

OFFICE OF THE POLICE AND CRIME COMMISSIONER OFFICE OF CHIEF CONSTABLE	
LEAD CHIEF OFFICER:	Nigel Stephens
TITLE:	Finance Report 2019/20 – Third quarter (Q3)
DATE:	4 March 2020
TIMING:	Quarterly
PURPOSE:	For monitoring
1.	<u>RECOMMENDATION</u>
1.1	To consider and note the financial performance of the Force and OPCC for the third quarter of financial year 2019/20. To consider and note the updated MTFP position for 2020/21 and beyond.
2.	<u>INTRODUCTION & BACKGROUND</u>
2.1	<p>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.</p> <p>The quarterly report includes:</p> <ol style="list-style-type: none"> 1) Appendix 1a, 1b, 1c: Income and Expenditure for the group, force and OPCC. The income and expenditure report takes into account expenditure commitments made as at the quarter end but have not yet been invoiced or paid and a forecast of the year end position. 2) Appendix 2: Investment fund – details of items approved, spent and budget reallocated. 3) Appendix 3a: Cash and investments – details of level of cash the force has and how much money is on investment. 4) Appendix 3b: Debtors position. This details the level of income yet to be cash receipted and the age of the debt. 5) Appendix 3c: Creditors position. This details the level of expenditure yet to be cash paid and the age of the liability. 6) 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. 7) Appendix 4: Usable reserves. This schedule identifies the level of cash backed reserves in line with the Reserves Strategy and the MTFP. 8) Appendix 5: Medium Term Financial Plan. This provides a longer term view on the financial position of the force.

	Further development of the dashboard of high level financial indicators continues in line with the revised Corporate Performance Framework being developed by the DCC.												
3.	<u>Financial Highlights –</u> <u>Q3 Year to date outturn: £1,260k deficit</u> <u>Year end forecast: £97k surplus</u>												
3.1	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.												
3.2	On a group basis, the year to date surplus at Q3 2019/20 has decreased by £1,260k to £2,952k against a budget year to date surplus of £4,212k. The OPCC has a year to date deficit of £340k.												
	However, the full year forecast for the group shows a small surplus of £97k at the year end and the OPCC is forecast to break even for the year. The group forecast surplus of £97k arises from the following variances:												
	Pay variances – officers and staff: surplus £1,136k												
3.3	At the end of Q3, police officer pay and salary allowances forecast at the end of the financial year are under budget by £1,660k due to the additional 40 officers investment budgeted for at the start of the year that have yet to be fully recruited. This surplus is offset by a £524k deficit on Staff and CSO pay and allowances. The assumptions for the 2019/20 budget already reflects probationers being recruited at lower than the mid point of the salary scale, unlike in previous years when they were budgeted for at the mid-point of the scale.												
3.4	At the end of Q3, staff and PCSO pay costs are forecast to be overspent by £524k. Within this, staff pay was underspent by £1,322k due to vacancies which was offset by agency costs of £1,364k in the short term. £331k of redundancy costs have been recognised in the first 6 months following the outcome of a Service Improvement review which is now fully implemented generating just over £700k in recurrent savings. A further £288k of early retirement capital costs and £54k of additional standby allowances are forecast by year end. £200k of staff seconded in costs for PEQF relate to collaborative activities and have been reclassified.												
	Overtime – officers and staff: surplus £360k												
3.5	Total overtime costs (officer and staff) at year end are forecast to show a net surplus of £360k, made up as follows:												
	<table border="1"> <tr> <td>Police Officer overtime deficit</td> <td>(£128k)</td> </tr> <tr> <td>Police Officer rest day overtime deficit</td> <td>(£219k)</td> </tr> <tr> <td>Police Officer public holiday surplus</td> <td>£130k</td> </tr> <tr> <td>Police staff overtime – surplus</td> <td>(£17k)</td> </tr> <tr> <td>Police staff weekend & public holiday enhancements surplus</td> <td>£594k</td> </tr> <tr> <td>Total forecast surplus at 31 March 2020</td> <td>£360k</td> </tr> </table>	Police Officer overtime deficit	(£128k)	Police Officer rest day overtime deficit	(£219k)	Police Officer public holiday surplus	£130k	Police staff overtime – surplus	(£17k)	Police staff weekend & public holiday enhancements surplus	£594k	Total forecast surplus at 31 March 2020	£360k
Police Officer overtime deficit	(£128k)												
Police Officer rest day overtime deficit	(£219k)												
Police Officer public holiday surplus	£130k												
Police staff overtime – surplus	(£17k)												
Police staff weekend & public holiday enhancements surplus	£594k												
Total forecast surplus at 31 March 2020	£360k												

3.6	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. The large surplus for police staff relates to weekend enhancements budgeted for but claimed only when incurred. The 2020/21 budget now takes this reduction into account.
	Other employee related costs: surplus £281k
3.7	A net surplus of £281k is forecast for other employee related costs. This is due to lower external training courses and conferences not booked (£200k), and no forecast pension costs for the 30+ scheme (£63k) against budget.
	Non-pay variances – Premises costs: deficit £789k
3.8	Premises are forecast to be overspent at year end by £789k due primarily to £930k of additional costs arising from the delays in buying out the PFI contract for Ystrad Mynach until 31 January 2020. Additional costs of £73k are also forecast in relation to rates, which are offset by a £138k surplus on planned maintenance programme and lower utility costs (mainly fuel) of £100k.
	Non-pay variances – Transport costs: deficit £12k
3.9	Transport costs are forecast to be overspent at year end by £12k, primarily due to higher mileage/travel costs (£100k) and repair costs (£38k), offset by lower vehicle fuel & insurance costs of £112k.
	Non-pay variances – Supplies & Services costs: deficit £213k
3.10	Against a budget of £21,473k, supplies & services costs are forecast to be over spent by £213k (1% of budget) at year end. This position is after some forecast movements in operational and non-operational equipment (£143k deficit), professional fees and charges (£336k surplus), ICT expenditure (£725k deficit), Telecomms and mobile phone costs (£260k surplus). This also assumes that there are no significant additional collaboration costs with other forces or Airwave costs before the year end.
	Other movements: net (deficit) movement £763k
3.11	The net movements are explained by a deficit on the Development Fund of £1,028k offset by higher forecast income of £305k. The additional forecast cost on the Development Fund relates to amounts to fund the ICT and equipment needs of the extra 162 officers from Operation Uplift. These additional funds will be utilised in line with the recruitment profile of these extra officers over the next three financial years. The higher income is the result of £153k more investment income from better average interest rates over the year. There have also been movements in Government and partnership funding including the recognition of £295k of Operation Uplift's 2019/20 funding that has yet to be received.
4	<u>Office of the Police & Crime Commissioner – break even</u>
4.1	The OPCC is forecast to break even for the financial year. The year to date position is a £340k deficit due to timing differences between commissioning costs recognised and the drawdown of reserves. GDAS contributions (outstanding in previous quarters) have now been received.

5	<u>Financial Highlights – Investment Fund Priorities</u>										
5.1	<p>Appendix 2 provides more detail on the planned expenditure from this budget and is made up as follows:</p> <table border="1"> <tr> <td>Total Investment Fund Budget</td> <td>£1,718,058</td> </tr> <tr> <td>Add additions to budget in year</td> <td>£1,028,377</td> </tr> <tr> <td>Less amounts allocated out at budget set</td> <td>(£1,408,125)</td> </tr> <tr> <td>Less amounts to transfer to reserves</td> <td>(£1,191,875)</td> </tr> <tr> <td>Total remaining budget</td> <td>£146,435</td> </tr> </table> <p>Appendix 2 shows that the total value of all identified projects currently marked for funding by the Investment Fund in 2019/20 is £1,408k. The actual year to date spend for 2019/20 is only £224k.</p>	Total Investment Fund Budget	£1,718,058	Add additions to budget in year	£1,028,377	Less amounts allocated out at budget set	(£1,408,125)	Less amounts to transfer to reserves	(£1,191,875)	Total remaining budget	£146,435
Total Investment Fund Budget	£1,718,058										
Add additions to budget in year	£1,028,377										
Less amounts allocated out at budget set	(£1,408,125)										
Less amounts to transfer to reserves	(£1,191,875)										
Total remaining budget	£146,435										
6.	<u>Financial Highlights – balance sheet.</u>										
6.1	<p>The information within section 5 provides the highlights and key performance indicators in relation to balance sheet items. The key areas that are significant to the overall financial performance of the force are:</p> <ul style="list-style-type: none"> • Investments and cash • Debtors • Creditors • Capital • Reserves 										
	Investment and cash (appendix 3a)										
6.2	<p>As at 31 December 2019, £56.0m 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.</p> <p>Average interest rates on investments is 0.84% (30 Sept 2019: 0.85%, 30 June 2019: 0.87%). Interest rates have remained static and it is expected this will continue unless the Bank Of England changes the base rate. Investment interest, therefore, does not contribute significantly to the force's income budget.</p> <p>Actual cash held within the bank account at 31 December 2019 was £2,267k.</p>										
	Debtors (appendix 3b)										
6.3	Total sales invoices that were unpaid as at 31 December 2019 totalled £409k (30 Sept 2019: £816k), of which £311k (30 Sept 2019: £487k) was overdue.										
6.4	The collectability of debtors is not considered a risk. The top 5 debtors, as presented in Appendix 3b total £286k (70% of total debtors by value) and are primarily public sector bodies. The balance with Dyfed Powys Police and South Wales Police relates to invoices recently raised for collaborative activities. There are no irrecoverable debts identified in the year.										

	Creditors (appendix 3c)
6.5	As at 31 December 2019 there was £1,743k of creditors, an increase on the total creditors of £964k at 30 Sept 2019 (Q1: £4,216k). Of this total, £1,032k is overdue for payment (Q2: £144k, Q1: £2,126k). The majority of the creditors balance are with public sector bodies and total £1,260k or 72% of the total balance.
6.6	The average age of an invoice paid within the quarter was 27.12 days (Q2: 32.21 days, Q1: 29.80 days) which is well within the 30 day target. It is expected that this position will be maintained going forward so that the average age will meet this target for the year.
6.7	An average of 31.5% of invoices by number are being paid with via a purchase order. Supplier details on the vendor database are being updated, and guidance training being provided as necessary. The No PO No Pay policy will be enforced with suppliers from 1 February 2020 onwards.
	Capital (appendix 3d)
6.7	The budget for the capital and projects was £27,919k. The expenditure to date on projects is £2,294k leaving a remaining budget of £25,625k.
6.8	Estates – the budget of £22,327k includes major projects relating to HQ relocation (£11,077k), Police Hubs & Spokes (£5,500k) and Ystrad Mynach PFI (£4,000k). The Ystrad Mynach PFI scheme business case for voluntary termination has been approved by the Welsh Government and the contract will be terminated on 31 January 2020 at a cost of approximately £7,137k (budgeted cost £8,000k).
6.09	Vehicles – The 2019/20 budget is £1,043k and expenditure to date is £1,047k. It is expected to be overspent at the financial year end.
6.10	Other long term projects – the adjusted budget of £4,400k includes a further £4,000k for Ystrad Mynach PFI that relates to the revenue element of the voluntary termination.
	ICT project – the original budget of £150k is overspent at Q3 by £273k due to collaborative DSD projects with South Wales Police, and infrastructure upgrade projects.
	Reserves (appendix 4)
6.11	Appendix 4 details the position in relation to utilisation of reserves and the current balance of usable reserves is unchanged at £55,310k.
7	Medium Term Financial Plan (appendix 5)
7.1	Appendix 5 provides detail of the latest version of the MTFP at January 2020 that has been prepared as the final budget for 2019/20. Following the Home Secretary's police grant announcement and a slightly higher than expected pay award of 2.5%, the total year 5 deficit including the expected impact of funding formula cuts is now £7.9m before planned efficiency savings. Key messages from the Police settlement are: <ul style="list-style-type: none"> • Removal of the police transformation fund • Reduced capital grant funding (Gwent reduced by £350k) • £5.5m additional Uplift money to cover 62 officer salary+on costs in 2020/21, but also all ancillary costs (police staff, kit, vehicles etc) for the

	<p>full 165 additional officers in Gwent. We will only be funded for salary +on costs of the remaining 103 officers in future years.</p> <p>The MTFP will be updated again as part of the 2020/21 budget setting exercise now that the funding settlement from the UK and Welsh Governments has been confirmed. The precept and budget for 2020/21 will be presented by the Commissioner to the Police and Crime Panel meeting on 31 January 2020.</p>
8.	<u>Risk areas identified</u>
8.1	<p>The recent Government announcement relating to 2.5% pay award will have an additional cost for 2019-20 from the 1st September as the budget assumed a 2% pay award. This presents a new cost pressure of £250k in the current financial year and £500k recurrently, and is reflected in MTFP, Appendix 5.</p> <p>The custody medical contract is still under significant pressure and overspending despite placing an additional £173k into the base budget. This still needs careful management to minimise the deficit.</p> <p>Significant movements within the Supplies and Services budgets require further investigation to determine whether there are any new cost pressures not currently recognised.</p>
9.	<u>FINANCIAL CONSIDERATIONS</u>
9.1	These are detailed in the report.
10.	<u>PERSONNEL CONSIDERATIONS</u>
10.1	There are no staffing / personnel implications arising from this report.
11.	<u>LEGAL IMPLICATIONS</u>
11.1	There are no legal implications arising from this report.
12.	<u>EQUALITIES AND HUMAN RIGHTS CONSIDERATIONS</u>
12.1	This report has been considered against the general duty to promote equality, as stipulated under the Strategic Equality Plan and has been assessed not to discriminate against any particular group.
12.2	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.
13.	<u>PUBLIC INTEREST</u>
13.1	This is a public document.
14.	<u>CONTACT OFFICER</u>
14.1	Jackie Glossop, Har Ping Boey, Matthew Coe
15.	<u>ANNEXES</u>
15.1	2019/20 Q3 financial Performance report v2

