

<u>OFFICE OF POLICE & CRIME COMMISSIONER</u>	
LEAD CHIEF OFFICER:	Nigel Stephens, Assistant Chief Officer, Resources
TITLE:	2018/19 Finance Report Q3
DATE:	6th March 2019
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 2018/19.
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>Quarterly reporting enables business partnering which provides robust analysis to be undertaken that beneficial the work stream leads. It also reduces the burden on year end reporting as information is maintained 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 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.

	<p>8) Appendix 5: Medium Term Financial Plan. This provides a longer term view on the financial position of the force.</p> <p>Further development of the dashboard of high level financial indicators continues.</p>
3.	<u>Financial Highlights – Year End Forecast: underspend £217k (Q2: £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, there is a forecast underspend of £217k at the year end. This is a significant decrease on the Q2 position of £1,597k and reflects the recognition in Q3 of committed expenditure for body armour replacement, and investment scheme deferred expenditure of £658k proposed to be transferred to an earmarked reserve. There have also been some additional costs pressures on pensions, redundancies and additional medical retirements in this quarter. The OPCC is still forecast to break even for the year. The group underspend arises from the following variances:
	Pay variances – officers and staff: underspend £3,566k (Q2: £3,669k)
3.3	<p>At the end of Q3, police officer pay and salary allowances are forecast at the end of the financial year to be under budget by £3,575k due to :</p> <p>Budget variance re: spinal points on Officer pay: £3,196k</p> <p>Impact of retirees: £350k</p> <p>Total: £3,575k</p>
3.4	As previously reported in Quarters 1 & 2, the budget variance of £3,196k 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 £3,196k 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 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 attributable to spinal point differential it is unlikely that this will be recovered as the year progresses.
3.7	At the end of Q3, staff and PCSO pay costs are forecast to be overspent at the end of the financial year by £9k (Q2: underspend £86k). Within this, staff pay is forecast to be underspent by £1,114k due to vacancies. This is offset by agency costs of £875k to cover vacancies in the short term, additional pension capital costs from early retirements of £162k, £51k of additional redundancy costs and various other variances.

	Overtime – officers and staff: underspend £105k (Q2: £73k)	
3.8	Total overtime costs (officer and staff) at year end are forecast to show a net underspend of £105k, made up as follows:	
	Police Officer overtime overspend	£111k
	Police Officer rest day overtime overspend	£192k
	Police Officer public holiday underspend	(£218k)
	Police staff overtime – underspend	£98k
	Police staff weekend & public holiday enhancements underspend	(£288k)
	Total forecast underspend at 31 March 2019	(£105k)
3.9	Overtime of collaborative and externally funded activities is not included in the figures above. At the end of quarter 3, there is a year to date overspend on police officer overtime of £461k (Q2: £282k) which includes £376k (Q2: £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 £552k (Q2: £789k)	
3.10	A net underspend of £552k is forecast for other employee related costs. There are expected to be fewer early medical retirements than anticipated resulting in an underspend of £675k (Q2: £905k). This is offset by additional pension costs for injury payments of £153k against budget.	
	Non-pay variances – Premises costs: overspend £528k (Q2: £404k)	
3.11	Premises are forecast to be overspent at year end by £528k due primarily to £303k of additional rates costs claimed for the Operational Training Centre. The rates appeals process has been initiated.	
	Non-pay variances – Transport costs: overspend £347k (Q2: £319k)	
3.12	Transport costs are forecast to be overspent at year end by £347k, primarily due to overspends on higher fuel costs (£64k) and mileage and travel costs (£134k).	
	Non-pay variances – Supplies & Services costs: overspend £1223k (Q2: £639k)	
3.13	Supplies & services costs are forecast to be overspent at year end by £1223k. This overspend includes significant pressure on the medical examination and custody – medical contract budgets of £382k which are forecast to be overspent by a total of £406k by year end due to increased demand for the services. The costs associated with HQ design & relocation have now been transferred from revenue expenditure to capital costs as assets under construction, following approval of the HQ planning application. The replacement of body armour has been brought forward from 2019-20 which is a forecasted spend of £800k.	
	Other movements: net (overspend) movement £1,908k (Q2: £1,572k)	
3.14	The net movements are explained by a £1,186k underspend on the investment fund, additional other income totalling £234k offset by a £2,800k (Q2: £2,000k) transfer from revenue to capital reserves to fund the	

	development of the new HQ and the FFF rollout. A number of schemes will not be achieved in 2018-19 due to delays, it's proposed that the projected cost of these schemes is transferred into earmarked reserves and released in 2019-20 to cover the cost.								
4	<u>Financial Highlights – investment priorities</u>								
4.1	<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>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> </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 £2,835k (Q2: £3,259k) – a reduction on Q2 as some projects have been deferred to 2019/20.</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
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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 31st December 2018, £52m 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 0.78% (Q2: 0.66%, Q1: 0.56%). Interest rates are starting to creep up however they 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 £1,237k.</p>								
	Debtors (appendix 3b)								
5.3	<p>Total sales invoices that were unpaid as at 31st December 2018 totalled £347k (Q2: £1,441k), of which £350k (Q2: £1,263k) was overdue. This position continues to improve significantly on Q1 and Q2.</p>								

5.4	The collectability of debtors is not considered a risk. The top 5 debtors, as presented in Appendix 3b total £303k (79% of total debtors) and are primarily public sector bodies. There are no irrecoverable debts identified in Q2 or Q3.
	Creditors (appendix 3c)
5.7	As at 31 st December 2018 there was £1,380k of creditors, a significant improvement on the total creditors of £2,474k at Q2 and £5,592k at Q1.
5.8	The average age of an invoice paid within the quarter was 33.57 days (Q2: 51.33 days, Q1: 62.02 days). This is a significant improvement on Q1 and Q2 with December days (30.04 days) meeting the 30 day target. It is expected that the average age will continue to improve as the team continues to focus on the payment of long outstanding invoices.
	Capital (appendix 3d)
5.9	The initial budget for the capital and projects was £23,269k, which reduces to £22,789k with the slippage of the Monmouth Hub project (£400k) in 2018/19. The expenditure to date on capital projects is £3,939k leaving a remaining total adjusted budget of £17,921k.
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 now at Condition Survey Stage and the business case will be completed in the coming months so it is expected will now be completed in Q1 of 2019/20.
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 (£880k) and is forecast to be overspent at year end by £877k following the acceleration of the programme for laptop devices following the successful roll out of the mobile devices in October and November 2018.
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 five year Medium Term Financial Plan (MTFP). Currently usable reserves stand at £57,866k, with £212k already drawn down and a forecast net draw down to 31 March 2019 of £11,574k (Q2: £23,790k). This movement reflects the likelihood of the utilisation of the PFI reserve deferring into 2019/20. The remaining reserve draw-downs are mainly in relation to new HQ, and the transfer of accelerated forecast savings to contribute to the new HQ.
6	Medium Term Financial Plan (appendix 5)
6.1	Appendix 5 provides detail of the January 2019 version of the MTFP that has been prepared as the final budget. Following the Home Secretary's police grant announcement, the total year 5 deficit, including the expected impact of funding formula cuts has reduced from £10m to just over £6m. The MTFP will be updated further as part of finalising the 2019/20 budget.

7.	<u>Risk areas identified</u>
7.1	<p>The forecast underspend for the year is £1,675k 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.</p> <p>The forecast full year cost of collaborative activities is dependent on a “true-up” of the share of actual costs across the four forces at 31/3/19. There are known cost pressures within these collaborative activities, such as Joint Firearms Unit, and while these are being managed, the likely outcome is unknown. There is a risk of some level of additional contribution required individual forces.</p>
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	<p>2018/19 Q3 financial Performance report –</p> <p>Annex Finance Report Q3 - Updated Draft 5.</p>

For OPCC use only

Office of the Chief Constable

I confirm that the **Financial Monitoring Qtr 3** report has been discussed and approved at a formal Chief Officers' meeting.

It is now forwarded to the OPCC for **monitoring purposes**.

Signature:



Date: 05.02.19

Police and Crime Commissioner for Gwent

I confirm that I have considered whether or not I have any personal or prejudicial interest in this matter and take the proposed decision in compliance with the Code of Conduct.

The above request has my approval.

Signature:

Date: