

<b>OFFICE OF THE POLICE AND CRIME COMMISSIONER</b> <b>OFFICE OF CHIEF CONSTABLE</b>	
<b>LEAD CHIEF OFFICER:</b>	<b>Nigel Stephens</b>
<b>TITLE:</b>	<b>Finance Report 2019/20 – Second quarter (Q2)</b>
<b>DATE:</b>	<b>11 December 2019</b>
<b>TIMING:</b>	<b>Quarterly</b>
<b>PURPOSE:</b>	<b>For noting</b>
<b>1.</b>	<b><u>RECOMMENDATION</u></b>
1.1	To consider and note the financial performance of the Force and OPCC for the second quarter of financial year 2019/20.  To consider and note the updated MTFP position for 2020/21 and beyond.
<b>2.</b>	<b><u>INTRODUCTION &amp; BACKGROUND</u></b>
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"> <li>1) <b>Appendix 1a, 1b, 1c:</b> Income and Expenditure for the group, force and OPCC (as previously reported). 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.</li> <li>2) <b>Appendix 2:</b> Investment fund – details of items approved, spent and budget reallocated.</li> <li>3) <b>Appendix 3a:</b> Cash and investments – details of level of cash the force has and how much money is on investment.</li> <li>4) <b>Appendix 3b:</b> Debtors position. This details the level of income yet to be cash receipted and the age of the debt.</li> <li>5) <b>Appendix 3c:</b> Creditors position. This details the level of expenditure yet to be cash paid and the age of the liability.</li> <li>6) <b>Appendix 3d:</b> Capital &amp; Project spend report. This details the spend to date on capital projects and the budget remaining to the end of the financial year.</li> <li>7) <b>Appendix 4:</b> Usable reserves. This schedule identifies the level of cash backed reserves in line with the Reserves Strategy and the MTFP.</li> <li>8) <b>Appendix 5:</b> Medium Term Financial Plan. This provides a longer term view on the financial position of the force.</li> </ol>

	Further development of the dashboard of high level financial indicators continues in line with the revised Corporate Performance Framework being developed by the DCC.												
<b>3.</b>	<b><u>Financial Highlights –</u></b> <b><u>Q2 Year to date outturn: £385k surplus</u></b> <b><u>Year end forecast: £95k surplus</u></b>												
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 Q2 2019/20 has increased by £385k to £930k against a budget year to date surplus of £545k. The OPCC has a year to date deficit of £417k.												
	However, the full year forecast for the group shows a small surplus of £95k at the year end and the OPCC is forecast to break even for the year. The group forecast surplus of £95k arises from the following variances:												
	<b>Pay variances – officers and staff: surplus £1,086k</b>												
3.3	At the end of Q2, police officer pay and salary allowances forecast at the end of the financial year are under budget by £1,416k 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 £330k 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 Q2, staff and PCSO pay costs are forecast to be overspent by £330k. Within this, staff pay was underspent by £1,464k due to vacancies which was offset by agency costs of £1,253k in the short term. £330k 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 £162k of early retirement capital costs and £40k of additional standby allowances are forecast by year end.												
	<b>Overtime – officers and staff: surplus £310k</b>												
3.5	Total overtime costs (officer and staff) at year end are forecast to show a net surplus of £310k, made up as follows:												
	<table border="1"> <tr> <td>Police Officer overtime deficit</td> <td>(£51k)</td> </tr> <tr> <td>Police Officer rest day overtime deficit</td> <td>(£256k)</td> </tr> <tr> <td>Police Officer public holiday surplus</td> <td>£115k</td> </tr> <tr> <td>Police staff overtime – deficit</td> <td>(£50k)</td> </tr> <tr> <td>Police staff weekend &amp; public holiday enhancements surplus</td> <td>£552k</td> </tr> <tr> <td><b>Total forecast surplus at 31 March 2020</b></td> <td><b>(£310k)</b></td> </tr> </table>	Police Officer overtime deficit	(£51k)	Police Officer rest day overtime deficit	(£256k)	Police Officer public holiday surplus	£115k	Police staff overtime – deficit	(£50k)	Police staff weekend & public holiday enhancements surplus	£552k	<b>Total forecast surplus at 31 March 2020</b>	<b>(£310k)</b>
Police Officer overtime deficit	(£51k)												
Police Officer rest day overtime deficit	(£256k)												
Police Officer public holiday surplus	£115k												
Police staff overtime – deficit	(£50k)												
Police staff weekend & public holiday enhancements surplus	£552k												
<b>Total forecast surplus at 31 March 2020</b>	<b>(£310k)</b>												

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.
	<b>Other employee related costs: deficit £28k</b>
3.7	A net surplus of £28k is forecast for other employee related costs. This is due primarily to additional pension costs for injury payments of £45k against budget.
	<b>Non-pay variances – Premises costs: deficit £651k</b>
3.8	Premises are forecast to be overspent at year end by £651k due primarily to £630k of additional costs arising from the delay in buying out the PFI contract for Ystrad Mynach. There is a risk this will increase with further delays by the Welsh Government. Additional costs of £83k are also forecast in relation rates at the TERRAM site, which are offset by a £129k surplus on planned maintenance programme.
	<b>Non-pay variances – Transport costs: deficit £102k</b>
3.9	Transport costs are forecast to be overspent at year end by £102k, primarily due to higher mileage and travel costs (£101k).
	<b>Non-pay variances – Supplies &amp; Services costs: surplus £1k</b>
3.10	Supplies & services costs are forecast to break even at year end. However, this position is after some forecast movements in operational and non-operational equipment (£259k deficit), CSI expenditure (£146k surplus) and other supplies and services (£140k surplus). This also assumes that there are no additional collaboration costs with other forces before the year end. Further work is also needed for Q3 reporting on forecasts for ICT, communications and Airwave expenditure.
	<b>Other movements: net (deficit) movement £521k</b>
3.11	The net movements are explained by a deficit on the Development Fund of £728k offset by higher forecast income of £188k.  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 due to a loan maturing before year end.
<b>4</b>	<b><u>Office of the Police &amp; Crime Commissioner – break even</u></b>
4.1	The OPCC is forecast to break even for the financial year.  The year to date position is a £417k deficit due to income of £527k not having been received yet offset by a surplus of £99k in Supplies & Services for the GDAS contribution which was anticipated in Q1 but has still not been received.
<b>5</b>	<b><u>Financial Highlights – Investment Fund Priorities</u></b>
5.1	Appendix 2 provides more detail on the planned expenditure from this budget and is made up as follows:

	<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>728,377</td> </tr> <tr> <td>Less amounts allocated out at budget set</td> <td>(£1,386,875)</td> </tr> <tr> <td><b>Total remaining budget</b></td> <td><b>£1,059,560</b></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 £1,387k. The actual year to date spend for 2019/20 is only £104k and the majority of the expenditure will be in relation to the Operation Uplift kit and equipment.</p>	Total Investment Fund Budget	£1,718,058	Add additions to budget in year	728,377	Less amounts allocated out at budget set	(£1,386,875)	<b>Total remaining budget</b>	<b>£1,059,560</b>
Total Investment Fund Budget	£1,718,058								
Add additions to budget in year	728,377								
Less amounts allocated out at budget set	(£1,386,875)								
<b>Total remaining budget</b>	<b>£1,059,560</b>								
<b>6.</b>	<b><u>Financial Highlights – balance sheet.</u></b>								
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"> <li>• Investments and cash</li> <li>• Debtors</li> <li>• Creditors</li> <li>• Capital</li> <li>• Reserves</li> </ul>								
	<b>Investment and cash (appendix 3a)</b>								
6.2	<p>As at 30 September 2019, £57.0m 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 0.85% (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 30 September 2019 was £1,282k.</p>								
	<b>Debtors (appendix 3b)</b>								
6.3	Total sales invoices that were unpaid as at 30 September 2019 totalled £816k (30 June 2019: £411k), of which £329k (30 June 2019: £343k) was overdue.								
6.4	The collectability of debtors is not considered a risk. The top 5 debtors, as presented in Appendix 3b total £662k (81% of total debtors by value) and are primarily public sector bodies. The balance with South Wales Police relates to invoices recently raised for collaborative activities. There are no irrecoverable debts identified in the year.								
	<b>Creditors (appendix 3c)</b>								
6.5	As at 30 September 2019 there was £964k of creditors, a significant decrease on the total creditors of £4,215k at 30 June 2019. Of this total, £144k is overdue for payment (Q1: £2,126k). The vast majority of the creditors balance are with public sector bodies and total £394k or 40% of the total balance.								

6.6	The average age of an invoice paid within the quarter was 32.21 days (Q1: 29.80 days) which is slightly outside the 30 day target. It is expected that this position will be recovered going forward so that the average age will meet this target for the year.
6.7	The impact of the No PO, No Pay policy is now being measured with an average of 31.6% of invoices by number being paid with via a purchase order. The policy is being implemented with supplier details on the vendor database are being updated, and guidance training being provided as necessary. Once the database update is complete, the policy will be enforced with suppliers from 1 February 2020 onwards.
	<b>Capital (appendix 3d)</b>
6.7	The initial budget for the capital and projects was £27,919k. This has been revised to include a further £750k of Estates schemes and £892k of ICT schemes (including SWP collaborative and national schemes). The revised annual budget for 2019/20 is therefore £29,561k.  The expenditure to date on capital and long term projects is £793k leaving a remaining budget of £28,768k. However, this is after the reversal of a non-cash 2018/19 accrual of £1,080k relating to Project Fusion.  The re-profiling of the Estate Strategy has been undertaken as part of the budget setting process for 2020/21 and takes into consideration the agreed construction programme for the new headquarters.
6.8	Estates – the budget has been increased by £750k to include projects for Ystrad Mynach CCTV and Agile Working. This revised budget also 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 is still awaiting final approval by Welsh Government. A further £750k of budget
6.09	Vehicles – The 2019/20 budget is £1,043k and expenditure to date is £696k and it is expected that this will be fully utilised by the end of the financial year.
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.
6.11	ICT project – the original budget of £150k has been increased to £1,042k to include collaborative DSD projects with South Wales Police, and infrastructure upgrade projects.
	<b>Reserves (appendix 4)</b>
6.12	Appendix 4 details the position in relation to utilisation of reserves and the current balance of usable reserves stand at £55,310k.
<b>7</b>	<b>Medium Term Financial Plan (appendix 5)</b>
7.1	Appendix 5 provides detail of the latest 2019 version of the MTFP at August 2019 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 £5.4m before planned efficiency savings.

	The MTFP will continue to be updated as part of the 2020/21 budget setting exercise.
<b>8.</b>	<b><u>Risk areas identified</u></b>
8.1	<p>The recent Government announcement relating to 2.5% pay award will have an additional cost for 2019-20 from the 1<sup>st</sup> 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 will need careful management throughout the financial year to minimise the deficit.</p> <p>Significant movements for ICT, communications and Airwave expenditure within the Supplies and Services budgets require further investigation to determine whether there are any new cost pressures not currently recognised.</p>
<b>9.</b>	<b><u>FINANCIAL CONSIDERATIONS</u></b>
9.1	These are detailed in the report.
<b>10.</b>	<b><u>PERSONNEL CONSIDERATIONS</u></b>
10.1	There are no staffing / personnel implications arising from this report.
<b>11.</b>	<b><u>LEGAL IMPLICATIONS</u></b>
11.1	There are no legal implications arising from this report.
<b>12.</b>	<b><u>EQUALITIES AND HUMAN RIGHTS CONSIDERATIONS</u></b>
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.
<b>13.</b>	<b><u>PUBLIC INTEREST</u></b>
13.1	This is a public document.
<b>14.</b>	<b><u>CONTACT OFFICER</u></b>
14.1	Jackie Glossop, Har Ping Boey, Matthew Coe
<b>15.</b>	<b><u>ANNEXES</u></b>
15.1	2019/20 Q2 financial Performance report

