Kent Police

Financial Management Provisional Outturn Report

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Executive Summary

Context

Please note that this report is written at a time when draft numbers are available. At year end, there are many adjustments and finalisation of numbers that occur, once that has been done, a finalised report will be made available. At this stage, the biggest area for uncertainty is around immediate detriment whereby we are awaiting on KCC to provide us with the data required to adjust the accounts. As this is an area where there has been a recent guidance change, the value is unknown but could be material.

2021/22 Investment Plan

The capital expenditure budget is £21.8m. As at outturn, capital expenditure is £11.6m, resulting in a £10.2m underspend. The main reasons behind this underspend can be seen below:

- Underspends of £6.0m are primarily attributable to Estates and IT (£5.1m and £0.9m respectively) due to a delay in obtaining approval of the Zenith sites in respect of estates and slower than planned progress on other schemes such as roof replacements. Regarding IT, the main underspend was due to ESMCP project as a capital budget had been included for handset replacements of which a majority will not happen until 23/24 now at the earliest
- Transport shows an underspend of £1.0m due to a national delay in delivery of vehicles
- Ashford re-modelling underspend of £2.8m due to a delay with the contractor in respect of design refinement and package pricing - unspent budget will be required in addition to the approved Investment budget for 22/23

Capital Income was budgeted at £6.3m with £3.3m received for 2021/22 largely because some properties sales have fallen into 22/23.

Of this underspend, a large majority will be required in addition to the approved 22/23 Investment budget signed off by Chief Officers on 25.10.21 In particular this will include Zenith Estates, Ashford Re-modelling, and the Data centre. As agreed at COMB, a reworking of this investment budget will be undertaken and presented for approval to Chief Officers and the PCC upon completion.

2021/22 Revenue Plan

The budget was £350.3m, and the provisional revenue outturn to Mar 22 is £351.6m, which results in an overspend of £1.3m.

The movement between Feb 22 and March 22 is a £0.8m reduction in the overall forecasted overspend of which the main reasons can be seen below:

<u>Pay- There were no material changes to the forecasts for Police and PSE pay, other pay or overtime</u>

<u>Income- Additional £1m income received</u>

- £0.3m VRH income. This was listed as an opportunity and due to some good work between DCS Ball and Finance, income was secured for the 21/22 financial year.
- £0.2m additional mutual aid income was received in respect of COP26- this was previously listed as an opportunity but that has now been confirmed by the Home Office
- £0.2m received from a Home Office grant for 2 x additional CT posts
- £0.3m other additional income including £0.1m Stalking protection order contribution which in prior years had been minimal but was a final contribution from National funds and is unavailable going forward

<u>Expenditure- Additional £0.2m spend</u>

- As outlined at P10 and P11, there was potential for £0.8m further downwards movement across Estates and IT. This has now materialised and been factored into the final outturn
- On top of this, there has been £0.5m less spend in Estates due to delays to planned maintenance, engineering works and building improvements as well as some small reduction in cost on professional services. These delays have the ability to cause a cost pressure in 22/23 so will have to be managed carefully and within the agreed budget provision
- IT has had a further £0.2m reduction in spend, of which the majority is related to SICCS remediation
- There has been £0.3m less spend across all other areas including Taser usage and vests, facilities and forensics
- Insurance has had an increase in cost based on the mid-case scenario provided by the latest actuarial report that makes up the difference and nets off the above. This is largely driven by large claims including a large motor loss from 20/21.

Revenue full year actual summary

As at March 22, the total overspend is £1.3m. The main reasons behind this are:

- Lower than budgeted police officer attrition in the earlier months plus officers leaving at a cheaper cost than budgeted had an adverse effect of £0.6m.
- Police officers being recruited faster than the budgeted profile but partially offset by savings in re phased PUP intakes leading to an additional net cost of £1.4m.
- Other Police pay pressures such as pay growth, allowance increases, and back dated pensions were offset partially by Op Sandpiper budgeted cost transfers resulting in a net cost pressure of £1.1m.
- PSE vacancy factor was set at 9% for Apr-December and 11% for Jan-Mar. However, the average between Apr-Dec was sub 9% although we ended the year at 11.2%. This has an adverse effect of £3.2m. For information, the average vacancy factor in the first 6 months of 21/22 was 5.8%.
- PSE non-established and unfunded posts have been offset by Op Sandpiper budgeted cost transfers being a net saving of (£0.3m).
- Other pay cost pressures from appendix E and working from home allowances, temporary use of contractors to cover essential roles were offset by Zenith capitalisation and deferred activity savings resulting in a net (£0.6m) saving.
- Police overtime was over budget by £0.1m and PSE overtime was over budget by £0.5m due to overspends in Victim Justice, Witness Care, Custody, Traffic Summons, SCD. The main driver behind this increase in spend on overtime is due to areas holding vacancies.
- Non pay pressures including legal costs, insurances actuals and provisions, application licences, transport pressures and Forensic investigation have been offset by underspends on IT Project revenues, desktop support, O365, Networks, Zenith and Estates slippage and ESN resulting in a net saving of (£0.9m).
- Additional Force income of (£2.3m) including Integrated Offender Management Services, VRH, Witness care, Court Services, Fire Arms training, and Highway’s income has been received to offset some of the above pressures.
- Reserves of £0.5m have been used to fund specific Investment set up cost pressures and facilitated a transfer to insurance provision.
- It is also important to note that external funding has led us to additional income above cost of £2.0m from carried forward operations and mutual aid. Therefore, if we did not continue to receive this funding, the overspend would’ve been larger and this is a risk going forward.

Cashflow

Due to the volatility of the monthly spends and income cycles, the assumption is that we should maintain £10m as a minimum cash balance. No borrowing was required in 21/22 for this but it is likely that there will be a requirement in Q1 22/23.

Savings

There were various savings initiatives being pursued in order to drive costs down and improve the overall financial position. As at year end, there were £12.9m of savings agreed (this includes both savings agreed and removed from base budget as well as in-year additional saving). Of the total savings £10.5m (82%) were achieved.

MTFP

The budget for 22/23 requires savings of £6.8m. These have been identified and are being monitored and managed through regular finance meetings, reports and oversight boards. Currently, whilst further pressures have been identified, corresponding savings have been identified too thus keeping the target at £6.8m.

Looking forward to future years, it is clear that savings have to be considered as a 2-year plan currently. For example, whilst 2022/23 requires £6.8m net savings, 2023/24 requires that to be made again plus an additional £11.8m at current estimates.

The size of this challenge means that structural changes are required and would need to be made in 2022/23 in order to deliver a full year of savings for 2023/24.

The MTFP savings estimates as of the latest iteration can be seen below:

Savings	2022/23	2023/24	2024/25	2025/26	2026/27
Delivered (cumulative) £m	n/a	6.8	18.6	23.0	29.8
New savings required (each year) £m	6.8	11.8	4.4	6.8	7.2
Total (cumulative) £m	**6.8**	**18.6**	**23.0**	**29.8**	**37.0**

It is also important to note that there are some major assumptions within this current MTFP. The key assumptions are:

- The £3.3m conditional PUP grant would stop but be given back to us as part of our standard grant so no net impact. I have spoken to 3 CFO counterparts (Essex, Cambridge and Norfolk) and all three are doing it differently so shows the lack of clarity out there on this one

- Pay inflation has been assumed at 3.5% for 22/23 and 2% thereafter. The NPCC have now recommended 3.5% for 22/23, 2.5% for 23/24 and 2% thereafter. This would increase the savings required if agreed.
- The commissioner would increase precept by 2% and not the max £10 for 23/24 and 24/25 as per the powers granted to them. If he did £10 for all three years then this would reduce the pressure and challenge. Eg for 23/24 the savings target would decrease from £11.8m additional savings to £8.2m. Equally 24/25 would reduce to a largely balanced position.
- Tax base would grow by 1%- this could be more but equally could be less
- Grant will be as per settlement then static thereafter- this could be a bit pessimistic, but we have been optimistic on the first few assumptions
- Capital to revenue contribution increases by £1m per year from £1.5m now to £5.5m by end of plan- potential saving area in short term but we cannot continue in the long term to fund capital purchases from borrowing
- PUP cost for full year in 23/24 will be £8m

Jonathan Castle CFO

Investment Budget

Investment Plan: The OPCC's CFO approved an investment budget of £21.5m in 2021/22. This has increased to £21.8m during the financial year with external grants and contributions received, as well as revenue transfers to the reserve to cover items such as Mobile devices regarding the uplift in Officers, computer replacement etc.

Please refer to the table below for detail.

Table 1: Capital Expenditure

Provisioning Department	Capital budget (per COMB paper) £'000's	Forecast expenditure £'000's	Variance £'000's	Percentage of budget spent
IT	5,091	4,188	(903)	82%
Estates	6,845	1,785	(5,060)	26%
Transport	2,830	1,798	(1,032)	64%
ANPR Department	265	266	1	100%
Other	516	395	(120)	77%
Ashford Re-Modelling	5,551	2,691	(2,860)	48%
Project Zenith	683	502	(181)	73%
Totals	**21,780**	**11,625**	**(10,155)**	**53%**

Table 2: Capital Income

Capital income 2021/22	Budget for 2021/22 £'000's	Forecast £'000's	Variance £'000's	Percentage of budget
Capital Income	5,984	2,667	3,317	45%
Capital Grant	286	286	(0)	100%
Capital Contributions	0	146	(146)	0%
Revenue Contributions	0	177	(177)	0%
Totals	**6,270**	**3,277**	**2,994**	**52%**

Reserves Position

Usable reserves remain limited, of the funds with a high degree of freedom regarding use, we currently have

- General Fund balance of £10.5m

Other reserves remain in line with the expected specific financial requirements, hence, will offset to known events over time.

Regarding the General Fund, the expectation from the CFO to the OPCC is that the force should continue to maintain a balance of 3% Net Revenue Expenditure (NRE) each year. This is circa £10.5m in 2021/22.

Table 7: Reserves YTD

Usable Reserves	Reserves as at 1st April 2021 £'000's	Budget 2021/22 £'000's	Approved Movement in Year £'000's	Additional Approvals £'000's	Under / Over £'000's	Reserves as at 31st March 2022 £'000's
Non-Earmarked:						
General Fund	**6,985**	**3,780**	**(257)**	**0**	**0**	**10,508**
Total Non-Earmarked	**6,985**	**3,780**	**(257)**	**0**	**0**	**10,508**
Earmarked Risk:						
Insurance	**2,748**	**0**	**779**	**0**	**0**	**3,528**
Investment Reserve:						
Capital Income	**0**	**6,270**	**177.47**		**(3,171)**	**3,277**
Capital Expenditure	**0**	**(6,270)**	**0**	**0**	**2,994**	**(3,277)**
Capital Contributions Unapplied Reserves	**385**	**0**	**0**	**0**	**(12)**	**373**
Other:						
Budget Support	**9,894**	**0**	**(3,212)**	**0**	**(1,322)**	**5,361**
Op Brock/Stack Contingency Reserve	**0**	**0**	**1,500**	**0**	**0**	**1,500**
OPCC Budget Support	**88**	**0**	**507**	**0**	**0**	**595**
LGIS Reserve	**785**	**(785)**	**0**	**0**	**0**	**0**
ERSOU Property Maintenance Fund	**101**	**0**	**0**	**0**	**(16)**	**85**

Total Earmarked	**14,002**	**(785)**	**(248)**	**0**	**(1,527)**	**11,441**
Grand Total	**20,987**	**2,995**	**(505)**	**0**	**(1,527)**	**21,950**

Forecast Cashflow Position

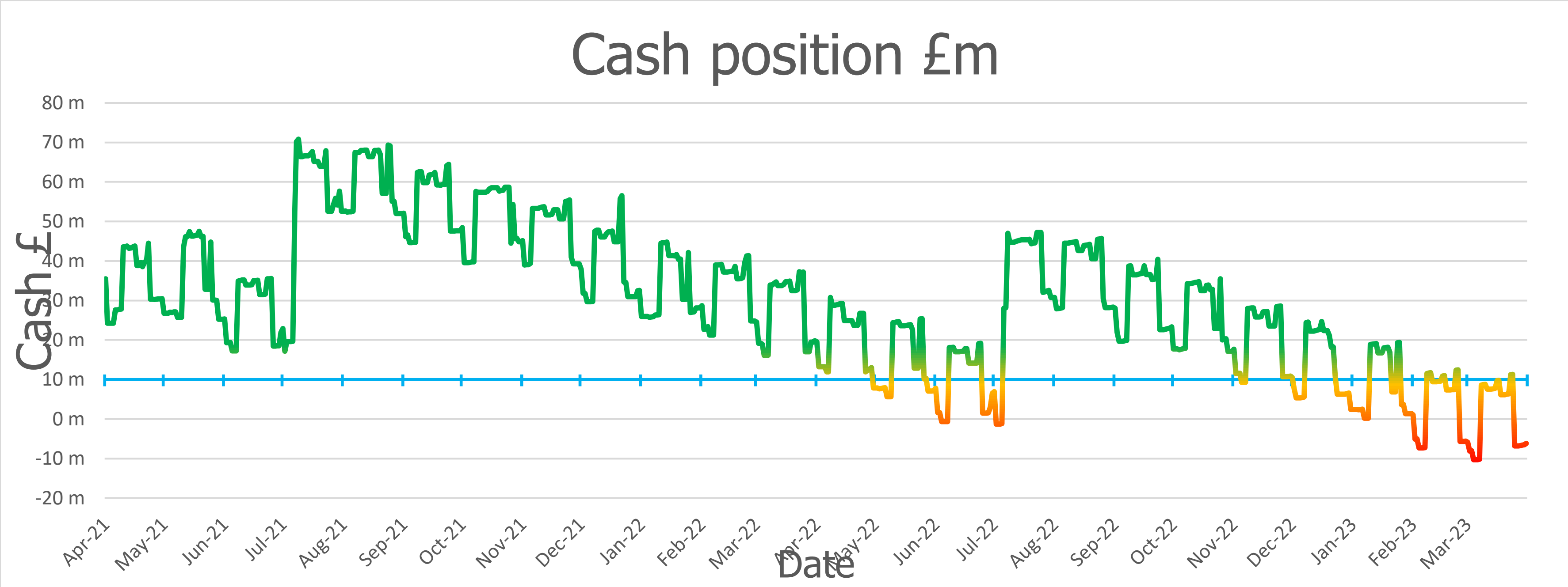

Table 12: Forecast Cashflow

- Available cash at the start of the year totalled £34m.
- The Home Office police pension top-up grant is received each July, at £32.8m in 21/22. This takes available cash to around £65m at the start of July.
- The top-up grant is likely to decrease in future years as pension income from officer and employer contributions is increasing.
- Cashflow follows a regular monthly pattern; cash expenditure exceeds cash income each month.
  - Core grant and precept are received each month (Approx. £28m) increasing the balance,
  - Main and pension payrolls, accounts payable debits and other outgoing payments decrease the balance by around £35m a month, subject to significant variances throughout the year.
  - As monthly cash expenditure exceeds cash income, the balance decreases over time, reaching a minimum in early July, before the pension top-up grant is received.
- A minimum cash balance is assumed at £10m. This aligns to professional advice from Arlingclose, our Treasury Management independent experts.

- The forecast for 2021/22 suggests available cash will fall below £10m from April 22, and potentially below zero from June 2022. This indicates a potential need to borrow between £10m - £15m for cashflow purposes between May and July 2022.
- The forecast position illustrated above is based on the KCC forecast, supplemented with expected major cash inflows and outflows.