



Finance Report 2022/23 – Second Quarter (Q2)

Strategy and Performance Board

November 2022



1. PURPOSE AND RECOMMENDATION

1.1 The purpose of this report is for monitoring.

1.2 There are four recommendations:

- To note the forecast out-turn that is based on a number of assumptions concerning projected expenditure to year end.
- To undertake a review of the agency staff use due to the high costs.
- To review overtime costs that continue to be above budget.
- To note the establishment of an Efficiency Group that will focus on the implementation of efficiency measures to support the financial challenges faced in 2023/24.

2. INTRODUCTION & BACKGROUND

2.1 This quarterly financial report presents detailed information on revenue, capital 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 2a:** Cash and investments – details of level of cash the force has and how much money is on investment.
- **Appendix 2b:** Debtors position. This details the level of income yet to be cash received and the age of the debt.
- **Appendix 2c:** Creditors position. This details the level of expenditure yet to be cash paid and the age of the liability.
- **Appendix 2d:** 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 3:** Usable reserves. This schedule identifies the level of cash backed reserves in line with the Reserves Strategy and the MTFP.
- **Appendix 4:** 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: £3,840k underspend
- Full Year forecast outturn: £2,380k 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 2022/23 of £3,840k against a budgeted underspend position at Q2 of £517k providing a positive variance of £3,323k. The group year to date net underspend arises from the following variances:

Pay variances – officers and staff: full year forecast underspend £4,195k

3.4 At the end of Q2, police Officer pay and salary allowances are under budget by £3,043k due primarily to the year to date effect of the recruitment profile of officer cohorts. These posts are budgeted in full for the financial year, hence the phasing of recruitment results in underspends for the period from 1/4/2022 onwards while these posts are unfilled. The planned recruitment profile to meet Operation Uplift targets through this year is currently:

	Number
July officer cohort	43
September officer cohort	58
January officer cohort	50
March officer cohort + Police Now recruitment	50 + 12
Total planned officer recruitment	213

3.5 The underspend is a non-recurrent saving for this financial year only. Once the planned recruitment has taken place, the full cost of officers will be realised for 2023/24 budgets onwards. At Q2 the full year forecast of this non-recurrent underspend for 2022/23 is £4,538k.

3.6 The underspend on police officer pay and allowances is offset by an overspend of £477k on Staff and CSO pay and allowances at the end of Q2 – previously an underspend of £513k at Q2 in 2021/22. This overspend position is a net position of the result of a small underspend on permanent post salaries of £16k (Q2 2021/22 £952k), offset by agency costs of £379k (Q2 2021/22 £365k). The full year forecast is an underspend on salaries of £475k (2021/22 £1,270k) offset by agency costs of £746k (2021/22 £730k). The level of agency cost is comparable with 2021/22 to cover vacancies in the short term. The difference this year is that we have the full year

impact of growth in CSO numbers following recruitment in January 2022. There were redundancy payments of £35k in Q2. Whilst it is acknowledged there are a significant number of force projects that are resourced with agency staff, it is a concern that this is causing an overspend on the police staff pay budget and it is suggested this is reviewed.

Overtime – officers and staff: forecast overspend £915k

- 3.7 The actual YTD position on overtime also remains largely unchanged compared to last year, with an overspend at 30 September 2022 of £641k (Q2 2021/22 £609k). Total overtime costs (officer and staff) at year end are forecast to show a net overspend of £915k, made up as follows, and reflects the work done to realign Officer rest day and bank holiday overtime budgeting:

	Q2 2022/23	Q2 2021/22
Police Officer overtime overspend	(£300k)	(£309k)
Police Officer rest day overtime overspend	(£559k)	(£859k)
Police Officer public holiday underspend	(£32k)	£324k
Police staff overtime – overspend	(£419k)	(£273k)
Police staff weekend & public holiday enhancements underspend	£394k	£321k
Total under/(over)spend forecast at 31 March 2022	(£915k)	(£796k)

- 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 the 2020/21, 2021/22 and 2022/23 budgets. The overspend relates to ongoing high levels of demand, as well as additional efforts to tackle backlogs and improve performance, but there may also be a cultural or behavioural element to current working practices. There remains a risk that the forecast overspends against budget at 31 March 2023 will be much higher, offsetting any underspends on pay and allowances. Significant analysis has been undertaken to understand working patterns, realign budgets and improve reporting for management, and this increased level of scrutiny is necessary to ensure that the level of overtime is managed. To date there is no change to previous spending patterns and therefore it is suggested a focussed exercise is required to drive these costs towards budget.

Other employee related costs: forecast break even

- 3.10 There is an Actual YTD underspend of £286k for other employee related costs. The easing of Covid19 restrictions means more external training is taking place and it is likely to be back at the same level as the pre-Covid period by the end of the financial year. Pension costs are currently underspent by £477k due to lower injury pension



payments and no officers leaving under the “30+ pension payments” to date. However, the full year forecast assumes the full budget will be utilised by the end of 2022/23.

Non-pay variances – Premises costs: forecast overspend £1,285k

- 3.11 Premises costs are overspent at Q2 by £865k compared to an underspend of £112k at the same time last year. This is due primarily to the substantial increases in utility prices (£355k), confirmation of the rates associated with new HQ (£250k), and planned maintenance works associated with the capital programme (£101k) in the first half of the year.
- 3.12 The increase in the forecast overspend for the full year from the Q2 position is due almost solely to the continued inflation of electricity and gas prices due to global events. These costs are expected to increase by a further £583k, which will effectively see the 2022/23 cost almost double from £966k to £1,904k. Going forward this higher price level will be reflected in the 2023/24 budget.

Non-pay variances – Transport costs: forecast overspend £343k

- 3.13 Transport costs are underspent at Q2 by £447k because the quarterly invoices for helicopter hire for £379k have still not been received from NPAS. The full year forecast is for an overspend of £343k arising from the change in mileage claim rules (£50k); additional vehicle hire related to the new RASSO team (£46k); higher accident repair costs and engine replacements on high performance vehicles (£91k); and the ongoing impact of higher fuel prices arising from global issues (£244k). This is offset to some degree by lower costs of insurance work for recovery (£88k). The impact of higher fuel prices will be considered and reflected in the 2023/24 budget setting exercise.

Non-pay variances – Supplies & Services costs: forecast underspend £137k

- 3.14 Supplies & services costs are overspent at Q2 by £1,579k and there are many variations between the cost headings in this category.
- 3.15 The main differences arise from a £904k underspend from timing differences of expenditure against budget for Consultant fees. This cost category includes specific programmes such as Substance Misuse, ACES, Breaking the Cycle, and We Don't Buy Crime, as well as departmental specific budgets spread across the Force and OPCC. There are also Mutual Aid costs of £431k in the first half of the year that have been fully recovered in income.
- 3.16 Partnership fees are £311k overspent against budget at Q2 with multiple 'overs' and 'unders' against projects and commissioning costs that will even themselves out over the remaining 6 months of the year. There remain pressures on partnership fees budgets with a forecast overspend of £197k for the full year related to commissioning, ICT capital and SRS projects.



- 3.17 ICT costs are substantially overspent at Q2 by £379k but this is due to the earlier timing of hardware purchases which will even out over the full year. This will be managed from within the overall ICT revenue and capital programme, which is forecast to be £343k underspent at year end.
- 3.18 Additional costs at Q2 include an unplanned cost from the PSBA for network services (£52k); and increased insurance costs (£47k) for which a full review is being undertaken with the insurance broker ahead of 2023/24.

Other movements:

- 3.19 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 £61k higher than originally budgeted.
- 3.20 Investment income received is slightly higher than budget at Q2 as a result of recent rises in interest rates. The current trends suggest we will have an extra £331k of investment income at the end of the financial year as a result.
- 3.21 Other income is lower by £1,207k 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 £137k

- 3.22 Included within the group figures above are overspends at Q2 relating to the Office of the Police & Crime Commissioner totalling £177k, and a forecast underspend for the full year of £137k. These are shown separately in Appendix 1c.
- 3.23 Salary and allowances – there is a small YTD overspend of £19k at Q2.
- 3.24 Non-pay expenditure – there are underspends totalling £27k in non-pay expenditure. The GDAS contribution, anticipated in Q1, was received in Q2.
- 3.25 There are no known risks to the receipt of income or Council Tax funding.

Covid19 costs

- 3.26 The Covid19 lockdown continues has affected the phasing of expenditure in 2021/22 but to a lesser extent than in the previous financial year.
- 3.27 The effect of the Covid19 pandemic on working patterns, and expenditure patterns in the continues to reduce in 2022/23 compared to 2021/22. The timing of some non-pay expenditure categories such as external training and estates maintenance costs are affected much less than previously, and officers and staff continue to work agilely in line with Force and Government guidance. There remain issues with the global supply chain for items such as vehicles, clothing/uniform and computer chips.
- 3.28 The Force was fully funded for the general costs associated with Covid19, surge enforcement, and budgeted income lost as a result of the lockdown restrictions by the UK Government. The funding for specific Covid19 responses was not ring fenced



and the remaining element has been subsumed within 'business as usual' expenditure within the Force.

Financial Highlights – balance sheet

3.29 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 2a)

3.30 As at 30 September 2022, £44.5m 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.

3.31 The average interest rates on investments is 1.52% (30 June 2022: 0.29%). Interest rates have increased substantially on previous years as the Bank of England changes the base rate to combat inflation pressures in the wider economy. Investment interest, therefore, is likely to contribute more to the Force's income budget in 2022/23.

3.32 Actual cash held within the bank account at 30 September 2022 was £1,419k.

Debtors (appendix 2b)

3.33 Total sales invoices that were unpaid as at 30 September 2022 totalled £973k (30 June 2022: £889k), of which £440k (30 June 2022: £209k) was overdue. Outstanding debtors have increased in Q2 and regular chasing and reminder letters are sent to all overdue debtors.

3.34 The collectability of debtors is not considered a risk. The top 5 debtors, as presented in Appendix 3b, total £784k (81% of total debtors by value) and are all police or government bodies. A total of 17 irrecoverable debts with a total value of £1,898 and which date back to 2017 and the change in financial systems from Lawson to BW, have been identified and will be written off in 2022/23.

Creditors (appendix 2c)

3.35 As of 30th September 2022, there were £423k of creditors which is a substantial decrease on the total creditors of £1,279k at 30th June 2022.

3.36 Of this total, £101k or 23.8% (Q1 2022/23: £961k) of the total is overdue for payment. This large reduction on the previous quarter is due to £600k of overdue invoices relating to SRS being cleared. SRS invoice on receipt of orders but requisitioners are unable to approve the invoices for payment until the goods and services are received – in this case some months later. These goods and services have now been delivered.

3.37 The average age of an invoice paid within Q2 remains within the 30 day target at 23.23 days on average, which is comparable to the previous quarter (22.50 days). 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 2d)

3.38 The initial budget for the capital and projects was £17,944k but this has been revised to £21,273k to reflect additional spend on a number of existing projects as a result of increased material prices and operational changes. These include additional vehicle requirements, budgeted spend on electric vehicle charging points, fleet workshop relocation, uniform stores at Pontypool and TSU re-provision. The full year forecast spend is £18,473k, indicating a £2,810k underspend on the capital programme by 31 March 2023.

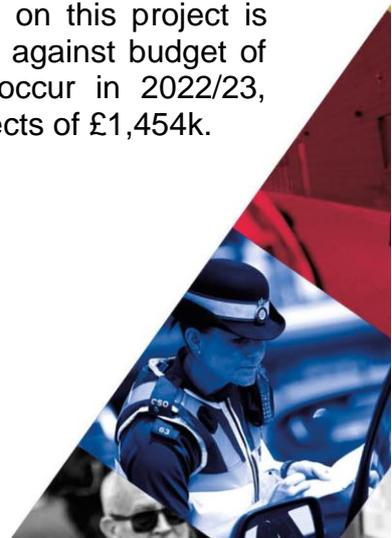
3.39 The expenditure to date on capital and long-term projects is £4,310k leaving a remaining budget of £16,882k. Progress on the delivery of the projects in line with the Estates Strategy and within the capital programme is overseen by the Capital Strategy Board.

3.40 Estates – the budget of £13,632k includes major projects relating to Police Hubs – Abergavenny/GPOF/Fleet workshops relocation (£6,359k), Property Evidence Store (£1,200k), and Maindee Refurbishment (£933k). However, there is still £11,792k of budget remaining and a forecast underspend of £3,084k on estates projects which is subject to further investment discussions and alternative provision as part of the Capital Strategy Board’s agenda.

3.41 Vehicles – The 2022/23 revised budget is £3,149k and expenditure to date is £645k. The telematics system to track vehicle deployment and usage is online and continues to be fitted to the fleet. Reporting from the system is developing and is highlighting some areas for further review, such as in the Force’s use of pool cars. The new vehicle purchase contract came into effect on 1 April 2021 and there are still delays with delivery of some vehicles to meet the usual replacement cycle and to accommodate environmental impacts. There is a forecast underspend at 31 March 2023 of £1,180k.

3.42 ICT - The budget is £4,450k and expenditure to date is £1,796k. Substantial progress has already been made with FFF refresh and server replacements. The rollout of updated Body Worn Video units (£1,118k budget) that allow greater connectivity with force laptops/desktops has started and substantial expenditure on this project is expected in the second half of the year. Additional expenditure against budget of £1,969k for the Control Room project is now expected to occur in 2022/23, contributing leading to an overall forecast overspend on ICT projects of £1,454k.

Reserves (appendix 3)



3.43 Appendix 4 details the position in relation to the current balance of reserves of £33,719k based on the audited financial statements at 31 March 2022.

Medium Term Financial Plan (appendix 4)

3.44 Appendix 5 provides detail of the latest version of the 2022/23 to 2026/27 MTFP as updated in February 2022 following confirmation of the council tax precept increase of 5.5%.

3.45 The impact of global events, and the significant changes in the UK Government over the past 4 months, has created a lot of uncertainty over funding and cost pressures for 2022/23 and subsequent years. We have modelled many different scenarios to reflect inflationary pressures, and various options for council tax precept and the capital programme. The current position, before any announcement on public spending and the Police Settlement from the Chancellor's planned budget in November 2022, is still unclear but there will be very substantial pressures on Force and Commissioner budgets for 2023/24 and beyond, with the need for further savings and efficiencies.

3.46 The current forecast of the recurring annual deficit of £9,341k at 2026/27 is therefore highly dependent on inflationary pressures and borrowing decisions for the capital programme. The MTFP will updated again as part of the 2023/24 budget setting exercise in October/November 2022 to reflect known and anticipated pressures on base budgets.

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 2022/23.

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 changes in the UK Government and the impact of the Chancellor's budget for public sector spending is still unknown. The review of the Police Funding Formula has again been delayed and the current MTFP (February 2022) already predicts lost funding of £2m p.a. from 2024/5 (a total of £6m over three years) in the recurring annual deficit in 2026/27 of £9.4m.

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, Assistant Chief Officer - Resources

14. ANNEXES

14.1 2022/23 Q2 Financial Performance Report



Appendix 1a-c
Updated SepQ2- -22 |

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 for the reasons stated in 11.3.

Nigel Stephens

Signature:

Date: 25 October 2022

