


OFFICE OF CHIEF CONSTABLE		DECISION NO:
LEAD CHIEF OFFICER:	Nigel Stephens	
TITLE:	Finance Report 2020/21 – Third quarter (Q3)	
DATE:	25 th January 2021	
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 2020/21.	
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>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 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. 2) Appendix 2: Covid19 costs – details of specific expenditure arising from the Covid19 situation reported to the Home Office each month. 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. 8) Appendix 5: Medium Term Financial Plan. This provides a longer term view on the financial position of the force. 	

3.	<p><u>Financial Highlights –</u> Full year forecast outturn: £851k underspend Q3 Year to date outturn: £1,252k underspend</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>Forecasts have been included for Q3. The forecast underspend is after recognising the transfer to reserves of £5,500k identified in Q2 2020.</p>	
3.3	<p>As shown in Appendix 1a, on a group basis there is a year to date underspend at Q3 for 2020/21 of £1,252k against a budgeted underspend position planned of £3,636k.</p> <p>The group year to date underspend arises from the following variances:</p>	
<p>Pay variances – officers and staff: forecast underspend £4,007k</p>		
3.4	<p>At the end of Q3, police officer pay and salary allowances forecast at the end of the financial year are under budget by £1,458k. This is the result of differences between the timing of actual recruitment of the additional 62 officers due under Operation Uplift by 31/3/2021 compared to the full year cost of those additional officers budgeted for at the start of the year.</p> <p>The assumptions for the 2020/21 budget already reflect police officer probationers being recruited at lower than the mid point of the salary scale.</p>	
3.5	<p>The underspend on police officer pay and allowances is matched by an £2,550k forecasted underspend on Staff and CSO pay and allowances at the end of Q3.</p> <p>Within this, staff pay was underspent by £3,468k, again due to the need to reflect the full year cost of posts in the budget for Op Uplift and a significant number of ongoing vacancies. This is however offset by agency costs of £890k that cover some of those vacancies in the short term plus redundancy costs of £85k.</p>	
<p>Overtime – officers and staff: forecast overspend £522k</p>		
3.6	<p>Total overtime costs (officer and staff) at year end are forecast to show a net overspend of £522k, made up as follows:</p> <p>Police Officer overtime overspend</p> <p>Police Officer rest day overtime overspend</p> <p>Police Officer public holiday overspend</p> <p>Police staff overtime – overspend</p> <p>Police staff weekend & public holiday enhancements underspend</p> <p>Total under/(over)spend at 31st December 2020</p>	<p>(£338k)</p> <p></p> <p>(£195)</p> <p>(£31k)</p> <p>(212k)</p> <p>£254k</p> <p>(£522k)</p>
3.7	<p>The position above includes expenditure on Police Staff Enhancements and excludes Major Incidents and Tasking (MI&T), 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.</p>	

	The annual overtime budget was reduced by £1m for 2020/21. The Assistant Chief Constable is reviewing the position for individual departments and units to understand the reasons for this overspend position.
	Other employee related costs: forecast underspend £772k
3.8	There is a forecast underspend of £772k for other employee related costs. Because of Covid19 officers have been on very few external training courses resulting in a forecast underspend of £511k at the end of Q3. Pension costs are down by £238k with lower injury pension payments and no officers leaving under the “30+ pension payments” in 2020-21.
	Non-pay variances – Premises costs: forecast underspend £1,029k
3.9	<p>Premises are underspent at Q3 by £1,029k due primarily to the effect of the Covid19 lockdown restrictions and timings on rent/rates payments.</p> <p>Covid19 has limited the opportunities for planned and reactive maintenance work to be carried out on the estate (£909k) and there are savings too with reduced utility costs of £70k, and equipment service contracts and security equipment of £81k. However, cleaning costs have increased by £178k partly from Covid19 additional cleaning but also from taking over the Ystrad Mynach site following the PFI termination.</p> <p>The timing of rent and rates payments means there is an underspend of £142k at Q3 although this will be paid in full by the end of the financial year.</p>
	Non-pay variances – Transport costs: forecast underspend £331k
3.10	<p>Transport costs are underspent at Q3 by £331k, again due in large part to the effect of Covid19 lockdown. Because fewer officers and staff are travelling outside of the force for courses, meetings etc, mileage and travel costs are down by £156k. Historic essential user allowances for dog handlers have now been paid at an additional one off cost of £101k in line with a recent court ruling. Fuel costs are down substantially by £370k in Q3 but the cost of vehicle insurance is £74k higher than originally budgeted.</p> <p>Additionally, due to Covid19 restrictions officers have opted to use accident repair for minor repairs rather than bringing back vehicles in the workshop for such repairs. These additional external costs and a number of high-performance car repairs have been mostly offset by savings in spares costs within the workshops.</p>
	Non-pay variances – Supplies & Services costs: forecast underspend £965k
3.11	<p>Supplies & services costs are underspent at Q3 by £1,388k and there are many variations between the cost headings in this category.</p> <p>There is a timing difference in Partnership fees and consultancy fees resulting in a YTD underspend of £444k at Q3 for which expenditure is expected in Q4. Collaboration payments are also lower by £795k but again this expenditure is expected to increase in future periods. Telecoms and mobile phone costs are also down £381k against budget for Q3.</p> <p>Offsetting this are additional costs of £197k of additional ICT costs for software purchases and maintenance contracts. We have now received reimbursement of both medical and non-medical PPE costs from the UK</p>

	<p>Government.</p> <p>The largest elements that make up the forecast underspend at year end of £965k are a £81k overspend on non-operational equipment such as furniture. This is offset by a variety of underspends including £143k professional fees & charges, £147k ICT purchases and maintenance contracts, £508k telecoms and mobile phone costs, and £201k underspend on the custody medical contract.</p> <p>This category of expenditure is large and varied and we have reviewed it in detail as part of 2021/22 budget setting in Autumn 2020. This has inform recurrent savings from areas such as custody medical contract and medical examinations (both showing reduced spend in Q3 and full year forecast).</p>
	Other movements: forecast overspend £169k
3.12	<p>The forecast overspend of £169k is the result of additional contributions requested this year for national ICT technology programmes.</p> <p>Other Income is lower by £1,355k at Q3 as we are awaiting payment of Home Office Grants, local partnership income and reimbursement of seconded out officer costs. We expect that this income will be received by the end of the year.</p>
4	<u>Office of the Police & Crime Commissioner – forecast underspend £188k (year to date underspend £43k)</u>
4.1	<p>Included within the group figures above are forecast underspends relating to the Office of the Police & Crime Commissioner totalling £118k as a result of a vacancy and cost avoidance form the covid lockdowns. These are shown separately in Appendix 1c.</p> <p>Salary and allowances – there is a small YTD underspend at Q3 of £72k.</p> <p>Non-pay expenditure – there is a small net overspend of £29k at Q3. This is primarily due to an overspend of £87k in Supplies & Services for the GDAS contribution, anticipated in Q1 and not yet received but payable by year end.</p>
5	<u>Covid19 Costs (Appendix 2)</u>
5.1	<p>The Covid19 lockdown has already had a significant effect on the phasing of expenditure in Q1, Q2 and Q3 and this will continue to impact to the financial year end.</p> <p>Most variances in non-pay expenditure categories are due in some part to the delay or cancellation of spend as a result of officers and staff working more agilely and safely since March 2020. Given the ongoing Covid19 working patterns, it is still uncertain whether some of this expenditure will materialise later in the year.</p> <p>The capital programme has also been impacted by Covid19 with a number of projects within the capital programme delayed. However, the new HQ build has continued throughout the lockdown period.</p> <p>An analysis of expenditure reported to the Home Office as Covid19 related costs between March 2020 and October 2020 is shown in Appendix 2.</p> <p>The total costs identified to date as arising specifically from the Covid19 situation are £714k, of which £321k relates to medical and non-medical grade PPE equipment for officers and staff. Additional funds have been received</p>

	<p>from the UK government for all PPE costs. In addition, the UK government is also reimbursing organisations for income lost as a result of Covid19. We have identified potential lost income of £78k, of which the UK Government has already reimbursed £44k. The net cost to the force from Covid19 therefore stands at £290k.</p> <p>From November 2020 PPE costs have been purchased and distributed by a national centre established by the Department of Health & Social Care so further local costs are expected. In addition, we have received £308k of additional funding from the UK Government's Surge Enforcement Fund and a further £20k from the Welsh Government to cover the costs of proactive policing within communities and roads policing during the latest round of local and national lockdowns.</p>
6.	<u>Financial Highlights – balance sheet.</u>
6.1	<p>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:</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 December 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 0.49% (30 September 2020: 0.46%, 30 June 2020: 0.73%, 31 March 2020: 0.90%). 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 Q3 was £1,943k.</p>
	Debtors (appendix 3b)
6.3	Total sales invoices that were unpaid as at 31 December 2020 totalled £857k (Q2: £581k), of which £633k (Q2: £568k) was overdue.
6.4	The collectability of debtors is not considered a risk. The top 5 debtors, as presented in Appendix 3b total £734k (86% of total debtors by value) and are nearly all public sector bodies. However, the level of overdue debt is growing with certain organisations and this will be addressed in the coming months to obtain payment. There are no irrecoverable debts identified so far in the year.
	Creditors (appendix 3c)
6.5	As at 30 December 2020 there was £745k of creditors (Q2: £740k). Of this total, the top 5 creditors as presented in Appendix 3c total £500k (67.2% of total creditors by value) mainly with other public sector bodies and relates to

	<p>invoices for collaborative activities or commissioned services.</p> <p>Of the invoices that are overdue for payment, the largest item is a single invoice for Victim Support where we are awaiting further information to support the invoice amount. Several other items are overdue because of delays in coding and approving the invoices by other departments in the force, and we are looking at how we can speed up this part of the process going forward.</p>
6.6	<p>The average age of an invoice paid within the quarter has improved again to 21.26 days (Q2: 23.63 days, Q1: 25.64 days) – well within the 30-day target. It is expected that the average age will continue to meet this target going forward.</p> <p>The uptake of purchase orders by the Force remains steady. The value of invoices paid that had a purchase order was £8.9m out of £13.9m (64.0%) in Q3 compared to £8.9m out of £13.6m (65.6%) in Q2. This is confirmed further by a further increase in the number of invoices with purchase orders.</p>
	Capital (appendix 3d)
6.7	<p>The revised budget for the capital and projects is £26,400k. The expenditure to date on capital and long-term projects is £10,695k leaving a remaining budget of £15,705k.</p> <p>The forecast expenditure on the capital programme at year end is £21,130k giving a £5,296k underspend due primarily to deferral of costs to future years for the Torfaen Hub £3,145k and some ICT costs such as the SAN and other server replacement £420k. There are also some timing delays on vehicle purchases £888k and ICT costs for Op Uplift additionality £247k.</p> <p>Progress on the delivery of the projects within the capital programme is overseen by the Capital Strategy Board and Capital Monitoring Board.</p>
6.8	<p>Estates – the budget of £22,627k includes major projects relating to replacement HQ (£17,702k), Ystrad Mynach CCTV (£500k), Newport Central Custody upgrade (£400k), Maindee custody refurbishment £150k and Tredegar Property Evidence store upgrade £200k. Expenditure relating to the new HQ is now starting to come through as the build progresses with a total of £9.3m spent in the year to date.</p>
6.9	<p>Vehicles – The 2020/21 budget is £1,591k and while expenditure to date is only £348k it is expected that this will be not be fully utilised by the end of the financial year, with a forecast underspend of £888k. A telematics system to support vehicle deployment and usage is also being introduced in early 2021. The vehicle purchase contract expired in 31 March 2020 and the tender process for the new contract was delayed due to Covid19. The new contract arrangements come into place on 1 April 2021. In the meantime we have been part of a national one year purchase process for the intervening period and we have placed orders for delivery of vehicles in Q4 2020/21.</p>

6.10	ICT - The revised budget is £1,823k. Expenditure to date is only £695k, and an underspend of £685k is forecast at year end due to deferral of some projects and timing delays on ICT equipment. Three significant projects with costs of £126k are being implemented and include the desktop replacement, C19 preparedness and custody digitisation.
	Reserves (appendix 4)
6.11	<p>Appendix 4 details the position in relation to the current balance of reserves of £46,107k based on the audited financial statements at the start of the financial year. In Q2 further amounts totalling £5,500k were identified to be transferred to reserves namely:</p> <ul style="list-style-type: none"> • An additional contribution to capital reserves of £3.25m to fund both building and IT (ESN) requirements; • Establish a one-off reserve of £1.0m to fund early growth of PCSO numbers above the additional 10 PCSO posts planned for 2021/22; and • Establish an invest to save revenue reserve of £1.25m to pump prime schemes such as automation. <p>These additional amounts bring the total reserves to £51,607k at Q3.</p>
7	Medium Term Financial Plan (appendix 5)
7.1	<p>Appendix 5 provides detail of the latest version of the MTFP (as at 29/1/210) that has been prepared for the 2021/22 budget. Following the Home Secretary's police grant announcement, the total year 5 deficit, including the expected impact of funding formula cuts is £7.341m before planned efficiency savings of £3.778m. The projected recurring deficit in 2025/26 is £3.563m.</p> <p>The MTFP will continue to be updated in early 2021/22 following the Commissioner's precept discussions with the police and Crime Panel in late January 2021.</p>
8.	<u>Risk areas identified</u>
8.1	While the outcome of the 2020 Spending Review resulted in a positive settlement for 2021/22, the future Comprehensive Spending Review and the ongoing review of the funding formula are still unknown. The predicted loss funding from 2023/24 is included in the MTFP's recurring deficit at 2025/26 of £5.563m.
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	2020/21 Q3 financial Performance report (values version)