

<u>OFFICE OF POLICE AND CRIME COMMISSIONER</u>	
<u>OFFICE OF CHIEF CONSTABLE</u>	
LEAD CHIEF OFFICER:	Assistant Chief Officer, Resources
TITLE:	Financial year 2018/19 Q2 Finance Report
DATE:	13th December 2018
TIMING:	Quarterly
PURPOSE:	For consideration
1.	<u>RECOMMENDATION</u>
1.1	To consider and note the financial performance of the Force and OPCC for the second quarter (30 September) of financial year 2018/19, as reported to and discussed at the Chief Officer Team meeting on 6 November 2018.
1.2	To consider and note the updated position for the Debtors and Creditors at 31 October 2018 as set out in paragraphs 5.3 to 5.10 and appendices 3b and 3c.
2.	<u>INTRODUCTION & BACKGROUND</u>
2.1	<p>This financial report is a detailed quarter end that includes information on balance sheet and working capital balances (debtors, creditors and cash/investments). This provides a more comprehensive position for consider and will support decision making.</p> <p>Quarterly reporting will also support the team to adopt a business partnering approach, enabling robust reporting and meetings undertaken in a timely manner for work stream leads. It will also reduce the burden on year end reporting as information will be kept up to date more regularly throughout the year.</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 (as previously reported). The income and expenditure report takes into account any 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 - details the level of income yet to be cash receipted and the age of the debt. 5) Appendix 3c: Creditors position - details the level of expenditure yet to be cash paid and the age of the liability. 6) Appendix 3d: Capital & Project spend - presents the spend to date on

	<p>capital projects and the budget remaining to the end of the financial year.</p> <p>7) Appendix 4: Usable reserves - identifies the level of cash backed reserves in line with the Reserves Strategy and the Medium Term Financial Plan.</p> <p>8) Appendix 5: Medium Term Financial Plan - provides a longer term view on the financial position of Gwent Police.</p> <p>Further development of the dashboard of high level financial indicators is being undertaken and will be included within Quarter 3.</p>
3.	<u>Financial Highlights – Year End Forecast: underspend £1,597k</u>
3.1	The information below provides information 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, at the end of Quarter 2 there is a forecast underspend of £1,597k at the year end. The OPCC is forecast to break even for the year. The group underspend arises from the following variances:
	Pay variances – officers and staff: underspend £3,669k
3.3	<p>At the end of Quarter 2, police officer pay and salary allowances are forecast at the end of the financial year to be under budget by £3,583k due to :</p> <p>Budget variance re: spinal points on Officer pay: £3,204k</p> <p>Impact of retirees: £350k</p> <p>Total: £3,583k</p>
3.4	As previously reported in Quarter 1, the budget variance of £3,204k is due to the standard budget assumptions using the mid-point of the salary scale for new officers. In 2017/18 there were approximately 100 new officers and a further 78 in 2018/19. These posts are paid initially at the bottom of the grade rather than the mid point. These probationers cost approximately £18,000 less than the average salary of officers. The full year effect of the 2017/18 recruitment and the partial effect of the 2018/19 recruitment accounts for the forecast positive variance of £3,204k against the original budget. The assumptions for the 2018/19 budget have already been changed to reflect probationers being recruited at lower than the mid point of the salary scale.
3.5	Impact of retirees (est £350k): The original budget assumed 55 officers would retire in 2018/19. In most cases the retired officer would be at top of grade and this is what was budgeted for. The effect of replacing these experienced officers with equivalent officers at the bottom of the grade is estimated at £350k.
3.6	As the underspend on officer pay and allowances is primarily attributable to spinal point differential it is unlikely that this will be recovered as the year progresses.
3.7	At the end of Q2, staff and PCSO pay costs are forecast to be underspent at the end of the financial year by £86k. Within this, staff pay is forecast to be underspent by £1,638k due to vacancies. This is offset by agency costs of £1,350k to cover these vacancies in the short term, and also by additional

	pension capital costs from early retirements of £208k.	
	Overtime – officers and staff: underspend £73k	
3.8	Total overtime costs (officer and staff) at year end are forecast to show a net underspend of £73k, made up as follows:	
	Police Officer overtime overspend	£86k
	Police Officer rest day overtime overspend	£209k
	Police Officer Public Holiday underspend	(£218k)
	Police staff overtime – underspend	(£1k)
	Police staff weekend & public holiday enhancements underspend	(£149k)
	Total forecast underspend at 31 March 2019	(£73k)
3.9	Overtime of collaborative and externally funded activities is not included in these. At the end of quarter 2, there is a year to date overspend on police officer overtime of £282k, which includes £245k in relation to collaborative and externally funded activities. It is anticipated that these costs will be recovered through the collaborative recharge and cost recovery process by year-end.	
	Other employee related costs: underspend £789k	
3.10	A net underspend of £789k is forecast for other employee related costs. There are expected to be fewer early medical retirements than anticipated resulting in an underspend of £905k. This is offset by additional pension costs for injury payments of £168k against budget.	
	Non-pay variances – Premises costs: overspend £404k	
3.11	Premises are forecast to be overspent at year end by £404k due primarily to £303k of additional rates costs backdated three years for Terram. The rates appeals process has been instigated based on both the utilisation and condition of the facility.	
	Non-pay variances – Transport costs: overspend £319k	
3.12	Transport costs are forecast to be overspent at year end by £319k, primarily due to overspends on higher fuel costs (£64k), accident repair costs (£180k) and mileage and travel costs (£95k).	
	Non-pay variances – Supplies & Services costs: overspend £639k	
3.13	Supplies & services costs are forecast to be overspent at year end by £639k. This overspend includes associated with New HQ design of £479k currently shown as revenue expenditure but which will be transferred to capital funding by the year end. In addition, there is significant pressure on the medical examination budget of £120k which is forecast to be overspent by £330k by year end due to increased demand for the services.	
	Other movements: net (overspend) movement £1,572k	
3.14	Professional fees and charges includes £400k to develop the Monmouth hub which is currently on hold and no significant expenditure is expected in 2018/19. The budget will be put back into earmarked reserves.	
3.15	An additional £2,000k has also been transferred from revenue to capital reserves to fund the implementation of the Estate Strategy and specifically the development of the Policing Hubs.	

4	<u>Financial Highlights – investment fund</u>												
4.1	<p>Appendix 2 provides detail on the planned service investment which have been identified through the Force Management Statement process and summarised as follows:</p> <table border="1"> <tr> <td>Original Investment Fund budget</td> <td>£5,641,025</td> </tr> <tr> <td>Add additions to budget in year</td> <td>£586,000</td> </tr> <tr> <td>Less amounts allocated out at budget set</td> <td>(£2,386,477)</td> </tr> <tr> <td>Total original budget</td> <td>£3,840,548</td> </tr> <tr> <td>Add forecast 2018/19 underspend</td> <td>£1,597,000</td> </tr> <tr> <td>Total adjusted budget</td> <td>£5,437,548</td> </tr> </table> <p>Appendix 2 shows that the total value of all identified projects currently marked for funding by the Investment Fund is £4,373k. A number of potential investments remain with the Chief Officers for discussion and approval. These are annotated by “TBC” within Appendix 2. The forecast spend for 2018/19 is £3,259k.</p> <p>If all items on the list are approved and spent within the financial year, and the forecast underspend for the year of £1,597k is realised, there would be an underspend on the Investment Fund of £1,064k.</p>	Original Investment Fund budget	£5,641,025	Add additions to budget in year	£586,000	Less amounts allocated out at budget set	(£2,386,477)	Total original budget	£3,840,548	Add forecast 2018/19 underspend	£1,597,000	Total adjusted budget	£5,437,548
Original Investment Fund budget	£5,641,025												
Add additions to budget in year	£586,000												
Less amounts allocated out at budget set	(£2,386,477)												
Total original budget	£3,840,548												
Add forecast 2018/19 underspend	£1,597,000												
Total adjusted budget	£5,437,548												
5.	<u>Financial Highlights – balance sheet.</u>												
5.1	<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)												
5.2	<p>As at 30th September 2018, £62m of 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 0.66% (Q1 – 0.56%). Interest rates are starting to creep up however are still remain low. Investment interest, therefore, does not contribute significantly to the force’s income budget.</p> <p>Actual cash held within the bank account was £1,254k.</p>												

	Debtors (appendix 3b updated for 31 October position)
5.3	Total sales invoices that were unpaid as at 30 September 2018 totalled £1,441k, of which £1,263k was overdue. This is an improved position from the Q1 where total debtors were £2,405k with £1,996k overdue.
5.4	While the updated position at 31 October shows an increase in the total unpaid invoices to £1,732k, there has been a decrease in the amount of this debt that is now overdue to £1,077k.
5.5	The collectability of debtors is not considered a significant risk. The top 5 debtors at 31 October 2018, as presented in Appendix 3b total £1,263k (73% of total debtors) and are all public sector bodies.
5.6	In Quarter 1, finance have implemented new credit control procedures which have greatly improved the timely collection of debtors. £1,097k was recovered in Q2 in relation to aged debt and a further £91k of remittances have since been received in October.
5.7	As part of the procedures a more formal quarterly review of debts will be undertaken. No irrecoverable debts have been identified in Quarter 2 or subsequently in October 2018. .
	Creditors (appendix 3c updated for 31 October position)
5.8	As at 30 September 2018 creditors totalled £2,474k, of which £1,744k was overdue for payment. This is a significant improvement on the total creditors of £5,592k at the end of Q1.
5.9	The updated position at 31 October 2018 shows total creditors have increased in the month to £3,522k, due in large part to the continued refresh of laptops and mobiles across the Force in conjunction with South Wales Police. Only £688k of this balance at 31 October 2018 is overdue for payment.
5.10	The average age of an invoice paid within Quarter 2 was 51.33 days (Q1 - 62.02 days). This is a significant improvement on Q1 and furthermore, the September days (35.92 days) and October days (34.66 days) are much closer to the 30 day target. It is expected that the average age will continue to improve as the new SLAs are now in place and the team continues to focus on the payment of long outstanding invoices. The risk in relation to non-payment of creditors will remain a medium risk until the 30 day target is achieved.
	Capital (appendix 3d)
5.9	The initial budget for the capital and projects was £23,269k, which reduces to £22,219k with the removal of the Monmouth Hub project (£400k), and the funding of Project Fusion from in year revenue funding (£650k) in 2018/19. The expenditure to date on capital projects is £2,174k leaving a remaining total adjusted budget of £20,045k.
5.10	Estates – the budget £15,527k includes major projects relating to HQ relocation (£9,987k) and Ystrad Mynach PFI (£4,000k). Delays with planning permission for HQ means the vast majority of this expenditure is now likely in 2019/20. The Ystrad Mynach PFI scheme is expected to be completed in Q4 and expenditure should be incurred by the year end. This will be reflected in the Q3 report.
5.11	Vehicles – the budget of £1,012k is expected to be fully spent by the year end.
5.12	ICT – the budget of £1,280k relates primarily to mobile devices (£889k) and is

	expected to be fully spent by the year end.
5.13	Other long term projects – the adjusted budget of £4,200k includes a further £4,000k for Ystrad Mynch PFI that will be will not be funded from capital sources.
	Reserves (appendix 4)
5.14	Appendix 4 details the current forecast in relation to reserves over the MTFP five year period. Currently usable reserves stand at £57,866k, with £210k already drawn down and a forecast net draw down to 31 March 2019 of £23,790k.
5.15	The main reserve utilisation are in relation to new HQ, the revenue transfer to contribute to the new HQ and the utilisation of the PFI reserve in expectation of the voluntary termination of the PFI contract. At Q2 there are no changes in the assumptions in relation to the utilisation of reserves.
6	Medium Term Financial Plan (appendix 5)
6.1	Appendix 5 provides detail of the latest MTFP at Q2 that has been presented to JAC and reflects the final budget set for 2018/19. The total year 5 deficit, including the expected impact of funding formula cuts remains at over £10m. There are no material changes to the assumptions within the MTFP. The MTFP will be updated during the 2019/20 budget setting process.
7.	<u>Risk areas identified</u>
7.1	The forecast underspend at 30 September 2018 for the full year is £1,597k and there is a risk that this could increase as the year progresses. This potentially adds to the value of the investment fund, but delays will defer expenditure into future years. Budget assumptions for 2019/20 will take account of the spinal point difference which is likely to result in reduced underspends on officer pay and allowances going forward. The Commissioner has a high level of usable reserves in comparison to other forces. This will need careful management in the Reserves Strategy and MTFP to avoid reputational risk.
8.	<u>FINANCIAL CONSIDERATIONS</u>
8.1	These are detailed in the report.
9.	<u>PERSONNEL CONSIDERATIONS</u>
9.1	There are no staffing / personnel implications arising from this report.
10.	<u>LEGAL IMPLICATIONS</u>
10.1	There are no legal implications arising from this report.
11.	<u>EQUALITIES AND HUMAN RIGHTS CONSIDERATIONS</u>
11.1	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.
11.2	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.
12.	<u>PUBLIC INTEREST</u>
12.1	This is a public document.
13.	<u>CONTACT OFFICER</u>
13.1	Matthew Coe, Jackie Glossop, Har Ping Boey
14.	<u>ANNEXES</u>
14.1	2018/19 Q2 financial Performance report at 30 September 2018 – with updated appendices 3b Debtors and 3c Creditors for 31 October 2018 positions  2018_Mth 6_COT 1819 Q2 Financial Pt