

Unaudited Financial Outturn Report for 2022/23

Introduction

1. This report provides the force budget and capital position for Surrey Police Group as at 31st March 2023. The figures presented are draft and may subject to change until the external audit sign the annual statement of accounts. It does however give a reasonable indication to Members of the performance for the year

Group Revenue Financial Performance for the Year

2. The Surrey Police Group, which consists of the Force and the OPCC, had a revenue underspend of £8.7m for the year as shown in the table below:

	Total 2022/23 Budget £m	Total 2022/23 Outturn £m	Variance £m
OPCC	3.0	2.7	(0.3)
Force	276.1	267.7	(8.4)
Group Expenditure 2021/22	279.1	270.4	(8.7)
Less: Funding	(279.1)	(279.1)	0
Net Group underspend for year	0.0	(8.7)	(8.7)

3. The PCC has approved that the underspend be transferred to reserves to support major projects and meet future financial challenges. This is explained in more detail in the Reserves section of this paper.

4. The Group underspend of £8.7m is explained in more detail in the table below:

	Year to 31st March 2023		
	Budget £m	Actual £m	Variance £m
Wages and Salaries	229.1	223.6	(5.5)
Premises	12.0	12.2	0.2
Transport	4.9	5.9	1.0
Supplies and Services	40.0	37.6	(2.4)
Capital Financing and Reserves	8.0	12.6	4.6
Grants and Income	(14.9)	(21.5)	(6.6)
TOTAL	279.1	270.4	8.7

5. The notes below are provided to give the Panel more detail on some of the key group expenditure areas.

Wages and Salaries

6. Wages represents the largest category of expense for the group representing 82% of the total net budget. The underspend of £5.5m is broken down as follows:

	Year to 31st March 2023		
	Budget £m	Actual £m	Variance £m
Police Officer Pay	135.6	129.6	(6.0)
Police Officer Overtime	5.5	6.6	1.1
Police Staff Pay	77.4	75.8	(1.6)
Police Staff Overtime	1.3	2.3	1.0
Other Employee Expenses	4.5	4.4	(0.1)
Temporary and Agency Staff	0.6	0.7	0.1
Training and Development	4.2	4.2	0.0
TOTAL	229.1	223.6	(5.5)

7. The £6.0m underspend in Police Officer pay is primarily due to the phasing of the Uplift recruitment. For budgeting purposes, it was assumed these officers would be in post at the start of the year however, as they were recruited over the year, with indeed more in the 2nd half, this led to an underspend overall.
8. For Police staff the average vacancy rate over the year was 11.5% which is excess of the 8% allowed for when the budget was set. This delivered an additional saving of £3.2m. However, this was offset by a larger than expected pay increase, the need to pay more market supplements and increase allowances, such as those for unsocial hours, in order to try to help Surrey Police could compete labour market: This reduced the overall saving to £1.6m.
9. Overtime costs were £8.9m compared with £8.1m the year before. This is due to the fact that existing staff and officer have had to cover the rising number of vacancies in order to maintain services. Most officer overtime has been incurred in neighbourhood policing whereas for staff almost £1m of the £2.3m cost has been in contact.

Premises

10. Overall Premises, which includes all estate running costs, was £0.2m overspent. This was due to increases in Utility and cleaning costs coupled with the cost of securing Leatherhead offset in part by a saving in Business Rates.

Transport

11. The transport overspend of £1.0m is primarily driven by increases in the cost of fuel and vehicle maintenance.

Supplies and Services

12. Supplies and services, which incorporates many different areas, was underspent by £2.4m at the end of the year. Although there were overspends in areas such as Digital Forensics (for which demand is rising), PSD legal costs and Pension remedy this was more than offset by savings in software and ERP development and Estates consultancy amongst others. In addition, the transfer of Uplift grant into this area to cover enabling costs also contributed to the underspend.

Capital Financing and Reserves

13. The overspend here is mainly due to surplus revenue being used to fund capital expenditure. It is also the result of change program, which has a value of £2.1m, being funded out of revenue rather than reserves as was originally intended.

Grants and Income

14. Income received was £6.6m more than budgeted for although some of this is offset by additional costs incurred in other areas. Surrey received £0.9m for officers assisting at the Queen's funeral. A further £2.8m came from officers seconded to areas such as Counter Terrorism, Regional Crime and the Serious Fraud Office. The Surrey Camera Partnership generated an additional £0.7m, although this was offset by additional costs, and the OPCC managed to win an additional £1.8m in grants that were used to commission services. Finally, a further £0.4m was received for Op safeguard and other initiatives from Government.

Office of the Police and Crime Commissioner

15. Included within the group figures are the costs of running the OPCC and its commissioning of services which, at the year end, were £0.3m under budget. This is shown in the table below:

	Budget £m	Actual £m	Variance £m
Operational Costs	1.4	1.3	(0.1)
Services Commissioned	3.2	4.8	1.6
Less grants received	(1.4)	(3.2)	(1.8)
Less funded from reserves	(0.2)	(0.2)	0.0
TOTAL	3.0	2.7	(0.3)

16. OPCC Operational costs represented around 0.5% of net total group expenditure and consist of the costs of the PCC and DPCC, their staff, office costs, public engagement, subscriptions and governance. The savings were as a result of staff posts not being filled as quickly as was expected coupled with underspends in legal costs, for dismissal appeals, and consultancy advice for areas such as the Mount Browne development.

17. OPCC commissioned services included services commissioned for victims, safer streets, community safety and crime prevention. During the year almost £4.8m was given out with £3.2m coming from ringfenced funding from Government. Of this £1.8m was award to the OPCC as a result of competitive bids, for areas such as Safer Streets, made in the year – an increase of almost 30% on the £1.4m received the year before.

Savings

18. The group budget set for 2022/23 of £279.1m included an assumption that £2.9m of savings would be delivered during the year. In fact, over the year £3.7m in permanent savings was able to be removed from budgets meaning an overachievement of £0.8m. This is included in the underspend for the year and will be against future savings requirements.
19. The Medium-Term Financial Forecast indicates that further savings will be required over the next 5 years as set out below:

Year	2023/24 £m	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m	Total £m
Savings	1.6	6.0	4.5	2.4	2.7	15.6

20. The savings of £1.6m for 2023/24 have been found by using the £0.8m of savings from 2022/23 and in year reductions. Work is ongoing to deliver savings for future years. Inflation, wages, increasing demand, the need for capital investment is likely to increase the level of savings required in the future rather than reduce them.

Uplift Investment

21. 22/23 was the final year of the 3-year Uplift officer investment plan by Government. The Force had to achieve a net increase of 259 officers, giving a baseline number of 2,253 officers, by the 31st March 2023 in order to not to incur any financial penalties. Fortunately, the target was achieved and so no grants will be clawed back from 2022/23.
22. There is in place a contractual obligation with Government to maintain the baseline number of 2,253 officers for 2023/24 and this is assessed at the 30th September 2023 and the 31st March 2024. If numbers are not maintained then penalties are imposed as follows:
- £40,000 penalty for each officer below the 2,253 target at each monitoring point
 - If the Force fall short of the target by more than 1% or 23 officers then a penalty of £1.780m is imposed at each monitoring point. This is equivalent to the entire Uplift and pay increase grant for the year
23. As a result, the Force is making huge efforts to recruit and retain officers in what is a very competitive market.

Capital Financial Performance for the Year

24. At the start of the year a capital budget of £7.4m was set. This, when added to slippage from 2021/22 of £10.8m gave a total budget of £18.2m. A number of changes were made in the year which resulted in a budget of £15.6m by the end of the year. The table below gives a summary of Capital Spend against budget for the year:

	Budget £m	Outturn £m	Variance £m
ICT	5.1	1.4	(3.7)
Vehicles and Estates	6.2	4.9	(1.3)
Specialist Crime	1.0	0.0	(1.0)
Operations	0.5	0.7	0.2
Building the Future	2.3	1.5	(0.8)
Local Policing	0.5	0.5	0.0
TOTAL	15.6	9.0	(6.6)

25. The Force manages capital schemes over a rolling 2-year period enabling projects to be bought forward or deferred. This can lead to underspends in year and slippage from one year to another. Further details are given below:

ICT

26. Investment in ICT is one of the highest areas of spend of the Force. During the year almost £1m was spent on hardware replacement and infrastructure with a further £100k on servers and firewalls, £90k on mobiles and comms devices and £165k on software including Niche (which is used for crime recording).

27. Of the £3.7m underspend virtually all of it is due to slippage rather than underspend and will be carried forward into the budget for 2023/24. £1m relates to the national Emergency Services Network project which is behind schedule and a further £740 is for the ERP upgrade which was delayed due to contractual issues but has now started. A further £800k is hardware and networks with the remainder on firewalls, servers, network monitoring tools and major software upgrades.

Commercial and Finance Services Variance

28. Of the £4.9m spent in the year £3.9m was for vehicles and associated equipment. The remainder was spent on major repairs and upgrades include the replacement of the roof at Caterham Police station. The underspend of £1.3m is almost all due to the extended lead times for the purchase of vehicles because of shortages in the world semiconductor market.

Specialist Crime

29. Spend during the year was minimal. Of the underspend £0.7m slipped due to delays in the delivery of the SEROCU western hub with a further £0.2m being rolled in to 2023/24 as a result of a rephasing of the DFT transformation.

Operations

30. Capital was invested in ANPR and various equipment over the year. £0.4m was overspent in SCP due to phasing but this was offset by savings in Ops command equipment and a rephasing of some additional ANPR expenditure.

Building the Future

31. This project consists not only of the new HQ project but also of the implementation of agile working across the entire estate. The £0.8m underspend has arisen due to phasing on this project and will be carried forward in to 2023/24.

Local Policing

32. This represents the cost of installing "Smart storm" across the Force. This is used for recording incidents in contact and managing response.

Funding of the Capital Program

33. No specific grant funding is provided by Government to fund capital expenditure. Hence it has to come from assets sales, revenue or borrowing. During the year no borrowing was required and hence the entire program was funded from Capital Receipts, other the largest element at £7.7m Revenue.

34. The only borrowing entered in to by the PCC relates to £15.6m borrowed to fund the new HQ in March 2019. Further borrowing may be required in future years as the ability for revenue to fund capital is reduced due to budget pressures. Borrowing can only be entered in to by the PCC and must comply with the Prudential framework. In addition, due to statutory controls borrowing can only be entered into to further a Policing purpose – such as say buildings, vehicles etc.

Reserves

35. All reserves are owned and under the control of the PCC rather than the Force. The PCC needs to ensure that she holds an adequate level of reserves to manage and unexpected expenditure and to manage risk.

36. During the year £7.9m of the anticipated underspend was transferred to reserves with a further £1.1m at the year end. These provide a one-off benefit to build some financial resilience. The table below sets out the estimated unaudited reserves as at 31st March 2023 including movements for the year.:

Name	Purpose	As at 01/04/22 £m	Mvmnts in year £m	Underspd in year £m	As at 31/3/23
General Unearmarked Reserves					
General Fund	General Contingency and risk management	8.1		1.1	9.2
Chief Constable	Manage operational risks	1.1			1.1
CC Op Pheasant	Costs in relation to historic cases			0.5	0.5
Total Unearmarked General Reserves		9.2	0.0	1.6	10.8
Earmarked Reserves					
PCC Reserve	PCC one initiatives and commissioning	1.2	(0.3)	0.3	1.2
Estates Reserve	For new HQ and other estates works	3.2	1.2		4.4
Cost of Change	To deliver operational transformation	3.1		2.0	5.1
Ill-health Injury	To cover claims for ill health and injury	0.8	(0.2)		0.6
Delegated budget Reserve	To address spending pressures in 2023/24 and beyond			5.1	5.1
Net zero reserve	To be sued to cover some of the costs of the transition to net zero		1.7		1.7
Covid 19 reserve	To cover Covid costs – now tfrd to other reserves	2.1	(2.1)		0.0
Insurance reserve	To cover insurance excess as assessed by actuary	1.9			1.9
Total Earmarked Reserves		12.3	0.3	7.4	20.0
TOTAL RESERVES		21.5	0.3	9.0	30.8

37. It is considered best practice to hold a minimum of 3% of net revenue budget as a general unearmarked reserve to address contingencies. For Surrey this would be £8.7m and so this requirement is met. That said Surrey reserves are at the lower end when compared to most other Forces. The level of reserves also has to be seen in the context of the £15.6m of savings required over the next 4 years which may or may not be deliverable to time or indeed at all. Finally reserves have been earmarked for specific projects or initiatives which would not be able to go ahead if the reserves were not there given the current strains on the revenue budget.

Audit

38. The results, as presented, are unaudited and may be subject to change by the External Auditors. Members will no doubt be aware from their own authorities of the issues within the External audit sector at the moment. Although the statutory deadline for the completion of the audit for 2022/23 is 30th September 2023 our auditors have informed us that they will not be in a position to commence their work until January 2024 at the earliest. Indeed, the completion of the audit for 2021/22 is still awaited but this should be signed off before the end of the year. Although no significant changes as a result of the audit are expected any material changes will be reported to Panel members as appropriate.

Equalities and Diversity Implications

39. There are none arising from this report

Conclusions

40. Through prudent budget management the Force has remained within its budget and indeed has delivered additional savings despite rising costs driven by inflation

41. In financial terms the Force has benefited from a tight labour market in that its inability to recruit has resulted in significant underspends for the year. Lack of suitably qualified staff has also impacted the delivery of the capital program leading to a further in year capital underspend. However, this difficulty in recruiting staff has had an impact operationally and on the delivery of projects. It is difficult to see how this will change in the short term given private sector wage growth, Surrey's proximity to London and high cost of living.

42. Significant efforts were put in to achieving the Government's uplift target for new officers in order to avoid any penalties and this was achieved. This was against a

backdrop of Forces scrabbling with each other for an ever-decreasing pool of candidates. This penalty regime is set to continue in to 2023/24 at least.

43. The one-off benefit of the underspend has enabled the Force to build up its reserves. This will enable it to not only invest to make itself more efficient and deliver better value for money but also buy time to implement the changes needed to address the financial challenges set out in the medium-term financial forecast.