



Medium Term Financial Plan **2018/19 to 2022/23**

Report of the PCC Chief Finance Officer

1. PURPOSE

- 1.1 To provide the panel with an updated medium term financial plan for the period 2018/19 to 2022/23, based on current information and assumptions.

2. BACKGROUND

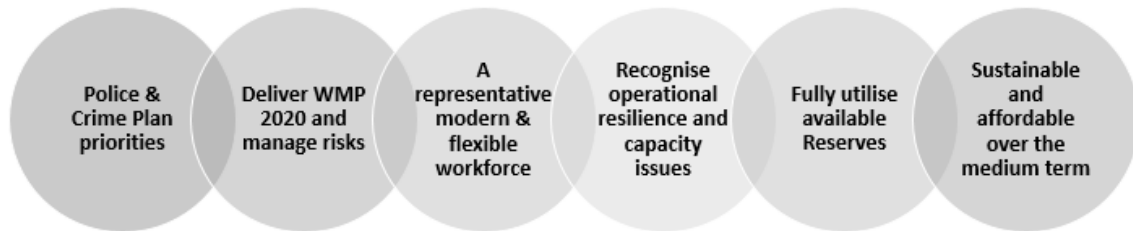
- 2.1 The medium term financial plan details how resources will be utilised to deliver the Commissioner's priorities as set out in Police and Crime Plan. The plan is a key document to ensure resources are aligned to priorities and provides forward projections around income and expenditure.
- 2.2 The plan contains an updated forecast of funding available to the West Midlands. The Panel is aware since April 2011, if the impacts of inflation are considered, there has been a reduction of £175m in government funding to support policing across the West Midlands.
- 2.3 The previous medium term financial plan was developed in September 2017.

3. PRINCIPLES

- 3.1 In developing the medium term plan the following principles have been adopted:
 - Deliver the Commissioner's priorities as set out in this Police and Crime Plan 2016 - 2020 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 emerging 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;
 - Reflecting the benefits of WMP2020 by reducing officer numbers but maintaining an agreed establishment level beyond 2020;

- 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;
- Understanding the need to refresh the borrowing strategy in line with future capital investment.

3.2 These principles can be summarised as shown below:



4. ASSUMPTIONS

4.1 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.

4.2 The following assumptions have made in the medium term financial for funding policing in the West Midlands.

- Government grant funding for policing the West Midlands will be maintained at the same level as in 2018/19 for the duration of the medium term financial plan.
- That local taxation will increase by the permitted £12 average for 19/20 as set out in the funding settlement with a further similar increase for 20/21 and reducing to £5 from that point onwards. This assumption is based on a prudent assessment of likely precept flexibility recognising that West Midlands has nationally the second lowest council tax precept.
- To ensure total funding for policing in the West Midlands does not reduce the Commissioner will increase the council tax precept for policing in line with levels mandated by the Home Office.

4.3 The updated medium term financial plan presented in this report has been constructed using the following assumptions:-

- 2% per annum pay award is applied to all police officers and police staff from 19/20 onward.
- Each post has annual increment until the top of the grade is reached.
- Fuel cost increase of 2% per annum.
- Energy and utility cost increases of 5% per annum.
- General inflation applied to other areas of expenditure 1.5% per annum.
- Rates of national insurance employer contributions remain the same as 2018/19 levels.
- An increase in employer Local Government Pension Scheme superannuation contributions from 2020/21.
- An increase in the Council Tax Base of 1.3% per annum.

4.4 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:

- Continual recruitment to enable the Force to maintain police officer numbers at 6,538 across the medium term.
- Retaining the Police Community Support Officers (PCSO) establishment at 464 FTE.

- The numbers of police staff will reflect the investment and benefits of the WMP2020 programme.
- Maximising the opportunity to recruit specialists roles as part of the workforce mix strategy as and when required.
- Continue to comply with the Living Wage Foundation's minimum pay rates.
- The cost of the WMP2020 change programme as the Force continues to invest in areas to improve services and operate with significant less resources.
- Ongoing funding for a West Midlands wide police cadet scheme.

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

	2018/19	2019/20	2020/21	2021/22	2022/23
	£m	£m	£m	£m	£m
Force Spend	539.8	541.0	537.8	541.1	551.2
PCC's Office and Crime Reduction Activities*	8.3	8.3	8.3	8.3	8.3
Total Spend	548.1	549.3	546.1	549.4	559.5
Government Grants	-444.1	-444.1	-444.1	-444.1	-444.1
Precept	-91.2	-99.9	-109.9	-114.9	-120.2
Total Funding	-535.3	-544.0	-554.0	-559.0	-564.3
Gap Before Reserves	12.8	5.3	-7.9	-9.6	-4.7
Use of Reserves(-)	-12.8	-5.3			
Cont to Reserves(+)			7.9	9.6	4.7
Gap Remaining	0.0	0.0	0.0	0.0	0.0

*Includes Community Safety Funding, Crime Reduction Grants and additional legislative spending requirements surrounding complaints and officer conduct.

4.6 The table above shows the medium term financial plan after the refresh. It can be seen that taking into account the assumptions made, reserves will be required to fund 2019/20 budget but from that point that there should be no call on reserves to support the budget. At this stage the budget returns to a "surplus" from 20/21, however, there are potential risks and emerging issues that will effect that projection which are highlighted in section 5.

5. SENSITIVITY/VARIANCE ANALYSIS

5.1 The main sensitivities that may affect the assumptions and the impact of a 1% variance are shown in the table below.

Cost Area	1% Variance (£) (+/-)
Police Pay	2.98m
PCSO/Police Staff	1.06m
Utilities	0.04m
Fuel	0.04m
Supplies and Services	0.40m
Police Grant	4.50m
Precept	0.75m
Tax Base	1.30m

5.2 Based on the above table the 2 main risks to the West Midlands are changes to the funding settlement from central government and any pay award to officers and staff above the 2% increase assumed.

5.3 Risks not included in the table above are those associated with national projects being delayed which may have a financial implication on the Commissioner and the Chief Constable. For example, the Emergency Services Mobile Communications Programme (ESMCP). Again, if there any unplanned financial implications of national projects these will be dealt with through annual budget setting process.

5.4 Other potential issues that have **not** been factored into the current plan include:

- Increase of employer contributions towards police pension. This is an emerging issue that would affect the Force from 20/21 onward and could have a material impact if not addressed by additional external funding. This may lead to a continued use of reserves beyond 2019/20 and / or a requirement the Force to make additional savings.
- Delayed implementation or increased costs to current WMP2020 projects. This will be managed and monitored as part of the ongoing reports to established governance forums.
- Future cost reductions identified through efficiencies, which will emerge through reviews across the medium term.
- Funding of further transformation projects beyond the current WMP2020 programme.
- Costs of mobility device replacement required by delay in ESMCP national rollout.

6. FORECASTED STAFFING

6.1 The table below details the current staffing projections (full time equivalents) up until April 2022.

	Apr-18	Apr-19	Apr-20	Apr-21	Apr-22
Police Officers	6,528	6,488	6,538	6,538	6,538
Police Staff	3,501	3,480	3,424	3,424	3,424
PCSOs	464	464	464	464	464
Total	10,493	10,432	10,426	10,426	10,426

6.2 As can be seen in the financial projections, there is little flexibility at present to increase officer numbers under the current funding assumptions, however the Force recognises the emerging demand of preparation for the policing significant major events particularly the Commonwealth Games in 2022 and will almost certainly look to change its recruitment plan and profile over the next two years.

7. CAPITAL PROGRAMME

7.1 The capital programme for the period is detailed in the table below.

	2018/19 Current Budget £m	2019/20 Proposed Budget £m	2020/21 Proposed Budget £m	2021/22 Proposed Budget £m	2022/23 Proposed Budget £m	Total Prog £m
WMP2020:						
Connect	2.5	1.9	0.0	0.0	0.0	4.4
ESMCP	6.3	0.0	0.0	0.0	0.0	6.3
Data Driven Insight (DDI)	1.7	0.0	0.0	0.0	0.0	1.7
Other WMP2020	5.5	1.4	0.0	0.0	0.0	6.9
Total WMP2020	16.0	3.3	0.0	0.0	0.0	19.3
Business as Usual						
Fleet	3.1	3.0	3.0	3.0	3.0	15.1
ICT	2.2	1.6	4.6	0.6	0.6	9.6
Equipment (inc Firearms & NaBIS)	0.3	0.2	0.2	0.2	0.2	1.1
CTU	1.5	0.0	0.0	0.0	0.0	1.5
Total BAU	7.1	4.8	7.8	3.8	3.8	27.3
Total Spend	23.1	8.1	7.8	3.8	3.8	46.6
Funded By:						
Capital Receipts						-21.1
Reserves/Borrowing						-11.5
Specific Capital Grant (inc CT)						-14.0
Total Funding						-46.6
Net Surplus/Deficit						0.0

8. ESTATES STRATEGY

8.1 The panel discussed the Commissioner's revised estates strategy in March 2018, which will be implemented over the next six years. The revised strategy has identified investment opportunities to improve the property portfolio services with greater collaboration with partners whilst still delivering efficiencies. The refreshed medium term financial plan set out in this report recognises the indicative revenue costs required and savings expected. The table below shows the indicative capital costs (at 18/19 prices), anticipated capital receipts and the potential borrowing requirement to fund the longer term estates strategy implementation (*please note the revenue cost of borrowing is built into the MTFP*).

	2018/19 £m	2019/20 £m	2020/21 £m	2021/22 £m	2022/23 £m	2023/24 £m
Expenditure	11.6	44.6	40.8	12.6	6.4	2.3
Capital Receipts	(2.9)	(2.5)	(13.5)	(6.3)	(7.0)	(13.7)
Net	8.7	42.1	27.3	6.3	(0.6)	(11.4)

9. RESERVES

9.1 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.

9.2 Reserves are maintained by the Police and Crime Commissioner based on the following principles:-

- Maintaining a working balance or general reserve to cover the effects of uneven cash flows and to avoid temporary borrowing.
- Reserves in place to provide flexibility in managing future year's budget reductions.
- Funding investment in the transformation programme of the organisation. This includes investing in property to deliver cashable savings to reduce running costs and enabling the Innovation and Integration Partnership (IIP) with Accenture to deliver a new sustainable and affordable operating model for 2020.
- Earmarking specific funds to meet known or predicted requirements in the future (e.g. the Self-Funded Insurance Reserve).
- Creating contingencies to cushion the impact of unexpected events or emergencies (e.g. the Major Incident Reserve).

9.3 The table below details the levels of reserves held by the Commissioner as at 31 March 2018. The total level of reserves as at 31 March 2018 of £85.3 million is a reduction of £20.8 million on the 31 March 2017 total figure of £106.1 million. The table also details the forecast balance for each reserve at the 31 March 2020.

Reserve	Balance as at 31 March 2018	Forecasted 31 March 2020
	£m	£m
Reserves to be Used by 2020		
Budget (including Devolved Budget)	33.6	0.0
Risk	1.0	0.0
Capital	1.2	0.0
Earmarked carry forward	13.4	0.0
Property and Misuse of Drugs Act	0.8	0.0
PoCA Income	0.8	0.0
Sub total – reserves to be used by 2020	50.8	0.0
Other Earmarked Reserves		
National Contingency	2.0	2.0
Major Incidents	2.2	2.2
Uniform and Protective Equipment	8.9	4.1
Insurance self-fund	9.4	9.4
Total Earmarked Reserves	73.3	17.7
General Fund	12.0	12.0

9.4 The reserves table above splits the reserves into earmarked and general fund. The table separates out further the earmarked reserves between those reserves that will be used up by 31 March 2020 and those reserves that are required to be retained by the PCC to manage

the day to day operation of the Force. It can be seen by March 2020 only the reserves necessary to operate the Force on a day to day basis will remain.

9.5 During the 2018/19 closedown of accounts the use of reserves will be revisited and any amendments will be reflected in subsequent medium term financial plans.

9.6 The Commissioner's Reserves Strategy is a published document which is updated on a regular basis in line with current projections.

10. PROPOSED MEDIUM TERM FINANCIAL PLAN

10.1 Paragraph 4.5 of this report details the proposed medium term financial plan for the Police and Crime Commissioner and Chief Constable for the period up to 2022/23. This is repeated in the table below:

	2018/19	2019/20	2020/21	2021/22	2022/23
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*Includes Community Safety Funding, Crime Reduction Grants and additional legislative spending requirements surrounding complaints and officer conduct.

10.2 This plan is based on using £18.1m of reserves between 2018/19 and 2019/20, and potential contribution to reserves from that point, subject to the cost assumptions, risks and issues (highlighted in section 5).

11. SUMMARY

11.1 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 a mix of police officer, police staff and PCSO roles to achieve the numbers set out in table in para 6.1;
- 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;
- Funding to support the delivery of the Estates strategy.
- A significant reduction in earmarked reserves by 2020, to a level consistent with an organisation of this size, complexity and operational exposure.

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

- Application of the maximum increase in Council tax precept every year, to ensure resources policing the West Midlands do not reduce further;
- Continued use of the Budget Reserve to support the revenue budget over the MTFP. Whilst this creates some risk, 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 and reported annually as part of a flexible reserves strategy;
- Full delivery of the WMP2020 change programme savings;
- Home Office grant is maintained at the modelled level and not reduced further as a result of Brexit or any other policy initiative.

12. RECOMMENDATION

12.1 Panel is recommended to note the content of this report.

M Kenyon
PCC Chief Finance Officer