Item No. 6

Chief Constable's Report
to
Kent Police and Crime Commissioner's Performance and Delivery Board

Finance

Wednesday 1st December 2021

Executive Summary

2021/22 Investment Plan

The capital expenditure budget is £22m. As at the closure of period 6, forecast capital expenditure was £17.8m, resulting in a £4.2m underspend, however more recent developments suggest additional costs will now move to 2022/23 in Estates .

- Underspends of £3.3m are primarily attributable to Estates and IT (£1.7m and £1.6m respectively) which are deferred spends to 2022/23
- Additionally, Transport shows an underspend of £0.7m, Project Zenith £0.1m and other £0.1m
- Ashford re-modelling was expected to spend much of the £5.5m but the latest information suggests up to £1m will fall to 22/23

Capital Receipts were budgeted at £6.3m with £6.4m currently forecast for 2021/22.

2021/22 Revenue Plan

The budget is £350.3m, and the revenue forecast outturn to Mar 22 is £354.7m, which would result in an overspend of £4.4m.

The movement between Aug 21 and Sep 21 is a £1.3m reduction in the forecast.

1. Police pay overspend benefitted from a minor change to the forecast due to 8 additional officers leaving above the forecasted 20 attrition rate in the month although the forward forecast was left at 20 per month
2. PSE pay overspend was reduced slightly by the vacancy factor increasing to 7.7% in the month, still well below the 11% target.
3. The most significant impact is a reduction of £1.3m in non-pay costs.
    a. It should be noted that £1.0m of this reduction is *deferred* expenditure to 22/23
    b. An additional £0.8m reduction was generated by reduced forecasted costs primarily within IT and Zenith estates
    c. There are however additional pressures from national and global price increases that will affect fuel costs and energy contracts. Since the impact of these increases have a time lag, there has been an adjustment to forecasts to include a £0.5m provision.

Forecast Outturn Overview

1. **Police officer pay** is forecasted to overspend by £5.8m.
   a. Of this overspend
      i. £3.7m is offset by additional external income received or transfers from reserves, including Op Blythe, Op Sandpiper, Op Iowa, and Op Sark and OPCC funded spend.

   b. Underlying Police officer pay is £2.1m forecast overspend, as follows:
      i. Attrition is now 121.5 in 6 months versus the budget of 120, however, the lower than planned officer attrition in the earlier months has had an adverse impact of £0.2m. The forecast for the rest of the year remains at 20 leavers per month as per Budget in line with HR expectations.
      ii. Officers leaving were budgeted at £5.1k pcm per officer but over the first 6 months, the average cost per officer leaving is £4.9k pcm. This has an adverse impact of £0.5m.
      iii. Over-establishment over the first 6 months has averaged 44.6 in additional officers. This is assumed to remain relatively stable at 45.1 over the rest of the year with an impact of £2.1m.
      iv. Pay growth shown in Table 8 accounts for £0.3m of increased costs.
      v. Allowances being higher than budgeted accounts for £0.4m of the overspend.
      vi. There is an offset by the savings on the reduced attrition intakes and the revised PUP intakes being a saving of (£0.7m).
      vii. Op Sandpiper has offset an additional (£0.7m) of Force funded costs above the (£2.9m) budgeted.
      viii. The latest submission for intakes being considered by Senior Officers *has not* been factored in to the current forecast including the expectation of an increase in the number of transferees in from 2 to 4 which will include a number of Inspector positions.

2. **PSE pay** overspent by £3.4m.
   a. Of this overspend, £1.0m is offset against additional external income received.

   b. Underlying PSE pay is a £2.4m forecast overspend, as follows:
      i. PSE vacancy factor (VF) remains lower than planned. The budget was built assuming 9%, subsequently adjusted for the transition from 6% to 9% in the first 3 months and increasing to 11% as part of additional savings for the last 6 months. Despite scrutiny of vacancies and deferring many posts from proceeding to recruitment, after 6 months the actual vacancy level has increased slightly to 7.7%. The forecast outturn is currently based on the current vacancies, gradually rising to between 9% and 11% by year end, resulting in a £2.9m forecast overspend.
      ii. PSE growth shown in Table 8 accounts for £0.6m of increased costs.
      iii. There is an offset from Op Sandpiper which has an additional (£1.1m) of Force funded costs transferred to the operation.
      iv. Reasons why the PSE vacancy rate has remained lower than planned:
         1. Many collaborative posts are filled as needed, although steps are in hand to reconsider this issue. These represent 30% of PSE staffing.

2. FCR (Force Control Room) and IMU (Information Management Unit) continue to require full staffing. These are 19% of the total PSE staffing.
3. DDOs (Designated Detention Officers) are maintained at full staffing. These are 5% of the total PSE staffing.
4. PCSOs have currently only 13 vacancies, being a 3.9% vacancy factor, following a recruitment freeze in April.

3. **Other pay and overtime expenditure variances**:
    a. Other pay variances of £2.7m are offset by external income of £1.8m leaving an underlying **£0.9 overspend** include:
        i. Relocation and Working from Home allowances for Op Zenith of £0.5m
        ii. External trainers of £0.2m
        iii. Temporary use of contractors to cover essential permanent roles £0.2m
    b. Police overtime variances of £3.2m are offset by external income of £2.6m leaving an underlying **£0.6m** overspend (Strategic and Tac Ops, Gang and County lines, Custody)
    c. PSE overtime variances of £0.6m are offset by external income of £0.3m leaving an underlying **£0.3m** overspend (Victim Justice, Witness Care, Custody, Traffic Summons, SCD)

4. **Non pay** is forecast to overspend by £2.8m, of which £2.7m is offset by additional external income, leaving an **underlying £0.1m overspend,**
an improvement from P5 of £1.3m.
This £1.3m improvement from P5 is a reduction in forecast of £1.8m forecast costs, offset by a £0.5m provision for potentially 15% fuel price increases and 30% to 50% energy price pressures.
Of the £1.8m reduction in forecast, £1m has been deferred to 22/23 mainly from IT projects, Athena, ESN, project set up costs and Zenith costs. These will impact on future years costs and will be factored into the MTFP. The remaining £0.8m is reduced forecasts from IT £0.6m, MRP recalculation £0.1 and Zenith savings of £0.1k. Should project managers reschedule any of these line items then costs would increase this year.
The full year forecast overspend of £0.1m after consideration of income offsets now include**:**
    a. In-year cost pressures of £2.6m including:
        i. legal cost pressures £358k,
        ii. taser accessories £330k,
        iii. software application licence costs, cloud hosting, specialist licences, Airwaves and O365 EA of £654k,
        iv. anticipated national and global price inflation of goods and services are expected to impact on run rate cost estimates and a provision of £0.5m has been added to non-pay supplies and services directorate to cover fuel price rises £100k, and energy price increases £400k. However, if wholesale prices continue to rise, then additional provisions may be required, and this will be monitored monthly.
    b. These are offset by in-year savings and underspends of (£2.5m) between BAU IT (£1.5m), ESN and Investment set up costs (£0.6m), Zenith (£0.3m), and reduction in MRP (£0.1m).
5. **Further non-pay inflation considerations**
We are currently in times of high price volatility, and while not necessarily adjusted in the budget holders' forecasts at P6, price rises could impact further across several key areas:
    a. Supply chain disruption including insurances, shipping and logistics charges have increased significantly since the start of the pandemic, which in turn will be expected to increase unit costs over time.

b. The global semi-conductor shortage will be a factor for some IT/mobiles/multi-functional devise and vehicles. This is expected to increase demand beyond available supply and hence increase price inflation further.
c. Construction material costs have risen so some capital and maintenance costs may require increased investment where contracts for material unit costs are yet to be agreed.
d. More generally, the above will feed into wider costs. Financial media report inflation being forecast to reach circa 4%-5% by year-end and this may increase further if the Bank of England decides to increase the base rate above the current 0.25%, as corporate borrowing costs would also be increased.

6. **Income and use of Reserves**:
   a. Income exceeds the budget by £11.4m. This includes in-year external funding £5.8m and PCC income £4.0m. The **underlying additional force income is £1.6m** including Mutual Aid and Court Services.
   b. Reserves contributes £2.7m of which £2.5m is to externally funded cost centres, Op Blythe, and Op Sandpiper. Op Blythe transferred £2m to reserves in the month following a review of outstanding mutual aid claims. The **underlying additional force income is £0.2m.**

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. It will be necessary to have a borrowing facility agreed with effect from March through to July 2022. This borrowing facility will be required for £10m to £15m and should commence before the end of this financial year.

Statutory Accounts
The auditors, EY, are still reviewing information and the final sign off date is still to be confirmed. The main areas outstanding are:

- Estate asset valuations re PFI buildings,
- Pensions valuations (National issue), and
- Auditors opinion of Kent Police as a going concern (i.e. financial sustainability).

MTFP
2022/23 is forecast to overspend by £7.2m before consideration of reinstating reserves for 2021/22 overspends based on agreed savings but excluding any pipeline ideas yet to be agreed or where significant uncertainty exists.

Available reserves are the General Reserve of £10.5m plus some flexibility in funds carried across from Op Blythe where a remaining balance of £4.8m exists, i.e. a total of £15.3m available to cover new pressures and overspends (circa 4% of annual spends).

2023/24 includes a significant reduction to costs of £10m, less £2m provision for the costs of these changes.

The MTFP forecast suggests further savings initiatives are required to more closely align to funding provided.

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Investment Budget

Overview of Purpose: The investment programme is comprised of capital schemes enabling the purchase of long-term assets such as property, and equipment as well as shorter term asset - vehicles, and IT infrastructure. This is funded through a combination of government grant, borrowing, transfers in from revenue and capital receipts. Some of the projects also have revenue set up costs which are funded from the revenue budget along with recurring costs.

Investment Plan: The OPCC's CFO approved an investment budget of £21.5m in 2021/22. This has increased 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.

Outturn variances to plan: The actual capital expenditure for 2021/22 is forecasted at £17.8m, of which £13.5m relates to Stage 2 approved projects and £4.3m regarding Stage 1 projects that are currently not approved but have the intention to progress to Stage 2 and deliver within this financial year.
Project Zenith – £7.1m of the total capital budget allocation relates to various workstreams within this project such as the building works to NK PFI, home workers & open zone furniture plus VC equipment that are predicting an underspend of £0.1m. The IT Data centre (Stage 2 approved) and Estates Zenith (Stage 1) consume £6.4m of this overall Zenith budget allocation, are predicting an underspend of £1.4m.

Ashford re-modelling project, £5.551m – following updated information from the external Project Managers/Contract Administrators all this budget was predicted to be spent by the end of the financial year at P6, however the latest expectations are up to £1m could now fall to 2022/23. Much of this is already considered in the Investment Budget agreed by COMB on 25/10/21.
Project Revenue set up costs incurred in the provision of some of these projects are incorporated within the revenue numbers in this report - £0.6m re IT and £0.1m Estates.
Capital income has a Budget of £6.3m and is currently forecast to be £6.4m following a review of potential sales and their timing

Table 1: Capital Expenditure

Capital budget (per COMB paper) £'000's	Forecast expenditure £'000's	Variance £'000's	%age of budget
5,054	3,457	(1,597)	68%
7,145	5,435	(1,709)	76%
2,781	2,079	(702)	75%
256	257	1	100%
502	411	(91)	82%
5,551	5,551	(0)	100%
683	586	(97)	86%
21,971	**17,776**	**(4,195)**	**81%**

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Capital income 2021/22	Budget for 2021/22 £'000's	Forecast £'000's	Variance £'000's	%age of budget
Capital Receipts	5,984	5,938	46	99%
Capital Grant	286	286	(0)	100%
Capital Contributions	0	130	(130)	0%
Revenue Contributions	0	0	0	0%
Totals	**6,270**	**6,354**	**(84)**	**101%**