



# Finance Report 2021/22 – Second Quarter (Q2)

## CHIEF OFFICER TEAM REPORT

24 November 2021



# 1. PURPOSE AND RECOMMENDATION

- 1.1 The purpose of this report is for monitoring.
- 1.2 There are no recommendations made requiring a decision.

# 2. INTRODUCTION & BACKGROUND

- 2.1 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.
- 2.2 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.

# 3. ISSUES FOR CONSIDERATION

## Financial Highlights

- Q2 Year to date outturn: £4,339k underspend
- Full Year forecast outturn: £4,582k underspend (before transfers to reserves)

- 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 Forecasts have been included for Q2.

3.3 As shown in Appendix 1a, on a group basis there is a year to date underspend at Q2 for 2021/22 of £4,339k against a budgeted underspend position at Q2 of £3,699k providing a positive variance of £0.64m. The group year to date net underspend arises from the following variances:

**Pay variances – officers and staff: full year forecast underspend £3,624k**

3.4 At the end of Q2, police Officer pay and salary allowances are under budget by £2,063k due primarily to the year to date effect of current vacancies and the timing of the next cohort of new officers from Op Uplift entering the Force in early July. The full year forecast is an underspend of £3,177k by 31/3/2022.

3.5 The underspend on police officer pay and allowances is matched by a £513k underspend on Staff and CSO pay and allowances at the end of Q2. The full year forecast is an underspend of £447k.

3.6 Against the finance budgeted establishment of 2,394.40 FTE, there are 74.85 FTE vacancies (Q1: 125.94 vacancies) in total for officers and staff on 30 September 2021. These posts are budgeted in full for the financial year, hence the phasing of recruitment results in underspends for the period from 1/4/2021 onwards while these posts are unfilled. The assumptions for the 2021/22 budget already reflect probationers being recruited at lower than the mid point of the salary scale. The actual YTD underspend on staff and CSO pay is also net of agency costs of £370k that cover some of those vacancies in the short term. There were no redundancy payments in Q2.

**Overtime – officers and staff: forecast overspend £796k**

3.7 The actual YTD overspend on overtime at 30 September 2021 is £609k. Total overtime costs (officer and staff) at year end are forecast to show a net overspend of £796k, made up as follows:

Police Officer overtime overspend	(£309k)
Police Officer rest day overtime overspend	(£859k)
Police Officer public holiday underspend	£324k
Police staff overtime – overspend	(£273k)
Police staff weekend & public holiday enhancements underspend	£321k
<b>Total under/(over)spend forecast at 31 March 2022</b>	<b>(£796k)</b>

3.8 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.

- 3.9 The annual overtime budget was reduced by £1m for 2020/21 and unchanged for the 2021/22 budget. The overspend relates to increased levels of demand in recent months, as well as additional efforts to tackle backlogs and improve performance. However, if the current overspend trend continues for the rest of the financial year, there is a risk that the forecast overspend against budget at 31 March 2022 will be much higher, offsetting any underspends on pay and allowances. Management action and scrutiny of overtime is necessary to ensure that the level of overtime is managed.

**Other employee related costs: forecast overspend £48k**

- 3.10 There is an Actual YTD underspend of £368k for other employee related costs. The easing of Covid19 restrictions means more external training is taking place but it is not at the same level as the pre-Covid period yet. Pension costs are forecast to be down by £66k with lower injury pension payments and no officers leaving under the “30+ pension payments” to date. However, this is offset by an increase in employee liability insurance premiums that has effectively doubled the original budgeted cost to £222k for the year.

**Non-pay variances – Premises costs: forecast underspend £404k**

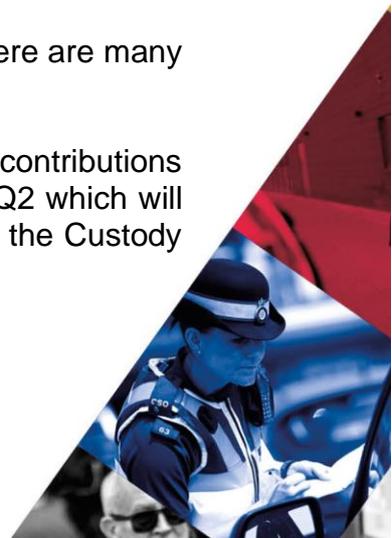
- 3.11 Premises costs are underspent at Q2 by £112k due primarily to the reduced planned maintenance activity in the first half of the year, and the timings of rent and rates payments. This is offset by higher reactive maintenance costs, and cleaning costs following additional cleaning requirements resulting from Covid19 and additional facilities such as Ystrad Mynach.

**Non-pay variances – Transport costs: forecast underspend £668k**

- 3.12 Transport costs are largely in line with budget at Q2. The forecast year end position is a larger underspend of £668k from reduced travel/accommodation/subsistence costs (£169k), lower helicopter hire charges (£172k), lower vehicle spares costs (£142k) and reduced fuel costs of £251k. However, vehicle insurance costs remain above the £204k budget with actual costs of £378k as premiums were raised by the current supplier. A full procurement exercise for fleet insurance will be carried out in 2021/22 as a result. The quarterly NPAS payments for helicopter hire delayed in Q1 have now been received.

**Non-pay variances – Supplies & Services costs: forecast underspend £540k**

- 3.13 Supplies & services costs are underspent at Q2 by £699k and there are many variations between the cost headings in this category.
- 3.14 There are timing differences in Partnership fees, collaboration contributions and consultancy fees resulting in a net underspend of £787k at Q2 which will balance out in future periods. Further underspends are noted on the Custody



medical contract (£142k), Insurance (£49k), Public Liability (£67k) and Mobile Phone rental (£77k).

- 3.15 Offsetting this is £459k of additional ICT costs for software maintenance contracts partly as a result of timings of invoicing but also some additional costs on projects such as DEMS. This will be managed from within the overall ICT revenue and capital programme, which is forecast to be £203k underspent at year end.

#### **Other movements:**

- 3.16 The invoices for the contribution to national technology programmes managed by the Police Digital Service (PDS) have now been received in full and they are £158k higher than originally budgeted.
- 3.17 Other Income is lower by £2,299k at Q2 as we are awaiting payment of Home Office Grants, local partnership income and reimbursement of seconded out officer costs. We expect this income will be received in full by the end of the year.

#### **Office of the Police & Crime Commissioner – forecast underspend £94k**

- 3.18 Included within the group figures above are underspends at Q2 relating to the Office of the Police & Crime Commissioner totalling £224k, and a forecast underspend for the full year of £94k. These are shown separately in Appendix 1c.
- 3.19 Salary and allowances – there is a small YTD underspend of £28k at Q2.
- 3.20 Non-pay expenditure – there are underspends totalling £50k in non-pay expenditure. The GDAS contribution, anticipated in Q1, was received in Q2.
- 3.21 There are no known risks to the receipt of income or Council Tax funding.

#### **Covid19 costs (Appendix 2)**

- 3.22 The Covid19 pandemic continues to affect working patterns, and expenditure patterns in the 2021/22 financial year. 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 continuing to work more agilely and safely during the April to September period. Some variances on non-pay expenditure are likely to remain as we progress through 2021/22 but the effect is gradually reducing as alternative ways of working are being used.
- 3.23 The capital programme has also been impacted by Covid19 with a number of projects within the capital programme delayed into 2021/22 and rescheduled for completion in this financial year. The new HQ build has continued throughout the lockdown period and is due to be handed over in November 2021.

3.24 An analysis of what has been reported to the Home Office as Covid19 related costs in 2020/21 and up to Q2 in 2021/22 is shown in Appendix 2. The total costs identified to date as arising specifically from the Covid19 situation are £1,262k against £1,423k of funding received. The Force has therefore been fully funded for the general costs associated with Covid19 and the surge enforcement, as well as an element of the budgeted income lost as a result of the lockdown restrictions. There remains approx. £162k of funding for any specific Covid19 response throughout the remaining 6 months of 2021/22. This funding is not ring fenced but given the nature of the virus this sum will remain ringfenced for spending related to this issue.

### **Financial Highlights – balance sheet**

3.25 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 3a)**

3.26 As at 30 September 2021, £41.1m 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.

3.27 Average interest rates on investments is 0.30% (30 June 2021: 0.31%). 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.

3.28 Actual cash held within the bank account at 30 September 2021 was £1,178k.

### **Debtors (appendix 3b)**

3.29 Total sales invoices that were unpaid as at 30 September 2021 totalled £1,714k (30 June 2021: £345k), of which £1,101k (30 June 2021: £342k) was overdue. Outstanding debtors have increased in Q2 and regular chasing and reminder letters are sent to all overdue debtors.

3.30 The collectability of debtors is not considered a risk. The top 5 debtors, as presented in Appendix 3b, total £1,485k (87% of total debtors by value) and are all police bodies. The balance with Dyfed Powys Police relates to a query Safety Camera Partnership funding that is being resolved. The balance with Cambridgeshire Constabulary was paid in full in early October. There are no irrecoverable debts identified so far in 2021/22.



### **Creditors (appendix 3c)**

- 3.31 As of 30 September 2021, there were £1,293k of creditors which is a substantial increase on the total creditors of £483k at 30 June 2021, but comparable with the position at 31 March 2021.
- 3.32 Of this total, £985k or 76% of the total is overdue for payment. This is largely due to £601k of the overdue invoices to the SRS who invoice on receipt of orders but before goods/services are delivered. Therefore, requisitioners are unable to approve the invoices for payment until those goods and services are received – in this case some months later. A further £60k due to Key Forensic Services also overdue as they are dependent on invoice approval by JSIU colleagues – we are escalating this with JSIU management to resolve the delays within that area. A further £66k of old invoices due for payment to Llamau have now been resolved and paid in early October 2021.
- 3.33 Despite this, the average age of an invoice paid within Q2 remains within the 30 day target at 27.17 days on average. Further work continues on clearing down and resolving historic balances within the Accounts Payable team. It is expected that the average age will continue to meet the target going forward.

### **Capital (appendix 3d)**

- 3.34 The initial budget for the capital and projects was £18,655k but this has been revised to £29,645k to reflect a number of additional projects deferred from 2020/21 as a result of Covid19. These include additional spend on the new HQ, and further investment in Police Hubs, property evidence store, access control, Blackwood and Maindee Custody refurbishment. The full year forecast spend is £23,921k, indicating a £5,724k underspend on the capital programme by 31 March 2022.
- 3.35 The expenditure to date on capital and long-term projects is £11,536k leaving a remaining budget of £18,109k. 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.
- 3.36 Estates – the budget of £22,175k includes major projects relating to the new HQ (£11,900k), Police Hubs (£3,943k), Property Evidence Store (£1,400k), Maindee Custody Refurbishment (£773k) and the Ystrad Mynach CCTV upgrades (£750k). However, there is a forecast underspend of £4,526k on Estates Schemes where these schemes will be reviewed as part of the 2022/23 capital programme. This includes spend on Police Hubs (£1,528k), Ystrad Mynach CCTV (£614k), Property Evidence Store (£1,200k), Collaborative JFU (£494k) and access Control (£450k).
- 3.37 Vehicles – The 2021/22 budget is £2,820k and expenditure to date has increased substantially to £866k. The telematics system to track vehicle deployment and usage is currently being fitted. The new vehicle purchase contract came into effect on 1 April 2021 and we are now placing orders for

delivery of vehicles to meet the usual replacement cycle and to accommodate environmental and Operation Uplift impacts in 2021/22. However, supply issues from manufacturers means that the budget will not be fully utilised, resulting in a forecast underspend of £996k at 31 March 2022.

- 3.38 ICT - The budget is £4,350k and expenditure to date is £2,074. Despite the ICT requirements of the new HQ being completed in Q3 and the rollout of FFF2, it is also expected there will be some deferral of expenditure on network and SAN replacement projects into next year. There is a forecast underspend of £472k on ICT capital projects as a result.

#### **Reserves (appendix 4)**

- 3.39 Appendix 4 details the position in relation to the current balance of reserves of £42,226k based on the audited financial statements at 31 March 2021.

#### **Medium Term Financial Plan (appendix 5)**

- 3.40 Appendix 5 provides detail of the latest version of the 2022/23 to 2026/27 MTFP in August 2021. The current position, pending any announcement on the Comprehensive Spending Review and police funding formula review by the UK Government, is a recurring annual deficit of £4,933k in 5 years' time in 2026/27.
- 3.41 The MTFP will updated again as part of the 2022/23 budget setting exercise in October/November 2021. We expect to receive the outcome of the Comprehensive Spending Review in late October 2021.

## **4. COLLABORATION**

- 4.1 Collaborative activities have been included in the figures above.

## **5. NEXT STEPS**

- 5.1 To consider and note the financial performance of the Force and OPCC for the second quarter of financial year 2021/22.

## **6. FINANCIAL CONSIDERATIONS**

- 6.1 These are detailed in the report.

## **7. PERSONNEL CONSIDERATIONS**

- 7.1 There are no staffing / personnel implications arising from this report.

## **8. LEGAL CONSIDERATIONS**



8.1 There are no legal implications arising from this report.

## 9. EQUALITIES & HUMAN RIGHTS CONSIDERATIONS

9.1 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.

9.2 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.

## 10. RISKS

10.1 The outcome of the Comprehensive Spending Review and the ongoing review of the funding formula are still unknown. The predicted loss of funding from 2023/24 is included in MTFP's recurring deficit in 2026/27 of £4.9m.

10.2 We are still awaiting the final outcome of compensation payments to claimants as part of the wider McCloud Pension remedy issue. The Employment Tribunal is due to rule on the level of payments in December 2021, but the value of these compensation payments could be higher than previously thought.

## 11. PUBLIC INTEREST

11.1 In producing this report, has consideration been given to 'public confidence'?  
**Yes**

11.2 Are the contents of this report, observations and appendices necessary and suitable for the public domain? **Yes**

## 12. REPORT AUTHOR

12.1 Matthew Coe

## 13. LEAD CHIEF OFFICER

13.1 Nigel Stephens

## 14. ANNEXES

14.1 2021/22 Q2 Financial Performance Report

## 15. CHIEF OFFICER APPROVAL

- 15.1 I confirm this report has been discussed and approved at a formal Chief Officers' meeting.
- 15.2 I confirm this report is suitable for the public domain / is not suitable for the public domain for the reasons stated in 11.3. *(delete as appropriate)*



**Signature:**

**Date: 10.11.2021**

<p><b>Police and Crime Commissioner for Gwent</b></p> <p>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.</p> <p>The above request has my approval.</p> <p><b>Signature:</b></p> <p><b>Date:</b></p>
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