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| Finance Report  2023/24 – Second Quarter (Q2) |
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| STRATEGY &  PERFORMANCE BOARD |
| 22nd November 2023   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 – Q2 Year to date outturn: £3,381k underspend (Q1: £3,672k); full year forecast underspend £2,859k   * 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 £2,859k 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 has been received from Home Office for the recruitment of 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. We will update the forecast for the full year in detail in the Q3 report.   4. As shown in Appendix 1a, on a group basis there is a year to date underspend at Q2 for 2023/24 of £3,381k (Q1: £3,672k) against a budgeted overspend position planned of £1,806k. 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 £2,159k (Q1: £280k) overspent against budget at Q2. The group year to date net overspend arises from the following variances:   Pay variances – officers and staff: Q2 underspend £764k (Q1: £834k); full year forecast overspend £1,282k   * 1. At the end of Q2, police officer pay and salary allowances are under budget by £473k 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 was met and exceeded. The underspend is a non-recurrent saving for this financial year only. Now the planned recruitment has taken place, the full cost of officers will be realised for 2023/24 budgets onwards.   2. The underspend on police officer pay and allowances has a £292k underspend on Staff and CSO (Community Support Officers) pay and allowances at the end of Q1. Within this, staff pay is underspent by £608k but there are agency costs of £294k and redundancy payments totalling £39k in Q2. The full year forecast for agency costs is £599k – substantially lower than the £884k incurred in 2022/23.   3. 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.   4. 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. The expected cost of these additional officers is included in the forecast cost for the year contributing to the estimated overspend for officer pay, but the additional one-off funding from the Home Office is shown within income. The one off grant funding amounts to £45,000 per officer (or £945k in total based on 21 officers) and can be claimed after target numbers are confirmed at 30th September 2023 and 31st March 2024. The income will therefore be recognised in Q3 and at year end.   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. Discussions continue with the Welsh Government on the level of their funding of CSO numbers for the remainder of the year and into 2024/25 but a risk remains that the force will need to provide a greater proportion of funding for CSO posts going forward. This will be reflected in the 2024/25 budget setting process.   Overtime – officers and staff: Q2 overspend £377k (Q1: £58k); full year forecast overspend £404k   * 1. Total overtime costs (officer and staff) at the end of Q2 show a net overspend of £377k, made up as follows:  |  |  |  | | --- | --- | --- | | **Narrative** | **2023/24**  **Q1** | **2023/24**  **Q2** | | Police Officer and Staff TOIL (Time off in Lieu) payments | (£31k) | (£56k) | | Police Officer general overtime overspend | (£86k) | (£117k) | | Police Officer rest day overtime overspend | (£121k) | (£280k) | | Police Officer public holiday overspend | £119k | £110k | | Police staff general overtime – overspend | (£56k) | (£116k) | | Police staff weekend & public holiday enhancements underspend | £117k | £82k | | **Total (over)spend** **at 30th June 2023** | **(£58k)** | **(£377k)** |  * 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. Going forward scrutiny is needed of rest day overtime and minimum staffing levels for Q3 and Q4. The 2024/25 budget setting process will also challenge the current budgets and locations for rest day and bank holiday overtime with senior officers and staff.   Other employee related costs: Q2 overspend £31k (Q1 underspend £144k); full year forecast underspend £242k   * 1. There is a net overspend at Q2 of £31k for other employee related costs. The timing of the payment for employee insurance means there is also an overspend for Q2 of £99k (Q1 £155k overspend). This is offset by an underspend of £221k on pension costs with lower injury pension payments and no officers leaving under ill health pensions in the first 6 months of the year. 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 £1,024k.   2. External training costs are higher than budget by £174k at 30th September 2023 due to expenditure commitments already made for Q3 and Q4. However, as courses are delivered in the second half of the year, the forecast position at year end is an underspend of £189k on external training courses.   Non-pay variances – Premises costs: Q2 overspend £1,014k (Q1 overspend £340k); full year forecast overspend £575k   * 1. Premises costs are overspent at Q2 by £1,014k due primarily to the effect of the timings on payments for rent and rates and maintenance. There are overspends against budget of £356k 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, there has been substantial investment in electrical infrastructure as the installation of solar panels to suitable buildings across the estate continues (pump prime initiative to save revenue in future years), resulting in an overspend of £460k at Q2. Utility costs are £278k higher than budget at Q2, with a forecast overspend for the full year of £549k and this will be carefully monitored within the Estates and Finance Departments for the remainder of 2023/24.   Non-pay variances – Transport costs: Q2 underspend £202k (Q1 underspend £256k); full year forecast underspend £79k   * 1. Transport costs are underspent at Q2 by £202k. Insurance work for recovery costs are underspent by £148k and the cost of vehicle fuel was also lower than budget at Q2 by £49k. As the Fleet Department prepares for its move to the new workshops, this has impacted on accident repairs and repairs with outside contractors, resulting in overspends of £51k and £54k respectively against budgets at Q2. Continued long lead times on new vehicles and minibus hires has also resulted in additional costs for vehicle hire of £36k at Q2.   Non-pay variances – Supplies & Services costs: Q2 overspend £2,531k (Q1 overspend £1,715k); full year forecast overspend £818k   * 1. Supplies & services costs are overspent at Q2 by £2,531k 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 £567k which will reverse out in future periods. Furthermore, underspends are noted on clothing and uniforms (£166k), Crime Scene Investigation expenditure (£31k) and Mobile Phone rental (£144k) and network services (£64k) because of the rollout of new mobiles and infrastructure updates as part of the ICT (Information Communication Technology) programme. Custody meals and the medical contract are also showing underspends at Q2 of £45k and £31k respectively.   3. Offsetting this is £381k of additional ICT costs for IT (Information Technology) software 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 Dangerous Dogs Act spend (£66k), 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, and any recurring pressures will be identified as part of the 2024/25 budget setting exercise in October/November 2023.   **Other movements:**   * 1. The Force’s contribution to the Police Computer Company is underspent by £65k at 30th September 2023 as the early invoicing in Q1 for this contribution to national technology programmes corrects 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 £1,329k at 31st March 2024.   2. Investment income is £255k higher than budgeted at Q2 following the increases in interest rates by the Bank of England. As investments with these higher rates continue to mature in the second half of the year, a further £1,300k of income is forecast.   3. Other Income is also higher by £525k following the timing of payments made in relation to Police Grant funding is also uncoordinated with prior years’ experience, with the Welsh Top up grant element being received in full in Q1 rather than being paid by the Home Office on a quarterly basis as in 2022/23. Additional income has also been received for HO PEQF funding of £491k, and HMPPS income relating cell availability through Operation Safeguard of £180k.   Office of the Police & Crime Commissioner – Q2 underspend £496k (Q1 underspend £1,131k); full year forecast underspend £259k   * 1. Included within the group figures above are underspends relating to the Office of the Police & Crime Commissioner totalling £496k. These are shown separately in Appendix 1c.   2. Salary and allowances – there is a small underspend of £43k.   3. Non-pay expenditure – there are underspends totalling £1,357k in non-pay expenditure. This is primarily due to the reversal of year end accruals and timing of partnership contributions and consultants' 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.   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 30th September 2023, £43.5m of cash reserves were held as investments with local authorities or held within the money market. 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 30th September 2023 was £159k.   2. The average interest rate on investments is 4.94% (30th June 2023: 3.71%; 30th September 2022: 1.52%). Interest rates continue 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 3b)**   * 1. Total sales invoices that were unpaid as at 30th September 2023 totalled £894k (30th June 2023: £1,277k), of which £234k (30th June 2023: £566k) was overdue. Outstanding debtors have reduced substantially from period 3 to period 6 due to 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 3b total £726k (81.3% of total debtors by value) and are all public sector bodies. The £571k balance with the National Probation Services at 30th June 2023 related to their 2023/24 GDAS contract contribution and has now been received. The £587k balance with South Wales Police is for collaborative contributions to Prison Intelligence unit salaries for Q4 2022/23. 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 Q3.   Creditors (appendix 3c)   * 1. As of 30th September 2023, there were £1,224k of creditors which is a decrease on the total creditors of £2,332k at 30th June 2023. This has resulted from payment in Q2 of two large Q1 balances – national ICT subscriptions of £1,295k to the Home Office, and GDAS contract contributions of £360k to Newport City Council.   2. Of this total, £172k or 14.0% (Q1 2023/24: £1,761k) of the total is overdue for payment. This decrease is due to the Home Office and Newport City Council invoices noted above. Of this £172k value, the majority relates to £96k of outstanding balances with the Shared Resources Service (SRS) where they have invoiced in advance of delivery of laptops and services. The average age of an invoice paid at Q2 is 26.47 days on average, which is slightly longer than the previous quarter (22.47 days) but still within the 30 day target. It is expected that the average age will continue to meet the target going forward.   **Capital (appendix 3d)**   * 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 £21,093k which 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 £6,055k leaving a remaining budget of £23,828k. 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 budget of £21,574k includes major projects relating to the Collaborative JFU (Joint Firearms Unit) relocation (£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 budget is £2,682k and while expenditure to date is only £773k 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 IR3 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 is only £760k, 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 out of Blaenavon are completed in the year. The spend on the SAFE mobile app development has been deferred and replaced by the JOINS2 network project for 2023/24.   Reserves (appendix 4)   * 1. Appendix 4 details the position in relation to the current balance of reserves of £29,774k based on the unaudited 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 2023/24 to 2027/28 MTFP updated as at June 2023. The current position for 2023/24 after additional costs pressures and funding cuts have been identified in February and March 2023, is a net deficit £5,018k – an increase from £3,547k in January 2023. A report on the key movements to 30th June 2023, mitigating actions already being taken and the financial risks has been presented to Chief Officers and OPCC.   2. The impact of global events continues to create a lot of uncertainty over funding, cost pressures, inflation, and interest rates for 2023/24 and subsequent years. The current forecast of the recurring annual deficit of £21,916k at 2027/28 is therefore highly dependent on these inflationary pressures, borrowing decisions for the capital programme, and the outcome of the review of the Police Funding formula. The MTFP will be updated again in November 2023 as part of the 2024/25 budget setting exercise. Known and anticipated additional pressures on base budgets, the recent change in Welsh Government funding for CSOs, further base budget savings, and the annual review of the budget’s underlying assumptions will be carried out in September- November 2023 ahead of the Chief Constable’s 2024/25 budget bid to the Commissioner.   3. As reported in the Q1 Financial Performance Report, the growth in investment income from higher interest rates, a full year saving on borrowing costs, and known additional savings will close approximately £2.2m of the £5.0m updated deficit. Work continues to identify recurring savings from the initial stages of the 2024/25 budget setting process, the Efficiency Working Group and the Change Programme. Pressures remain for future years, with the need for further savings and efficiencies to substantially close the £21.9m annual deficit currently forecast for 2027/28.  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 second 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 currently included in MTFP’s recurring deficit at 2027/28 of £21.9m but will be removed from the next iteration of the MTFP until there is clarity from the Home Office. An organisational risk has already been raised via Service Improvement Board to reflect the risks to the in-year and medium term 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 Q2 Financial Performance Report 12. GOVERNANCE BOARD AND CHIEF OFFICER APPROVAL   This report has been presented to the following oversight board:  **Scrutiny Executive Board**    Meeting chaired by:  **A/DCC Mark Hobrough**    Meeting date:  **07.11.2023**    Actions and amendments arising from meeting:  **N/A**    I confirm this report has been discussed and approved at a formal Chief Officers’ meeting.    Meeting chaired by:  **CC Pam Kelly**    Meeting date:  **14.11.2023**    I confirm this report is suitable for the public domain.    **Signature:** Signature**Date: 14.11.2023** | | |