

Police & Crime Panel Meeting : September 15th 2020

Report from the South Wales Police & Crime Commissioner's Treasurer

Update on Financial Matters

Introduction

This report provides an update on the salient and current financial issues relating to South Wales Police. Specifically, it covers:

- A brief commentary on the provisional 2019/20 year-end position and progress on the external audit work
- An analysis and commentary on the in-year 2020/21 financial position for Quarter 1
- A review on the strategic, longer-term financial issues, particularly relevant at present given the impending Comprehensive Spending Review

A presentation will be made to the Panel, which will focus on the key strategic financial issues and risks facing South Wales Police as we await the publication of the Government's three-year Comprehensive Spending Review 2021/22 to 2023/24 later this autumn. There will also be the opportunity for a Panel discussion on these issues.

Part A: Provisional 2019/20 Year-End Position

By way of background, each Corporation Sole (Commissioner and Chief Constable) is required to produce its own single entity statement of accounts with the Commissioner producing a further statement of accounts for the Group as a whole.

Audit Wales (formerly the Wales Audit Office) who are the Appointed Auditor, commenced their audit of the draft statements of accounts early in July. The audit is presenting some new challenges for them this year as it is being performed remotely due to the requirements of social distancing and Welsh Government's guidance on working from home. The audit is expected to be completed by the end of September. Accordingly, the Joint Audit Committee will consider the accounts at its meeting on September 28th, before making recommendations to the Commissioner and Chief Constable to approve the accounts. At the time of compiling this report, no significant issues had been raised by Audit Wales during the course of their work. There is an ongoing disclosure issue relating to pensions emanating from the McCloud and Sargeant unlawful age discrimination cases, which affects both the Police Pension Fund and the Local Government Pension Scheme. This is being worked through with Audit Wales. An oral update can be provided on this, along with any other, outstanding issues relating to the audit of the accounts.

The year-end position is expected to be broadly breakeven against a consolidated net revenue budget of £287.2M, after transfers have been made to the various reserves (£2.34M). The provisional outturn and proposed transfer to reserves are shown in the table below.

Table 1 – Provisional Year-End Position 2019/20

1st April 2019 to 31st March 2020	Annual Budget £M	Full Year Spend £M	Carry Forward/ Transfer to Reserves £M	Full Year Variance (Over) / Under £M
Police Officer Pay and Pensions	149.11	146.75	0.00	2.36
Police Staff Pay	60.21	59.38	0.00	0.83
Devolved Budgets	7.52	8.60	0.07	(1.15)
Force/Contingency Budgets	19.45	19.79	0.00	(0.34)
Centralised Budgets	12.62	13.04	0.00	(0.42)
Externally Funded Budgets	1.49	2.10	0.00	(0.61)
Collaborative Budgets	17.41	16.86	0.24	0.31
Central Budgets	14.39	13.49	1.87	(0.97)
Office of the Police and Crime Commissioner	5.00	4.85	0.15	0.00
TOTAL	287.20	284.86	2.34	0.00

Achieving this broadly break-even position is a commendable result, particularly with COVID-19 costs being incurred towards the end of the year.

Part B: In-Year 2020/21 Position for Quarter 1

The 2020/21 financial year represents the tenth consecutive year of reductions or no increase in grant for South Wales Police. The additional funding to support the Police Officer Uplift Programme (PUP) funds additional officer numbers but not existing budget pressures. The Police and Crime Commissioner, in agreement with the Police and Crime Panel in January 2020, set a Revenue Budget of £308.6M and a Capital Programme of £48.5M for the financial year 2020/21.

At the end of the first quarter of the financial year, it is too soon to make totally accurate assessments of forecasted year-end positions, and financial information can still be impacted by year-end accruals, particularly as the 2019/20 year-end accounts are still in the process of being audited. We can however place confidence over the variances reported for the Police Officers' pay budget, which represents over 50% of the overall budget, as they are profiled appropriately across the year.

A further in-year monitoring report can be brought to the Panel later in the financial year, to provide an updated position and forecast outturn for the year.

Revenue Position

The table below summarises the current financial position across the portfolio of budgets.

Table 2 – Revenue Position across portfolios of South Wales Police’s budgets

BUDGET AREA 1st April to 30th June 2020	Year to date			
	Actual YTD £M	Budget YTD £M	Variance YTD £M	Annual Budget £M
Police Officer Pay & Pensions	37.33	38.60	1.27	156.61
Police Staff Pay	15.07	15.32	0.25	62.04
Devolved Budgets	1.83	2.07	0.24	8.44
Force/ Contingency Budgets	9.64	10.25	0.62	22.19
Centralised Budgets	3.18	3.64	0.47	12.91
Externally Funded Budgets	3.21	5.06	1.85	1.50
Collaborative Budgets	5.48	7.72	2.24	18.48
Central Budgets	-1.48	-2.79	-1.32	21.06
Office of the Police & Crime Commissioner	-0.01	0.57	0.58	5.41
TOTAL	74.24	80.43	6.19	308.64

The position to date is £6.19M positive variance on the Revenue Account, which is mainly due to timing differences on externally funded and collaborative budgets and will reverse as the year progresses.

An explanation of each budget area’s variance is described below.

Police Officer Pay & Pensions

The Medium Term Financial Plan for 2020/21 reflects a base level Force funded establishment of 2,867 officers, with a further 136 to be funded from the PUP, which is South Wales Police’s allocation from the first tranche of 6,000 new officers. There is an effective establishment control system in place which monitors the officer establishment on a monthly basis and is used as the basis to make monthly grant claims to the Home Office. The recruitment of additional officers is phased in line with recruitment cycles and also takes into account officers leaving the Force, predominantly through retirements. The recruitment plan reflects an officer intake of 258 for the year which is the single biggest intake of officers in one year since 2007. At the end of June 2020, 61 of the 136 additional officers were in post above the base position, and this will fluctuate month-by-month due to turnover. The current recruitment plan predicts that the Force will end the financial year with 176 officers above the base establishment and this is in part in anticipation of phase two of the PUP programme (a further 8,000 Officers throughout all Forces in England and Wales), due to be announced in the Autumn.

Whilst the Quarter 1 position reports a positive variance (£1.27M), this will fluctuate depending on how actual expenditure is incurred against planned expenditure. It is important to note that reimbursement of the Police Uplift Programme is on a strict ‘additionality’ basis. There is also an unpredictable element of officers ‘opting out’ of the Police pension scheme as well as the impact of officers on reduced pay due to Maternity (currently 28) and long term sick (currently 11 on half or no pay).

The Home Office has permitted the use of half of the PUP grant to help meet costs of COVID-19 but recognises that this will be insufficient to fund both COVID-19 expenditure and PUP

and we are still awaiting a decision on whether COVID-19 costs will be reimbursed in full and this remains a financial risk until we receive definitive information.

Police Staff Pay

The 2020/21 Medium Term Financial Strategy reflects an ongoing planned staff pay vacancy factor of £1M. As of Quarter 1, there is a £0.25M positive variance taking into account both staff and PCSOs. The approved establishment for PCSOs is 406, with 200 funded by South Wales Police and 206 by a Welsh Government grant. A vacancy factor of 27 posts is in place to reflect the real terms reduction in grant funding from the Welsh Government. The current recruitment plan indicates an average vacancy of around this number.

The PUP programme rightly reflects the additional pressure on the support functions and the programme nationally sustains an uplift of 6,000 police staff (in control rooms forensics, fleet etc.) of which the South Wales Police share over the three year programme is anticipated to be around 130 posts depending upon the overall 20,000 officer allocation between Forces and central agencies. Our current projections are based on 90% of the 20,000 being allocated to Forces.

Devolved Budgets

At this relatively early stage in the financial year, the majority of budgets are operating in line with plans, although positions will be closely monitored as we progress through the year. Managers continue to manage their budgets prudently, and recognise the need to identify additional savings over the medium term.

The year to date position is a small positive variance of £0.24M, which is mainly due to profiling issues early in the financial year. One area of note is the higher than budgeted spend on overtime within Specialist Operations to date. This is mainly caused by abstractions within the Dog Section and the Roads Policing Unit and is necessary to meet operational policing requirements.

Force/ Contingency Budgets

The year to date position on the Force/ Contingency budgets is a positive variance of £0.62M. However, there has been significant COVID-19 related spend to date, including on PPE, cleaning, ICT equipment and overtime as well as a loss of planned income. This has been partly offset by savings made in areas such as travel and accommodation costs. The net additional costs have been reported on a monthly basis to the Home Office, but at this stage there is uncertainty on whether there will be a full reimbursement of costs incurred. Confirmation has recently been received that medical grade PPE will be reimbursed with remaining COVID-19 related expenditure yet to be confirmed. Around £1.8M has been incurred to date with a similar amount anticipated again for the remainder of the year. It is important to note that the Home Office monitoring process requires both savings and costs from COVID-19 to be reported, with the additional net expenditure hopefully being reimbursed in full.

Centralised Budgets

The year to date positive variance of £0.47M is mainly due to profiling issues and there are no significant pressures to report at this stage in the financial year. During the crisis, BP responded with a free fuel initiative for the emergency services for a period and this as well as lower diesel pump prices has contributed to a positive variance in the centralised budget.

Externally Funded Budgets

The current positive variance on externally funded initiatives is largely a timing issue on grant alignment. No significant pressures have been identified to date, with the first set of quarterly grant claims being submitted in July. However, the full reimbursement of Police Education Qualifications Framework (PEQF) remains an issue as we received confirmation at the end of March 2020 that the Home Office will only make available £1M for each of the years 2019/20 and 2020/21 for all four Wales forces to share. Given South Wales Police costs alone are around a £1M, then a shortfall of around £4M will arise across all 4 Forces in 2020/21. Without additional Home Office funding, this shortfall will increase in future years as officer numbers increase under PUP.

Collaborative Budgets

The table below shows expenditure incurred against each of the collaborative units in the year to date against the profiled budget. The annual budget is also shown for reference. The figures below do not reflect any forecast of outturn position at this stage of the financial year as it is too early to make accurate forecasts.

Table 3 – Expenditure Incurred Against Each Collaborative Unit

Collaborative Area	Actual YTD £000	Budget YTD £000	Variance YTD £000	Annual Budget £000
Joint Procurement Services	32	49	16	67
Learning & Development Services	14	23	9	23
Joint Legal Services	274	286	12	909
Digital Services Division	1,079	1,085	5	3,636
All-Wales Collaboration Board	59	28	-31	28
Counter Terrorism Intelligence Unit	-818	2,792	3,610	34
Joint Fire Arms Unit	1,708	1,526	-182	6,279
Joint Scientific Investigation Unit	1,326	1,240	-85	4,669
Regional Organised Crime Unit	1,802	688	-1,114	2,835
Total	5,476	7,717	2,240	18,480

The figures above indicate a net positive variance for the year to date against Collaborative Units of £2.24M. However, the two significant variances contributing to that position shown above are due to timing differences between grant Income receipts and expenditure being incurred. At this stage of the financial year there is no indication of any significant variances against budget for collaborative initiatives.

It is anticipated that as the financial year progresses, income from grants and contributions from collaborative partners will align much more closely and the variance indicated above will move back towards a balanced position.

Central Budgets

The negative variance to date of £1.32M relates in the main to timing issues, with income yet to be received.

Commissioner's Budgets

The positive variance of £0.58M relates to timing issues, specifically where income has been received in advance of expenditure. The forecast year-end position is expected to closely match the original budgets for the year.

Revenue Account Summary

Whilst the overall position shows a £6.19M positive variance at this stage, this is predominantly a timing and phasing issue with an underlying position which indicates some unfunded cost pressure (£0.8M) committed to date in relating to and potentially some unfunded COVID-19 depending upon whether the Home Office reimburses the additional costs in full.

Value For Money Plan

In addition to the £1.25M efficiency savings built into the 2020/21 budget, indications from the CSR 2020 are that the police service will be expected to demonstrate even more cashable and non-cashable savings and the VFM plan remains a key contributor to future balanced budgets. Whilst COVID-19 has delayed the implementation of some initiatives these will be re-examined and re-profiled with a realistic time frame for delivery and reflected in the development of the 2021/25 Medium Term Financial Strategy.

Capital Expenditure

The table below summarises the Capital Programme budget for Quarter 1 against the programme approved with the Medium Term Financial Strategy (MTFS) for 2020 to 2024. The agreed MTFS Capital programme for 2020/21 was £48.5M. This figure was net of £2.5M contributions from Dyfed Powys Police and Gwent Police for the construction of a new Fire Arms range. This project will now likely be delivered in 2021/22 and so the £2.5M contributions will be rolled into next year's budget. This gives an updated capital budget of £51M. However, once carry forwards from the 2019/20 budget and early slippage in the 2020/21 budgets have been accounted for, then an adjusted budget of £40.9M is required in 2020/21. Table 4 below breaks down the carry forwards and slippage against the main budget headings.

Table 4: Movements & Re-Profiling of Capital Budgets 2020/21

Capital Programme Monitoring Report						
2020/21 Period 3						
Table 1	2020/21 MTFS Budget	Carry fwd/adj	Capital Reserves	2020/21 Departmental In Year Revenue Contributions	Slippage (reprofile into 21/22)	Adjusted Budget 20/21
	£'000	£'000	£'000	£'000	£'000	£'000
Estates - Infrastructure Development	1,500	201	0	0	0	1,701
Fleet - Replacement	2,064	273	0	775	0	3,112
Information Services - Infrastructure Development	1,950	1,179	56	224	0	3,409
Other - Infrastructure Development & Replacement	170	(160)	738	244	0	992
TOTAL INFRASTRUCTURE DEVELOPMENT & REPLACEMENT	5,684	1,493	794	1,243	0	9,214
Estates - Projects Total	41,705	745	56	33	(15,250)	27,289
ICT Projects total	2,262	(1,820)	1,890	3	0	2,335
TOTAL PROJECTS	43,967	(1,075)	1,946	36	(15,250)	29,624
Digital Services Division supported projects	1,474	311	300	0	0	2,085
TOTAL DSD PROJECTS SUPPORTED BY INTERNAL FUNDING	1,474	311	300	0	0	2,085
TOTAL CAPITAL PROGRAMME	51,125	729	3,040	1,279	(15,250)	40,923

The £15.25M slippage against Estates projects shown in the table above relates to the new HQ Police Learning Centre, whose practical completion is now scheduled for early 2022, and the Fire Arms range.

The table below illustrates capital expenditure for the first quarter of the year, along with the full-year forecast shown against the adjusted budget of £40.9M.

Table 5 – Revised Capital Budgets 2020/21

Capital Programme Monitoring Report				
2020/21 Period 3				
Table 2	Adjusted Budget	Spend to Date	Full Year Forecast	Full Year Variance
	£'000	£'000	£'000	£'000
Estates - Infrastructure Development	1,701	272	1,701	0
Fleet - Replacement	3,112	127	3,074	38
Information Services - Infrastructure Development	3,409	640	3,404	5
Other - Infrastructure Development & Replacement	992	88	983	9
TOTAL INFRASTRUCTURE DEVELOPMENT & REPLACEMENT	9,214	1,127	9,161	53
Estates - Projects Total	27,289	1,929	28,107	(818)
ICT Projects total	2,335	203	1,503	832
TOTAL PROJECTS	29,624	2,132	29,610	14
Digital Services Division supported projects	2,085	294	1,925	160
TOTAL DSD PROJECTS SUPPORTED BY INTERNAL FUNDING	2,085	294	1,925	160
TOTAL CAPITAL PROGRAMME	40,923	3,553	40,697	226

Part C: Strategic & Longer-Term Financial Issues

The current pandemic demands a concentration on the present, and so whilst the current financial year will require the careful planning and recording of the additional costs associated with COVID-19 in order to balance the books, there are longer term issues that will soon need to be factored into financial strategies as we approach the autumn planning and budgeting period. Also, this year will see the publication of the Government's Comprehensive Spending Review, due in the autumn, for the three year period 2021/22 to 2023/24. The strategic issues that need to be considered in the Spending Review include, but are not limited to, the following:

Apprenticeship Levy

The implications of this, as they affect the current year's finances, were outlined in the section above. By way of background, the introduction of the new **Policing Education Qualifications Framework** has created a funding inequality between Wales and England. Whilst all forces in Wales pay the apprenticeship levy of 0.5% of payroll costs (£2M per annum, currently but this will rise as more Police Officers are recruited under the Uplift programme), we do not get access to funds for the police constable degree apprenticeships as Forces do in England. This was resolved between Welsh Government and the Home Office in 2018/19, and the Home Office paid £1M in 2019/20 at the end of the year, and committed to providing a further £1M in 2020/21. However, the total levy payments plus running costs are forecast to be £5M in 2020/21, and after allowing for the Home Office contribution, there will still be a £4M deficit across the four Forces. We were told that the long-term resolution would come through the Comprehensive Spending Review and so we await the outcome of this. In the absence of increased funding, the annual deficits will grow in line with the increases in Police Officer numbers.

Protecting Baseline Budgets

Whilst the Government has pledged to restore Police Officer numbers to approximate the pre-austerity levels and make the initial salaries funding available, there is no guarantee that funding will be made available for inflation and pay awards for existing staff. These, together with other unavoidable cost pressures, amount to £12M per annum for South Wales Police, and this will increase as staff numbers increase under Uplift. Neither has there been any guarantee from the Government to fund future salary increases for the new Officers.

Council Tax Receipts

The police precept which is the one area of local flexibility is also anticipated to be affected by the economic consequences of COVID-19. The Ministry of Housing, Communities and Local Government is seeking to mitigate this consequence across England with the inherent difficulty of different regions being impacted differently. Wales will need a separate solution.

A modelling exercise has recently been undertaken and the WLGA has surveyed the Unitary Authorities in Wales who are anticipating a significant reduction in the council tax collection rates of between 0.7% and 2.6%.

Using the current year's Medium Term Financial Strategy, the impact falls into three categories for South Wales Police:

- The anticipated tax base growth will not happen. The impact on income could be up to £4.1M.
- The collection rate deficits will result in a lower tax base and the impact of this depending on the reduction is between £2.8M and £10.6M, using the WLGA data.
- The amount of yield on precept increases will reduce depending upon the collection deficits and police precept increases.

Capital City Funding

Unlike the other capital cities in the UK, the Police formula funding does not include an allowance for Cardiff. To illustrate, the Home Office is funding the Metropolitan Police to the tune of £185M in 2020/21, plus the City of London Police which is receiving £4.8M, specifically for policing London as a capital city. This is the case for Edinburgh also. Our analysis shows that the additional costs associated with policing Cardiff as a capital city are approximately £4M per annum.

Pensions Grant

There is a significant black hole in the Police Pension Scheme. It is an unfunded 'pay as you go' scheme, the deficit on which is partly funded by the Home Office in baseline allocations and part by a Treasury grant. The grant element received by South Wales Police is £3.2M. Since this amount is not baselined into core allocations, there remains uncertainty year-on-year that it will continue to be provided.

Continuation of Existing National Programmes

The Government has ceased to operate the Police Transformation Fund (PTF). This was an important strategic funding pot and there are a number of projects that are in progress and have historically been funded by the PTF. It is essential that these programmes receive the funding they require to take them to completion. The most significant financially is the Emergency Services Network, but there are key preventative programmes whose continued funding is at risk because of this decision.

Expectations of Further Efficiency Savings & Productivity Gains

It would appear that the Treasury will expect further efficiency savings and productivity gains to be made over the period of the Spending Review as a condition of future funding settlements. South Wales Police has made almost £60M of cumulative savings over the past eight years, and with Police Officer numbers now protected with Operation Uplift, there are limited areas from which to achieve further efficiency savings. Further savings from collaboration will be the focus of exercise, if required by the Home Office and Treasury.

Other Considerations

Other issues, whose outcomes are uncertain at present, but could have an impact upon Police finances in 2021/22 and beyond, include:

- Long term implications of COVID-19, including Council Tax collection issues
- Trade deal with the EU
- Potential severe economic downturn
- Potential rise in interest rates

Undoubtedly some, if not all, of these will have implications across the whole public sector in Wales, which will be a challenge for all.

Peter Curran, Treasurer to the South Wales Police & Crime Commissioner

August 2020