

OFFICE OF CHIEF CONSTABLE	
LEAD CHIEF OFFICER:	Nigel Stephens
TITLE:	Finance Report 2020/21 – Final quarter (Q4)
DATE:	10th June 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 fourth and final 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>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 2021.</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 Reserves Strategy and MTFP. 8) Appendix 5: Medium Term Financial Plan. This provides a longer term view on the financial position of the force.

3.	<u>Financial Highlights –</u> <u>Year end outturn: £222k surplus (Q3 forecast: £853k surplus)</u>	
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	As shown in Appendix 1a , on a group basis there is a surplus of £222k against budget at year end. This is lower than the forecast position of £853k at Q3 because of reserve movements at year end. The OPCC is showing a break-even position at year end. The group’s year end surplus of £222k arises from the following variances:	
	Pay variances – officers and staff: underspend £4,107k	
3.3	At year end, police officer pay and salary allowances forecast at the end of the financial year are under budget by £1,662k. 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. The assumptions for the 2020/21 budget already reflect police officer probationers being recruited at lower than the mid point of the salary scale.	
3.4	The underspend on police officer pay and allowances is matched by an £2,445k forecasted underspend on Staff and CSO pay and allowances at the end of Q4. Within this, staff pay was underspent by £3,585k, 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 £867k that cover some of those vacancies in the short term plus redundancy and early retirement costs totalling £230k.	
	Overtime – officers and staff: overspend £744k	
3.5	Total overtime costs (officer and staff) at year end show a net overspend of £744k, made up as follows: Police Officer overtime overspend Police Officer rest day overtime overspend Police Officer public holiday overspend Police staff overtime – overspend Police staff weekend & public holiday enhancements underspend Total under/(over)spend at 31st March 2021	 (£293k) (£419k) (£23k) (£244k) £235k (£744k)
3.6	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.	

	The annual overtime budget was reduced by £1m for 2020/21. The overspend relates to additional efforts to tackle backlogs and improve performance, which will help officers and staff to be more responsive to changing crime patterns going forward.
	Other employee related costs: underspend £804k
3.7	There is a forecast underspend of £804k for other employee related costs. Because of Covid19 officers have been on very few external training courses with online provision being developed/preferred, which resulted in an underspend of £545k at year end. Pension costs are down by £157k with lower injury pension payments and no officers leaving under the “30+ pension payments” in 2020-21.
	Non-pay variances – Premises costs: overspend £241k
3.8	Premises are overspent at year end by £241k due primarily to the effect of the relaxation of Covid19 lockdown restrictions in Q4 and timings on rent/rates payments. Covid19 limited the opportunities for planned maintenance work earlier in the year, but revenue expenditure was accelerated in Q4 as restrictions were relaxed resulting in an overspend at year end of £355k. This was offset by continuing underspends on the grounds and reactive maintenance budgets of £170k. As reported at Q3, cleaning costs remained overspent at year end by £140k partly from Covid19 additional cleaning needs.
	Non-pay variances – Transport costs: underspend £194k
3.9	Transport costs are underspent at year end by £194k, again due in large part to the effect of Covid19 lockdown. Because fewer officers and staff are travelling outside of the force for overnight 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 £103k in line with a recent court ruling. As reported at Q3, fuel and insurance costs are down substantially by £367k in Q4 as a result. 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 resulted in a £48k overspend at year end.
	Non-pay variances – Supplies & Services costs: underspend £2,605k
3.10	Supplies & services costs are underspent at year end by £2,605k and there are many variations between the cost headings in this category. There is a timing difference in Partnership fees and consultancy fees resulting in an underspend of £1,527k at year end. Following the year end reconciliation of expenditure, there were underspends of £367k against budget collaborative activities with other forces. Telecoms and mobile phone costs are also down £432k against budget at year end from lower maintenance levels and calls for landlines. There were expected underspends on the custody medical contract of £209k from the revised arrangements; and public liability insurance costs and claims were also underspent by £120k which is likely the indirect result of the covid19 restrictions.

	<p>Offsetting this are additional costs of £94k of additional ICT costs for software purchases and maintenance contracts and £36k for uniforms resulting from the accelerated recruitment of officers and CSOs in Q4. We have now received reimbursement of both medical and non-medical PPE costs from the UK Government.</p> <p>This category of expenditure is large and varied and we have reviewed it in detail as part of 2021/22 budget setting. This has informed recurrent savings from areas such as custody medical contract and medical examinations (both showing reduced spend at year end).</p>
	Other movements: underspend £742k
3.11	The underspend of £742k is primarily the result of higher income from additional funding provided late in 2020/21 by the UK and Welsh Governments for Women's Pathfinder £267k, ESMPC Grant £182k, and ARIS funds £150k. We have also had the payment of Home Office Grants, local partnership income and reimbursement of seconded out officer costs flagged at Q3.
4	<u>Office of the Police & Crime Commissioner – break even position</u>
4.1	<p>Included within the group figures above are forecast underspends relating to the Office of the Police & Crime Commissioner totalling £635k as a result of a vacancy and reduced commissioning costs during the covid lockdowns. These are shown separately in Appendix 1c.</p> <p>Salary and allowances – there is an underspend at year end of £96k for the full year effect of vacancies within the OPCC.</p> <p>Non-pay expenditure – there is an underspend of £509k at Q4. This is primarily due to underspends on commissioning costs for areas such as Pathfinder and Community Safety projects.</p> <p>The total underspend of £635k has been transferred to OPCC reserves for specific purposes in 2021/22.</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 throughout 2020/21 and this will continue into the new 2021/22 financial year.</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 in the next financial year.</p> <p>The capital programme has also been impacted by Covid19 with a number of projects within the programme delayed. However, the new HQ build has continued throughout the lockdown period.</p> <p>The total costs identified at 31 March 2021 as arising specifically from the Covid19 situation are £778k as shown in Appendix 2. Of this total, £316k relates to medical and non-medical grade PPE equipment for officers and staff and has been fully funded by the UK Government. Between November 2020 and 31 March 2021 PPE has been purchased and distributed by a</p>

	<p>National Centre established by the Department of Health & Social Care so further local costs are expected in 2021/22. Additional funds have been received from the UK government of £595k to cover general covid costs arising in 2020/21 and into 2021/22. In addition, the UK government is also reimbursing organisations for income lost as a result of Covid19 and we have reported potential lost income of £121k, of which the UK Government has already reimbursed £78k.</p> <p>In addition to the general costs above, we have received £308k of specific 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. A 'Surge Fund' for Covid19 activities has been established and to date the expenditure against this amounts to £166k. This is directly funding Forcewide Covid enforcement activity on a daily basis.</p> <p>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. The total unused funding of £517k has been carried forward as part of the movement on Workstream reserves in Appendix 4 to mitigate any further Covid19 costs in 2021/22 that might not be funded in future.</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 March 2021, £36.0m 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 0.36% (31 December 2020: 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 Q4 was £1,636k.</p>
	Debtors (appendix 3b)
6.3	<p>Total sales invoices that were unpaid as at 31 March 2021 totalled £953k (Q3: £857k), of which £630k or 66.0% (Q3: £635k or 71.5%) was overdue.</p>

6.4	<p>The collectability of debtors is not considered a risk. The top 5 debtors, as presented in Appendix 3b total £810k (76.9% of total debtors by value) and are nearly all public sector bodies. The largest debtor of £504k due from the National Probation Service, relates to their annual contribution towards the Gwent Drug and Alcohol Service within force custody suites which is billed to them quarterly. Payment is being very actively pursued. Further work has also been carried out to address the level of overdue debt noted at Q3 with a number of larger balances paid in Q4 – this work continues. There are no irrecoverable debts identified so far in the year.</p>
	<p>Creditors (appendix 3c)</p>
6.5	<p>As at 31 March 2021 there was £1,121k of creditors (Q3: £745k). Of this total, the top 5 creditors as presented in Appendix 3c total £866k (77.3% of total creditors by value) mainly with other public sector bodies and relates to invoices for collaborative activities or commissioned services.</p> <p>A lot of work has been carried out by the Accounts Payable team to chase coding by departments, and clear historic overdue balances ahead of year end. As a result of this hard work, the level of overdue balances has fallen dramatically from £584k at Q3 to only £73k (6.5%) of total creditors at Q4.</p>
6.6	<p>As part of the work done by the Accounts Payable Team in Q4 a large number of historic balances were cleared with departments which has skewed the creditor days performance measure for Q4. Excluding these historic balances, the underlying average age of an invoice paid in Q4 was 28.61 days (Q3: 21.26 days, Q2: 23.63 days, Q1: 25.64 days) – which remains within the 30-day target. This work carried on into April 2021 where the average days, including historic balances cleared, was 30.85 days. Additional controls have been put in place to prevent a recurrence and we expect to meet this target going forward.</p> <p>The uptake of purchase orders by the Force remains steady. The value of invoices by value paid that had a purchase order was £7.5m out of £12.0m (63.3%) in Q4 compared to £8.9m out of £13.6m (65.6%) in Q3. The number of invoices paid with a purchase order number also remain static at 32.3%.</p> <p>Following the relaxation of covid19 restrictions, we are working with Commercial Procurement Services to agree a date for re-starting the enforcement of No PO No Pay and rejecting invoices from suppliers without purchase orders.</p>
	<p>Capital (appendix 3d)</p>
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 £15,969k leaving a remaining budget of £8,908k.</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 £22,477k 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. A number of these estates projects have been postponed or delayed into 2021/22 as a result of Covid19 restrictions. Expenditure relating to the new HQ totalled 14,088k in the year.</p>

6.9	Vehicles – The 2020/21 budget is £1,591k and expenditure to 31 March 2021 totalled only £880k – an underspend of £711k. The telematics system to support vehicle deployment and usage is also being rolled out and the new contract arrangements for national vehicle purchases came into place on 1 April 2021. Orders have been placed for delivery of the remaining vehicles in Q4 2020/21.
6.10	ICT - The revised budget is £1,823k. Expenditure to date is £1,156k, giving rise to an underspend of £667k 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 £42,166k based on the unaudited financial statements at 31 March 2021. A number of reserve movements have already been approved during 2020/21:</p> <ul style="list-style-type: none"> • Budgeted reserve contributions: two contributions to reserves were built into the 2020/21 master budget that was approved and finalised in March 2020 – revenue contribution to capital £6,897k and Airwave sinking fund contribution £210k. • In year reserves movements: in the Q3 financial report three additional reserves were approved for the ESN national contribution £3,250k; PCC Commissioning/Force initiatives £1,250k; and £1,000k for the incremental cost of accelerated CSO recruitment in 2020/21 and 2021/22. <p>Following the review with CFO-OPCC and ACOR and as presented to COT, further reserves of £1,744k have been made to carry forward specific funding received late in 2020/21 and underspends for specific programme expenditure expected in future years for:</p> <ul style="list-style-type: none"> • PCC Commissioning Reserves outturn; • Women’s Pathfinder; • ESMPC grant; • ARIS funds; • Highways Grant income; • Motivating our Youth specific grant; • Covid and surge grant funding; • Upgrades to the Gold room under Operation Yellowhammer; • an amount to repay funding received from Welsh forces for the National CIP Co-ordinator recruited part way through the 2020/21 year; and • a reserve from 2020/21 underspends by the SRS for known future technology changes including the transfer of the data centre from Ty Cyd 1 in 2022/23. <p>The balance of the year end movement of £222k will transfer to the Accelerated Forecast Savings general reserve.</p>

7	Medium Term Financial Plan (appendix 5)
7.1	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. The MTFP will continue to be updated as part of the budget setting process for 2022/23.
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 lost funding from 2023/24 is included in the MTFP's recurring deficit at 2025/26 of £3.563m.
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 Q4 financial Performance report (values version)  Appendix 1a-c Updated Q4 WIP for