

SOUTH WALES POLICE AND CRIME PANEL **MEETING**

SUMMONS

10.30 am

Tuesday, 14th September, 2021

Council Chamber, Civic Centre



The attached report has been added as a supplement to the previously published Agenda for the above-mentioned Committee.

Anyone requiring information should contact the Democratic Services Department on (01685) 725284 or democratic@merthyr.gov.uk

5. Finance Update

To consider the attached report

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Police and Crime Panel for South Wales : September 14th 2021

Report of the Police and Crime Commissioner's Treasurer

Finance Update

Introduction & Purpose

The purpose of this report is to provide an update on salient strategic financial issues facing South Wales Police. Specifically, it covers:

- Annual statutory accounting & audit compliance requirements for 2020/21, including:
 - Audit Wales Confirmation
 - Annual Governance Statement
 - Annual Report of the Joint Audit Committee
- Salient current (2021/22 in-year) Financial issues, including:
 - In-Year monitoring
 - Additional PCSOs
 - Police Uplift Programme
 - Apprenticeship Levy
 - Response to Covid-19
 - Council Tax Receipts
 - Pensions
- Comprehensive Spending Review 2021
- Police Funding Formula
- Capital City Funding

Annual Statutory Accounting & Audit Compliance Requirements for 2020/21

The annual preparation and audit of the statutory accounts has been completed successfully, this despite COVID restrictions and information flows from third parties, particularly pensions.

Two sets of complex draft accounts were produced within the tight end of May deadline to a high quality and were commented upon favourably by Audit Wales, who provided an unqualified audit opinion.

Also, the internal governance arrangements have been particularly impressive with 18 'substantial assurance' (highest category) internal audit reports on the compliance with established governance arrangements, and no 'limited assurance' reports.

There is a positive professional working relationship with Audit Wales which was commented on by the Auditor General for Wales, who joined his team for this particular audit and attended the Joint Audit Committee in late July.

Some key points to note in respect of the annual statement of accounts:

- The outturn for the year was endorsed by the auditors as £0.2M against a Gross Revenue Budget of £372M and was consistent with the projections throughout the year of a break-even position. It demonstrates both the effectiveness of financial management and the veracity of reporting arrangements year-on-year.
- This outcome fully vindicates the Commissioner's proposal, subsequently approved by the Police & Crime Panel in January 2020, to set a Precept increase of 5.9% for

the 2020/21, which although higher than inflation, was required to produce a balanced outcome, given that the Home Office grant increase for the year was allocated and ringfenced for Uplift purposes only, with a flat-cash settlement for other, core activities.

- The year-end balance on the general fund is currently short by £1M against the approved Reserve Strategy which aims to maintain the General Fund at 3% of Gross Revenue Expenditure. This is planned to be addressed within the current financial year.
- The Forecast on the other Useable Reserves is also a declining position with Capital being fully expended within the current Medium Term Financial Strategy cycle.
- The overall Balance sheet carries a pensions liability of over £3billion and is underwritten by government. The long-term affordability of the unfunded Police Pension scheme remains a challenge and the next valuation in 2024 is expected to increase liabilities further. As this is a Central Government-backed scheme, it is unreasonable to expect increases in pension contributions to be funded by the local taxpayer via Precept.

Audit Wales Confirmation

Audit Wales has written to the Commissioner (attached as Appendix A), confirming satisfactory completion of the audit.

Annual Governance Statement 2020/21

The Annual Governance Statement for 2020/21 was approved by the Joint Audit Committee in July 2021. It is attached as Appendix B to this report.

The financial management arrangements conform principally with the governance requirements of the CIPFA *Statement on the Role of the Chief Financial Officer of the Police and Crime Commissioner and Chief Financial Officer of the Chief Constable* and the Home Office *Financial Management Code of Practice for the Police Service of England and Wales (a revised version of which was published in July 2018)*.

CIPFA's Financial Management Code (FM Code) provides guidance for good and sustainable financial management in Local Authorities (including police) to ensure that authorities are managing resources effectively. The first full year of compliance with the FM Code will be 2021/22, but the Commissioner (and Chief Constable) recognise that their organisations will need time to reflect on the contents of the FM Code have used 2020/21 to demonstrate how they are working towards compliance. Existing and future financial management governance arrangements have therefore been taken into account, both in reviewing our governance arrangements and in preparing this Annual Governance Statement. It is pleasing to report that the majority of subject areas within the Code are RAG rated Green.

Annual Report of the Joint Audit Committee 2020/21

The Annual Report of the Joint Audit Committee for 2020/21 is attached as Appendix C to this report, and is for information. As stated above it is pleasing to note the high level of assurance given to the Commissioner by both internal and external audit, and confirmed within the Joint Audit Committee's Annual Report.

Salient Current (2021/22 in-year) Financial Issues

In-Year Monitoring

At this relatively early stage of the financial year, the majority of the Finance resource has been applied to delivering statutory accounts compliance and it is too early for a comprehensive forecast position to be produced. However, most of the key financial indicators remain on track.

A full analysis of the in-year position for South Wales Police for the 2021/22 year, together with a forecast outturn for the year, will be presented at the next meeting of the Police & Crime Panel in December 2021.

Additional PCSOs

The increased funding provided by Welsh Government will enable the following recruitment of additional PCSOs to be made during the current year:

October 2021 – 24 new recruits

January 2022 – 24 new recruits

March 2022 – 24 new recruits

At present, there are 371 PCSOs in post and a further 24 in training. The additional numbers will ensure the target of 447 is met (comprised 406 plus the additional 41 funded by additional Welsh Government funding).

Police Uplift Programme

The Police Uplift Programme (PUP) recruitment is continuing to be ahead of target with recruitment also underway for year 2 of uplift in respect of police staff. The “official” Government-set target is for an additional 133 Officers to be recruited in 2021/22. This is year 2 of the Programme. We expect to receive a further 140 (approximately – yet to be confirmed) in 2022/23.

Apprenticeship Levy

Confirmation of a further £1M contribution from the Home Office in respect of Policing Education Qualifications Framework (PEQF) 2021/22 has been received, to be shared on a funding formula basis across all 4 Forces in Wales. This is significantly short of the £6.7M gross costs of the levy plus administering PEQF in Wales (South Wales Police share £3.3M). This is understood by the Secretary of State for Wales, Rt Hon Simon Hart MP, and the Police Minister at the Home Office, Kit Malthouse MP and we understand that discussions are continuing in Whitehall with a view to meeting the true costs and funding requirements.

Policing Response to Covid-19

Recording and reporting by Forces on Covid-19 expenditure to the Home Office has been relaxed in recent months. The additional funding allocation at the close of the last financial year (£58M in total across all Forces) has allowed Forces the headroom to create earmarked reserves for Covid-19 in order to mitigate costs incurred in 2021/22. The provision of PPE from the Department of Health & Social Care, via the national hub will continue to March 2022 and the Home Office do not anticipate the need for additional general funding for Covid-19 in the 2021/22 financial year.

Council Tax Receipts

The pandemic is affecting Council Tax collection rates, which may have an implication on Precept collection levels in 2021/22 and beyond.

Welsh Government is aware of this situation, and through the Council Tax Reduction Scheme will compensate Local Authorities for up to 75% of shortfalls. Each Local Authority sets its collection rates which will impact on the level of Precept collected.

For information, in England, the repayment of collection fund deficits arising in 2020-21 will be spread over 3 years rather than the usual period of a year. A similar 75% compensation scheme is in place. This issue needs to be kept under review.

Pensions

The deficit on the Police Pension Fund is not fully funded. A pensions grant has been in place for the past two years and will continue into 2021/22. However, this is not consolidated into base grant settlements, and so there remains a risk this will be dis-continued at a later date. In addition, the pensions grant remains at the same cash value, while pensions contributions are increasing proportionate to both pay increases and additional officers (Operation Uplift).

The implications of the McCloud/Sargeant judgement (unlawful discrimination against younger members of the Judicial and Firefighters' pension schemes) will impact upon all main public sector schemes, with significantly increased employer contributions likely from 2024. The indicate indications are that this could increase employer contributions from 31% to 45%. Maintaining Officer numbers will be difficult should additional funding not be forthcoming to match these additional costs.

The National Police Chiefs Council's Pensions Team is preparing for the Employment Tribunal in December 2021 relating to the approximately 13,000 'Injury To Feelings' (ITF) claims. In addition, a further 37,000 ITF claims are in the process of being issued to forces by the ET. This is on top of the addressing the remedy consequences in terms of scheme membership. To ensure we have a consistent approach in Wales, we have formed and All Wales Pension Hub with staff from each force represented.

Comprehensive Spending Review 2021

The Home Office has requested information from Commissioners and Chief Constables in preparation for the Spending Review 2021, for submission to the Treasury. The information has been sought based on a 3-year Spending Review covering the following six areas:

- How efficiencies and savings will be delivered;
- How income will be generated/cash recovered;
- Estimates of cashable and non-cashable efficiencies and savings anticipated;
- Estimates of budget pressures over the CSR period, particularly salary forecasts.
- Estimates of delivering and maintaining the Police Uplift Programme.
- Estimates on movement in Reserves.

South Wales Police Summary Response

Whilst the Home Office requested information from each Commissioner/Force, in Wales we have co-ordinated our response to ensure a broad level of consistency.

Our SR21 return indicates potential cashable savings of a further £1M over the next three years on top of the £56M delivered to date. Scope for greater cashable savings depends on national frameworks on goods and services and some of these may well be top sliced as part of the grant settlement

There is greater scope for non-cashable savings including non-cashable productivity gains and these can be added to as the Productivity Innovation and Efficiency processes within the force starts to have impact.

The Force is continuing to expend considerable effort on being efficient and effective and examples of this include:

- Demand management – mental health triage teams, incident resolution teams, missing persons improved partnership working.
- Multi force collaborations that pool knowledge and resources for better value.
- Better use of technology data analytics, artificial intelligence such as facial recognition as well as Drones.
- Agile working and Apps development to increase consistency and standards of work, plus savings on travel costs.
- Commercialisation of collaborative procurement including input from BlueLight Commercial and Police Digital Service.
- Creation of single digital evidence repository to enhance investigative processes and positive outcomes.
- Potential for wider sharing of force business systems as part of the government aim of transactional hubs development, leading to lower costs for all participants.

As the budgeting and planning cycle begins shortly, the amount of additional cash needed to sustain core policing over the next three years will be determined.

Similarly, the amount of cash needed to achieve Uplift numbers will be determined. A key risk in this regard is the Government's commitment (yet to be made) to fund Uplift beyond the initial tranches of recruitment will finish at the end of the 2022/23 financial year.

A presentation on Force demands and cost pressures will be made at the next meeting of the Panel in December 2021.

Police Funding Formula

There are indications that the Police Funding Formula will be reviewed during the SR21 period, possibly being introduced from the 2023/24 financial year. Given the past exemplifications of funding formula, there is a scenario where South Wales Police receives lower grant, but most scenarios resulted in increased grant due to crime and deprivation factors. This is speculative until updated consultation is received.

The uncertainty of funding ahead suggests having sufficient evidenced-based reserves is essential to help mitigate and potentially smooth the impact of funding challenges.

Capital City Funding

Given the projections on the SR21 which are likely to be replicated nationally and the potential for a funding formula revision, it is opportune that we revisit the Business Case for additional funding for the Capital City of Wales.

The draft full business case is under review by the Commissioner and Chief Constable for comment and approval. The Panel will be asked to sign a letter of support for the additional funding.

Recommendation

It is recommended that Members of the Police & Crime Panel note the contents of this report.

Appendix A – Audit Wales Confirmation Letter

Appendix B – Annual Governance Statement for 2020/21

Appendix C – Joint Audit Committee's Annual Report for 2020/21

Peter Curran

Treasurer to the South Wales Police & Crime Commissioner

September 2021