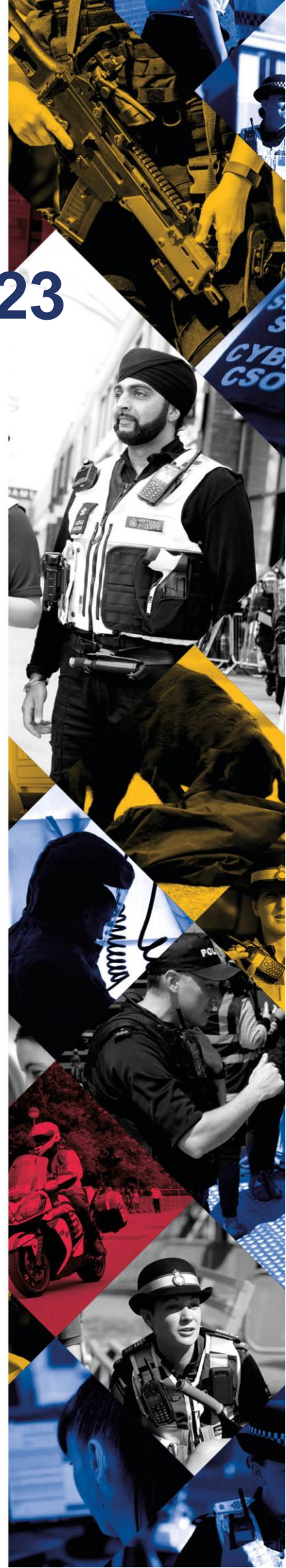




Finance Report 2022/23 – Third Quarter (Q3)

CHIEF OFFICER TEAM REPORT

31 January 2023



1. PURPOSE AND RECOMMENDATION

1.1 The purpose of this report is for monitoring.

1.2 There are four recommendations:

- To note the forecast out-turn that is based on a number of assumptions concerning projected expenditure to year end.
- To undertake a review of the agency staff use due to the high costs.
- To review overtime costs that continue to be above budget.
- To note the establishment of an Efficiency Group that will focus on the implementation of efficiency measures to support the financial challenges faced in 2023/24.

2. INTRODUCTION & BACKGROUND

2.1 This quarterly financial report presents detailed information on revenue, capital 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.

2.2 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 take 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.
- **Appendix 2a:** Cash and investments – details of level of cash the force has and how much money is on investment.
- **Appendix 2b:** Debtors position. This details the level of income yet to be cash receipted and the age of the debt.
- **Appendix 2c:** Creditors position. This details the level of expenditure yet to be cash paid and the age of the liability.
- **Appendix 2d:** 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 3:** Usable reserves. This schedule identifies the level of cash backed reserves in line with the Reserves Strategy and the MTFP.
- **Appendix 4:** Medium Term Financial Plan. This provides a longer-term view on the financial position of the force.

3. ISSUES FOR CONSIDERATION

Financial Highlights

- Q3 Year to date outturn: £445k overspend
- Full Year forecast outturn: £3,275k underspend (before transfers to reserves)



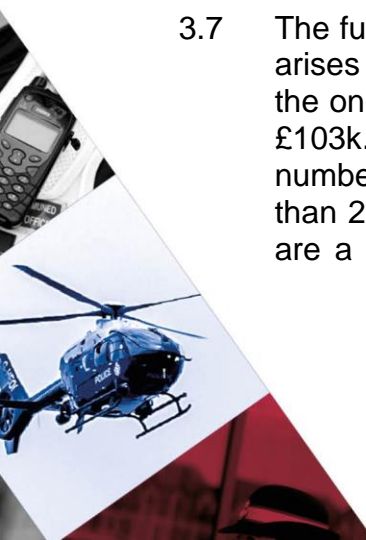
- 3.1 The information below provides details on key trends and results for the year. Where a variance (favourable or adverse) represents a significant risk to being able to meet budget a more detailed analysis is provided.
- 3.2 Forecasts have been included for Q3.
- 3.3 As shown in Appendix 1a, on a group basis there is a year to date overspend at Q3 for 2022/23 of £445k against a budgeted underspend position at Q3 of £3,223k. The group year to date net overspend arises from the following variances:

Pay variances – officers and staff: full year forecast underspend £1,872k

- 3.4 At the end of Q3, Police Officer pay and salary allowances are under budget by £3,177k due primarily to the year to date effect of the recruitment profile of officer cohorts. These posts are budgeted in full for the financial year, hence the phasing of recruitment results in underspends for the period from 1/4/2022 onwards while these posts are unfilled. The planned recruitment profile to meet Operation Uplift targets through this year is shown in the following table and will enable the force to achieve a net increase in 206 officers as its contribution to the 20,000 national target.

2022/23 Recruitment	Number
July officer cohort	43
September officer cohort	58
January officer cohort	50
March officer cohort + Police Now recruitment	50 + 12
Total planned officer recruitment	213

- 3.5 The underspend is a non-recurrent saving for this financial year only. Once the planned recruitment has taken place, the full cost of officers will be realised for 2023/24 budgets onwards. At Q3 the full year forecast of this non-recurrent underspend for 2022/23 is £3,114k.
- 3.6 The underspend on police officer pay and allowances is offset by an overspend of £1,326k on Staff and CSO pay and allowances at the end of Q3. This overspend position is a net position of the result of an overspend on permanent post salaries of £306k, agency costs of £612k, staff seconded in costs of £83k. There are also non-recurrent costs for redundancy & early retirement capital costs of £293k (Q2 2021/22 – nil) relating to staff members that left at the end of September 2022.
- 3.7 The full year forecast for staff pay and allowances is an overspend of £1,242k. This arises from a small underspend on salaries of £11k offset by agency costs of £816k, the one-off redundancy costs noted above of £293k, and seconded in staff costs of £103k. The difference this year is that we have the full year impact of growth in CSO numbers following recruitment in January 2022. The level of agency cost is higher than 2021/22 to cover vacancies in the short term. Whilst it is acknowledged there are a significant number of force projects that are resourced with agency staff, it



remains a substantial overspend on the police staff pay budget. The Efficiency Working Group is looking into these posts as part of the new efficiency and savings programme.

Overtime – officers and staff: full year forecast overspend £1,400k

3.8 The actual YTD position on overtime is also worse compared to last year, with an overspend at 31 December 2022 of £1,259k (Q2 2021/22 £609k). The non-recurrent payment of historic TOIL balances accounts for £214k of the Q3 overspend and this is expected to grow to £250k for the full year following the implementation of the 3 month rolling TOIL payments in line with Police Regulations.

3.9 Total overtime costs (officer and staff) at year end are forecast to show a net overspend of £1,400k, made up as follows, and reflects the work done to realign Officer rest day and bank holiday overtime budgeting:

	Q3 2022/23	Q3 2021/22
Police Officer and Staff TOIL payments	(£250k)	-
Police Officer overtime overspend	(£424k)	(£396k)
Police Officer rest day overtime overspend	(£756k)	(£943k)
Police Officer public holiday underspend	£150k	£539k
Police staff overtime – overspend	(£428k)	(£304k)
Police staff weekend & public holiday enhancements underspend	£308k	£520k
Total under/(over)spend forecast at 31 March 2023	(£1,400k)	(£584k)

3.10 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.

3.11 The annual overtime budget was reduced by £1m for the 2020/21, 2021/22 and 2022/23 budgets. The overspend relates to ongoing high levels of demand, as well as additional efforts to tackle backlogs and improve performance, but there may also be a cultural or behavioural element to current working practices. There remains a risk that the forecast overspends against budget at 31 March 2023 will be much higher, offsetting any underspends on pay and allowances. Significant analysis has been undertaken to understand working patterns, realign budgets and improve reporting for management, and this increased level of scrutiny is necessary to ensure that the level of overtime is managed. A comprehensive review of overtime within the LPAs during February 2023 is being undertaken but further work is needed as part the Efficiency Working Group’s programme to enable the force to manage overtime to the £2m budget going forward.

Other employee related costs: full year forecast underspend £228k



- 3.12 There is an Actual YTD underspend of £18k for other employee related costs. More external training has taken place with changes in the timing of delivery which has led to an overspend of 220k at Q3 but a full year forecast underspend of £312k. The trend of rising insurance costs is mirrored with Employee Liability insurance costs being £146k overspend at Q3 and a forecast overspend of £86k for the year. Pension costs are currently underspent by £343k due to lower Ill Health capital pension costs and no officers leaving under the “30+ pension payments” to date. However, the full year forecast assumes the full pension budget will be utilised by the end of 2022/23.

Non-pay variances – Premises costs: full year forecast overspend £828k

- 3.13 Premises costs are overspent at Q3 by £898k compared to an overspend of £102k at the same time last year. This is due primarily to the substantial increases in utility prices (£398k), confirmation of the rates associated with new HQ (£275k) and planned & reactive maintenance works (£248k) at Q3 2022/23.
- 3.14 The increase in the forecast overspend for the full year from the Q3 position is due almost solely to the continued inflation of electricity and gas prices due to global events. These costs are expected to increase by a further £321k, which will effectively see the 2022/23 cost almost double from £966k to £1,686k. Going forward this higher price level will be reflected in the 2023/24 budget.

Non-pay variances – Transport costs: full year forecast underspend £150k

- 3.15 Transport costs are underspent at Q3 by £169k because of a reduced cost of annual charges for helicopter hire via NPAS of £106k. The full year forecast is for an underspend of £150k arising from the reduced helicopter costs (£141k), vehicle spares (£114k) and lower costs of insurance work for recovery (£110k). These are offset by additional vehicle hire related to the new RASSO team (£43k); higher external vehicle repairs due to vacancies within the Fleet team and engine replacements on high performance vehicles (£95k); and the ongoing impact of higher fuel prices arising from global issues (£52k). The impact of higher fuel prices continues to be monitored and has been reflected in the 2023/24 budget setting exercise.

Non-pay variances – Supplies & Services costs: full year forecast underspend £649k

- 3.16 Supplies & services costs are overspent at Q3 by £4,062k and there are many variations between the cost headings in this category.
- 3.17 The main differences arise from a £2,427k overspend from timing differences of expenditure against budget for Consultants’ fees – the fully year forecast is in line with budget. This cost category includes specific programmes such as Substance Misuse, ACES, Breaking the Cycle, and We Don’t Buy Crime, as well as departmental specific budgets spread across the Force and OPCC. There are also Mutual Aid costs of £440k at Q3 that have been fully recovered in income.



- 3.18 Partnership fees are £259k overspent against budget at Q3 with multiple 'overs' and 'unders' against projects and commissioning costs that will even themselves out over the remaining 3 months of the year. Solicitors' fees are overspent by £115k for the year as the specific costs associated with Operation Pitch have been received and paid. ICT costs are substantially overspent at Q3 by £953k but this is due to the earlier timing of hardware purchases which will even out over the full year. This will be managed from within the overall ICT revenue and capital programme, which is forecast to be £321k underspent at year end.
- 3.19 Additional underspends at Q3 include a reduced cost for the Custody medical contract that is being renegotiated (£100k) which is forecast to grow to £390k at year end. The contract is a multi-force procurement and, assuming bids are received, the contract is expected to be awarded in June 2023.

Other movements:

- 3.20 The invoices for the contribution to national technology programmes managed by the Police Digital Service (PDS) have now been received in full and they are £61k higher than originally budgeted. No borrowing will be incurred for 2022/23 which will save £189k of interest charges by year end.
- 3.21 Investment income received is slightly higher than budget at Q3 as a result of rises in interest rates. The current trends suggest we will have an extra £331k of investment income at the end of the financial year as a result.
- 3.22 Other income is lower by £773k at Q3 as we are awaiting payment of Home Office Grants, local partnership income and reimbursement of seconded out officer costs. We expect this income will be received in full by the end of the year.

Office of the Police & Crime Commissioner – forecast underspend £137k

- 3.23 Included within the group figures above are overspends at Q3 relating to the Office of the Police & Crime Commissioner totalling £115k, and a forecast underspend for the full year of £137k. These are shown separately in Appendix 1c.
- 3.24 Salary and allowances – there is a small YTD overspend of £44k at Q3.
- 3.25 Non-pay expenditure – there are underspends totalling £39k in non-pay expenditure. The GDAS contribution, anticipated in Q1, was received in Q2.
- 3.26 There are no known risks to the receipt of income or Council Tax funding.

Financial Highlights – balance sheet

- 3.27 The information within section 6 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:



Investment and cash (appendix 2a)

- 3.28 As at 31 December 2022, £40.5m 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.
- 3.29 The average interest rates on investments is 1.68% (30 September 2022: 1.52%, 30 June 2022: 0.29%). Interest rates have increased substantially on previous years as the Bank of England changes the base rate to combat inflation pressures in the wider economy. Investment interest, therefore, is likely to contribute more to the Force's income budget in 2022/23.
- 3.30 Actual cash held within the bank account at 31 December 2022 was £1,271k.

Debtors (appendix 2b)

- 3.31 Total sales invoices that were unpaid as at 31st December 2022 totalled £2,161k (30 September 2022: £973k), of which £1,915k (30 September 2022: £440k) was overdue. Outstanding debtors have increased in Q3 and regular chasing and reminder letters are sent to all overdue debtors.
- 3.32 The collectability of debtors is not considered a risk. The top 5 debtors, as presented in Appendix 2b, total £1,805k (84% of total debtors by value) and are all police or government bodies. The £620k due from the National Probation Service relates to their contributions to the 2022/23 GDAS contract and the Revolving Doors pilot that started in October 2022. The South Wales Police balances relate primarily to Prison intelligence, mutual aid provision and WECTU reimbursements, while the Dyfed Powys Police balances are for 6 months contribution to the Safety Camera partnership initiative. A total of 17 irrecoverable debts with a total value of £1,898 and which date back to 2017 and the change in financial systems from Lawson to BW, have been identified and will be written off before the 2022/23 year end.

Creditors (appendix 2c)

- 3.33 As of 31st December 2022, there were £808k of creditors which is an increase on the total creditors of £423k at 30th September 2022.
- 3.34 Of this total, £388k or 47.9% (Q2 2022/23: £101k) of the total is overdue for payment. This increase is partly due to the timing of approval of invoices by departments during the Christmas period which meant that a number of balances (including the overdue Monmouthshire Council and Solo Cleaning amounts) were paid slightly later in the first week of January. The value of overdue items fell to £145k (19% of total creditors) at 31st January 2023 as a result.
- 3.35 The average age of an invoice paid within Q3 remains within the 30 day target at 20.77 days on average, which is comparable to the previous quarter (23.23 days). Further work continues on clearing down and resolving historic balances within the

Accounts Payable team. It is expected that the average age will continue to meet the target going forward.

Capital (appendix 2d)

- 3.36 The initial budget for the capital and projects was £17,944k but this has been revised to £21,273k to reflect additional spend on a number of existing projects as a result of increased material prices and operational changes. These include additional vehicle requirements, budgeted spend on electric vehicle charging points, fleet workshop relocation, uniform stores at Pontypool and TSU re-provision. The full year forecast spend is £14,565k, indicating a £7,536k underspend on the capital programme by 31 March 2023.
- 3.37 The expenditure to date on capital and long-term projects is £9,576k leaving a remaining budget of £11,301k. 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.
- 3.38 Estates – the budget of £13,632k includes major projects relating to Police Hubs – Abergavenny/GPOF/Fleet workshops relocation (£6,359k), Property Evidence Store (£1,200k), and Maindee Refurbishment (£933k). However, there is still £9,368k of budget remaining and a forecast underspend of £7,055k on estates projects due to changes in the timings of the Property Store (£1,200k), Abergavenny Station build (£1,078k), Gwent Police Operational Facility (£1,231k) and Fleet workshops relocation (£1,004k) projects. Further investment discussions and alternative provision form part of the Capital Strategy Board's agenda.
- 3.39 Vehicles – The 2022/23 revised budget is £3,149k and expenditure to date is £1,096k. The telematics system to track vehicle deployment and usage is online and continues to be fitted to the fleet. Reporting from the system is developing and is highlighting some areas for further review, such as in the Force's use of pool cars. The new vehicle purchase contract came into effect on 1 April 2021 and there are still delays with delivery of some vehicles to meet the usual replacement cycle and to accommodate environmental impacts. There is a forecast underspend at 31 March 2023 of £1,439k.
- 3.40 ICT - The budget is £4,450k, with expenditure to date is £4,523k and a forecast spend at year end of £5,408k. Substantial progress has already been made with FFF refresh (£701k) and server replacements. The rollout of updated Body Worn Video units with greater connectivity to force laptops/desktops is largely complete with substantial expenditure of £991k against a budget of £1,118k so far. The additional expenditure for the Control Room project has also materialised as expected with £1,662k against a £77k budget. The forecast overspend for all ICT projects of £957k at 31st March 2023.

Reserves (appendix 3)

- 3.41 Appendix 3 details the position in relation to the current balance of reserves of £33,719k based on the audited financial statements at 31 March 2022.



Medium Term Financial Plan (appendix 4)

- 3.42 Appendix 4 provides detail of the latest version of the 2023/24 to 2027/28 MTFP as presented to by the Commissioner to the Police & Crime Panel (PCP) meeting on 27 January 2023. The Panel agreed with the Commissioner's proposed council tax precept increase of 6.82% in line with the MTFP.
- 3.43 The impact of global events, and the significant changes in the UK Government over the past 6 months, has created a lot of uncertainty over funding and cost pressures for 2023/24 and subsequent years. The provisional and final police settlements have also now been received and the MTFP will be updated for any changes.
- 3.44 The current forecast of the recurring annual deficit of £20,887k at 2027/28 is therefore highly dependent on inflationary pressures, borrowing decisions for the capital programme, and the outcome of the review of the Police Funding formula. The MTFP will updated again following the PCP meeting in January 2023 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 2023/24 and beyond, with the need for further savings and efficiencies. An Efficiency Working Group, jointly chaired by the DCC and ACOR, is leading on the identification of further savings areas to help close the anticipated deficit of £3,547k for 2023/24.

4. COLLABORATION

- 4.1 Collaborative activities have been included in the figures above.

5. NEXT STEPS

- 5.1 To consider and note the financial performance of the Force and OPCC for the third quarter of financial year 2022/23.

6. FINANCIAL CONSIDERATIONS

- 6.1 These are detailed in the report.

7. PERSONNEL CONSIDERATIONS

- 7.1 There are no staffing / personnel implications arising from this report.

8. LEGAL CONSIDERATIONS

- 8.1 There are no legal implications arising from this report.



9. EQUALITIES & HUMAN RIGHTS CONSIDERATIONS

- 9.1 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.
- 9.2 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.

10. RISKS

- 10.1 The outcome of changes in the UK Government and the impact of the Chancellor's budget for public sector spending is still unknown. The review of the Police Funding Formula has again been delayed and the current MTFP (January 2023) already predicts lost funding of £2m p.a. from 2025/26 (a total of £6m over three years) in the recurring annual deficit in 2027/28 of £20.9m.

11. PUBLIC INTEREST

- 11.1 In producing this report, has consideration been given to 'public confidence'? **Yes**
- 11.2 Are the contents of this report, observations and appendices necessary and suitable for the public domain? **Yes**

12. REPORT AUTHOR

- 12.1 Matthew Coe

13. LEAD CHIEF OFFICER

- 13.1 Nigel Stephens, Assistant Chief Officer - Resources

14. ANNEXES

- 14.1 2022/23 Q3 Financial Performance Report (values version)

15. CHIEF OFFICER APPROVAL

- 15.1 I confirm this report has been discussed and approved at a formal Chief Officers' meeting.
- 15.2 I confirm this report is suitable for the public domain for the reasons stated in 11.3.



Signature: *Nigel Stephens*

Date: 2 February 2023

