Dorset Police

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For Decision: Yes	**For Information:**	**Appendices Attached:** 0

1. Executive Summary

Public sector organisations have always been assumed to be a "going concern" because they are financed by taxation. However, austerity over the last decade has started to throw doubt on that assumption because at least one large local authority has taken urgent measures to stop non-essential spending following the preparation of a Section 114 report. Other local authorities have apparently also considered whether a Section 114 report should be issued.

These developments have caused external auditors to query whether the PCC Group is a going concern. This report aims to demonstrate that the Group is a going concern.

The sections which follow show the Group has a balanced budget and a history of underspending its budget. This has allowed it to build its reserves to over £4m and increase the General Fund balance to £4.75m, which represents 3.4% of the net revenue budget.

Early budget monitoring in 2020/21 projects an overspend but there is confidence that spending will be brought into line with the budget. This confidence is based on the challenge that takes place in the Resource Control Board, and the experience of previous years.

The Medium Term Financial Strategy shows there are budget gaps to be addressed in future years, due in part to the growth in the revenue costs associated with financing the capital programme, through a mix of borrowing and revenue contributions to capital. The future budget gaps are considered to be manageable through the annual budget preparation process and because the Force has commissioned a task and finish group to identify efficiencies.

The Balance Sheet is strong with a net worth (excluding pension deficits) of £9.9m. Debtors and creditors are broadly in balance and at the end of the last financial year the PCC had cash and short term investments of £12.4m. External borrowing stood at £32.5m but £26m of this relates to PFI schemes for which early redemption of the debt cannot be requested.

The PCC Group has a strong control environment, as demonstrated in the Annual Governance Statement. It also operates within a very strong external regulatory and control environment, overseen by the Home Office, inspected by HMICFRS and subject to independent external and internal audit.

2. Recommendation

The Joint Leadership Board notes the contents of the report and agrees with the assessment that the PCC Group represents a “Going Concern”.

3. Background

The Statement of Accounts for Dorset Police and the Group, including the Office of the Police and Crime Commissioner for Dorset (OPCC), are required to be prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2019/20 (the Code). The Code has been prepared under International Financial Reporting Standards, which have been adopted as the basis for public sector accounting in the UK. The Code is prepared and published by the Chartered Institute of Public Finance and Accountancy (CIPFA).

In accordance with the Code, the Statement of Accounts are prepared on the basis that Dorset Police and the OPCC are going concerns. This assumes that the two organisations will have the resources to continue to deliver their respective functions and services for the foreseeable future.

The assumption that public sector organisations would continue to deliver their functions and services was always considered to be a reasonable assumption because they are financed from taxation and the first call on their income is to settle their debts and obligations. However, a decade of austerity has resulted in some local authorities struggling to deliver their services because of a lack of resources. When it appears to a Section 151 Officer that the organisation does not have sufficient resources to meet its proposed expenditure in a financial year the Section 151 Officer must make a report under Section 114(3) of the Local Government Finance Act 1988. To date, only one local authority has issued a Section 114 report but several have been reported as considering whether to issue such a report.

In auditing the Statement of Accounts, external auditors are placing greater emphasis on considering an organisation’s ability to operate as a going concern. They are now looking for a clear demonstration that an organisation has actively considered whether it has the resources to continue to deliver its services and functions for the foreseeable future.

The main factors which underpin an assessment of “going concern” are:

- The current financial position;
- The projected financial position;
- The strength of the Balance Sheet;
- Cash flow;
- Corporate governance arrangements
- The external regulatory and control environment.

Each of these is considered in the sections below.

4. The Current Financial Position

In 2019/20 the Chief Constable and the PCC Group underspent their respective budgets. The total underspend amounted to £1.25m, which represents 0.9% of the total annual budget of £134.7m. The underspend was used to supplement some of the earmarked reserves and to increase the General Fund balance.

The Major Operations Reserve was increased by £250k and reserves were created for the Policing Education Qualification Framework (£157k) and Learning & Development (£46k). The earmarked reserves stood at £4,152k at 31 March 2020.

The increase in the General Fund balance of £789k brought the balance to £4,746k. The General Fund balance represents 3.4% of the net revenue budget, which is within the target range of 3% - 5%. The level of the balances and reserves is risk assessed as part of the annual accounts preparation and again when the budget is finalised.

A balanced budget was set for the 2020/21 financial year, although it includes an unallocated savings target of £500k. The budget also includes a planned contribution of £200k to reserves for the future costs of the Government's proposed uplift in police officer numbers and an increase of £215k in the General Fund balance.

Budget monitoring after the first quarter of the year suggests an overspend of £675k may occur in 2020/21. This is due, in part, to the additional costs and reduced income brought about by the corona virus pandemic. However, it is early in the financial year and confidence is high that the suggested overspend will be eradicated as the year progresses. In particular, the forecast assumes no recovery of costs or lost income as a result of the pandemic. In recent weeks since the June forecast guarantees have been received regarding medical grade PPE being reimbursed and a scheme in respect of lost income has been announced.

5. The Projected Financial Position

The Group Medium Term Financial Strategy (MTFS) was refreshed as part of the budget preparation for 2020/21, which is common practice for the Group. Over the five years covered by the MTFS the net revenue expenditure of the Group is expected to increase from £134.7m in 2019/20 to £158.7m in 2023/24, an increase of nearly 18% due, in part, to an increase of 169 in officer numbers as part of the Government's uplift of 20,000 officers nationally.

Unfortunately, over the same period funding is only expected to increase by 12.8%. The slower increase in expected funding exposes the Group to budget gaps in the MTFS from 2021/22. These rise from £2.2m in 2021/22 to £4.8m in 2022/23 and £6.8m in 2023/24.

Policing has only ever received annual funding settlements therefore the above gaps are reliant on a number of assumptions around funding. A small change to an assumption has a big change in the forecast, for example an increase in council tax of 3% instead of 2% reduces the budget gap in 2023/21 from £6.8m to £4.5m.

The budget gaps are emerging as a result of the Group's approach to financing capital expenditure. The financing strategy recognises that Dorset has exhausted its capital reserves and capital receipts and so needs to rely on borrowing and revenue contributions. The aim over the next few years is to increase the use of revenue contributions to fund short-life non-current assets such as vehicles, equipment and

ICT. Longer life non-current assets such as property and plant would be funded from borrowing. However, it will take some years for the revenue contributions to increase to the required level.

The PCC Group agreed a capital programme over the five years up to and including 2023/24 which totals £56.5m. It is envisaged that borrowing of up to £40m will be required for the full programme with revenue costs rising from £1.8m in 2019/20 to £6.4m in 2023/24.

There are a number of changes expected over the next few years for which the financial impact on the Group is unknown:

- A Comprehensive Spending Review (CSR) has been anticipated for some time but its timing remains unclear. The CSR will determine the size of the funding pot available to the Police nationally;

- Anticipated changes to the formula by which the Home Office funding is allocated to forces. Again the timescale for the implementation of the results of the review is unclear;

- The future cost of pension schemes remains unclear. The Government's response to the McCloud/Sergeant case will increase the cost of the pension schemes but the extent to which the increases are funded by the Government is unknown;

- The impact of large national ICT projects such as the ESN and the extent to which they are funded by the Government;

- The impact of the coming recession following the pandemic, including the potential implications on precept, Collection Funds and the council taxbase;

- Changes in working practices as a result of the pandemic have reduced the need for travel, with many meetings taking place over the internet with staff working from home. This may have a major impact on the size of the replacement for the Headquarters building, which is included in the capital programme at £14m.

Throughout the years of austerity the Group has developed a track record of responding to reductions in its funding. Consequently there is a high level of confidence that the Group will respond appropriately to any changes to funding which may occur as a result of the above issues.

Work on revising the MTFS has started as part of the preparation of the 2021/22 budget. Current indications are that the overall impact of the assumptions made regarding the 2021/22 budget when the MTFS was developed is proving to be in line with expectations.

The Force has also established a task and finish group to consider ways in which the efficiency of the organisation can be improved and savings made. This task and finish group includes senior finance and learning & development staff, corporate development and operational commanders.

6. The Balance Sheet at 31 March 2020

The Balance Sheet of the Group shows it has a net worth of minus £1,443m due to the pensions liabilities of £1,486m. A more realistic assessment of the net worth of the Group is given by the value of the usable reserves. At 31 March 2020 these totalled £9.9m.

At 31 March 2020 the short term debts outstanding amounted to £22.1m of which £16.8m related to central government, other police forces and local authorities leaving £5.3m related to the private sector. The Resource Control Board regularly receives reports on the aged debts owed to the Group and ensures that recovery action is being taken where appropriate.

At 31 March 2020 the short term creditors totalled £24m of which £11.6m related to other parts of the public sector, including central government.

7. Cash Flow

The Treasurer manages the cash flows of the Group in accordance with the approved Treasury Management Strategy. At 31 March 2020 the PCC held short-term investments of £3m and cash balances of £9.4m, meaning all of the available resources could be turned into cash at short notice. The Strategy envisages moving some funds into longer term investments in order to improve yield but the uncertainties caused by the corona virus pandemic mean now is not the right time to do this.

As interest rates are low, the Group is currently using cashflow to fund internal borrowing for the capital programme (£3.7m for 2019/20). This will likely be externalised using PWLB debt when rates are more affordable compared to investments.

The Group had external borrowing of £32.5m at the 31 March 2020. However, £26m of this is linked to PFI schemes and so cannot be recalled the lenders. A further £1m was long term, leaving £5.5m as short term borrowing.

8. Corporate Governance

The Annual Governance Statement is reviewed on an annual basis taking account of external and internal audit reviews. The Governance Statement summarises the nature of corporate governance in the organisation and identifies any significant weaknesses in the Code of Corporate Governance and its implementation. The Governance Statement is reviewed by the Independent Audit Committee.

The Annual Governance Statement for 2019/20 does not identify any significant weaknesses in the Corporate Governance Framework or its application.

9. The External Regulatory and Control Environment

Dorset Police and the OPCC are required to operate within a highly legislated and controlled environment and their relationship is governed by legislation supplemented by Codes of Practice issued by the Home Office. They are subject to inspection by Her Majesty's Inspectorate of Constabulary and Fire and Rescue Services to ensure services are of a high standard. The Home Office also monitors the efficiencies achieved by police forces via annual returns.

The Group is subject to an audit regime controlled by the National Audit Office in terms of the standards of audit set out in the Audit Code of Practice. The external auditors are appointed independently, by Public Sector Audit Appointments and the standards of their work are reviewed by the Financial Reporting Council. The contents of the financial statements are governed by the Code of Practice on Local Authority Accounting. Failure to comply with its provisions would be a breach of the Local Government Finance Act 1988.

The Chief Finance Officer has to provide assurance that the annual budget is robust and based on reasonable assumptions. Similarly, the Treasurer has to provide the same assurance to the PCC and the Police and Crime Panel.

Like all public sector organisations the Group has to operate its systems and processes within adequate internal controls which are subject to internal audit review, with the results reported to an Independent Audit Committee. Furthermore, the Group takes part in national data matching exercises designed to identify and investigate potential fraud.