



**Police and Crime Panel
5 September 2016**

Medium Term Financial Plan 2017/18 to 2019/20

Report of the PCC Chief Finance Officer

1. PURPOSE

1.1 To provide the Police and Crime Panel with the Police Crime Commissioner's medium term financial plan for the period 2017/18 to 2019/20, based on current information and assumptions.

2. BACKGROUND

2.1 In November 2015 prior to the funding settlement announcement the funding gap for the organisation was £140m by 2019/20. The financial strategy was based on cost savings arising from the WMP2020 transformation programme supported by full utilisation of the Budget Reserve (£45m). Following the announcement of a better than expected settlement, the financial pressure over the medium term has reduced. However, the West Midlands is still subject to cuts and there is a need to find a balanced way of fully utilising the available resources and achieving a sustainable and affordable level of spending by 2020.

3. ASSUMPTIONS

3.1 The medium term financial plan has been refreshed and updated based on a number of key assumptions covering likely funding levels, inflationary increases and expenditure items.

3.2 The key assumption underpinning future funding levels based on the best available information is that government cash funding will continue to reduce by 0.57% or £2.5m each year. When this is combined with the assumption that the Commissioner may choose to use the flexibility granted by the Home Office to increase the Band D council tax precept by £5, only then a 'flat cash' position can be achieved but in real terms this will still be a reduction in funding. This assumption will be reviewed annually as part of the budget setting process, but it should be noted that the medium term plan detailed in this report assumes that the Band D council tax charge will increase by £5 in each year of the planning period.

3.3 The assumptions are also based on there being no adverse impacts of the Brexit vote on future funding levels. Whilst it is too early to understand and model any impacts with any degree of certainty, this will need to be kept under close review going forward. It is also assumed that the current Home Office top slicing arrangements will continue and as such divert money away from local decision making. The table below summarises the assumptions built in to the current medium term financial model.

	2017/18	2018/19	2019/20
Spend Assumptions			
Pay Awards	1.0%	1.0%	1.0%
Utilities	5.0%	5.0%	5.0%
Fuel	2.0%	2.0%	2.0%
Supplies & Services	1.5%	1.5%	1.5%
Funding assumptions			
Police Grant	-0.57%	-0.57%	-0.57%
Band D Precept Increase	£5	£5	£5
Precept Tax Base Change Increase	0.50%	0.50%	0.50%

3.4 A number of policy objectives have also been included in the financial modelling refresh to reflect commitments already made by the Commissioner, unavoidable contractual changes and new statutory requirements. These are shown below:

- Completion of the original 450 new police officer recruits by March 2017;
- Payment of the apprenticeship levy from 2017/18;
- Complying with the Living Wage Foundation minimum pay rates from 2017/18;
- The costs of the Accenture contract, which reduce over the life of WMP2020, and any approved changes to the programme of work;
- The costs of the Airwave replacement, known as the Emergency Services Mobile Communications Programme (ESMCP) are included although the timing and exact amounts of the benefits are still to be determined at this stage.

3.5 The medium term financial plan reflecting the assumptions outlined above is shown in the table below.

	2016/17	2017/18	2018/19	2019/20
	£m	£m	£m	£m
Police Officer Pay	353.2	338.8	328.3	318.1
PCSO Pay	12.8	12.9	13.0	13.0
Police Staff Pay	100.9	98.5	98.4	97.6
Non Pay	47.5	52.5	51.1	52.2
WMP2020 Project Costs	22.0	20.0	16.3	5.2
Force Spend	536.4	522.7	507.1	486.1
Office of the PCC Core Costs	1.9	1.9	1.9	1.9
Community Safety Funding	3.9	3.9	3.9	3.9
Direct Commissioning	1.8	1.3	1.3	1.3
Active Citizens	0.8	0.8	0.8	0.8
Office of the PCC	8.4	7.9	7.9	7.9
Total Spend	544.8	530.6	515.0	494.0
Government Grants	-450.1	-447.7	-445.2	-442.8
Precept	-77.1	-79.2	-83	-86.8
Total Funding	-527.2	-526.9	-528.2	-529.6
Gap before Reserves	17.6	3.7	-13.2	-35.6
Use of Reserves	-17.6	-3.7	0	0
Gap Remaining	-	-	- 13.2	- 35.6

3.6 The table above shows the medium term financial plan after the refresh results in a budget that can be balanced using available reserves in the first two years, with a surplus position of £13.2m increasing to £35.6m in 2019/20. However, it is worth noting that the current level of spending (£544.8m) is greater than the sustainable level of funding over the medium term. Therefore, despite a 'flat cash' funding position and a surplus in later years, the current level of spending is not affordable into the future and spending reductions are still needed to ensure a sustainable medium term position.

3.7 The Commissioner has previously agreed a strategy for using £45m from the Budget Reserve to support spending from 2014/15 through to 2019/20. £12.3m of this amount has been used in 2014/15 and 2015/16, leaving £32.7m available. The plan shown above would use £21.3m of reserves, meaning £11.4m of the Budget Reserve would not be utilised and is therefore available to spend on new initiatives.

3.8 As such, the refreshed medium term financial plan can be summarised as follows:

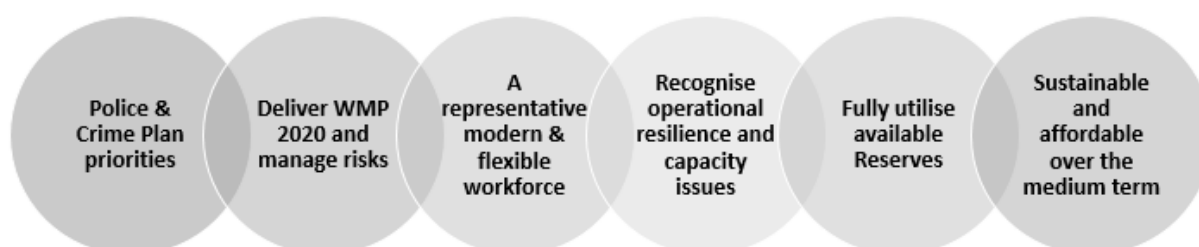
- The budget strategy relies on reserves to balance the budget which cannot be sustained in the long term. It is important to ensure that the financial plan delivers a sustainable and affordable position over the next three years;
- The better than expected funding settlement means additional spending over the medium term is possible through both the forecast surplus in the budget and unused reserves;
- However, the medium term affordable level of spending is lower than current levels and as such delivery of the savings within the change programme is essential.

4. MEDIUM TERM FINANCIAL PLAN PRINCIPLES

4.1 In developing the medium term plan the following principles have been adopted:

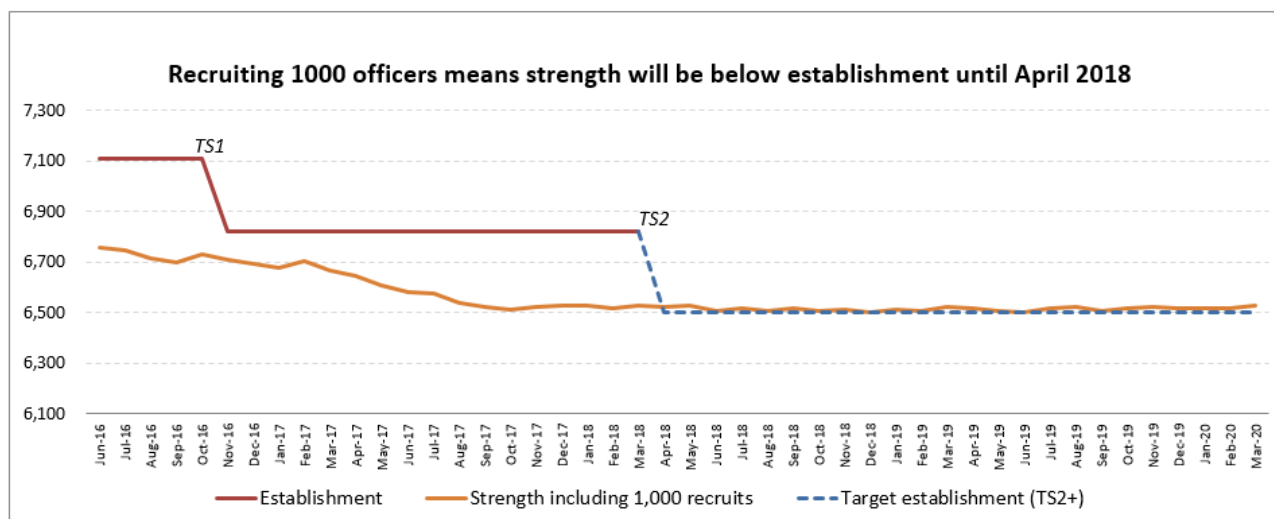
- Deliver the new Police and Crime Plan priorities, including recruitment of additional officers and skilled staff, and support for invest to save schemes;
- Continue to deliver the WMP2020 programme of work and ensure appropriate risk provision for projects currently commissioned. The change programme will need to be refreshed over the medium term and new areas, such as the Estates Strategy, will need to be considered;
- Build on the approaches already introduced to enhance the opportunities to increase the representation and flexibility of the workforce. This includes creating more apprenticeship roles and continuing to take opportunities for freeing up police officers from work that can be done by police staff through workforce modernisation programmes;
- Following many years of declining staff numbers move to an approach in which establishment levels are fixed in advance and routine recruitment to these levels is the norm.
- Address short term operational resilience gaps whilst recognising the organisational capacity to deliver, both in terms of transformation and recruitment.
- Fully utilise the available reserves and create a sustainable and affordable budget.

4.2 These principles can be summarised as shown below:



5. STAFFING PROPOSALS

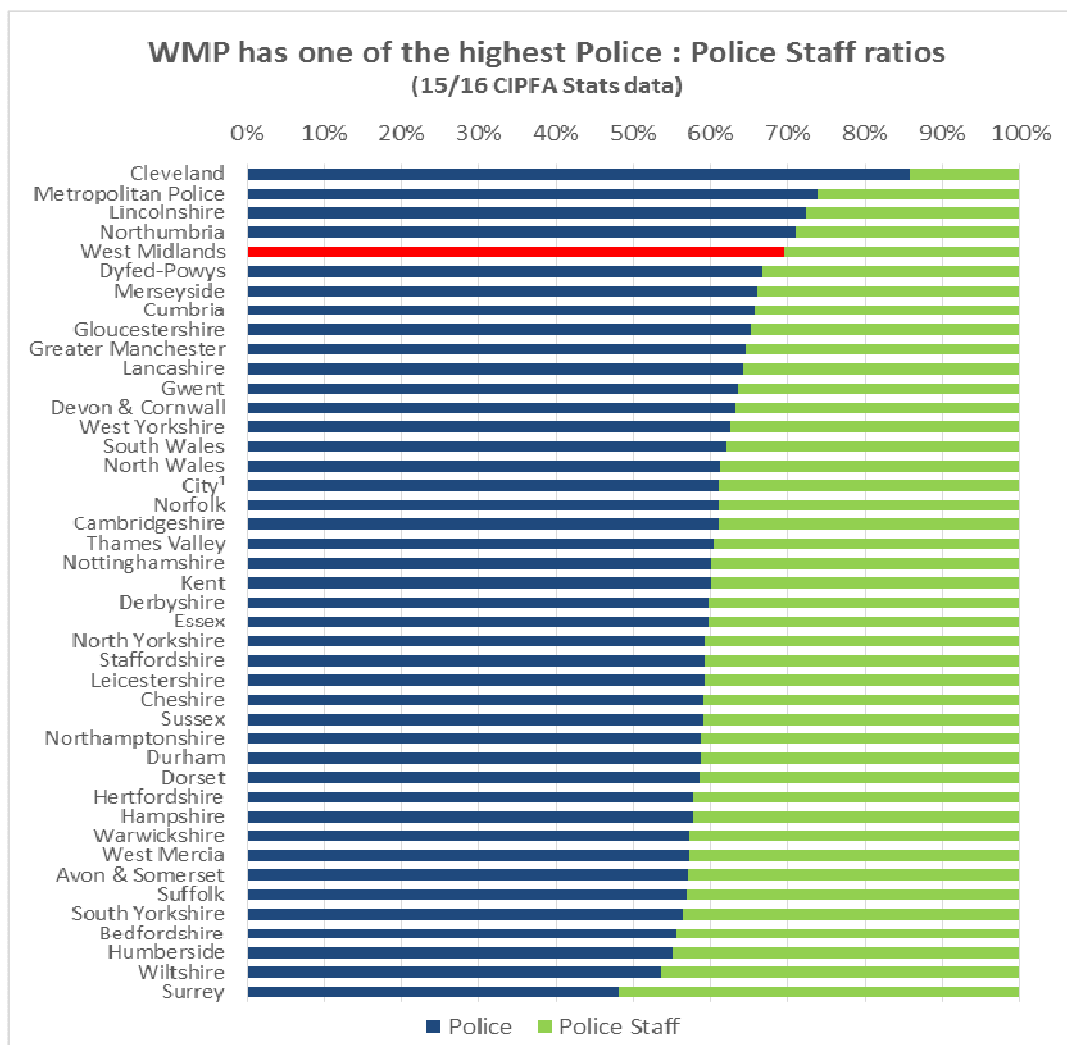
- 5.1 The WMP2020 programme will be delivering the first major round of changes to the way services are delivered in November 2016 (known as Transition State 1). At this point the police officer establishment can be reduced by around 300 posts to 6,822 officers due to efficiencies introduced and the removal of previously vacant posts. Operational strength at November 2016 is forecast to be around 6,700 officers, which leaves an operational resilience gap. This problem is made worse because the police officer strength is forecast to continue to fall through natural attrition (despite the recruitment of 450 officers) to around 6,650 by April 2017. This issue has been recognised previously and short term measures to recruit to additional temporary police staff roles through to March 2017 has provided some additional resilience, but it is not a permanent solution.
- 5.2 Police officer numbers will continue to fall after April 2017 when the current recruitment of 450 officers is complete. As a result, to be able to move to steady and affordable establishment levels there is a need to recruit additional police officers over the medium term. Between April 2017 and March 2020 it is estimated that around 1,300 police officers will leave the force. To recruit this number and fix establishments at their current (TS1) level would require £53m of reserves to be used over the period, which is not affordable as only £33m of reserves are available and it would create a reliance on using reserves beyond the current planning period. This has been recognised through the change programme and future step downs in police numbers have been planned in business cases.
- 5.3 The Commissioner is committed to recruiting additional police officers and the affordable level of recruitment over the medium term is around 1,000 police officers. Even with this level of recruitment over the medium term establishment levels will need to reduce by around 300 officers. Recruiting an additional 1,000 officers would require around £38m of reserves over the medium term period, and whilst this is above the £33m reserves available in the Budget Reserve, it is likely that in year underspends will create sufficient flexibility for this to be affordable. However, recruiting to this level would not address short term operational resilience issues as the operational strength would not achieve the agreed establishment levels. This is shown below.



- 5.4 The chart shows that even if recruitment to an additional 1,000 officers commenced in September 2017, police officer strength would barely exceed 6,700 officers and continue to fall due to natural attrition, levelling out at around 6,500 in October 2017 against a TS1 establishment of 6,822 (which would need to be reduced by over 300 to 6,500 through a later large transition state change). This is in part due to the number of leavers forecast and also the recruitment time lag due to the assessment and training recruitments.

Workforce modernisation

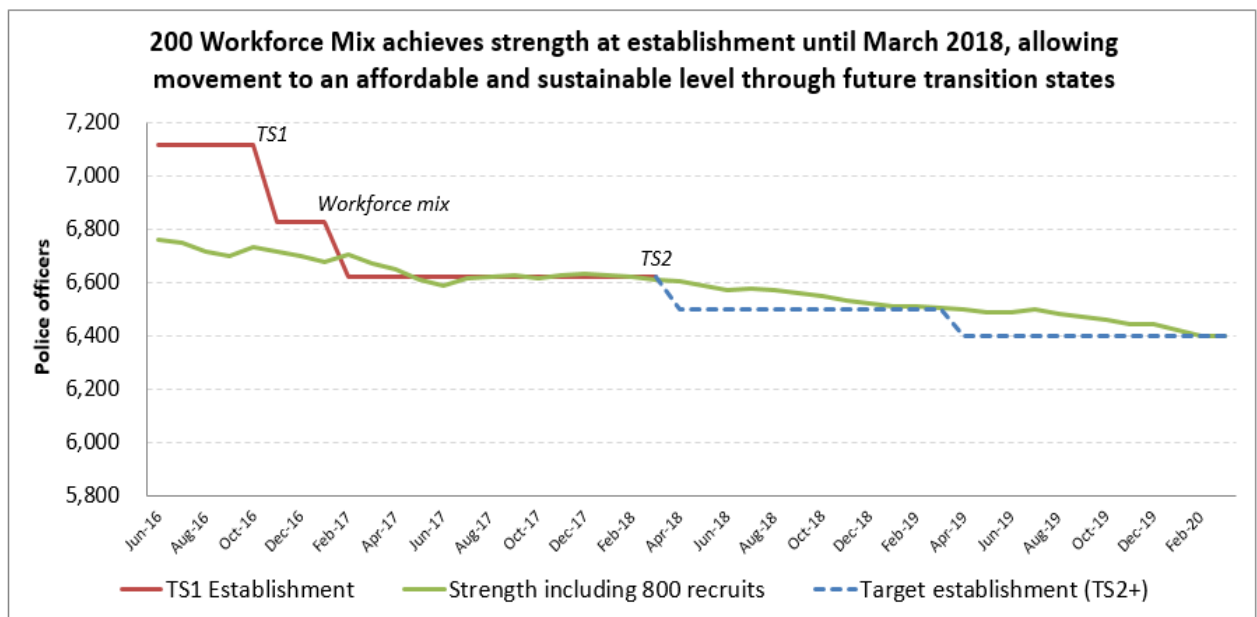
5.5 An alternative option is to utilise opportunities to create a more modern and flexible workforce by converting some police officer posts that do not require warranted powers to police staff roles. Whilst this has been undertaken successfully by many forces that have less challenging financial circumstances than the West Midlands, up to now it has been hard to achieve locally due to the pressing need to realise cashable savings from vacant police officer posts. The chart below shows the police officer: police staff ratio for all forces. West Midlands has one of the highest police officer ratios, and this is more noticeable given that WMP has mostly in house support functions whereas most of the forces with a higher ratio have large outsourced support arrangements.



5.6 Furthermore, due to the differences in police officer and police staff pay rates it is possible to create more police staff roles than the number of police officer posts that are converted. The exact number of police staff roles that can be created will depend on the salary bands, shift and rota working arrangements that are put in place when the roles are created. However, it is likely that Investigator roles will present the greatest opportunity to introduce a modernised workforce model, and there may also be highly skilled areas (such as cyber-crime) where recruiting to police staff roles directly from the market creates a more effective and timely solution. Detailed work is currently being undertaken to agree the types of roles and how any remodelling would take place. Workforce modernisation will enable specialisms to be created in the workforce and it is not about cost reduction, but creating more of a workforce mix will reduce the costs of employing particular posts. The chart below shows the comparative costs for an Investigator role.

	Basic Salary, with NI & Pension	with Unsocial hours / Shift & Rota
Investigators		
Police Constable (SCP 111 average)	51,100	51,400
Police Staff Band-C-Lower	25,400	31,800
Police Staff Band-D-Lower	35,900	44,900

- 5.7 In addition, it would be possible to recruit to police staff roles more quickly than police officer roles, helping with short term resilience issues and also provide opportunities to create apprenticeship roles and positive action for BME communities who may want to work for WMP but not as a police officer.
- 5.8 Therefore, workforce mix presents an opportunity to still recruit 1,000 individuals to roles that are currently undertaken by police officers. However by making some of them police staff roles it is possible to speed up recruitment, create specialisms, achieve efficiency savings that mean additional roles can be created and also create different opportunities for apprenticeships and BME positive action.
- 5.9 The chart below shows the effect on operational strength and resilience if 200 police posts were converted into police staff posts in February 2017, and 800 police officers were then recruited over the medium term. It is likely an increased workforce mix approach will also free up police officers to take on other roles.



- 5.10 The chart shows that the establishment reduces by 200 posts to 6,622 in February 2017 as the workforce mix posts are introduced (posts are removed from the police officer establishment and moved to the Police Staff establishment). Police officer strength is at or above establishment levels from this date through to March 2018, when smaller step downs through later transition state changes can be introduced in such a way as to keep strength at or above establishment. This would give a sustainable police establishment of around 6,500 through 2018/19 and 6,400 as the sustainable level from 2019/20 onwards.
- 5.11 This recruitment model would require around £46m of reserves, compared to the £33m available. Based on an annual underspending of around £3m it is ambitious, but not reckless, to over programme reserves usage across the medium term planning horizon. However £13m of over programming is at the high end of what could be considered a robust and

responsible planning assumption, and as such reserves and recruitment plans would need to be kept under review.

PCSO

5.12 Police Community Support Officer numbers will be retained at 465 over the medium term, which can be achieved by block recruitment at regular periods to ensure the most efficient recruitment process is matched against operational resilience. Given normal turnover levels it is forecast that over the planning period around 240 PCSOs will be recruited to the Force.

Police Staff

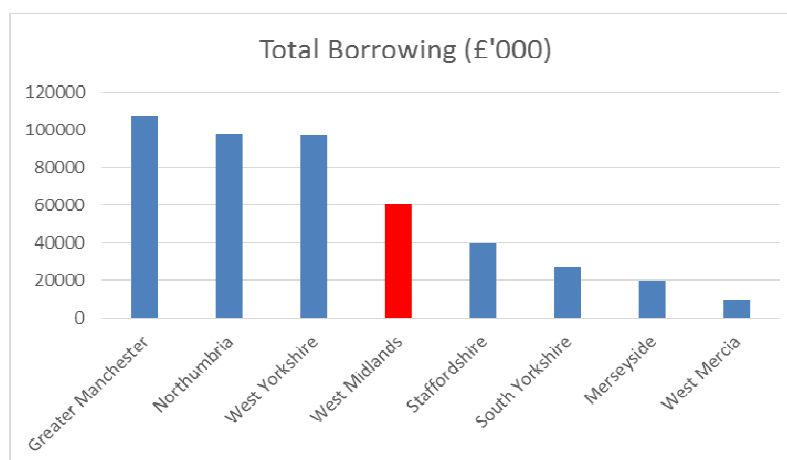
5.13 The Police Staff establishment will be predicated on the model developed and agreed to deliver the WMP2020 Programme of work.

6. ESTATES STRATEGY

6.1 The continual review of how the Force maximises physical assets is ongoing with the production of the Estates strategy refresh due in the autumn 2016. The current strategy has a cost reduction focus and has delivered a number of major schemes and significant revenue budget savings. The refresh will be more focused on identifying opportunities to improve services and collaborate with partners, implement New Ways of Working and invest in our buildings as part of the People Deal.

6.2 Due to financial constraints, the current WMP2020 programme of work and medium term financial plan has limited provision for estates projects once the current schemes covering the custody suites, Lloyd House and Walsall estate are complete. There is £5m earmarked for Estates within the approved capital programme but no specific plans at this stage for how this amount will be used. Furthermore, within the overall reserves position there is £25m in the Budget Resilience Reserve that was set aside as a contingency for funding reductions at a time when 25%-40% reductions were considered highly possible. Whilst there is uncertainty about the impact of Brexit on future funding levels, the need to retain a reserve of this nature is no longer present and as such this reserve could be re-purposed. Together with the £5m within the approved capital programme, this would give £30m to support the estates strategy.

6.3 It may also be possible to fund additional capital development through bids to the Home Office Transformation Fund or by further estates rationalisation, with the revenue budget savings being used to support additional borrowing costs. The chart below shows that the West Midlands has low borrowing levels when compared to other forces.



6.4 The exact capital financing arrangements will depend upon the outcome of the Estates review refresh, which is due in autumn 2016. At that point the Capital Programme will be updated and any revenue budget implications will be considered within the overall strategy set out in this report.

7. RESERVES

- 7.1 The financial strategy is based upon reducing the level of reserves over the medium term period to a sustainable amount. It must be recognised however that as a complex £500m+ organisation some reserves will always need to be retained to address business issues and risks, including major incidents, which may require significant resources for a prolonged period of time.
- 7.2 The level of earmarked reserves at 31/03/16 was £115.9m, and the financial strategy seeks to use £90.6m of these by 31/03/20. This is an ambitious strategy that reflects the Commissioner's commitment to ensuring reserves are used to improve services and create a sustainable medium term budget position. The current reserves balance and the planned use of reserves (through to 2020) is shown in the table below.

Reserve	Balance as at 31 st March 2016 (£m)	Projected as at 31 st March 2020 (£m)
Budget	32.7	0.0
Risk	3.2	0.0
Capital	20.9	0.0
Budget Resilience (move to capital for Estates)	25.5	0.0
Devolved Budget	7.5	0.0
PoCA Income	1.1	0.0
Sub total – reserves to be used by 2020	90.9	0.0
Major Incidents	2.2	2.2
Uniform and Protective Equipment	3.0	3.0
Redundancy and Equal Pay	10.1	10.1
Insurance self-fund	9.7	10.0
Total Earmarked Reserves	115.9	25.3
General Fund	12.0	12.0

7.3 The forecast position for reserves that will be used by 2020 is outlined below:

- **Budget** – this will be fully allocated to support revenue spending through the medium term financial plan.
- **Risk** – this provides contingency against risks arising from the WMP2020 programme. It will either be used to fund risks or will be re-purposed over the life of the change programme.
- **Capital** – the approved capital programme will fully use this reserve.
- **Budget Resilience** – this is no longer needed and will be re-purposed to support the Estates strategy.
- **Devolved Budget** – this reserve has a non-earmarked element totalling £2.1m. It is proposed that this amount be set aside to provide the Commissioner with the flexibility to support invest to save opportunities that could include: Mental Health Commission, Violence Prevention Alliance, The Gangs and Violence Commission, Reducing Reoffending or Social Investment Fund. Any such investment would be subject to the development of a business case. There may be a need to continue these projects on an ongoing basis. The financing of these initiatives will be determined through the annual budget setting process.
- **POCA income** – this reserve will be used through the Active Citizens business case as part of the WMP2020 programme.

7.4 The remaining earmarked reserves reflect need to provide resilience and flexibility against expenditure items that are difficult to plan for and/or occur in over different financial years.

8. PROPOSED MEDIUM TERM FINANCIAL PLAN

8.1 The financial model reflecting the recruitment and other proposals included in this report can be seen in the table below:

	2016/17	2017/18	2018/19	2019/20
	£m	£m	£m	£m
Police Officer Pay (inc. 800 additional recruitment)	353.2	346.6	345.3	343.3
PCSO Pay	12.8	12.9	13.0	13.0
Police Staff Pay (inc. 200 workforce mix)	100.9	105.2	105.2	104.4
Non Pay	47.5	52.5	51.1	52.2
WMP2020 Project Costs	22.0	20.0	16.3	5.2
Force Spend	536.4	537.2	530.9	518.1
Office of the PCC Core Costs	1.9	1.9	1.9	1.9
Community Safety Funding	3.9	3.9	3.9	3.9
Direct Commissioning	1.8	1.3	1.3	1.3
Active Citizens	0.8	0.8	0.8	0.8
Office of the PCC	8.4	7.9	7.9	7.9
Total Spend	544.8	545.1	538.8	526.0
Government Grants	-450.1	-447.7	-445.2	-442.8
Precept	-77.1	-79.2	-83	-86.8
Total Funding	-527.2	-526.9	-528.2	-529.6
Gap before Reserves	17.6	18.2	10.6	-3.6
Use of Reserves	-17.6	-18.2	-10.6	0.0
Gap Remaining	-	-	-	3.6

8.2 This plan is based on using £46.4m of reserves between 2016/17 and 2019/20, compared to the £32.7m available in the Budget Reserve. It is however considered an acceptable risk to include a prudent amount of over programming within the reserves plan to reflect likely in year underspends of around £3m per year.

Summary

8.3 The medium term financial plan seeks to find a balance between using reserves to support revenue budget spending to deliver the Police and Crime Plan, and ensuring a sustainable budget can be achieved over the medium term. The proposals included in this plan would deliver:

- Recruitment of over 1,200 individuals in a mix of police officer, police staff and PCSO roles;
- Significant opportunities to recruit more BME police officers, police staff and PCSOs as a key way of transforming the force to be more representative of the public;
- The creation of more cost efficient, flexible and modern roles through police officer modernisation and apprenticeships;
- Compliance with the Living Wage Foundation recommended minimum pay rates;

- Short term operational resilience and a sustainable number of police officers, police staff and PCSOs over the medium term, linked to the WMP2020 change programme;
- Capital resources of at least £30m to support the refreshed Estates Strategy, which will be focused on using the estate to deliver service improvements, collaboration with partners and accommodation for staff in line with the People Deal;
- A significant reduction in earmarked reserves by 2020, to a level consistent with an organisation of this size, complexity and operational exposure.

8.4 To achieve the outcomes shown above, the plan is based upon the following funding assumptions:

- A £5 Band D council tax increase every year, to balance annual reductions in Home Office funding;
- Over programming the use of the Budget Reserve by £13m, on the understanding that annual in year underspends will reduce the need to use the Budget Reserve. Whilst this creates some risk, historically this level of underspend can be expected and it demonstrates a more assertive strategy and intent to ensure reserves are fully used over the planning period. This will be kept under close review to ensure ongoing affordability;
- Full delivery of the WMP2020 change programme savings;
- Re-purpose the £25m Budget Resilience Reserve to the Capital Reserve for estates;
- Home Office grant is maintained at the modelled level and not reduced further as a result of Brexit or any other policy initiative.

9. RECOMMENDATION

9.1 The Police and Crime Panel are asked to note the contents of this report.

M Kenyon
PCC Chief Finance Officer