



**Strategic Police and Crime Board**  
**5 September 2017**

**Medium Term Financial Plan**  
**2017/18 to 2020/21**

Report of the PCC Chief Finance Officer and Director of Commercial Services

**1. PURPOSE**

- 1.1 To provide the Board with an updated medium term financial plan for the period 2017/18 to 2020/21, based on current information and assumptions.

**2. BACKGROUND**

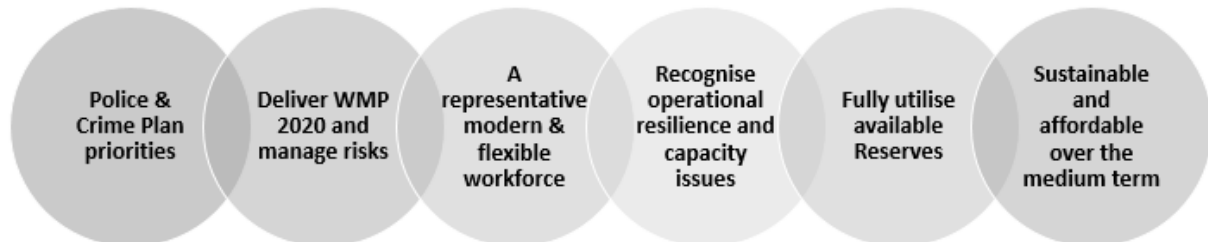
- 2.1 The medium term financial plan details how resources will be utilised to deliver the Commissioner's priorities as set out in Police and Crime Plan. The plan is a key document to ensure resources are aligned to priorities and provides forward projections around income and expenditure.
- 2.2 The plan contains an updated forecast of funding available to the West Midlands. The Board is aware since April 2011 there has been a reduction of £145m (27%) in government funding to support policing across the West Midlands.
- 2.3 The previous medium term financial plan was presented to the Board in September 2016.

**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 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;

- 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 It is assumed the total funding the total funding for policing the West Midlands will remain at 2015/16 levels. With assumptions being:

- Government funding for policing the West Midlands will continue to reduce each year. The reduction will have to be offset by an increase in local taxation to ensure funding does not reduce even further.
- The Government will continue to allow the areas such as the West Midlands who are in the bottom ten in terms of annual council tax precept to increase their precept by a maximum of £5 per annum on average.
- To ensure total funding for policing in the West Midlands does not reduce the Commissioner will increase the council tax precept for policing by £5 per year on average.

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

- 1% per annum pay award is applied to all police officers and police staff.
- 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 2017/18 levels.
- An increase in employer superannuation contributions from 2020/21.
- An increase in the Council Tax Base 0.5% per annum. However, it is assumed any increase above the national average will be reflected in the following years grant allocation which means it is only a 1 year benefit.

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:

- Completion of the recruitment of 800 police officers by 2019/20.
- Retaining the Police Community Support Officers (PCSO) establishment at 465 FTE.

- The numbers of numbers of police staff will reflect the investment and benefits of the WMP2020 programme.
- Continue the recruitment of specialists roles as part of the workforce mix strategy as outlined in the 2016 Medium Term Financial Strategy to recruit 200 specialist police staff posts.
- 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 if required 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.

	2017/18	2018/19	2019/20	2020/21
	£m	£m	£m	£m
Force Spend	536.2	532.2	517.9	513.5
PCC's Office and Crime Reduction Activities*	7.9	8.3	8.3	8.3
<b>Total Spend</b>	<b>544.1</b>	<b>540.5</b>	<b>526.2</b>	<b>521.8</b>
Government Grants	-444.1	-440.4	-436.7	-433.0
Precept	-81.8	-84.2	-88.1	-92.0
<b>Total Funding</b>	<b>-525.9</b>	<b>-524.6</b>	<b>-524.8</b>	<b>-525.0</b>
Gap Before Reserves	18.2	15.9	1.4	-3.2
Use of Reserves	-18.2	-15.9	-1.4	0.0
<b>Gap Remaining</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

\*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 over the period there is a requirement to use £35.5m of reserves to balance the budget up until 2019/20.

## 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 1% increase assumed. We will not know the detail of either of these until late autumn 2017. If this results in a financial pressure we will reflect this in the budget for 2018/19 and it will also be reflected in future financial plans.

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.

## 6. FORECASTED STAFFING

6.1 The table below details the staffing projections (full time equivalents) up until April 2021.

	Apr-17	Apr-18	Apr-19	Apr-20	Apr-21
<i>Police Officers</i>	6,594	6,528	6,400	6,400	6,400
<i>Police Staff</i>	3,251	3,338	3,282	3,146	3,146
<i>PCSOs</i>	465	465	465	465	465
<i>Total</i>	10,310	10,311	10,147	10,011	10,011

## 7. Capital Programme

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

	2017/18 Current Budget £m	2018/19 Proposed Budget £m	2019/20 Proposed Budget £m	2020/21 Proposed Budget £m	Total Prog £m
<b><i>WMP2020:</i></b>					
Next Generation Enabling Services	2.4	0.0	0.0	0.0	<b>2.4</b>
Operational Policing Solution	7.4	3.1	0.0	0.0	<b>10.5</b>
Data Driven Insight (DDI)	0.9	1.2	1.2	1.2	<b>4.5</b>
Estates Strategy* (tbc)	0.0	0.0	0.0	0.0	<b>0.0</b>
Other WMP2020	6.9	2.2	1.2	0.0	<b>10.3</b>
<b><i>Total WMP2020</i></b>	<b>17.6</b>	<b>6.5</b>	<b>2.4</b>	<b>1.2</b>	<b>27.7</b>
<b><i>Business as Usual</i></b>					
Fleet	4.6	3.0	3.0	3.0	<b>13.6</b>
ICT	4.4	0.6	0.6	0.6	<b>6.2</b>
Equipment (inc Firearms &NaBIS)	0.1	0.2	0.2	0.2	<b>0.7</b>
CTU	1.2	0.0	0.0	0.0	<b>1.2</b>
<b><i>Total BAU</i></b>	<b>10.3</b>	<b>3.8</b>	<b>3.8</b>	<b>3.8</b>	<b>21.7</b>
<b>Total Spend</b>	<b>27.9</b>	<b>10.3</b>	<b>6.2</b>	<b>5.0</b>	<b>49.4</b>
<b>Funded By:</b>					
Capital Receipts					-26.8
Reserves/Borrowing					-9.1
Specific Capital Grant (inc CT)					-13.5
<b>Total Funding</b>					<b>-49.4</b>
<b>Net Surplus/Deficit</b>					<b>0.0</b>

## **8. ESTATES STRATEGY**

8.1 A revised estates strategy has been produced and will be considered by the Board over the coming months. The previous estates decision focused on cost reduction and also delivered a number of major schemes with significant revenue budget savings. The revised strategy will identify 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 does not include financial implications of the revised estates strategy.

## **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 overleaf details the levels of reserves held by the Commissioner as at 31 March 2017. The total level of reserves as at 31 March 2017 of £106 million is a reduction of £22 million on the 31 March 2016 total figure of £128 million. The table also details the forecast balance for each reserve at the 31 March 2020.

Reserve	Balance as at 31 March 2017	Forecasted 31 March 2020
	£m	£m
<b>Reserves to be Used by 2020</b>		
Budget (including Devolved Budget)	26.2	0.0
Risk	1.0	0.0
Capital	6.7	0.0
Budget Resilience*	25.5	0.0
Earmarked carry forward	9.1	0.0
Redundancy and Equal Pay	8.1	0.0
PoCA Income	0.8	0.0
<b>Sub total – reserves to be used by 2020</b>	<b>77.4</b>	<b>0.0</b>
<b>Other Earmarked Reserves</b>		
Major Incidents	2.2	2.2
Uniform and Protective Equipment	4.1	2.8
Insurance self-fund	10.3	10.3
<b>Total Earmarked Reserves</b>	<b>94.0</b>	<b>15.3</b>
<b>General Fund</b>	<b>12.0</b>	<b>12.0</b>

\* Currently earmarked to fund the Estates Strategy

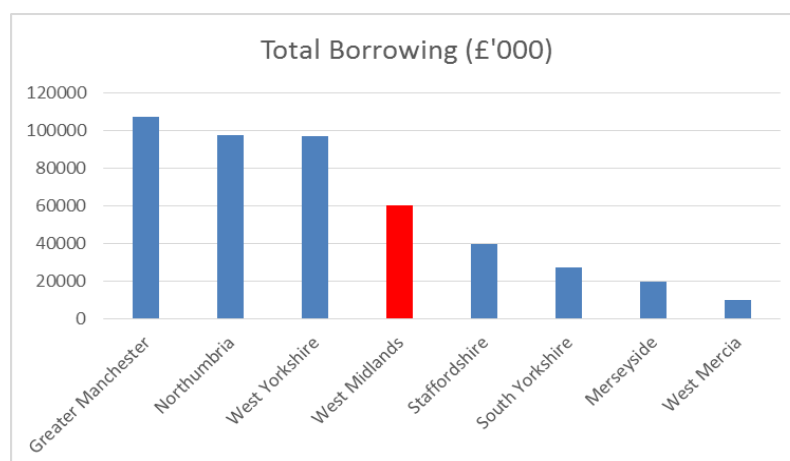
9.4 The reserves table above splits the reserves into earmarked and general fund. The table separates out further the earmarked reserves between those reserves that will be used up by 31 March 2020 and those reserves that are required to be retained by the PCC to manage the day to day operation of the 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 2017/18 closedown of accounts we will revisit the use of reserves and report back to the Board if required.

## 10. BORROWING STRATEGY

10.1 It will be necessary to revise the borrowing strategy of the Commissioner and the Chief Constable as the revised estates strategy is implemented. The borrowing strategy will be presented to the Board as part of the Estates Strategy and any impacts will be included in future year's budgets. It is anticipated future borrowing costs will be afforded through reductions in the future ongoing costs of the estate.

10.2 Using data from 2016 the chart below shows that the West Midlands has low borrowing levels when compared to other forces.



## 11. PROPOSED MEDIUM TERM FINANCIAL PLAN

11.1 Paragraph 4.6 of this report details the proposed medium term financial plan for the Police and Crime Commissioner and Chief Constable for the period up to 2020/21. This is repeated in the table below

	2017/18	2018/19	2019/20	2020/21
	£m	£m	£m	£m
Force Spend	536.2	532.2	517.9	513.5
PCC's Office and Crime Reduction Activities*	7.9	8.3	8.3	8.3
<b>Total Spend</b>	<b>544.1</b>	<b>540.5</b>	<b>526.2</b>	<b>521.8</b>
Government Grants	-444.1	-440.4	-436.7	-433.0
Precept	-81.8	-84.2	-88.1	-92.0
<b>Total Funding</b>	<b>-525.9</b>	<b>-524.6</b>	<b>-524.8</b>	<b>-525.0</b>
Gap Before Reserves	18.2	15.9	1.4	-3.2
Use of Reserves	-18.2	-15.9	-1.4	0.0
<b>Gap Remaining</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>	<b>0.0</b>

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

11.2 This plan is based on using £35.5m of reserves between 2017/18 and 2020/21, compared to the £26.2m 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. However, if these underspends do not arise the annual budget setting process will take account of resources available to ensure a balanced budget is set.

## 12. SUMMARY

12.1 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 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;
- A significant reduction in earmarked reserves by 2020, to a level consistent with an organisation of this size, complexity and operational exposure.

12.2 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 ensure resources policing the West Midlands do not reduce further;
- Over programming the use of the Budget Reserve by £9.3m, 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;
- Home Office grant is maintained at the modelled level and not reduced further as a result of Brexit or any other policy initiative.

### **13. RECOMMENDATION**

13.1 The Board is recommended to note and comment on the report.

M Kenyon  
PCC Chief Finance Officer

N Chamberlain  
Acting Director of Commercial Services