



<b>Meeting Date</b>	<b>12 June 2023</b>
<b>Report of</b>	<b>The Police and Crime Commissioner</b>
<b>Subject</b>	<b>Consolidated Financial Out-turn Report 2022/23</b>

## **EXECUTIVE SUMMARY**

This report informs members as to the final consolidated position revenue and capital out-turn for the period 1 April 2022 to 31 March 2023. 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 2022 to 31 March 2023. 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 spending reviews and settlements, 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 with certainty. Issues such as inflation, deprivation and recruitment and retention difficulties are likely to continue for the foreseeable future, resulting in an impact on police demand. Some of these problems may crystallise in the short to medium term, allowing more informed decisions to take place e.g. the settling of the economy. 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 In terms of the budget, the 2022/23 final revenue budget was £311.07m, with the year-end resulting in an operating surplus (underspend) of £5.332m or 1.7% of the budget. £3.74m has been allocated automatically to earmarked reserves for future Legacy and Commissioning activity, thus reducing the surplus to £1.592m (0.51%). 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 ad-hoc grants, particularly around Commissioning and Partnerships and the VRU (£4.0m). 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 31<sup>st</sup> 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 whilst being cognisant of the significant financial challenge within the medium-term financial strategy. Work has now begun on the priority based budget process, with the help of an external consultant. This will assist the organisation to become more efficient, as well as helping to balance budgets in the future.
- 1.6 The approved revised Capital Programme for 2022/23 was £17.77m. Actual spend for the year was £13.36m. This reflects certain aspects of the programme being re-profiled, and to ensure the expected long-term outcomes are delivered. There is prioritised 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 (some of which continue) as well as economic issues and uncertainties. All capital budgets and expenditure are prioritised and balanced against the need for savings in the revenue account as there is no specific government grant for capital. Significant work is being undertaken around the timing of capital expenditure to improve estimates affected by timing of delivery.

- 1.7 Useable reserves at the beginning of this financial year were £67.716m. 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 £5.368m in reserves.
- 1.8 The total useable reserves position at year-end now stands at £73.084m (general reserves £43.493m, earmarked reserves £25.579m, insurance provision £4.012m). 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 2023/24 (£3.010m).

## 2. Consolidated Revenue Budget Position

The 2022/23 out turn position is as follows:

	<b>Approved Budget £000</b>	<b>Out turn 31.03.23 £000</b>	<b>Projected (Under)/ Overspend £000</b>
Chief Constable's Budget	297.851	297.824	(0.027)
PCC and OPCC Budget	1.977	1.824	(0.153)
Commissioning and Partnerships	3.343	2.613	(0.730)
Capital Financing Costs	2.491	1.080	(1.411)
Potential Legacy Cost issues	5.406	2.396	(3.010)
<b>Total:</b>	<b>311.068</b>	<b>305.737</b>	<b>(5.331)</b>

## 4. Explanation of Variances

### 4.1 Chief Constable Budget

At 31 March the provisional year end out turn position is a £0.027m 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.

	<b>Approved Budget £000</b>	<b>Final Outturn £000</b>	<b>(Under) / Overspend £000</b>	<b>% of budget</b>
Police Pay (excl. Overtime)	154,952	156,332	1,380	0.9%
Police Overtime	7,756	10,064	2,308	29.7%
PCSO Pay incl. Overtime	4,852	4,191	(661)	(13.6%)
Staff Pay (excl. Overtime)	83,696	83,095	(601)	(0.7%)
Staff Overtime	1,235	2,275	1,040	84.3%
Other Employee Expenses	7,476	8,621	1,145	15.3%
Premises	10,970	11,089	119	1.1%
Transport	5,068	5,450	382	7.5%
Supplies and Services	25,748	23,941	(1,807)	(7.0%)
Agency	18,822	17,575	(1,247)	(6.6%)
Income	(18,421)	(20,969)	(2,548)	13.8%
Specific Grant Funding	(8,243)	(7,771)	472	(5.7%)
Capital Adjustments	3,938	3,938	0	0.0%

Grant Expenditure	2	(6)	(8)	(470.8%)
<b>Net Expenditure Before Legacy</b>	<b>297,851</b>	<b>297,824</b>	<b>(26)</b>	<b>(0.01%)</b>

## Key Points

2022/23 had been a challenging and unpredictable year due to the ongoing economic uncertainty. As a result, the force has seen significant fluctuations in projections and the end of year position changed significantly, largely due to the end of year insurance claims provision. This has highlighted a need for closer working between Finance and Legal throughout the year, but this will never be fully mitigated due to the unpredictable nature of insurance claims.

Underspends have arisen during the year, particularly in growth areas where there have been difficulties in recruiting and retaining staff and the force has benefitted from additional income and grant funding. This has allowed the force some flexibility to invest in areas of strategic importance and to meet the cost of operational policing operations. The force has direct revenue financed £1.2m to the Oracle Cloud project, invested in the Detective Now Programme, Summer Surge activity and contained additional overtime for Her Majesty the Queen's State Funeral. Permanent savings have been identified throughout the year and these have contributed to balancing the budget for 2023/24.

Overall, the force has a £0.03m underspend (before legacy costs), which is (0.01%) of the total force budget (excluding legacy costs). It should be noted however that £0.31m relates to excess POCA Income and £0.43m Safety Camera Ticket Partnership income which have been moved into an earmarked reserve to be reinvested in eligible activity in the following year. The position after these reserves movements is a net overspend of £0.71m, which is 0.24% of the total budget.

Police pay overall is £1.38m overspent but during the year £0.53m has been utilised for summer surge and £0.40m for detective now. The workforce plan for officers changed during the early part of the year, due to being under strength at the start of the financial year. There have been challenges during the year due to lower attraction to the Police Constable Degree Apprenticeship (PCDA) pipeline and an increase in the leaver population. The closing strength was 99.48 under against the original budgeted strength, but only 31.48 under against the revised workforce plan. Police overtime was overspent by £2.3m. The workforce plan for 23/24 will need to be flexed to bring officer numbers back in line.

Staff pay was under spent by £0.6m due to vacancies within established and growth posts, with recruitment into some posts being a challenge in the current job market. The pay underspends are offset by the staff lump sum pension prepayment, £1.26m, which has been consistently charged to the revenue account, and was not included in the budget. Staff overtime is overspent by £1.0m due to backfill for vacancies and managing demand.

PCSOs pay was underspent by £0.7m on PCSOs due to vacancies and shift and weekend working changes not implemented, offset with small overspends on PCSO overtime £0.04m. The allowances have been removed as part of the 23/24 savings plan within the MTRS.

Within non-pay there were overspends on premises costs £0.2m, transport costs £0.4m and underspends on supplies and services of £1.8m and agency costs £1.2m. It is worth noting that a lot of the areas where we have seen underspends during the year are contractual or other savings and have now been included as part of the 23/24 savings plans within the MTRS. Where we have seen overspends these have been fully reviewed and where necessary have had additional funding built into the 23/24 budgets for areas of unavoidable cost pressures. There was an over-achievement of income of £2.5m which is detailed in Appendix A. The excess ARIS/POCA income £0.31m and Safety Camera Ticket Partnership NDORS £0.43m will go directly into a ring-fenced reserve for re-investment.

## 4.2 **PCC and OPCC budget**

The PCC approved a budget of £2.025m for the OPCC in February 2022, which has been adjusted subsequently to £1.977m due to external funding, DRF, and budget transfers to the Force. The out turn position is an underspend of £153k, based on information as at 31 March 2023.

Additional in year funding of £3.997m (including an additional £1.3m in the core grant for the VRU), has also been received since the budget was set, and the out turn position is an underspend of £730k, based on information as at 31 March 2022.

Details of variances from the budget are as follows:

### 4.2.1 **Employee Costs** £85k underspend.

The OPCC has benefited from additional contributions for staff time from externally funded projects (£22k). 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.

The underspend included the additional budget for a Deputy PCC (£55k), and vacancies (£26k). The remainder of the underspend relates to under/overs throughout the rest of the posts, recruitment costs, and training. This is offset by increased costs in relation to pension deficit being reflected in the profit and loss account (£46k) in addition to budgeted costs.

### 4.2.2 **LCJB** £12k underspend (see also 4.2.5 below).

This underspend relates specifically to the Local Criminal Justice Board (LCJB) partnership, and work undertaken by the group. Any underspend is held in a separate reserve, for members' use in future years. This is usually used to reduce member partnership contributions.

### 4.2.3 **Transport** £9k underspend.

The underspend is mainly due to changes in working practices post Covid-19. Budgets have been reduced in 23/24 to account for the change.

### 4.2.4 **Supplies & Services** £32k underspend.

The main areas with underspends are Legal Fees, financial assistance, internal audit fees, independent members fees and subscriptions. The demand profile for this funding fluctuates year on year, depending on circumstances. These savings have been somewhat offset by overspends in some areas, in particular external audit where fees have increased significantly on a national basis.

### 4.2.5 **External Funding** £16k over recovery.

£0.5k of this relates directly to the LCJB expenditure outlined in 4.2.2 above, netting off the LCJB position to a £9.5k underspend. This has been transferred to the LCJB reserve to be offset against future partner contributions.

A further £15.5k additional funding was also provided to the OPCC by the Home Office towards audit related costs. This funding was unexpected, leading to the over recovery.

### **4.3 Commissioning and Partnerships** £730k underspend.

The team has successfully secured income (£2.7m) in this financial year, for use within the county. Also, they successfully submitted a £1m bid which is being delivered by local authority partners in Doncaster and Sheffield. External funding has been prioritised for spending to maximise the medium-term benefits for the region. This carries on the year-to-year success that this area has in securing extra resources.

A plan was agreed to deal with the unprecedented overachievement of POCA income (£230k) which involves using the funds in future financial years and thus in 2022/23 it will contribute to a ringfenced reserve.

### **4.4 Capital Financing Costs** £1.411m underspend.

Significant up front payments have been received in some areas of the budget, which coupled with the additional funding received in year has resulted in a healthy cash flow. With the underspend on the capital programme, and re-phased timing of legacy payments, this has enabled the postponement of long term borrowing. This is in line with the approved Treasury Management Strategy. Due to economic volatility interest rates have risen considerably throughout the year, and as such we have been able to take advantage of the improved rates offered. This has led to an over achievement on investment income of £1.12m in year.

This is a temporary position, which will be reversed once the expenditure associated with the receipts in advance crystallises. 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 movement in interest rates.

### **4.4 Capital Programme**

The PCC approved the revised £19.63m capital programme in July 2021. Expenditure to date amounts to £16.63m, a combination of slippage and underspend. A programme is in place, working with Heads of Department to improve capital expenditure timing and forecasts in order to ensure that the budget is as accurate as possible.

## **5. Reserves Position – including Legacy Costs Impact**

The movement in year, based on the end of March 2023, is shown in the table below.

Hillsborough, the Stovewood enquiry, and CSE civil claims are currently showing a joint underspend of £3.010m. The underspend is largely to do with the timing of settlements which will crystallise in later years – these amounts are not a saving, and have been transferred to the legacy reserve for use in future years.

A reduction in the Insurance reserve has been made based on outstanding claims.

The reserves position is as follows:

	<b>Opening Balance at 31/3/22 £'000</b>	<b>Movement in year £'000</b>	<b>Closing balance at 31/3/23 £'000</b>
General Reserves	36,919	6,574	43,493
Earmarked Reserves	25,445	134	25,579
<b>Total Revenue Reserves</b>	<b>62,364</b>	<b>6,708</b>	<b>69,072</b>
Insurance Reserve	5,352	-1,340	4,012
<b>Total Insurance Reserve</b>	<b>5,352</b>	<b>-1,340</b>	<b>4,012</b>
<b>Total Reserves</b>	<b>67,716</b>	<b>5,368</b>	<b>73,084</b>

## 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. These could impact on pay and supplies and services, contributions to pension funds and capital financing costs.
- 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.
- The MTRS and savings plans have been based on current economic information and assumptions. These may change over the MTRS period. As outlined in the budget report, it is essential that the savings are identified and delivered in order to balance the budget in the medium to long term.

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

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