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| Finance Report  2023/24 – Third Quarter (Q3) |
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| CHIEF OFFICER TEAM  REPORT |
| 2nd February 2024   1. PURPOSE AND RECOMMENDATION    1. The purpose of this report is for monitoring / information.    2. There are no recommendations made requiring a decision. 2. INTRODUCTION & BACKGROUND    1. This quarterly financial report presents detailed information on revenue, balance sheet and working capital balances (debtors, creditors, and cash/investments). This provides a comprehensive position for Chief Officers to consider and inform decision making.    2. The quarterly report includes:  * **Appendix 1a, 1b, 1c:** Income and Expenditure for the group, force and OPCC (as previously reported). The income and expenditure reports consider expenditure commitments made as at the quarter end but have not yet been invoiced or paid and a forecast of the year end position. * **Appendix 2**: Covid19 costs – details of specific expenditure arising from the Covid19 situation reported to the Home Office each month. * **Appendix 3a**: Cash and investments – details of level of cash the force has and how much money is on investment. * **Appendix 3b**: Debtors position. This details the level of income yet to be cash receipted and the age of the debt. * **Appendix 3c**: Creditors position. This details the level of expenditure yet to be cash paid and the age of the liability. * **Appendix 3d**: Capital & Project spend report. This details the spend to date on capital projects and the budget remaining to the end of the financial year. * **Appendix 4**: Usable reserves. This schedule identifies the level of cash backed reserves in line with the Reserves Strategy and the MTFP. * **Appendix 5**: Medium Term Financial Plan. This provides a longer-term view on the financial position of the force.  1. ISSUES FOR CONSIDERATION   Financial Highlights – Q3 Year to date outturn: £3,381k underspend (Q2: £3,381k); full year forecast underspend £3,224k   * 1. The information below provides details on key trends and results for the year. Where a variance (favourable or adverse) represents a significant risk to being able to meet budget a more detailed analysis is provided.   2. It should be noted that whilst budgets are phased in equal sums each month, this is not reflected in the expenditure patterns across non pay budget headings and therefore is not an informative basis on which to assume out-turn spending for year end.   3. The current forecast year end position shows an underspend of £3,224k at 31st March 2024. This is largely attributable to a £1,300k predicted increase in investment income, coupled with avoiding £1,329k of capital charges (borrowing costs) that are not expected to be incurred. In addition, additional income will be received from Home Office of £945k relating to the recruitment of 21 additional police officers over the target allocation which more than compensates for the additional costs incurred. Finally, cost saving measures have been successful in reducing the cost of supplies and services.   4. As shown in Appendix 1a, on a group basis there is a year to date underspend at Q3 for 2023/24 of £3,224k (Q1: £3,381k) against a budgeted overspend position planned of £3,277k. This is primarily the result of the timing of income from Home Office for the Welsh Top Up element of the Police Grant where the full year’s amount has been received ahead of schedule. This will correct itself in subsequent periods. Excluding the funding variances, the net expenditure position is £4,007k (Q2: £2,159k) overspent against budget at Q3. The group year to date net overspend arises from the following variances:   Pay variances – officers and staff: Q3 overspend £1,064k (Q2: £764k underspend); full year forecast overspend £1,392k   * 1. At the end of Q3, police officer pay and salary allowances are over budget by £730k due primarily to the year to date effect of the timing of the cohorts of new officers from Op Uplift entering the Force in September and March. The Operation Uplift target for 1,506 officers at 31 March 2023 and 30 September 2023 was met and exceeded. Now the planned recruitment has taken place, the full cost of officers will be realised for 2024/25 budgets onwards.   2. In addition, the Home Office agreed to fund an extra 21 officers within the force above the 1,506 fte Uplift target for 2023/24, with the target numbers confirmed at 30th September 2023 and 31st March 2024. The cost of these additional officers is included in the Q3 overspend and the full year forecast overspend, but the additional one-off funding from the Home Office is shown within income. This additional funding comes to £945k based on 21 officers at £45,000 per officer and will be claimed at the year end in line with the scheme.   3. There is also an overspend on of £334k on Staff and CSO (Community Support Officers) pay and allowances at the end of Q3. Within this, staff pay is underspent by £264k but there are agency costs of £422k, redundancy payments totalling £39k in Q2, and £83k of early retirement costs. The full year forecast for agency costs is £563k – substantially lower than the £884k incurred in 2022/23, and lower again than the Q2 forecast position £599k.   4. The original assumptions for the 2023/24 budget already reflect probationers being recruited at lower than the mid point of the salary scale and an assumed pay award for officers of 3.5% from 1st September 2023. The UK Government confirmed pay awards for officers and staff of 7% from 1st September 2023 and these awards have been fully reflected in the September payroll.   5. The budget assumes 172fte CSOs are in post for the full year but, following the Welsh Government’s request to Welsh forces to freeze all new CSO recruitment, attrition is expected to reduce the CSO establishment to 155.5fte at 31st March 2024. There will be a non-recurrent saving in Q3 and Q4 as a result, which will be offset by the confirmed reduction in Welsh Government funding. Welsh Government have now confirmed funding for only 60fte CSOs for 2024/25 with an expectation this is match funded by the Commissioner/force. Workforce Planning predicts natural attrition in 2024/25 will reduce CSO numbers to approximately 133fte by 31st March 2025, and this is reflected in the 2024/25 budget. A risk remains that the rate of natural attrition is slower than expected, meaning the Commissioner/force will fund a higher number of CSOs throughout 2024/25 than planned.   Overtime – officers and staff: Q3 overspend £893k (Q2: £377k, Q1: £58k); full year forecast overspend £731k   * 1. Total overtime costs (officer and staff) at the end of Q3 show a net overspend of £893k, denoted ( ) made up as follows:  |  |  |  |  | | --- | --- | --- | --- | | **Narrative** | **2023/24**  **Q1** | **2023/24**  **Q2** | **2023/24**  **Q3** | | Police Officer & Staff TOIL (Time off in Lieu) | (£31k) | (£56k) | (£87k) | | Police Officer general overtime | (£86k) | (£117k) | (£207k) | | Police Officer rest day overtime | (£121k) | (£280k) | (£507k) | | Police Officer public holiday | £119k | £110k | £87k | | Police staff general overtime | (£56k) | (£116k) | (£174k) | | Police staff weekend & public holiday enhancements | £117k | £82k | (£6k) | | **Total (over)spend** **at 31st December 2023** | **(£58k)** | **(£377k)** | **(£893k)** |  * 1. The position above includes expenditure on Police Staff Enhancements and excludes Major Incidents and Tasking, which is reported separately on Lines 9 and 10 of Appendix 1a, therefore the position is not directly comparable with the Force Overtime Performance report including MI&T (Major Investigation Team).   2. The annual overtime budget was reduced by £1m for 2020/21 and has been unchanged since then. Substantial work continues across the force to analyse and challenge cultures and behaviours locally on overtime. Transparency of reporting using Global Rostering system (GRS) reports and authorisation by higher ranks has resulted in a substantial slowing of the rate of general overtime spends in recent months. Issues remain in some specific service areas – e.g. custody, operational support, firearms collaborative activities. Further scrutiny is needed of rest day overtime and Police Staff general overtime to consider implementing additional controls. The 2024/25 budget setting process has again challenged the current budgets and locations for rest day and bank holiday overtime with senior officers and staff.   Other employee related costs: Q3 overspend £88k (Q2 underspend £31k); full year forecast overspend £110k   * 1. There is a net overspend at Q3 of £88k for other employee related costs. The timing of the payment for employee insurance means there is also an overspend for Q3 of £42k (Q2 £99k overspend) which has been reducing each quarter. This is offset by an underspend of £506k on pension costs with lower injury pension payments and no officers leaving under ill health pensions in the year to date. The current forecast assumes the ill health and injury pension budgets of £2,490k are fully used by year end – actual year to date expenditure at Q2 is only £1,362k.   2. External training costs are higher than budget by £174k at 31st December 2023 due to more courses such as PPST being delivered in Q3 and Q4 and expenditure commitments already made for Q4. However, the forecast position at year end remains an underspend of £367k on external training courses.   Non-pay variances – Premises costs: Q3 overspend £1,885k (Q2 overspend £1,014k); full year forecast underspend break even   * 1. Premises costs are overspent at Q3 by £1,885k due primarily to the effect of the timings on payments for rent and rates and maintenance. There are overspends against budget of £309k from additional rent costs following the new Fleet workshops lease signed in March 2023, and additional rates associated with old HQ (although a rates rebate is expected towards the end of the financial year with demolition process commencing in November 2023). In addition, the ongoing investment in electrical infrastructure to instal solar panels to suitable buildings across the estate continues (pump prime initiative to save revenue in future years), resulting in an overspend of £580k at Q3. Planned internal maintenance in Q3 amounted to £539k, but reactive maintenance costs were substantially lower with a total underspend of £147k. Utility costs are £567k higher than budget at Q3 (Q2: £278k), with a forecast overspend for the full year of £46k due to incorrect phasing of the budgets. This will be carefully monitored within the Estates and Finance Departments for the remainder of 2023/24.   Non-pay variances – Transport costs: Q3 overspend £172k (Q2 underspend £202k); full year forecast underspend £104k   * 1. Transport costs are overspent at Q3 by £172k. Insurance work for recovery costs are underspent by £146k and the cost of vehicle fuel was also lower than budget at Q3 by £80k as prices continue to fall. The Fleet Department’s move to the new workshops has impacted on accident repairs and repairs with outside contractors, resulting in overspends of £92k and £77k respectively against budgets at Q3. Continued long lead times on new vehicles and minibus hires has also resulted in additional costs for vehicle hire of £36k at Q2. In addition, there is a timing difference on helicopter hire charges meaning they are £181k higher than budget at Q3, which will correct itself by 31st March 2024.   Non-pay variances – Supplies & Services costs: Q3 overspend £2,997k (Q2 overspend £2,531k); full year forecast underspend £566k   * 1. Supplies & services costs are overspent at Q3 by £2,997k and there are many variations between the cost headings in this category.   2. There are timing differences in Partnership fees, collaboration contributions and consultancy fees resulting in a net overspend of £2,755k which will reverse out in future periods. Furthermore, underspends are noted on firearms and ammunition (£148k), clothing and uniforms (£269k), Crime Scene Investigation expenditure (£20k), telecoms forensics (£142k) and Mobile Phone rental (£152k) and network services (£112k) because of the rollout of new mobiles and infrastructure updates as part of the ICT (Information Communication Technology) programme. Custody medical contract is also showing an underspends at Q3 of £144k.   3. Offsetting this is £458k of additional ICT costs for IT (Information Technology) software & hardware purchases and software maintenance contracts, partly because of timings of invoicing but also some additional costs on projects from within the overall ICT revenue and capital programme.   4. Other additional expenditure incurred impacting the YTD budget includes furniture related to the estates projects within the capital programme (£308k); Dangerous Dogs Act spend (£113k); veterinary fees (£37k); externally provided financial services related to the McCloud Pension remedy (£162k); public liability insurance (£52k), and other insurance costs (£59k). Most of these variances are due to invoices being received earlier than expected against the phasing of the 2023/24 budget. Finance Business Partners continue to keep a close eye on these pressures via monthly meetings with budget holders as we go through the year.   **Other movements:**   * 1. The Force’s contribution to the Police Computer Company is underspent by £65k at 31st December 2023 as the early invoicing in Q1 for this contribution to national technology programmes corrected itself. No borrowing to fund the long term capital programme is currently forecast for the remainder of the year, resulting in a forecast underspend of Capital Charges (capital repayment and interest debt finance) of £1,321k at 31st March 2024.   2. Investment income is £680k higher than budgeted at Q3 (Q2: £255k) following the increases in interest rates by the Bank of England. As investments with these higher rates continue to mature in the remainder of the year, a further £1,300k of income is forecast.   3. Other Income is also higher by £2,220k following the timing of payments made in relation to Police Grant funding being different to that in the prior year. The Welsh Top up grant element was received in full in Q1 rather than being paid by the Home Office on a quarterly basis as it was in 2022/23. Similarly, Home Office ringfenced grants have been claimed during the year rather than being required as part of a Home Office year end exercise, resulting in more timing differences against the budget. Additional income has also been received for HO PEQF funding of £491k, mutual aid income of £260k, and HMPPS income relating cell availability through Operation Safeguard of £180k.   Office of the Police & Crime Commissioner – Q3 underspend £1,772k (Q2 underspend £496k); full year forecast underspend £259k   * 1. Included within the group figures above are underspends relating to the Office of the Police & Crime Commissioner totalling £1,772k. These are shown separately in Appendix 1c.   2. Salary and allowances – there is a small underspend of £29k.   3. Non-pay expenditure – there are underspends totalling £1,443k in non-pay expenditure. This is primarily due to the reversal of year end accruals and timing of partnership contributions and provision of third party services fees (e.g. no invoices received in Q1 for Substance Misuse consultants' fees against an expected budget of £339k), which will resolve themselves in subsequent periods, resulting in a forecast breakeven position at the year end.   4. There are no risks to receipt of the full £72,998k of Council Tax for the year.   **Financial Highlights – balance sheet**   * 1. The key areas that are significant to the overall financial performance of the force are:   Investment and cash (appendix 2a)   * 1. At 31st December 2023, £31.5m of cash reserves were held as investments with local authorities or held within the money market. This is substantially lower than the cash reserves held at 30th September 2023 of £43.5m. All loans are for 12 months or less and are scheduled to ensure that cash flow is available to cover all commitments as they fall due. Actual cash held within the bank account at 31st December 2023 was £1,888k.   2. The average interest rate on investments is 5.14% (30th September 2023: 4.94%; 30th June 2023: 3.71%; 30th September 2022: 1.52%). Interest rates have continued to increase on previous periods as the Bank of England changes the base rate to combat inflation pressures in the wider economy. As a result, a higher level of investment interest of approximately £1.7m is now expected which is above the Force’s budgeted investment income for 2023/24 of £0.4m.   **Debtors (appendix 2b)**   * 1. Total sales invoices that were unpaid as at 31st December 2023 totalled £1,406k (30th September 2023: £894k), of which £180k (30th September 2023: £234k) was overdue. Outstanding debtors have increased from period 6 to period 9 due to a tracing of debt, regular chasing, and reminder letters.   2. The collectability of debtors is not considered a risk. The top 5 debtors, as presented in Appendix 2b total £1,159k (82.5% of total debtors by value) and are all public sector bodies. The £998k balance not yet due from South Wales Police is primarily for collaborative contributions for Prison Intelligence unit salaries (£567k), Women’s Pathfinder (£357k) and WECTU (£74k). All balances are being actively pursued for payment.   3. We continue with our review and clearance of historic debtor balances and a further two items are noted in Appendix 2b totalling £300. As none of the individual balances exceed the £500 threshold and the cost of chasing this debt will outweigh the value recovered, the write off from these insignificant amounts will be actioned in Q4.   Creditors (appendix 2c)   * 1. As of 31st December 2023, there were £870k of creditors which is a decrease on the total creditors of £1,224k at 30th September 2023.   2. Of this total, £486k or 55.9% (Q2 2023/24: £205k) of the total is overdue for payment. This increase is due to three larger payments to G4S, Volvo cars where they invoiced before delivery of the vehicles (£137k), and Vantage Point House following agreement of the additional lease required in 2024/25. All amounts have now been paid. Despite this, the average age of an invoice paid during Q3 is 23.16 days on average, which is shorter than the previous quarter (26.47 days) and still within the 30 day target. It is expected that the average age will continue to meet the target going forward.   **Capital (appendix 2d)**   * 1. The initial budget for the capital and projects was £23,902k but this has been revised to £29,902k to reflect a number of additional projects identified in year. These include additional spend on LPA (Local Policing Area) vehicle replacements, Maindee Police station refurbishment, Abergavenny build, Fleet workshop relocation, and Gwent Operational Facility costs. The forecast expenditure for the full financial year, however, is £21,231k which is more in line with the initial budget and the reduction is largely down to the lower collaborative contributions to the Joint Firearms Range in 2023/24 due to slippage in the planning process.   2. The expenditure to date on capital and long-term projects is £11,790k leaving a remaining budget of £18,141k. Progress on the delivery of the projects in line with the Estates Strategy and within the capital programme is overseen by the Capital Strategy Board.   3. Estates – the revised budget of £21,574k includes major projects relating to the Collaborative Joint Firearms Unit (£7,863k), Abergavenny Police Station new build (£4,324k), Gwent Operational Facility (£2,675k) and the fleet workshops relocation (£2,479k).   4. Vehicles – The 2023/24 revised budget is £2,682k and while expenditure to date is only £918k it is expected that this will be largely utilised by the end of the financial year in line with the current fleet replacement cycle. A review is planned of the telematics data and pool car usage in relation to the size of the vehicle fleet, and a Project Initiation Document has been approved in October 2023 by Service Improvement Board.   5. ICT - The budget is £5,511k and while expenditure to date has increased to £2,011k, it is also expected this will be fully utilised in 2023/24 as the ICT requirements of refreshing our FFF (Fixed Field Flexible) capability; the Control Room project; and the Data Hall decommissioning following SRS’s move from Blaenavon are completed in the year. The spend on the SAFE mobile app has been deferred. However, the JOINS2 network project to improve network connections between the Force and South Wales Police for 2023/24 has been included.   Reserves (appendix 3)   * 1. Appendix 3 details the position in relation to the current balance of reserves of £29,774k based on the audited financial statements at 31st March 2023. This shows a reduction of £3,945k in reserves from £33,719k at 31 March 2022 as reserves were used to fund the capital programme in 2022/23.   **Medium Term Financial Plan (appendix 4)**   * 1. Appendix 4 provides detail of the latest version of the 2024/25 to 2028/29 MTFP as presented by the Commissioner to the Police & Crime Panel (PCP) meeting on 26th January 2024. The Panel agreed with the Commissioner’s proposed council tax precept increase of 7.70% in line with the MTFP.   2. The impact of global events, and the significant changes in the UK economy over the past 12 months, has created a lot of uncertainty over funding and cost pressures for 2024/25 and subsequent years. The provisional and final police settlements have also now been received and the MTFP will be updated for any changes.   3. The current forecast of the recurring annual deficit of £12,744k at 2028/29 is therefore highly dependent on inflationary pressures, borrowing decisions for the capital programme, and excludes any potential funding reductions as a result of the review of the Police Funding formula. The MTFP will updated again following the PCP meeting in January 2024 for known and anticipated additional pressures on base budgets, as well as further base budget savings being identified across the Force. There remains substantial pressure on Force and Commissioner budgets for 2024/25 and beyond, with a clear need to continue to find further savings and efficiencies to help close the anticipated deficit of £2,805k for 2024/25.  1. COLLABORATION    1. Collaborative activities have been included in the figures above. 2. NEXT STEPS    1. To consider and note the financial performance of the Force and OPCC for the third quarter of financial year 2023/24. 3. FINANCIAL CONSIDERATIONS    1. These are detailed in the report. 4. PERSONNEL CONSIDERATIONS    1. There are no staffing / personnel implications arising from this report. 5. LEGAL CONSIDERATIONS    1. There are no legal implications arising from this report. 6. EQUALITIES & HUMAN RIGHTS CONSIDERATIONS    1. This report has been considered against the general duty to promote equality, as stipulated under the Joint Strategic Equality Plan and has been assessed not to discriminate against any particular group.    2. In preparing this report, consideration has been given to requirements of the Articles contained in the European Convention on Human Rights and the Human Rights Act 1998. 7. RISK    1. The outcome of the ongoing review of the funding formula is still unknown. The predicted loss of funding from 2025/26 is not included in MTFP’s recurring deficit at 2028/29 of £12.7m as there has been no further clarity on the review from the Home Office. An organisational risk has already been raised via Service Improvement Board to reflect the risks to the financial position of the Force and PCC. 8. PUBLIC INTEREST    1. In producing this report, has consideration been given to ‘public confidence’? Yes    2. Are the contents of this report, observations, and appendices necessary and suitable for the public domain? Yes 9. REPORT AUTHOR    1. Matthew Coe 10. LEAD CHIEF OFFICER     1. ACOR Nigel Stephens 11. ANNEXES     1. 2023/24 Q3 Financial Performance Report 12. CHIEF OFFICER APPROVAL     1. I confirm this report has been discussed and approved at a formal Chief Officers’ meeting.   Meeting chaired by:  CC Pam Kelly  Meeting date:  14.02.2024   * 1. I confirm this report is suitable for the public domain.   Signature: Signature on white backgroundDate: 14.02.2024 | | |