

OFFICE OF THE POLICE AND CRIME COMMISSIONER	
LEAD CHIEF OFFICER:	Nigel Stephens
TITLE:	Finance Report 2019/20 – Fourth quarter (Q4)
DATE:	3rd June 2020
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 fourth and final quarter of financial year 2019/20. To consider and note the updated MTFP position for 2020/21 and beyond.
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>This position presents the outturn reporting that will go into the draft annual accounts for submission to Joint Audit Committee and review by Audit Wales. They are therefore subject to change with the audited accounts timetable due to conclude in July 2020.</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. 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 in line with the revised Corporate Performance Framework.</p>
3.	<p><u>Financial Highlights –</u></p> <p><u>Year end outturn: £97k surplus (Q3 forecast: £97k surplus)</u></p>
3.1	<p>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.</p>
3.2	<p>On a group basis, there is a surplus of £97k against budget at year end which is comparable to the Q3 position. The OPCC is showing a break-even position at year end.</p> <p>This surplus is after taking into account costs relating to the Covid19 response in 2019/20 financial year. These costs total £91k in March 2020 for PPE and ICT equipment purchases and are not material for the year end position. Costs incurred from 1 April 2020 are higher and we are working with other forces and the Home Office on how all Covid19 costs might be recovered in the future.</p> <p>The group’s year end surplus of £97k arises from the following variances:</p>
	<p>Pay variances – officers and staff: surplus £1,821k</p>
3.3	<p>At the end of Q4, police officers pay and salary allowances are under budget by £2,160k due to the additional officers (investment fund and Uplift) budgeted at the start of the year that have yet to be fully recruited.</p> <p>This surplus is offset by a £339k deficit on Staff and CSO pay and allowances.</p> <p>The assumptions for the 2019/20 budget already reflect police probationers being recruited at lower than the midpoint of the salary scale, unlike in previous years when they were budgeted for at the mid-point of the scale. The surplus has arisen through the timing of the schools which are constrained by recruitment and also class sizes.</p>
3.4	<p>At the end of Q4, staff and PCSO pay costs were overspent by £339k. Within this, staff pay was underspent by £1,486k due to vacancies which was offset by agency costs of £1,339k in the short term. £331k of redundancy costs have been recognised in the year following the outcome of a Service Improvement review which is now fully implemented generating just over £700k in recurrent savings. A further £356k of early retirement capital costs and £47k of additional standby allowances were incurred. £200k of staff seconded costs for PEQF relate to collaborative activities and have been reclassified.</p>

	Overtime – officers and staff: surplus £387k	
3.5	Total overtime costs (officer and staff) at year end show a net surplus of £387k, made up as follows:	
	Police Officer overtime deficit	(£117k)
	Police Officer rest day overtime deficit	(£307k)
	Police Officer public holiday surplus	£189k
	Police staff overtime – deficit	(£1k)
	Police staff weekend & public holiday enhancements surplus	£623k
	Total surplus at 31 March 2020	£387k
3.6	The overtime position 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. The large surplus for police staff relates to weekend enhancements budgeted but claimed only when incurred. The 2020/21 budget now takes this reduction into account.	
	Other employee related costs: surplus £331k	
3.7	There is a net surplus of £331k is for other employee related costs. This is primarily due to lower external training courses and conferences not booked (£130k) offset by higher recruitment costs in year of £86k; and lower net pension costs of £173k for the injury, ill health and 30+ scheme costs against budget.	
	Non-pay variances – Premises costs: deficit £606k	
3.8	Premises are overspent at year end by £606k due primarily to the additional costs arising from the delays in buying out the PFI contract for Ystrad Mynach which occurred on 31 January 2020; six months later than planned. This is offset by a £139k surplus on planned maintenance programme. Other premises costs, such as utilities and rent & rates, are broadly in line at year end with budget.	
	Non-pay variances – Transport costs: deficit £132k	
3.9	Transport costs are overspent at year end by £132k, primarily due to higher mileage/travel costs (£213k) and repair costs (£31k), offset by lower vehicle fuel & insurance costs of £121k.	

	Non-pay variances – Supplies & Services costs: deficit £1,281k
3.10	<p>Against a budget of £24,628k, supplies & services costs are over spent by £1,281k (5% of budget) at year end. This position includes additional spend on operational and non-operational equipment (£374k deficit), professional fees and charges (£1,281k deficit), ICT expenditure (£123k deficit), offset by Telecoms and mobile phone costs (£242k surplus).</p> <p>The significant movement of £1,281k on professional fees is mainly due to additional costs of £1,485k associated with collaboration contributions. Of these additional costs, £1,132k relates to the JFU and £505k to the JSIU. These costs are partly offset by a reduction in partnership fees of £432k. The overspend has been monitored by the collaboration oversight boards throughout the year and are demand related in JFU and supplier related for the JSIU. We are working with SWP to improve the budgeting, reporting and accounting for collaborative activities in 2020/21 so that there is better monitoring for all parties.</p>
	Other movements: net (deficit) movement £422k
3.11	<p>The net movements are explained by a surplus on the Development Fund of £948k, higher income of £1,016k.</p> <p>The surplus on the Development Fund relates to funding for 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 officers over the next three financial years.</p> <p>The higher income results from £268k more investment income from better average interest rates over the year. There has also been £749k of increased funding from Government and partnerships, including £295k for Operation Uplift (now received), £214k additional court income, £184k reimbursement of costs from the SRS, and £150k for the PEQF grant.</p> <p>Transfers to earmarked reserves of £2,362k have been made to match funding to costs arising in future years.</p>
4	<u>Office of the Police & Crime Commissioner – break even</u>
4.1	The OPCC broke even for the financial year.
5	<u>Financial Highlights – Investment Fund Priorities</u>
5.1	Appendix 2 provides more detail on the expenditure from this budget over the year. A total of £814k has been spent on projects in the year with the remaining balance has now been transferred to earmarked reserves for specific projects, and the investment fund will be discontinued.

6.	<u>Financial Highlights – balance sheet.</u>
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"> • Investments and cash • Debtors • Creditors • Capital • Reserves
	Investment and cash (appendix 3a)
6.2	<p>As at 31 March 2020, £41.5m 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.</p> <p>Average interest rates on investments is 0.90% (30 Sept 2019: 0.85%, 30 June 2019: 0.87%, 31 Dec 2019: 0.84%). 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 31 March 2020 was £1,048k.</p>
	Debtors (appendix 3b)
6.3	Total sales invoices that were unpaid as at 31 March 2020 totalled £742k (31 Dec 2019: £409k), of which £217k or (31 Dec 2019: £98k) was overdue.
6.4	The collectability of debtors is not considered a risk. The top 5 debtors, as presented in Appendix 3b total £478k (64% of total debtors by value) and are all public sector bodies relating to either national units or Welsh collaborative activities. There are no irrecoverable debts identified in the year.
	Creditors (appendix 3c)
6.5	As at 31 March 2020 there was £753k of creditors, a substantial decrease on the total creditors of £1,743k at 31 Dec 2019 (Q2: £964k, Q1: £4,216k). Of this total, £203k is overdue for payment (Q3: £1,032k, Q2: £144k, Q1: £2,126k). The majority of the creditors balance are with public sector bodies and total £502k or 67% of the total balance. The balances with Solo Services Group and Vantage Point Business Park were for cleaning services and additional car parking charges respectively and were paid in early April 2020 once queries had been resolved.
6.6	The average age of an invoice paid within the quarter was 31.12 days (Q3: 27.12 days, Q2: 32.21 days, Q1: 29.80 days). The average days to pay for the full year is 30.06 days which is in line with the 30 day target.

6.7	<p>An average of 34.1% of invoices by number are being paid with the support of a purchase order. Supplier details on the vendor database are being updated, and guidance training being provided as necessary. The No PO / No Pay policy was due to be enforced with suppliers from 1 February 2020 onwards.</p> <p>However, because of the Covid19 emergency, the UK Government issued instructions for public bodies to pay all suppliers as soon as invoices are received, which we are adhering to. Therefore, in the current climate we have not been rejecting invoices without purchase orders but have continued to push for officers and staff to use the purchase order procurement route internally.</p>
	Capital (appendix 3d)
6.7	The budget for the capital and projects was £27,919k. The expenditure to date on projects is £13,425k leaving a remaining budget of £14,536k.
6.8	Estates – the budget of £22,327k 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 was approved by the Welsh Government and the contract was terminated on 31 January 2020 at a cost of £7,246k (budgeted cost £8,000k).
6.09	Vehicles – The 2019/20 budget was £1,043k and expenditure for the year was £1,354k: an overspend of £311k at the financial year end as purchases were accelerated ahead of the new supplier contract which is due to start in July 2020.
6.10	Other long-term projects – the adjusted budget of £4,400k included a further £4,000k for Ystrad Mynach PFI that related to the revenue element of the voluntary termination.
6.11	ICT project – the original budget of £150k is overspent at year end by £1,247k due to collaborative DSD projects and infrastructure upgrade projects. The Capital Strategy Group has been established which has enabled focus on the capital programme for 2020/21, reflected in the budget and for which regular monitoring will be established to ensure variances reflected in 2019/20 do not occur in future.
	Reserves (appendix 4)
6.12	Appendix 4 details the position in relation to utilisation of reserves and the current balance of usable reserves has reduced from £55,310k to £46,107k, primarily as a result of the PFI termination in year but also includes increasing expenditure on the New Headquarters construction.

7	Medium Term Financial Plan (appendix 5)
7.1	<p>Appendix 5 provides detail of the latest version of the MTFP at March 2020 that has been prepared as the final budget for 2019/20. Following the Home Secretary's police grant announcement, confirmation of the 6.88% precept, 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 £7.3m before planned efficiency savings. After identified savings and reserves utilisation, the recurring deficit is projected to be £5.6m in 2024/25.</p> <p>Key messages from the Police settlement are:</p> <ul style="list-style-type: none"> • Removal of the police transformation fund • Reduced capital grant funding (Gwent reduced by £350k) • £5.5m additional Uplift money to cover 62 officer salary plus on costs in 2020/21, but also all ancillary costs (police staff, kit, vehicles etc) for the full 165 additional officers in Gwent. We will only be funded for salary +on costs of the remaining 103 officers in future years. <p>The MTFP will be updated again in Q1 2020/21 now that the funding settlement from the UK and Welsh Governments has been confirmed.</p>
8.	<u>Risk areas identified</u>
8.1	<p>The recent Government announcement relating to 2.5% pay award will have an additional cost for 2019/20 from the 1st 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 is overspending despite placing an additional £173k into the base budget. This still needs careful management to minimise the deficit.</p> <p>Significant movements within the Supplies and Services budgets require further investigation to determine whether there are any new cost pressures emerging which may include COVID-19 costs.</p>
9.	<u>FINANCIAL CONSIDERATIONS</u>
9.1	These are detailed in the report.
10.	<u>PERSONNEL CONSIDERATIONS</u>
10.1	There are no staffing / personnel implications arising from this report.
11.	<u>LEGAL IMPLICATIONS</u>
11.1	There are no legal implications arising from this report.

12.	<u>EQUALITIES AND HUMAN RIGHTS CONSIDERATIONS</u>
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.
13.	<u>PUBLIC INTEREST</u>
13.1	This is a public document.
14.	<u>CONTACT OFFICER</u>
14.1	Matthew Coe
15.	<u>ANNEXES</u>
15.1	Annex Finance Report Q4 v1

Office of the Chief Constable

I confirm that the end of year financial report has been discussed and approved at a formal Chief Officers' meeting.

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

Signature:

P. C. Kelly

Date: 26/05/2020

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: