



Medium Term Financial Plan 2019/20 to 2024/25

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 2019/20 to 2024/25, 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 that police funding has been cut sharply; in real terms funding has fallen by nearly 22% and officer numbers nearly 25% since 2010. The PCC was given the flexibility to increase council tax precept in 2019/20, which only covered the impacts of inflation and other cost pressures in 2019/20. The efficiencies that have been achieved in West Midlands Police has enabled a commitment of 200 additional police officers.
- 2.3 The previous medium term financial plan was developed in October 2018.

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.
 - The WMP2020 Change programme is now in its final phase and the capital programme going forwards largely focuses on delivering the Estates Strategy.
 - Continue to reflect the benefits of WMP2020 through the reduction/reshaping of functions and teams.
 - The financials have been shaped around the workforce planning strategy.
 - Maintaining an agreed establishment level beyond 2020 of 6,775 police officers before applying any additional uplift expected to be announced by the government. The costs associated with the additional uplift in FTE's is yet to be worked through.
 - Build on the approaches already introduced to enhance the opportunities to increase the representation and flexibility of the workforce.
 - 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.
- Recognising that efficiencies and saving are embedded within financial plan which will need to be delivered.
- Effects of the transition to Police Education Qualification Framework (PEQF).

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 2019/20 for the duration of the medium term financial plan.
- That local taxation increased by the permitted £24 average for 2019/20 and will see a further increase for 2020/21 and reducing to £12 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.
- The above assumptions are estimates, with the details of the police funding settlement for 2020/21 not being released by government until later in 2019. Based on recent announcements the settlement is likely to be for only one year, which makes it difficult to financial plan.

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

- 2.5% per annum pay award is applied to all police officers and police staff in 2019/20, and 2% thereafter.
- Each post has annual increment until the top of the grade is reached.
- Fuel cost increase of 5% per annum.
- Energy and utility cost increases of 5% per annum.
- General inflation applied to other areas of expenditure 2% per annum.
- Rates of national insurance employer contributions remain the same as 2019/20 levels.
- An increase in the Council Tax Base of 1.8% 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 6,755 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 and any additional uplift to reflect government announcements.
- Any additional efficiencies delivered will be reinvested in front line policing resources.
- 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.
- Ongoing funding for a West Midlands wide police cadet scheme.
- National College of Policing change from Initial Police Learning and Development Programme (IPLDP) (IPLDP) to the PEQF, with West Midlands regional forces have contracted with Staffordshire University to deliver professional police training.
- The Force are working more closely with Police NOW as an alternative route to bringing officers in sooner, with lower extraction implications.
- Additional funding received in 2019/20 for the Violence Reduction Unit has only been confirmed for one year.

- Also additional funding to address violent youth crime (project guardian) is currently forecast to be for one year only, given the nature of the work being carried out a provision has been built into the 2020/21 budget for officer / staff roles that will straddle both financial years, whilst it is determined whether funding will continue into the second year.

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

£m	19/20	20/21	21/22	22/23	23/24	24/25
Force Spend	581.3	577.7	579.7	589.0	597.3	605.7
PCC's Office and Crime Reduction Activities	12.9	8.5	8.5	8.5	8.6	8.6
Total Spend	594.2	586.2	588.2	597.6	605.9	614.3
Government Grants	460.0	460.0	460.0	460.0	460.0	460.0
Precept	109.9	128.1	139.2	150.7	162.5	174.6
Total Funding	569.8	588.1	599.2	610.6	622.5	634.6
Planned Use of Reserves	24.4	0.0	0.0	0.0	0.0	0.0
Funding Gap / (Investment Opportunity)	0.0	(1.9)	(11.0)	(13.1)	(16.5)	(20.3)

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 from 2020/21 onwards that may affect the assumptions and the impact of a 1% variance are shown in the table below.

	Planning Assumptions (%)	1% Variance (£m) (+/-)
Police Pay	2.0	3.6
PCSO / Police Staff Pay	2.0	1.4
Utilities (gas, electricity, water, rates)	5.0	0.2
Fuel	5.0	0.1
Other Transport	2.0	0.1
Supplies and Services	2.5	0.4
Agency Staff	2.0	0.1
Income	2.0	0.3
Police Grant	0.0	4.5
	Planning Assumption	£1 Variance (£m) (+/-)
Precept (£)	£24 in 20/21, £12 thereafter	0.7

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 assumed 2% increase from 2020/21.

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:

- The grant to cover the police pension increase beyond 2019/20.
- Delayed implementation or increased costs to the remaining 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.
- The additional uplift of police constables and police staff announced by the government and the impact on other costs across the Force.
- An increase in employer Local Government Pension Scheme superannuation contributions from 2021/22.
- The financial implications of Brexit, especially if the United Kingdom leaves the European Union with no deal.
- Commonwealth Games and City of Culture, both projects will be funded separately.
- Impact of any national policy changes or legal challenges that would effect WMP financial position.

6. FORECASTED STAFFING

6.1 The table below details the current staffing projections (full time equivalents) up until March 2025.

Financial Year (FTE)	19/20	20/21	21/22	22/23	23/24	24/25
Police Officer Establishment	6,555	6,755	6,755	6,755	6,755	6,755
PCSO Establishment	464	464	464	464	464	464
Police Staff Establishment	3,554	3,466	3,365	3,365	3,365	3,365
Total Establishment	10,573	10,685	10,584	10,584	10,584	10,584

(This excludes uplift from project guardian, Commonwealth Games (CWG) & City of Culture (COC) and any uplift from government).

6.2 As national police recruitment plans in relation to the extra 20,000 officers announced by the government are clarified, then costs, funding and staffing projections will be revised accordingly across the medium term.

7. CAPITAL PROGRAMME

7.1 The capital programme for the period is detailed in the table below, this will be funded by a mix of capital receipts, borrowing and specific grants.

Capital Programme (£m)	19/20	20/21	21/22	22/23	23/24	24/25
WMP2020	13.8	-	-	-	-	-
ESMCP	-	-	-	6.0	-	-
BAU inc. desktop / mobility refresh	11.6	9.7	5.0	5.1	5.2	5.3
Estates Strategy *	53.0	52.3	30.9	7.5	3.1	0.7
Total Capital	78.3	62.0	35.9	18.7	8.3	6.0

* See below

8. ESTATES STRATEGY

8.1 The refreshed medium term financial plan set out in this report recognises the indicative revenue costs required and savings expected from the Estates Strategy that was approved in 2018. The table below shows the indicative capital costs (at 19/20 prices) and anticipated capital receipts.

Capital Programme (£m)	19/20	20/21	21/22	22/23	23/24	24/25
Estates Strategy	53.0	52.3	30.9	7.5	3.1	0.7
Capital Receipts	(6.7)	(12.9)	(7.5)	(8.6)	(12.8)	(3.1)

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.
- 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 2019. The total level of reserves as at 31 March 2020 of £33.8m is a reduction of £24.4m on the 31 March 2019 total figure of £58.2m. The table also details the forecast balance for each reserve at the 31 March 2025.

Reserves (£m)	31st March 2019	31st March 2020	31st March 2021	31st March 2022	31st March 2023	31st March 2024	31st March 2025
Budget and Change Programme Reserves	29.4	5.0	-	-	-	-	-
Reserves Required to Operate the Force	16.8	16.8	16.8	16.8	16.8	16.8	16.8
General Fund Reserve	12.0	12.0	12.0	12.0	12.0	12.0	12.0
Total Reserves	58.2	33.8	28.8	28.8	28.8	28.8	28.8

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 utilised 31 March 2020 because they have been used to support the change programme 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 2021 only the reserves necessary to operate the Force on a day to day basis will remain. This means reserves cannot be reduced any further without impacting on the operation of the Force.

9.5 The Commissioner's Reserves Strategy is a published document which is updated on an annual 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 period up to 2024/25. This is repeated in the table below:

£m	19/20	20/21	21/22	22/23	23/24	24/25
Force Spend	581.3	577.7	579.7	589.0	597.3	605.7
PCC's Office and Crime Reduction Activities	12.9	8.5	8.5	8.5	8.6	8.6
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Total Funding	569.8	588.1	599.2	610.6	622.5	634.6
Planned Use of Reserves	24.4					
Funding Gap / (Investment Opportunity)	0.0	(1.9)	(11.0)	(13.1)	(16.5)	(20.3)

10.2 This plan is based on using £24.4m of reserves in 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;
- The Commissioner will continue to work on efficiencies and productivity to redirect resources to frontline policing as a priority.

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 reserves in 2019/20 to support the change programme;
- 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
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