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| Finance Report 2022/23 – Fourth Quarter (Q4) |
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| CHIEF OFFICER TEAM REPORT |
| 1st June 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 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 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   * Q4 Year to date outturn: £3,517k underspend before reserve transfers   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. As shown in Appendix 1a, on a group basis the actual net expenditure before transfers for the year amounts to £152,909k. Total funding from Revenue Support Grant, National Non-Domestic Rates, Police Grant and Council Tax for 2022/23 totals £156,427k. This gives an underspend of £3,517k before the revenue contribution to the capital programme and the use of earmarked reserves. After these and the transfer of the £3,517k underspend to reserves, there is a break even position on a group basis. The OPCC is showing a break-even position at year end. The group year to date net underspend arises from the following variances:   Pay variances – officers and staff: underspend £1,687k   * 1. At the end of Q4, police officer pay and salary allowances are under budget by £1,687k due primarily to the year to date effect of current vacancies and the timing of the cohorts of new officers from Op Uplift entering the Force in July, September, January 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 is offset by an overspend of £1,609k on Staff and CSO pay and allowances at year end – previously an underspend of £204k for 2021/22. This overspend position is a net position of the result of an overspend on permanent post salaries of £211k, (2021/22 £1,155k underspend), agency costs of £884k (2021/22 £771k), staff seconded in costs of £49k (2021/22 – £6k). There are also non-recurrent costs for redundancy & early retirement capital costs of £431k (2021/22 – £265k). 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: overspend £1,768k   * 1. The actual YTD position on overtime is also worse compared to last year, with an overspend at 31 March 2023 of £1,768k (2021/22 £1,069k). The non-recurrent payment of historic TOIL balances accounts for £285k of the overspend and this is expected to continue in 2023/24 and beyond with the implementation of 3 month rolling TOIL payments in line with Police Regulations.   2. Total overtime costs (officer and staff) at year end are made up as follows, and reflects the work done to realign Officer rest day and bank holiday overtime budgeting:  |  |  |  | | --- | --- | --- | |  | **2022/23** | **2021/22** | | Police Officer and Staff TOIL payments | (£285k) | - | | Police Officer overtime overspend | (£398k) | (£314k) | | Police Officer rest day overtime overspend | (£746k) | (£653k) | | Police Officer public holiday overspend | (£53k) | £79k | | Police staff overtime – overspend | (£444k) | (£356k) | | Police staff weekend & public holiday enhancements underspend | £158k | £175k | | **Total (over)spend at 31 March 2023** | **(£1,768k)** | **(£1,069k)** |  * 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.   2. 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. Substantial work has been progressed across the force, led by ACC Hobrough, to understand the drivers for overtime claiming at an operational level and improve the reporting from the Electronic Time Management system. For example, since 1 May 2023 only Chief Inspectors can approve overtime on timesheets but the value of overtime each month has yet to be substantially affected by these new measures. The total overtime budget for 2023/24 is unchanged but has been updated with Superintendents and Chief Inspectors to ensure it more accurately reflects needs in operational areas. 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. Further work is needed as part the Efficiency Working Group’s programme to enable the force to manage overtime to budget going forward.   Other employee related costs: underspend £325k   * 1. There is an underspend of £325k for other employee related costs. More external training has taken place with changes in the timing and method of delivery have led to an underspend of £164k. The trend of rising insurance costs is mirrored with Employee Liability insurance costs being £104k overspent at year end. Pension costs are underspent by £227k due to lower Ill Health capital pension costs and no officers leaving under the “30+ pension payments” .   Non-pay variances – Premises costs: overspend £933k   * 1. Premises costs are overspent at Q4 by £933k. There are small underspends on reactive and planned maintenance (£62k), venue hire (£65k) and premises insurance (£40k). However, these have been more than offset by substantially higher utility costs of £735k and rent & rates costs of £333k more than budget in 2022/23. Electricity costs alone make up £612k of the £735k overspend in utility costs which should be mitigated going forward following the investment in solar panels across the estate as part of the Greener Gwent sustainability strategy. The increase in rent and rates costs includes confirmation in the year of the rates associated with new HQ of £275k.   Non-pay variances – Transport costs: overspend £22k   * 1. Transport costs are slightly overspent against budget by £22k at Q4. There were increased mileage costs (£65k) following the revised guidance, vehicle repairs with outside contractors and from accidents (£108k), vehicle fuel costs (£113k), and vehicle hire (£86k). These overspends are offset by lower vehicle spares costs (£167k), and the anticipated increase in NPAS charges for helicopter hire charges not materialising (£141k).   Non-pay variances – Supplies & Services costs: underspend £1,160k   * 1. Supplies & services costs are underspent at Q4 by £1,160k and there are many variations between the cost headings in this category.   2. The biggest variations are found within the cost category of Consultants’ Fees – a £1,931k underspend against budget. The main underspend relates to reduced professional fees on the Estates strategy resulting from the pause in the GPOF programme of works. Reduced spending on this and the ACEs programme (£428k) has been offset by a number of non-recurrent costs. In particular these include the conclusion of a long running professional standards investigation in the year (£224k) and increased analysis and research costs (£147k).   3. Elsewhere forensic analysis costs were £48k higher than budget reflecting the national changes to pricing structures; miscellaneous and public liability costs which together are £314k above budget; and £73k higher PPU MASH medical examination costs. Collaboration fees were lower than budget by £262k following the reconciliation of final costs at the year end with South Wales Police of actual spend against budgeted contributions for collaborative activities.   4. Most of the remaining over/underspends noted at Q3 have come back into balance with the annual budget at 31 March 2023. There does remain variation between individual account codes e.g. computer hardware and computer software costs, but these largely net down in line with the budgets and have been managed within the overall ICT revenue and capital programme. The largest single underspend is £386k relates to reductions in the Custody medical contract costs (2021/22 - £268k underspend) although negotiations on the new contract continue.   **Other movements:**   * 1. The invoices for the contribution to national technology programmes managed by the Police Digital Services have now been received in full and they were £61k higher than originally budgeted. As there has been no borrowing to fund the capital programme in 2022/23, capital charges of £189k have also been avoided. Conversely investment income is higher than budget by £559k following better returns on short term deposits as Bank of England sought to reduce UK inflation by raising interest rates.   2. Other Income is £4,242k higher than budget. Local partnership funding accounts for £1,555k of this increase, spread across a variety of initiatives including VAWDASV, national chief officer portfolios (Operation Opal, PND team, Disability conference), Victim Services, Breaking the Cycle Missing Children’s Team, CTIU, and Firearms Eastern hub. Much of this income may be non-recurrent in nature and, in the case of some national chief officer portfolios, will move following Chief Officer changes in Force. A further £493k of Special Branch funding has also been received in year following a change in the way the Home Office has funded local unit in 2022/23. Training income has increased with an additional £490k received for student constable training. There is also the additional grant of £718k for the part year effect of the 2022/23 officer pay award, and £1,386k for the last year of Operation Uplift funding.   Office of the Police & Crime Commissioner – underspend £290k   * 1. Included within the group figures above are underspends at Q4 relating to the Office of the Police & Crime Commissioner totalling £290k. These are shown separately in Appendix 1c.   2. Salary and allowances – there is a small overspend of £53k.   3. Non-pay expenditure – there are underspends totalling £252k in non-pay expenditure. However, this follows agreed changes on partnership costs relating to Police Community Fund and substance Misuse.   4. There are no known risks to the receipt of income or Council Tax funding and other income is £91k more than the original budget.   **Financial Highlights – balance sheet**   * 1. 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)   * 1. At 31st March 2023, £35.0m 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. Actual cash held within the bank account at 31st March 2023 was £1,539k.   2. The average interest rate on investments is 2.03% (31st December 2022: 1.68%, 30th September 2022: 1.52%, 30 June 2022: 0.29%). 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 has been included in the Force’s income budget for 2023/24.   **Debtors (appendix 2b)**   * 1. Total sales invoices that were unpaid as at 31st March 2023 totalled £339k (31st December 2022: £2,161k), of which £76k (31st December 2022: £1,915k) was overdue. Outstanding debtors have reduced substantially in Q4 with regular chasing and reminder letters that are sent to all overdue debtors.   2. The collectability of debtors is not considered a risk. The top 5 debtors, as presented in Appendix 3b, total £210k (62% of total debtors by value) and are all police public sector justice bodies. The balances due from the National Probation Service, South Wales Police and Dyfed Powys Police that were noted in Q3 have all been received by year end. A total of 3 irrecoverable debts with a total value of £550 and which date back to 2017 and the change in financial systems from Lawson to BW, have been identified and will now be written off.   Creditors (appendix 2c)   * 1. As of 31st March 2023, there were £1,653k of creditors which is an increase on the total creditors of £808k at 31st December 2022. This has resulted from a number rates invoices for the estate relating to the 2023/24 financial being received from local authorities in March 2023, plus annual billing in arrears by suppliers for some goods and services for such as Niche RMS maintenance for 2022/23 from South Wales Police.   2. Of this total, £244k or 14.8% (Q3 2022/23: £388k) of the total is overdue for payment. This decrease is due to the continued efforts of the Accounts Payable team to continue meeting the 30 day payment target and clear historic balances. The average age of an invoice paid within the 30 day target at Q4 is 20.77 days on average, which is comparable to the previous quarter (20.77 days). 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 £17,944k but this has been revised to £22,428k to reflect a number of additional projects deferred from prior years. These include additional spend on vehicle replacements & ANPR kit, ICT in new HQ, and airwave replacement. There was also planned further investment in the Estate Strategy for specific premises; agile working, TSU re-provision, access control, electric vehicle charging points and Maindee Custody refurbishment.   2. The full year expenditure on capital and long-term projects is £13,495k – an underspend against budget of £8,962k. 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 £13,782k includes major projects relating to Abrgavenny Station new build (£2,101k), Gwent Police Operational Facility (GPOF) (£2,661k), Fleet workshop relocation (£1,597k), Property Evidence Store (£1,200k), and Maindee Refurbishment (£933k). However, there is an underspend of £7,738k on Estates Schemes where schemes have been paused following a review of the affordability of the Estates Strategy, and which will now be considered as part of the 2023/24 capital programme. This includes spend on Property Evidence Store (£1,194k), GPOF development (£1,419k), fleet workshops relocation (£1,303k) and the Abergavenny Station new build (£898k).   4. Vehicles – The 2022/23 revised budget is £3,212k and expenditure to date has been £1,496k. The telematics system to track vehicle deployment and usage has been commissioned and the new vehicle purchase contract is in place. However, long lead times for supply from manufacturers and reviews to the vehicle replacement cycle means that the budget will not be fully utilised, resulting in an underspend of £1,716k at 31 March 2023.   5. ICT - The revised budget is £4,450k and expenditure for the year is £4,917k – an overspend of £467k on ICT capital projects. The main reason for the overspend is the introduction of the control room project during the year which resulted in £1,652k of new expenditure. Because of this the ICT programme has had to be flexible in its delivery, with some projects deferred such as Process Efficiency (PEP) (£446k), and the speed of the rollout of the body worn video refresh (£238k underspend).   Reserves (appendix 3)   * 1. Appendix 3 details the position in relation to the current balance of general and earmarked reserves of £29,774k based on the unaudited financial statements at 31 March 2023.   2. Following the review with CFO-OPCC and ACOR, adjustments have been made to release some, and consolidate other, earmarked reserves. Adjustments have been made to carry forward specific funding and underspends for specific programme expenditure expected in future years. The total movement on Usable Reserves year on year is a net decrease of £3,945k from £33,719k to £29,774k (subject to audit).   3. Other Usable Reserves - As forecast in the Medium Term Financial Plan 2023/24 and in line with the Commissioner’s reserves strategy, the General Reserve has been maintained at £5,000k. This reserve provides the PCC and Force with capacity to cover working capital needs. The £149k balance on the Accelerated Forecasted Savings reserve has been released at year end.   4. Future Budgetary Imbalance reserve – this reserve has been maintained at £5,925k to help cover the projected recurring deficits projected in the Medium Term Financial plan.   5. Earmarked Reserves – these reserves relate to future requirements for both revenue and capital expenditure for specific purposes. They include PCC Commissioning budgets and Force workstream budgets where the unspent funds on individual projects are being carried forward to be used in 2023/24. These activities include the FFF replacement programme, IOM funding, WDBC, and Mini Police. The Operation Uplift Support reserve has also been fully released at 31st March 2023 following the conclusion of year 3 of the programme. In total, a net amount of £3,797k of Earmarked Reserves has been utilised 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 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.   2. 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 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 be updated again for the PCP meeting in June 2023, and throughout 2023/24, for known and anticipated additional pressures on base budgets, the recent change in Welsh Government funding for CSOs, and further base budget savings being identified across the Force.   3. 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 current deficit of £3,547k for 2023/24.  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 fourth and final quarter of financial year 2022/23. 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. RISKS    1. The outcome of the ongoing review of the funding formula is still unknown. The predicted loss of funding for Gwent Police has been estimated to be £6m from 2025/26 onwards. There is a risk that the loss of funding could be higher than this. The £6m is included in MTFP’s recurring deficit in 2027/28 of £20.9m. 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, Head of Finance 10. LEAD CHIEF OFFICER     1. Nigel Stephens, Assistant Chief Officer - Resources 11. ANNEXES     1. 2021/22 Q4 Financial Performance Report 12. CHIEF OFFICER APPROVAL     1. I confirm this report has been discussed and approved at a formal Chief Officers’ meeting.     2. I confirm this report is suitable for the public domain / is not suitable for the public domain for the reasons stated in 11.3.   Signature: Nigel StephensDate: 2 June 2023 | | |