



25 October 2022

Medium Term Financial Plan 2022/23 to 2026/27

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

1. PURPOSE

- 1.1 To provide an updated medium-term financial plan (MTFP) for the period 2022/23 to 2026/27, based on current information and assumptions.

2. BACKGROUND

- 2.1 The MTFP details how resources will be utilised to deliver the Commissioner's priorities as set out in Police and Crime Plan. The MTFP is a key document to ensure resources are aligned to priorities and provides forward projections around income and expenditure.
- 2.2 The medium-term financial plan is built upon the 2022/23 budget. The total grant settlement for the West Midlands in 2022/23 is £559.4m and is the final year of the 3-year national Uplift Programme, increasing police officer numbers by a total of 1,218. This was the first year of a 3-year funding settlement and included the opportunity for PCC's to raise their precept by £10 per year per Band D property.
- 2.3 Within the 3-year settlement, the expectation is that police forces continue to build on the progress made on improving efficiency and productivity, and has set targets for the police service to deliver efficiencies over the settlement period.
- 2.4 The 2022/23 budget was set with limited use of reserves for planned expenditure only, and a £5.2m savings target linked to the Priority Based Budgeting exercise. Also, before the budget was set there was a requirement to find £11.1m of savings to set a balanced budget. Within the budget the Force consumed; the increase in national insurance contributions to fund the social care levy; a 2.5% pay award for all officers, PCSO's and staff; and other significant cost pressures including increases gas, electricity, fuel and other costs.
- 2.5 Since setting the budget, changing market conditions are putting further strain on our budgets with known additional pressures of:
 - £3.3m increase on gas / electricity prices;
 - £0.3m increase on vehicle fuel costs;
 - £6.1m additional officer pay costs linked to the September 2022 pay award of a consolidated £1,900 to each officer SCP. This is offset by £4.3m (estimated) additional grant and therefore creates a net additional pressure of £1.8m; and

- An estimated risk of £2.7m, based on a 2.5% increase on police staff pay scales from September 2022. This is due to the re-opener clause being triggered following the outcome of the police officer pay award.

2.6 West Midlands Police has the second lowest council tax precept nationally, this combined with a reduction in police grants from 2010/11 through to 2018/19 of £175m in real terms, with the inflexibility to increase the council tax precept rates across the board, this has had a far more detrimental impact on West Midlands Police than other Police Forces.

2.7 With the additional grant for the national Police Officer Uplift Programme over the last 3 years, the overall funding from 2010/11 to 2022/23 for WMP has increased by roughly 10.8%, this is one of the lowest increases, with the highest increase being 27.7% and the national average for England being 14.6%. These increases do not factor in the impacts of inflation since 2010. For illustrative purposes, utilising the national average for England, this would have amounted to an additional £24.0m.

2.8 The medium-term financial plan is refreshed on a quarterly basis and details were last included in the decision paper report published for budget setting 2022/23.

3. PRINCIPLES

3.1 In developing the MTFP the following principles have been adopted:

- Deliver the Commissioner's priorities as set out in the Police and Crime Plan 2021-2025.
- The Change Programme is now in its final phase and the capital programme going forwards largely focuses on delivering the Estates Strategy and business as usual activity.
- Continue to reflect the benefits of Change Programme through the reduction/reshaping of functions and teams.
- The financials have been shaped around the workforce planning strategy.
- To maintain an agreed police officer base headcount of 7,909 (6,691 plus 1,218 officers delivered through the uplift programme).
- Build on the approaches already introduced to enhance the opportunities to increase the representation and flexibility of the workforce.
- Reviewing balances within the Change Programme reserve to transfer any uncommitted amounts into the budget reserve as the programme comes to an end.
- Understanding the need to refresh the borrowing strategy in line with future capital investment decisions.
- Recognising that efficiencies and saving are embedded within financial plan which will need to be delivered.
- Continuation of officer recruitment via Police Education Qualification Framework (PEQF).

4. ASSUMPTIONS

4.1 The MTFP has been refreshed and updated based on a number of key assumptions covering anticipated funding levels, expenditure and inflationary increases. The following funding assumptions have been made:

- The 2021 Spending Review settlement provided three-year budgets for all police forces, with total increases to government grant of £550m in 2022/23, £650m in 2023/24, and £800m in 2024/25. This provides forces with the means to recruit and maintain the full 20,000 officer uplift by 2023, successfully delivering on the Government's commitment to complete the Police Uplift

Programme. We have assumed a 2% grant increase thereafter in line with our pay inflation assumptions.

- Following the acceptance of the recommendations of the Police Remuneration Review Body on Police Officer pay for September 2022 the Home Office will provide forces with additional funding for pay over the Spending Review period of at least £70m in 2022/23, £140m in 2023/24 and £140m in 2024/25. The above assumptions are summarised in the table below:

Police Grant Increase including Uplift	Initial Settlement £,000		Pay Award Adjustment*, Estimate £,000
2023/24	6,100	6.1% of £100m increase from 2022/23	8,540
2024/25	9,150	6.1% of £150m increase from 2023/24	8,540
2025/26	11,114	2.0% increase	8,540
2026/27	11,336	2.0% increase	8,540

- Police and Crime Commissioners in England will retain the flexibility to increase their precept income by £10 annually. This is assumed to continue throughout the life of the Medium-Term Financial Plan.
- The Council Tax base increase is assumed to be 1.5%, 1.4% and 1.2% thereafter, as per the SR21 assumptions.

4.2 The updated medium-term financial plan presented in this report has been based on the following assumptions:

- 2.5% per annum pay award for 2023/24 dropping to 2.0% thereafter.
- Each post has annual increments until the top of the grade is reached.
- Fuel cost increase of 5% per annum.
- Energy and utility cost increases of 25% for 2023/24, followed by a 5% increase thereafter.
- General inflation applied to other areas of expenditure between 2% to 10% per annum.
- Rates of national insurance employer contributions remain the same as 2022/23 levels.
- 2022 Police Staff Actuarial Valuation is currently being carried out to cover the 3 years from 2023/24 to 2025/26. The focus of the valuation is the likelihood of contribution increases with less pressure on deficit contributions. With this in mind we have included an increase from 18.8% to 20.0% from 2023/24. Further information will be known in September 2022.

4.3 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 agreed levels following completion of the Uplift Programme, 7,909 (headcount).
- Retaining the Police Community Support Officers (PCSO) establishment at 464 FTE.
- The numbers of police staff will reflect the investment and benefits of the change programme and agreed increases thorough the Uplift Programme
- Any additional efficiencies delivered will be reinvested in front line policing resources.
- Continue to comply with the Living Wage Foundation's minimum pay rates.
- Ongoing funding for a West Midlands wide police cadet scheme.

- Continue with our commitment to deliver professional police training through the Policing Education Qualification Framework (PEQF).

4.4 Completion of the Estates Strategy is included as per the current planning assumptions, including increased cost of borrowing to fund the outstanding capital commitments included within the plan. Affordability of the Estates Strategy is currently being assessed, as part of this assessment we will review our debt to equity ratio compared to other forces.

4.5 Included in the medium-term plan is the investment government has made to increase investment in national policing priorities, providing £1.4billion nationally. This includes drugs and county lines activity, violent crime reduction, child sexual abuse and exploitation, fraud and modern slavery. We have received a 3-year settlement for our Violence Reduction Units, Guardian (Grip) and County Lines. These funding streams are included within the medium-term plan and assumes these funding arrangements continue into the medium term.

4.6 The Spending Review also provides £125m revenue funding in 2022-23 as well as £121m capital funding for the Emergency Service Mobile Communications Programme. The allocation of this funding to West Midlands Police is at present not clear. Timing, expenditure, benefits and potential grant funding for the Emergency Service Mobile Communication Programme is **not** currently included within this version of the medium-term financial plan.

4.7 The medium-term financial plan reflecting the assumptions outlined above is shown in the table below. This includes the impact of the 2022 police officer pay award in the 2022/23 budget.

	Current Budget	MTFP	MTFP	MTFP	MTFP
Revenue Budget £m	2022/23	2023/24	2024/25	2025/26	2026/27
Pay inc. Overtime	571.0	600.8	619.8	639.1	663.0
Non-Pay	120.3	135.2	134.0	137.7	141.0
PBB Saving	-3.1	-5.1	-5.1	-8.1	-8.1
Capital Financing	21.1	22.7	24.5	25.2	25.3
External Income	-38.4	-37.7	-38.0	-38.2	-38.4
Estates Strategy	1.5	2.0	9.3	7.1	6.8
Planned Use/contribution to Reserves	-6.0	-5.3	-5.7	-1.8	0.8
Total Police Force	666.4	712.4	738.8	760.9	790.5
Expenditure	190.1	91.1	93.3	95.4	97.5
Income	-160.1	-67.1	-68.6	-70.1	-71.6
Planned Use of Reserves	-6.7	0.0	0.0	0.0	0.0
Total National / Regional Services	23.4	23.9	24.7	25.3	25.9
Office of Police and Crime Commissioner	2.9	3.0	3.1	3.2	3.2
Community Safety Funding	3.9	3.9	3.9	3.9	3.9
Helping Communities Fund	0.4	0.4	0.4	0.4	0.4
External Commissioning	1.7	1.7	1.7	1.7	1.7
Planned Use of Reserves	-0.4	-0.4	-0.4	-0.4	-0.4
Total Office of Police and Crime Commissioner	8.5	8.6	8.7	8.7	8.8
Police Grants	-563.7	-574.0	-583.2	-594.3	-605.7
Precept	-134.6	-145.6	-155.1	-164.6	-174.2
Potential Savings Required	0.0	25.3	33.9	36.1	45.3
Review of Police Staff Pay Award	0.0	4.6	4.7	4.8	5.0
Revised Potential Savings Required	0.0	29.9	38.6	40.9	50.3

*The Office of the Police and Crime Commissioner also includes funding for Victim Services and the Violence Reduction Partnership (Net Nil impact).

4.8 The table above shows the medium-term financial plan after the refresh. It can be seen that significant savings will be required to fund the financial plan over the medium term. There are both potential risks and issues emerging that may further adversely affect this projection which are highlighted in Section 5, and potential opportunities to mitigate these pressures highlighted in Section 9.

4.9 The financial pressures West Midlands Police are facing is in common with all public sector organisations. This is demonstrated through research carried out by the Institute of Fiscal Studies in August 2022 which predicts the government will need to spend an extra £44bn over the next 3 years on public services to keep pace with rising inflation.

5. SENSITIVITY/VARIANCE ANALYSIS

5.1 The main sensitivities from 2023/24 onwards that may affect the assumptions and the impact of a 1% variance are shown in the table below.

	Planning Assumptions	Planning Assumptions	1% Movement £m (+/-)
	2023/24 %	2024/25 onwards %	
Salaries	2.5%	2.0%	5.6
Supplies and services	10.0%	2.0%	0.6
Income	1.0%	1.0%	0.3
Premises inc. utilities	25.0%	5.0%	0.2
Fuel	5.0%	5.0%	0.1
Other Transport	3.0%	2.0%	0.1
Third Party Payments	5.0%	5.0%	0.2
Taxbase	1.5%	1.2% - 1.4%	1.3

5.2 Based on the above table, the main risk to the West Midlands are pay awards to officers and staff above the assumed 2.5% increase from 2023/24, along with general inflation. The table below sets out the potential impact on gas / electricity of some of the different inflation rates that could materialise if increased over and above the 25% increase assumed:

Revenue Budget £m	MTFP 2023/24	MTFP 2024/25	MTFP 2025/26	MTFP 2026/27
Potential Savings Required	25.3	33.9	36.1	45.3
50% Gas / Electric Increase	2.4	2.5	2.6	2.7
75% Gas / Electric Increase	4.7	4.9	5.2	5.5
100% Gas / Electric Increase	7.1	7.4	7.8	8.2

5.3 The impact a £1 movement in the precept funding is shown in the table below.

	Planning Assumptions 2022/23	Planning Assumptions 2023/24 to 2024/25	£1 Movement £m (+/-)
Precept (£)	£10	£10	0.7

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

- The 2022 Actuarial Valuation of the Police Staff pension fund is higher than assumptions made within the Medium-term financial plan.
- The implications of the police staff pay award reopening are currently unknown.
- Market conditions not returning to 'normal' and elevated inflation rates staying at these levels for longer than assumed or becoming embedded into costs.
- Delayed implementation or increased costs to the remaining Change Programme / Estates Strategy. This will be managed and monitored as part of the ongoing reports to established governance forums.
- Funding of further transformation projects beyond the current programme.
- Impact of any national policy changes or legal challenges that would affect the financial position.
- Costs associated with national projects/programmes such as The National Policing Technology programme which includes the Emergency Services Mobile Communications Programme (ESMCP) and National Law Enforcement Data Services (NLED).
- Increased costs in relation to Home Office ICT charges.
- Increased costs for the National Police Air Support provision, or a change in the service provision.
- Reductions in Home Office grants for key services such as CTU, Firearms, ROCU.

5.5 There are a number of factors around the officer pension scheme that holds a financial risk in the medium term to our financial planning, these haven't yet been factored into the medium-term financial plan whilst we determine whose liability the increased costs belong to. These are:

- Increases in the officer employers' pensions rates of between 5%-10% from 2023/24 onwards (worth £12.5m to £25m).
- Financial implications of the McCloud and Sargeant cases.

6. FORECASTED STAFFING

6.1 The table below details the current staffing projections (full time equivalents) up until March 2027.

Workforce Breakdown	31/03/2022 FTE	31/03/2023 FTE	31/03/2024 FTE	31/03/2025 FTE	31/03/2026 FTE	31/03/2027 FTE
Police Officers	7,378	7,837	7,837	7,837	7,837	7,987
Police Staff*	4,167	4,172	4,172	4,172	4,172	4,172
PCSO+	477	464	464	464	464	464
Total Workforce	12,022	12,473	12,473	12,473	12,473	12,623

* Estimate, work is ongoing within the PBB process and uplift

+ City of Culture included to May 2022

7. COMPARISON WITH OTHER FORCES BUDGETS

7.1 The Police and Crime Panel for the West Midlands at its meeting in February 2022 asked for details of budgets of other police forces. The table below details the 2022/23 budget for Greater Manchester (GMP), Merseyside (MER), WMP and West Yorkshire Police (WYP). It also includes details of the 2023/24 budgets as per each forces MTFP. This information has been compiled from published budgets reports on the respective websites. In the case of GMP the report was from June 2022, whilst MER and WYP the information was from their 2022/23 budget report in February 2022. It must be assumed that the forecasts for 2023/24 would show an increased predicted expenditure due to inflationary expenditure and therefore an increased budget gap in 2023/24.

	2022/23 £m				2023/24 £m			
	GMP	MER	WMP	WYP	GMP	MER	WMP	WYP
Expenditure	719	406	698	532	738	413	745	561
Funding								
Government Grant	537	310	564	384	544	314	574	393
Precept	182	90	135	149	188	95	146	157
Total Funding	719	400	698	533	732	409	720	550
Savings / Use of Reserves	0	6	0	0	6	4	25	11

8. CAPITAL PROGRAMME

8.1 The capital programme for the period is detailed in the table below. This includes business as usual capital replacement and the capital implications of the Estates Strategy along with the current planning assumptions with regard to funding.

Capital Programme Budget £m	Current Budget 2022/23	MTFP 2023/24	MTFP 2024/25	MTFP 2025/26	MTFP 2026/27
Fleet	4.7	5.1	5.7	6.4	6.6
Body Worn Video	0.7	1.4	1.0	1.0	1.0
Taser	0.0	1.6	0.8	0.8	0.8
Mobility Devices	2.5	3.0	3.0	3.0	3.0
Laptops / Desktops	2.0	2.0	2.0	2.0	2.0
IT Infrastructure inc. Uplift	5.9	4.0	5.5	5.5	5.5
CTU - estimate	Built in and funded in year through BAU department budgets or capital grants received in year				
Department General Equipment					
Total Business As Usual Capital	15.8	17.0	18.0	18.7	18.9
Estates Strategy	6.6	36.8	33.0	25.0	27.5
Total Capital Programme	22.4	53.9	51.0	43.7	46.3
Business as Usual Funded by:					
Revenue Contributions	12.9	17.0	18.0	18.7	18.9
Carry Forward (Revenue Contributions)	2.9	0.0	0.0	0.0	0.0
Capital Grant	Built in during the year as received				
Estates Strategy Funded by:					
Planned Borrowing	2.0	28.0	0.0	0.0	0.0
Additional Borrowing	0.0	5.7	30.0	15.0	9.2
Temporary Use of Reserves or short term borrowing	0.0	0.0	0.0	0.0	3.1
Unapplied Capital Receipts	2.6	0.0	0.0	0.0	0.0
Planned Capital Receipts	2.0	3.2	3.0	10.0	15.2
Total Funding	22.4	53.9	51.0	43.7	46.4

The above table excludes the financial implications of The National Policing Technology programme.

- 8.2 The business as usual capital replacement is currently fully funded through revenue contributions to capital. The programme will be updated with any specific grants at the time of receipt.
- 8.3 The current planning assumptions included additional borrowing of £60m, short term internal borrowing / temporary use of reserves and excess capital receipts above planned, based on the assumption that to date each building has sold at a higher value than anticipated.
- 8.4 The cost of borrowing has been assumed at July 2022 interest rates and has been built into the revenue table in paragraph 4.7 above. We are mindful that interest rates have increased and we will be revisiting the cost of borrowing as the 2023/24 budget is developed.
- 8.5 Given the wider changes in market conditions and in line with good practice we are taking the opportunity to revisit costs and reconsider priorities.

9. RESERVES

- 9.1 The reserves have been utilised over the last few years to support the WMP2020 Change Programme to reduce them to a sustainable amount going forward. It must be recognised however that as a complex £700m+ 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 Estates Strategy.
 - 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 as part of the budget reserve.
- 9.3 The table below details the levels of reserves held by the Commissioner as at 31 March 2022. The total level of reserves as at 31 March 2022 was £66.2m. The table also details the forecast balance for each reserve to the 31 March 2026.

	Actual 31st March 2022	Forecast 31st March 2023	Forecast 31st March 2024	Forecast 31st March 2025	Forecast 31st March 2026
Reserves (£m)					
<i>Funding for Planned Expenditure on Projects & Programmes over the current medium term financial plan</i>					
Regional / National Reserve	4.6	4.0	3.7	3.7	3.7
PPA/Misuse of Drug Act	1.7	1.5	1.2	0.8	0.5
Change Programme Reserve	2.8	-	-	-	-
Estates Strategy Reserve	11.2	10.8	9.5	3.1	0.5
Carry Forward Reserve	15.8	-	-	-	-
Useable capital receipts reserve*	2.6	-	-	-	-
Capital Grants Unapplied*	0.7	-	-	-	-
<i>Reserves held in accordance with sound principles of good financial management</i>					
Uniform and Equipment Reserve	7.2	6.7	2.4	2.9	3.5
Budget Reserve	3.3	5.7	5.7	5.7	5.7
National Contingency	1.3	1.3	1.3	1.3	1.3
Insurance Reserves	0.6	0.6	0.6	0.6	0.6
Council Tax Funding Reserve	2.5	0.8	0.8	0.8	0.8
General Fund Reserve	12.0	12.0	12.0	12.0	12.0
Total Useable Reserves	66.2	43.5	37.3	31.0	28.7
Provisions	9.9	9.9	10.1	10.4	10.6

* capital reserves only

9.4 The reserves table above splits the reserves into earmarked and general fund reserves, separating out further the earmarked reserves between reserves to be used to support the revenue budget and change programme and those required to be retained by the PCC to manage the day to day operation of the Force.

9.5 The following assumptions have been made on the Reserves:

- Regional / National reserve will be drawn down and utilised over the medium term as and when required by the departments.
- The Budget Reserve will be maintained at current levels to create a contingency to cover the materialisation of any of the risks highlighted in paragraph 5.4 and 5.5.
- The Change Programme reserve includes carry forwards from 2021/22 and a general provision to support the change programme going forward and plans will be developed to determine when this will be utilised.

9.6 The reserves to operate the Force will be managed and reviewed on an annual basis to ensure sufficient funding is available to support operational requirements.

9.7 The Commissioner's Reserve Strategy is a published document which is updated on an annual basis in line with current projections.

10. OPTIONS OVER MEDIUM TERM FINANCIAL PLAN

10.1 Possible levers to reduce the financial pressures are detailed below. Consideration will be given to the impacts of any proposals on the delivery of policing services.

- A cyclical Priority Based Budgeting (PBB) process has been developed to drive out cashable savings and non-cashable efficiencies on an annual basis.
- To revisit service level choices for all functions that have been through the PBB process.
- Review and challenge all non-pay budgets including current overtime, agency and consultancy budgets.
- Seek further income generation opportunities. This includes income from policing events.
- Consider re profiling delivery timelines and /or costs committed as part of the Estates Strategy / Change Programme.
- Identify further invest to save opportunities including environmental projects.
- Review of all desktops and laptops so that we don't have more kit than required.
- Review data sims in phones and laptops and consolidate data plans.
- Consider laptop lite with reduced capabilities and software for some roles.
- Utilising vehicle telematics to reduce the fleet size where inefficiencies are identified.
- Consider partnership and collaboration options.
- Review agile working policies to drive out further savings through different ways of working i.e. change desk allocations in police buildings so that most enabling departments only have a touchdown area.
- Bring forward savings linked to turning off legacy IT systems earlier than planned.
- Review / reduce the capital programme and hence the required revenue contributions. Or look at alternative ways of funding such as short-term borrowing.

10.2 The above options will be explored during the budget setting process for 2023/24 and will be included in the papers when the Commissioner presents the budget and precept proposals for 2023/24 to the police and crime panel.

11. SUMMARY

11.1 The medium-term financial plan seeks to find a balance between delivering savings whilst maintain the following approach.

- Recruitment of a mix of police officer, police staff and PCSO.
- 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, depending upon affordability and requirement to maintain officer numbers.
- 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.
- Funding to support the delivery of the Estates strategy.
- Reserves held at 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 limit further reductions in resources policing the West Midlands.
- Continued use of reserves over the medium term to support the Estates Strategy and completion of the Change Programme.
- Full delivery of the Change Programme savings.
- Home Office grants are maintained at the modelled level and not reduced further as a result other policy initiative.
- The Officer Uplift programme is delivered in line with Home Office requirements.

12. RECOMMENDATION

12.1 The board is asked to note the content of this report.

M Kenyon
PCC Chief Finance Officer

P Gillett
Director of Commercial Services