will need to continue to be monitored.

Non-Pay

- 3.1 Non-Pay comprises 27% of the expenditure budget, and the projection is that non-pay will outturn broadly in line with budget but again this will be subject to further refinement at Q2.
- 3.2 **Premises:** Q1 includes £1.7m of rates, £1.1m of which relates to New Street and is subject to an ongoing rating review by the Valuation Officer. An appeal has been made to reclassify New Street, with an outcome expected to be received in September and with potential savings of £0.5m per annum if successful. The premises budgets also include estate management cost for Bishopsgate, New Street, Guildhall Yard East (GYE). Based on prior year experience, there may well be some pressure on estates and facilities

¹ Earnings Related National Insurance Contributions

management budgets. Also, better intelligence on inflationary impacts for non-pay, particularly utilities and fuel costs (latter as part of Transport costs) should be available for future quarterly reports.

- 3.3 **Supplies and Services:** budgets include an increase for Action Fraud and National Fraud Intelligence Bureau (although there are further demand pressures to manage within this), along with costs for the National Cyber Security Programme, Economic Crime Capability and a range of operational costs. This shows an underspend at end of Q1 of £2.2m, which is mainly due to timing differences in the receipting of purchase orders for NLF activities £1.8m and the reversal of £474k of creditor accruals from 2021/22 relating to S22 costs (for collaborative services with the Met) which have not yet been invoiced.
- 3.4 While formal discussions with TfL on a likely £1.2m reduction in income post-dated the setting of the original 22/23 budget, this reduction has now been built into budgetary allocations. However, it does increase the pressure on other (particularly non-pay) budgets which will require careful management as the year progresses.

Mitigations/Savings Plans

- 4.1 Table 4 shows the breakdown of mitigations identified to deliver the £6.1m target for 2022/23. In-year progress against each line will be reported from Q2. The prognosis at this early point is that the Force will achieve its £6.1m target, although more robust forecasts will be brought forward in Q2 and Q3. While all the mitigations have been built into the budget to balance it, the comments section in the Table highlights some risks to their delivery.

Table 4 – Mitigation Plans

2022/23 Mitigations plan	Target £m	Forecast £m	Comments	RAG
Staff reductions / rank ratios through Corporate Services / Staff review	1.0	1.0	Risk of delay or failure to baseline an affordable and efficient staffing model through Corporate Services & Staff reviews is mitigated by holding staff vacancies where possible and appropriate. Staff costs within budget	
Increase in Precept Grant from Home Office	0.8	0.8	Achieved as part of the 22/23 Home Office funding settlement	
Reduction in capital financing costs due to prior year underspends on capital	0.8	0.8	To be assessed with Chamberlain's during Q2. Large capital underspends in 20/21 & 21/22 should support achievement of this 'one off' mitigation	
Savings on consumables	0.6	0.6	Removed from budgets. More robust assessment of deliverability to be undertaken for Q2	
Increased use of POCA reserve for appropriate areas of budget spend, supported by increase in seized assets	0.7	0.7	POCA / Op Neutron bidding process to identify £0.7m existing budget spend alongside bids for new money (Q2)	
Reduction in average pay costs due to probationer intake for Year 3 PUP	0.5	0.5	Removed from budgets. Potential for delivery risk depending on rank (and PC probationer vs transferee) mix of intakes. To review at Q2.	
Overtime reductions linked to Bank of England contract	0.5	0.5	Removed from budget. Will not be incurred for this purpose though other overtime pressures to be managed	
Agency staff	0.3	0.3	Removed from budgets. Stronger assessment of deliverability to be undertaken for Q2	
Professional fees	0.9	0.9	Removed from budgets. Stronger assessment of deliverability to be undertaken for Q2	
Total	6.1	6.1		

Income

- 5.1 Table 5 provides a breakdown of grant and income funding for 2022/23, split between National Lead Force funding streams and other, totalling £77.2m. In accordance with prior year reports minimal income is shown in Q1 although this is expected to increase from Q2 onwards. Apart from the reduction in TfL funding (now recognised in the budget), current projections indicate a high level of confidence in receipt from all funders in the current financial year.
- 5.2 The majority of grant income is received or accrued at the year-end, although steps will be taken to claim grant income earlier in the year wherever possible.
- 5.3 Work is in progress to provide an updated breakdown of 'people and money' allocations between core and funded services, which will support better

assessment of, for example, the level of cost recovery for funded work and where savings can and cannot be allocated between budgets. Further insight on this will be brought forward for Q2.

Table 5 – Breakdown of Income

Breakdown of Income, 22/23			
	£m		£m
National Lead Force		Other Income	
NLF Fraud	2.25	Pensions Deficit Grant	23.0
NLF Cyber	4.5	CT, Servator, Special Branch	8.7
Action Fraud / NFIB	12.0	TfL	1.2
Funded Units	10.8	POCA	1.0
EC Capability	2.7	Bridge House Estates	0.3
Fraud Reform	2.6	Other	2.4
EC Victim Care	2.2	Total Other Income	36.6
ROCU officers	2.2		
Economic Crime Academy	1.2		
Protect grant	0.7		
Total NFL	41.1	Total Income	77.7

Capital Programme

- 6.1 As previously reported, there are two elements to the CoLP Capital Programme; (i) legacy schemes approved prior to 2020/21, funded by the Corporation of London and significantly progressed through their lifecycles, and (ii) Police capital priorities approved through a loan facility from the Corporation from 2020/21 and onwards. CoLP will also be a major beneficiary of the Corporation's Combined Courts & Police Accommodation – and Secure City – Programmes.
- 6.2 CoLP is currently undertaking a review of its capital portfolio against the change roadmap set out in the 22/23 Policing Plan (alongside playing into the Capital Programme review by Operation Property & Projects Sub-Committee as appropriate). This process will set future priorities, clear interlinkages between projects and robust project and resource plans, which should mitigate against the significant project slippage and capital underspends experienced in the last few years. In the interim a request was made and approved at Resource Allocation Sub-Committee (RASC) in July for capital loan funding of £3.936m to progress work on the Fraud & Cyber Crime Reporting & Analysis Service (FCCRAS) programme, fleet replacement and other near-term priorities.
- 6.3 Table 6 summarises the 'interim' loan-funding requirement for 22/23, totalling £3.936m.

Table 6 – Interim Capital Budgets (pending Portfolio Review)

	2022/23 Project Budget	Of which loan- funding	Of which HO funding	Forecast Spend 2022/23	Forecast Variance
	£000	£000	£000	£000	£000
FCCRAS (including £3m Home Office funding)	5,200	2,200	3,000	5,200	-
Car Fleet Replacement	250	250	-	250	-
Horsebox	400	400	-	400	-
Motorbike Fleet replacement	236	236	-	236	-
Body Worn Video Equipment	300	300	-	300	-
Armoury Improvements	100	100	-	100	-
Forensics Networks & Storage	450	450	-	450	-
Total	6,936	3,936	3,000	6,936	0

6.4 While there has been significant resource utilisation on FCCRAS in Q1, in line with budget, invoices are awaited to provide recognition of these costs. Orders are also in the process of being placed for fleet replacement. Overall, it is expected that the capital funding in Table 6 will be fully utilised (spent or committed) in year.

7. Use of Reserves

7.1 The Police reserves position is summarised in Table 7 below:

Table 7 - Reserves

	Opening Balance	Projected Spend	Projected Closing Balance
	£'m	£'m	£'m
POCA	(9.0)	2.5	(6.5)
General Reserve	(4.0)	0.0	(4.0)
Police Capital Financing Reserve	(1.3)	0.0	(1.3)
Emergency Services Mobile Technology	(0.3)	0.0	(0.3)
Total	(14.6)	2.5	(12.1)

7.2 **POCA:** The Proceeds of Crime Act (POCA) reserve relates to the National Asset Recovery Incentivisation Scheme (ARIS), where relevant agencies get back a proportion of what they recover. It is expected that the funds are used to improve performance on asset recovery and to fund local crime fighting priorities for the benefit of the community in the following categories:

1. Asset Recovery Work
2. Crime Reduction projects
3. Community Projects

4. Miscellaneous (most POCA receipts nationally get allocated here)

- 7.3 The opening balance at the start of the financial year was £9m and includes an unusually large receipt of £7.1m which was received at the end of 2021/22 from Operation Neutron. This clearly increases significance and the need for sound governance by CoLP and Police Authority over the use of this funding stream. In that regard, this paper would make the following proposals:
- 7.3.1 That the budget setting process through the Police Authority includes the planned level of spend or commitment against POCA funds and approximate allocations between (a) the categories in 7.2 and (b) new initiatives vs existing operations. Subject to consideration, spend on existing operations may include part-funding of Asset Recovery Team – first category in 7.2 - which is done in a number of Forces, or other appropriate functions. The need for this is also linked to delivery of £0.7m of CoLP's current year mitigation plans (Table 4).
- 7.3.2 Through this process, the Police Authority would approve a POCA funding envelope for CoLP (as part of overall budget approval) as well as for the Safer City Partnership, the latter of which would provide a major focus on the third category in 7.2.
- 7.3.3 That a reasonable and realistic timescale would be to utilise the current proceeds over 3-years, recognising that new receipts will flow in that time.
- 7.3.4 That POCA bids will be assessed through CoLP's Strategic Finance Board and decided by Chief Officer Team, with quarterly progress and outturn updates being reported to PAB through RREC.
- 7.4 A range of bids have been submitted and subjected to initial assessment by the Chief Officer Team. Further work is being undertaken during Q2 to make firm decisions on the priorities and revert to RREC and PAB on the financial implications for 22/23. In this regard, the £2.5m projected spend shown in Table 7 is highly indicative at this point.

8. 22/23 Budgetary Risks & Opportunities

8.1 This paper highlights a range of known pressures, risks and opportunities, with the key ones being:

- Failure to deliver the full £6.1m mitigations
- Inflation being in excess of assumptions applied in the budget
- New pressures or funding reductions emerging in-year
- Inability to deliver uplift levels - risk to 2022/23 ringfenced funding and future core funding, as well as operational risk
- Main financial opportunity = time lag in recruiting to Year 3 uplift target

8.2 The risk and opportunities assessment, with mitigations, will be further developed for Q2.

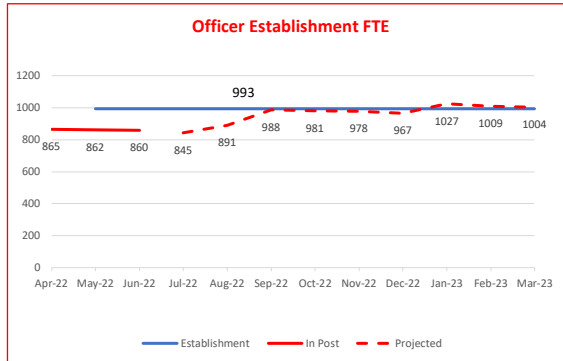
Appendices

1. Illustrative Workforce & Financial Dashboard

Appendix 1 – Illustrative Workforce & Financial Dashboard

CoLP Workforce & Financial Dashboard 2022/23

Jun-22



	Revenue Budget			Outturn		
	Budget £m	YTD Actual £m	Var £m	Budget £m	Forecast £m	Var £m
Officers Pay Cost	17.01	14.84	(2.17)	68.02	68.34	0.32
Staff Pay Cost	6.84	6.42	(0.42)	27.37	27.37	0.00
Overtime	0.58	0.54	(0.04)	2.31	2.31	0.00
Other	0.72	0.35	(0.37)	25.87	25.87	0.00
Total pay costs	25.14	22.15	(3.00)	123.57	123.89	0.32
Non Pay Costs	11.64	8.36	(3.28)	47.03	46.79	(0.24)
Total Expenditure	36.78	30.51	(6.28)	170.60	170.68	0.08
Income	(13.57)	(3.87)	9.69	(77.25)	(77.25)	0.00
Funding	(23.21)	(23.21)	0.00	(92.86)	(92.86)	0.00
Use of Reserves	0.00	0.00	0.00	(0.50)	(0.50)	0.00
(Surplus)/ Deficit	0.00	3.42	3.42	0.00	0.08	0.08

