



Meeting Date	6 June 2022
Report of	The Police and Crime Commissioner
Subject	Consolidated Financial Out-turn Report 2021/22

EXECUTIVE SUMMARY

This report informs members as to the final consolidated position revenue and capital out-turn for the period 1 April 2021 to 31 March 2022. The report covers the budget managed by the Chief Constable (CC) of the South Yorkshire Police force (SYP) and budgets managed by the Office of the Police and Crime Commissioner (OPCC), such as partnerships and commissioning, capital financing charges and the office of the PCC. It also contains an updated reserves position alongside a narrative commentary to help explain the key financial changes that have led to the year-end position.

RECOMMENDATION(S)

Members of the Panel are recommended to:

- a) note the contents of this report;
- b) ask questions on the matters contained within the report.

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1. Executive Summary

- 1.1 This report informs members as to the final consolidated position revenue and capital out-turn for the period 1 April 2021 to 31 March 2022. The report covers the budget managed by the Chief Constable (CC) of the South Yorkshire Police force (SYP) and budgets managed by the Office of the Police and Crime Commissioner (OPCC), such as partnerships and commissioning, capital financing charges and the office of the PCC. It also contains an updated reserves position alongside a narrative commentary to help explain the key financial changes that have led to the year-end position.
- 1.2 The last few years presented financial challenges to the PCC and SYP, made more significant after emerging from years of austerity. BREXIT, the global pandemic, the uncertainty of one-year spending reviews, and the war in Ukraine have created significant economic, operational and financial turbulence, which has affected both organisations and caused some delays to staff recruitment, projects and programmes.
- 1.3 The outcomes of the aforementioned challenges are still not quantifiable, and there will be emerging issues such as inflation, fuel poverty, deprivation and recruitment difficulties which will need to be navigated both now and in the future. Also, to note that these issues have an effect on police demand, which will add to the pressures already on SYP. Over the next few months there is a chance that some of these problems may crystallise, allowing more informed decisions to take place. However, there is scope for these matters to stretch into years which will make for a difficult environment and lead to more emphasis on the use of effective environmental scanning techniques to manage plans and lead both organisations in the right direction.
- 1.4 The 2021/22 revenue budget was £296.03m, with the year-end resulting in an operating surplus (underspend) of £7.473m or 2.5% of the budget. £3.779m has been allocated automatically to earmarked reserves for future Legacy and Commissioning activity, thus reducing the surplus to £3.694m (1.25%). This is because Legacy expenditure was planned to be funded through reserves initially, and it is the timing of the Legacy issue-related litigation and settlements that have slipped. The money is still needed, but the phasing has changed. Similarly, there has been a significant increase in Section 31 grants, particularly around Commissioning (£3.4m), the VRU (£2.1m) as well as an additional £1.3m to SYP. The ad-hoc nature of these one-off grants, often notified after the budget was set, makes financial planning challenging. Deliberate decisions were taken, rooted in the bedrock of value for money, to make sure that time bound Home Office projects were delivered as a priority, the deadline for delivery being 31st March. This has resulted in some slippage in the PCC's own projects and has led to an underspend. The underspend has been carried forward, via the Commissioning reserve, to assist with future delivery.
- 1.5 SYP is also striking a balance between some smart investments required to further develop SYP, support uplift, address changing risks and demands and being cognisant of the significant financial challenge within the medium-term financial strategy. Despite the challenges, SYP continues to drive forward with existing plans and strategies which will provide the infrastructure to support the organisation to achieve its strategic objectives.
- 1.6 The approved revised Capital Programme for 2021/22 was £19.63m. Actual spend for the year was £16.63m. This reflects certain aspects of the programme being re-profiled as a result of environmental factors - such as the pandemic and BREXIT - and to ensure the expected long-term outcomes are delivered. There is sustained investment in infrastructure to modernise the police estate, Fleet and IT and ensure they are fit for purpose, learning from the problems and opportunities encountered through the pandemic, whilst continuing the focus on sustainability.
- 1.7 Useable reserves at the beginning of this financial year were £64.360m. After taking account of the proposed use of reserves, the operating surplus for the year and the planned use of earmarked reserves to support the Legacy reserve, and the Commissioning reserve, there is a net in-year increase of £3.356m in reserves.

1.8 The total useable reserves position at year-end now stands at £67.716m (general reserves £36.919m, earmarked reserves £25.445m, insurance provision £5.352m). The increase in reserves is mostly due to the timing of the use of earmarked reserves - mainly Legacy - with some now profiled to be used in 2022/23.

2. Consolidated Revenue Budget Position

The 2021/22 out turn position is as follows:

	Approved Budget £000	Out- turn 31.03.22 £000	(Under)/ Overspend £000
Chief Constable's Budget	282.449	279.321	(3.128)
PCC and OPCC Budget	2.033	1.581	(0.452)
Commissioning and Partnerships	3.343	2.685	(0.658)
Capital Financing Costs	2.401	2.288	(0.113)
Sub-Total:	290.226	285.875	(4.351)
Potential Legacy Cost issues	5.804	2.683	(3.121)
Total:	296.030	288.557	(7.473)

4. Explanation of Variances

4.1 Chief Constable Budget

At 31 March the provisional year end out turn position is a £3.13m underspend on the Chief Constable's budget, net of external funding. A summary of each area is shown below, and full details are outlined in the Chief Constable's budget monitoring paper, which is attached as Appendix A.

	Approved Budget £000	Final Outturn £000	(Under) / Overspend £000	% of budget
Police Pay and Overtime	156,019	156,461	442	0.28%
PCSO Pay and Overtime	4,508	4,539	31	0.69%
Staff Pay and Overtime	80,629	79,482	(1,146)	(1.42%)
Other Employee Expenses	7,049	7,061	12	0.17%
Premises	9,939	9,273	(666)	(6.70%)
Transport	5,460	6,487	1,027	18.81%
Supplies and Services	23,075	20,832	(2,243)	(9.72%)
Agency	16,479	16,724	245	1.48%
Income	(15,318)	(16,043)	(725)	4.73%
Specific Grant Funding	(6,770)	(6,876)	(106)	1.56%
Debt Charges	1,379	1,379	0	0.00%
Net Expenditure Before Legacy	282,449	279,321	(3,128)	(1.11%)

Key Points

- The £3.13m underspend is 1.11% of the total budget before legacy costs.
- This biggest contributing factor to the underspend is in relation to underspends on additional investment in growth areas. 2021/22 has been an unprecedented year for growth, some of which were ambitiously phased and some due to depressed market conditions. Extra due

diligence has taken place when phasing growth in 2022/23 and more rigorous scrutiny will be carried out in the year ahead, through the Strategic Resourcing Board.

- In addition to growth, the force has benefited from additional grant funding not anticipated when setting the 2021/22 budget. This includes GRIP (£0.32m), Armed Response (£0.74m) and later in the year additional Uplift funding (£0.21m). This issue has been highlighted on a number of occasions as this makes financial planning challenging. As a result, when setting the 2022/23 budget, a more risk averse approach was taken and the Armed Response funding was included in the budget.
- Also of note contributing to the underspend are changes to the Officer Workforce Plan resulting in fewer full time equivalent Officers than budgeted although it should be noted that Uplift headcount target was exceeded. These changes are in response to:
 - Significantly lower attraction to the PCDA pipeline
 - ROCU backfill requirements
 - Forecast freeze in transferee population
 - National increase in leaver population
- The underspends have created opportunities for the force to invest in additional officer recruitment, Summer Surge activity, targeted variable/bonus payments, Oracle costs, direct revenue financing of capital schemes and have allowed the costs of Covid-19 to be contained.
- Some of these underspends have been earmarked as savings to achieve the £7m target set by the PCC, to be delivered by 2025.

4.2 PCC and OPCC budget

The PCC approved a budget of £2.039m for the OPCC in February 2021, which has been adjusted subsequently to £2.033m due to external funding and budget transfers to the Force.

Additional in year funding of £5.476m (including £1.6m for the VRU) has also been received since the budget was set, and the out turn position is an underspend of £452k, based on information as at 31 March 2022.

Details of variances from the budget are as follows:

4.2.1 Employee Costs £232k underspend.

The OPCC has benefited from additional contributions towards the staff time associated with various externally funded projects (£105k). The amount reflects the demand on the resources of the Commissioning and Finance Teams and has been part of the deliberate strategy to retain external funds within South Yorkshire.

There was a £9.5k saving on Chief Constable recruitment cost, offset by increased costs in relation to maternity pay and cover (£15k) in addition to budgeted costs.

The remainder of the underspend relates to the inclusion of additional budget for a potential change in PCC and some vacancies, including a Deputy PCC post.

4.2.2 LCJB £17k underspend (see also 4.5.2)

The variance is due to the structural changes in the probations service affecting contributions and should be a one-off occurrence. Also, a change of planned work practices/activities due to the Covid-19 pandemic. The LCJB expenditure underspend will transfer into the associated ear marked reserve to be used for future planned activity. An associated under recovery of external funding reduces this underspend to £9k.

4.2.3 Transport £13k underspend.

The underspend is mainly due to changes in working practices due to Covid-19.

4.2.4 Supplies & Services £95k underspend.

The main areas with underspends are Legal Fees (£25k), Financial Assistance (£30k) and Police Appeals and Tribunals (£18k). The demand profile for this funding fluctuates year on year, depending on circumstances.

The remainder relates to Internal Audit Fees (£15k) and General Office Costs (£11k).

4.2.5 External Funding £8k under recovery.

This relates directly to the LCJB expenditure outlined in 4.2.2 above, netting the underspend position off to £9k. This has been transferred to the LCJB reserve to be offset against future partner contributions.

4.2.6 PCC Legacy £103k underspend.

This relates to a legacy provision, the payments for which were curtailed mid-year. In line with generally accepted accounting principles the remaining balance of the provision was transferred to the income and expenditure account, resulting in an underspend. This has been moved subsequently to the Legacy reserve.

4.3 Commissioning and Partnerships £658k underspend.

The overall underspend in Commissioning is largely because of the additional income (£3.4m) that had been received into the county. This was prioritised for spending to maximise the medium-term benefits for the region, and is part of the deliberate strategy to retain money in the county for the benefit of the public of South Yorkshire.

4.4 Capital Financing Costs £113k underspend.

The additional funding received in year, the relatively healthy cash flow, and underspend on the capital programme has enabled the postponement of long term borrowing. This is in line with the approved Treasury Management Strategy. The position is being carefully monitored by the PCC's CFO and Deputy CFO, in order to ascertain the optimum time to take long term borrowing when assessed against need and the projected long term rises in interest rates.

4.4 Capital Programme

The PCC approved the revised £19.63m capital programme in July 2021. Expenditure to date amounted to £16.63m, a combination of slippage and underspend.

5. Reserves Position – including Legacy Costs Impact

The movement in year, based on the end of March 2022, is shown in the table below.

Hillsborough, the Stovewood enquiry, and CSE civil claims are currently showing a joint underspend of £3.121m. The underspend had been transferred to the legacy reserve at the end of the financial year.

A reduction in the Insurance reserve has been made as a result of an actuarial valuation.

The reserves position is as follows:

	Opening Balance at 31/3/21 £'000	Movement in year £'000	Closing balance at 31/3/22 £'000
General Reserves	42,247	-5,328	36,919
Earmarked Reserves	9,999	15,446	25,445
Total Revenue Reserves	52,246	10,118	62,364
Insurance Reserve	12,114	-6,762	5,352
Total Insurance Reserve	12,114	-6,762	5,352
Total Reserves	64,360	3,356	67,716

7. Risks and Uncertainties

There are a number of risks and uncertainties in the reported financial position. With regard to the longer-term financial position, the following have been reported before and are largely unchanged:

- There are a number of uncertainties around long term funding for McCloud, and ESN.
- There are significant risks around the economy, energy costs, inflation, deprivation and the consequences of the war in Ukraine.
- A fundamental review of the funding formula is ongoing. This will likely impact on the amount of grant that South Yorkshire receives and could make medium to longer term planning difficult. The PCC is a member of the senior sector group and will therefore be in a position of influence. The two CFO's will work with the PCC in order to try and get an early indication of the impact on South Yorkshire.

Risks are consistently monitored by the OPCC and Force Finance teams and discussed at the appropriate senior leadership groups.

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