|  |  |
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| **WEST MIDLANDS POLICE AND CRIME COMMISSIONER** | **NON-CONFIDENTIAL** |
|  | **NOTICE OF DECISION** |
|  | **[003/2023]** |

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**Title: 2023/24 Revenue Budget, Precept, Capital Programme 2023/24 to 2026/27 and Medium Term Financial Plan (MTFP) to 2027/28**

**­­­­­­**

Executive Summary

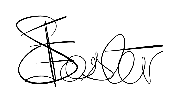
This report sets out the Police and Crime Commissioner’s 2023/24 Revenue Budget, Precept and Capital Programme for 2023/24 to 2026/27 and MTFP to 2027/28

Decision

1. That, for 2023/24, a total revenue expenditure level of **£709,125,200** be approved;
2. That, net contributions from Reserves to support the precept of **£10,752,700** be made in 2023/24;
3. That, net budget requirement for 2023/24 of **£698,372,500** be approved;
4. That the Commissioner’s General Reserve remains at **£12,042,000**;
5. That the capital programme as set out in **Section 11** and **Appendix 4** be approved.
6. That the Band D precept for 2023/24 be set at **£202.55** per annum, an increase of £15 compared to 2022/23;
7. That, a total precept on the District Councils of the West Midlands be approved and apportioned between such Districts, on the basis of relevant tax base as determined by the District Councils and set out in **Appendix 5**;
8. That, District Councils be required to make payments on account of such precept upon them, by way of twelve equal instalments on or before the last banking day of each month, commencing in April 2023;
9. The continued commitment to maintain Community Safety Funding at 2022/23 levels;
10. That, the Operational Budget for 2023/24 be delegated in accordance with the Scheme of Consent, as set out in **Appendix 2**;
11. That the Police and Crime Commissioner’s budget be delegated to the Chief Executive in accordance with **Section 6**;
12. That the Medium-Term Financial Plan to 2027/28 as set out in **Section 10** be noted;
13. That the Capital Strategy 2023/24-2026/27 as set out in **Appendix 3** be approved;
14. That the Prudential Guidelines and Indicators set out in **Appendix 7** be approved;
15. That, the Chief Finance Officer (CFO) to the Commissioner be authorised to arrange the necessary financing for the Capital Programme, in accordance with the approved Treasury Management Strategy and the CIPFA Code of Treasury Management.

**West Midlands Police and Crime Commissioner**

I confirm that I do not have any disclosable pecuniary interests in this decision and take the decision in compliance with the Code of Conduct for the Police and Crime Commissioner for the West Midlands. Any interests are indicated below.



Signature…………………………

Date…16 February 2023

Non-Confidential Facts and Advice to the Police and Crime Commissioner

# Purpose

## Following the meeting of the Police and Crime Panel on 6 February 2023, this paper sets out the Police and Crime Commissioner’s 2023/24 Revenue Budget, Precept, Capital Programme for 2023/24-2026/27 and an update on the Medium-Term Financial Plan up to 2027/28.

# Background

## This report follows the Preliminary Revenue Budget and Capital Programme Proposal 2023/24 paper that was presented to the Panel at its meeting on 6 February 2023 and follows the Government confirming the Police Funding Settlement for 2023/24 on the 31 January 2023, as per the provisional numbers.

# 2023/24 Government Grant Settlement

## The total grant settlement for the West Midlands in 2023/24 is £569.7m, which is an increase of £10.3m on the 2022/23 Settlement. This is consistent with the Commissioner’s medium-term financial planning assumptions. This additional grant reflects the commitments made earlier this year to maintaining the police officer uplift programme and the 2022-23 police officer pay award.

## The other main points to note from the settlement are as follows:

* The settlement includes the opportunity for PCC’s to raise their precept by up to £15 per year per Band D property in 2023/24. This is an increase of £5 on the £10 announced as part of the three-year Spending Review in 2021.
* PCC’s are expected to pay for the Police Staff 2022 pay award, along with 2023 pay awards from the funding settlement. This will be a significant cost to the police budget.
* Funding for the social care levy has been removed from core funding, due to the cessation of the increased contributions in November 2022.
* PCCs will also be required to fund other significant cost pressures. These include increases in the cost of gas, electricity, fuel, and general inflation; currently at record levels.
* Continuation of the £7m pension grant, as a flat cash grant for 2023/24.
* PCCs will have to demonstrate that they have maintained their overall headcount, comprised of their agreed Police Uplift baseline, plus their allocation of the 20,000 additional officers. For West Midlands Police (WMP) this equates to £16.8m in 2023/24, which is conditional on WMP maintaining a headcount of 7,909.
* The Government expects the police to continue to build on the progress made on improving efficiency and productivity, expecting to see at least £100m of cashable efficiency savings by 2024/25. In 2021/22, policing made efficiency savings of almost £40m, including cashable savings of £25m and non-cashable savings of £15m. In addition, the National Police Chiefs’ Council has been commissioned to conduct a review of operational productivity in policing.
* For 2023/24, the Government will maintain settlement funding for programmes that prevent crime and help keep communities safe, including:
  + Funding to combat serious violence, including Violence Reduction Units and Grip ‘hotspot policing’ programme.
  + Delivering on the commitments made in the 10-year drug strategy, by prioritising funding to clamp down on drugs and County Lines activity, which has already achieved 2,900 county line closures since 2019.
  + Continuing to invest in tackling exploitation and abuse, including child sexual exploitation and modern slavery.
  + Prioritising Regional Organised Crime units, ensuring they are equipped with the specialist capabilities and dedicated resource needed to support law enforcement, in confronting serious and organised crime.

# Balances and Reserves

## The prudent use of reserves to support spending continues to be a key factor in the Medium-Term Financial Strategy. The following table details the anticipated level of reserves at 31 March 2023 and the estimated level of reserves by 31 March 2024, as per the plans outlined within this budget report.

|  |  |  |  |
| --- | --- | --- | --- |
| Reserves | 31st March 2023 (Forecast Balance) £,000 | 2023/24 Planned Movement in Reserves £,000 | 31st March 2024 (Forecast Balance) £,000 |
| Operational Reserves |  |  |  |
| Regional / National Teams Reserve | 3,317 | -78 | 3,239 |
| Budget Reserve | 15,409 | -5,600 | 9,809 |
| Estates Strategy Reserve | 10,681 | -1,247 | 9,434 |
| Change Programme | 2,393 | 0 | 2,393 |
| Other Reserves |  |  |  |
| Uniform and Equipment Reserve | 6,730 | -3,678 | 3,052 |
| Drug Squad / PPA Reserve | 1,547 | -400 | 1,147 |
| National Contingency Reserve | 1,291 | 0 | 1,291 |
| Insurance Reserve | 623 | 250 | 873 |
| Total Earmarked Reserves | **41,991** | **-10,753** | **31,238** |
| General Fund Reserve | 12,042 | 0 | 12,042 |
| Total Reserves | **54,033** | **-10,753** | **43,280** |

## Details of the planned movement in Reserves are as follows:

* **Regional / National Teams Reserves** – This utilises part of the ROCU reserve to fund agreed project activity during 2023/24.
* **Budget Reserve** - Due to the scale of the savings required to balance the 2023/24 budget and an early forecast overspend in 2022/23 the Force made some short-term decisions to: hold police staff vacancies, with operational exceptions; freeze Police Community Support Officers (PCSO) recruitment in the short term; reduce capital expenditure for IT and fleet; and reduce agency spend where possible. This has created an in-year underspend of £9.8m December year to date. This will be transferred to reserves and drawn down to help balance the 2023/24 budget, allowing time to generate more long-term sustainable solutions. The current plan, subject to the on-going Priority Based Budget setting process is to utilise £5.6m of this reserve.
* **Estates Strategy Reserve –** This utilises the estate strategy reserve to fund the in-year revenue costs of the estate’s strategy.
* **Uniform and Equipment Reserve –** The net £3.7m use of reserve is to fund the 10-year replacement of Body Armour planned during 2023/24; £4.2m offset by £0.5m contribution to reserve to build back up the reserve over the next 10 years.
* **Drug Squad / PAA Reserve –** This contribution is used to partially fund the Commissioner’s Helping Communities Fund (HCF) which supports projects across the West Midlands**.**
* **Insurance Reserve –** This contribution to reserve increases the reserve to allow for increased inflationary costs.

## The Commissioner needs to maintain an adequate General Reserve balance because:

* As a substantial organisation with a turnover in excess of £0.6 billion, there are no other such reserves to call on.
* There are no budgeted contingencies for very major incidents, which may require significant resource levels for a long period.

## There are a number of specific issues which need to be taken into account in considering how much of the earmarked reserves should be used in 2023/24, including:

* Retaining the maximum level possible to support spending in 2023/24 and later years when resource levels may be constrained;
* Striking a fair balance between how much should be used to support spending over the planning period and by how much the precept should increase;
* Risks and uncertainties in key budget assumptions, any additional spending in 2023/24 which cannot be met from in year redirections would have to be met from reserves.

## Given these considerations and a precept increase at the maximum permitted without a referendum it will be necessary to use £10.8m of reserves to support revenue spending in 2023/24. The use of additional reserves will be subject to decisions and activities in year. As in previous years a refresh of the financial reserve’s strategy will take place during early part of 2023/24.

# Proposed Revenue Budget 2023/24

## The Commissioner is proposing a Revenue Budget for 2023/24 based on the following:

* The priorities in the Police and Crime Plan.
* The implications of the funding settlement.
* Existing budget commitments and inflationary pressures.
* The continued recruitment of Police Officers to ensure than planned numbers are maintained as detailed in **Section 9.**
* Maintain the Police Uplift headcount for West Midlands Police.
* The provision of improved equipment and technology to frontline officers to support capability, safety and welfare.
* The opportunity to have a workforce more representative of the public we serve by recruiting more police officers, police staff and PCSO’s from underrepresented groups.
* The continuation to support apprenticeships and the drive to increase and develop the police cadets’ scheme, volunteers and specials across the West Midlands.
* A precept increase of £15 per annum in line with the Council Tax referendum limit principles that applies to West Midlands Police together with the prudent use of reserves.
* Maintain the Community Safety Funding and External Commissioning to support prevention and crime reduction activity at 2022/23 levels.
* Savings required to support the revenue budget in 2023/24 of £28.1m. This is explained in greater detail in **Section 5.3** below.
* Continued work on efficiencies and productivity to redirect resources to frontline policing as a priority.
* Continued support for the Estates Strategy, and implementation of Continuous Improvement methodology and Priority Based Budgeting, to deliver savings and efficiencies in the short to medium term. These will help the Force to continually challenge the way services are provided, maximise innovation and drive efficiency and productivity.

## Recognising that in the medium term there are significant cost pressures to the Force including inflation and other cost pressures. There is a need to strike a careful balance between spending levels, the use of reserves and a precept increase across medium term.

## The table below shows the details of how the £28.1m budget gap has been managed, as well as generating some savings which will contribute to 2024/25.

|  |  |
| --- | --- |
| Balancing the £28.1m Gap | £m |
| One Off Short Term borrowing to Fund Capital Programme | -7.0 |
| One Off Use of the Budget Reserve | -5.6 |
| One off Surplus on Collection Fund | -3.0 |
| PCC Office Savings | -0.3 |
| PBB Savings | -12.2 |
| Total | **-28.1** |

## To assist in generating resources available in 2023/24, WMP are currently holding police staff vacancies, with operational exceptions; frozen Police Community Support Officers (PCSO) recruitment in the short term; reduced capital expenditure for IT and fleet and has reviewed / reduced agency spend where possible. This has created an in-year underspend of £9.8m as at December Year to date. This will be transferred to reserves and drawn down to help balance the 2023/24 budget, allowing time to generate more long-term sustainable solutions to balance the budget.

## A priority-based budgeting style exercise was completed in January 2023 and has identified savings worth £13.1m to enable us to balance the budget for 2023/24.

## The table below summarises the savings identified as part of the PBB exercise by Force Executive portfolio. The associated risks to service levels were considered and are all relatively low level.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Portfolio | Pay Saving £m | Overtime Saving £m | Non-pay saving £m | Total Saving £m |
| Crime | 2.49 | 1.44 | 0.38 | 4.31 |
| Operations | 0.26 | 0.09 | 0.04 | 0.39 |
| Local Policing | 0.06 | 0.22 | 0.0 | 0.28 |
| Security | 1.31 | 0.08 | 0.43 | 1.82 |
| DCC | 0.54 | 0.00 | 0.05 | 0.59 |
| Commercial Services | 1.09 | 0.05 | 3.46 | 4.60 |
| People and Learning | 0.14 | 0.00 | 0.93 | 1.07 |
| Total | **5.89** | **1.88** | **5.29** | **13.06** |

## The subjective analysis of the proposed 2023/24 budget is shown in **Appendix 1**, along with the base budget from 2022/23.

# Police and Crime Commissioner Office

## The proposed budget for the Police and Crime Commission’s office for 2023/24 compared to the budget for 2022/23 is shown in the table below. The 2023/24 budget includes provisions for the impact of the national 2022/23 and 2023/24 pay award, staff increments and an increase in the employer’s pension contribution.

## The Office supports the functions of the PCC, including commissioned services, supporting victims, engaging with the public, internal audit, running grants schemes, custody visiting, managing complaints appeals and responsibility for overseeing, scrutinising and leading the police force. The Office is responsible for victim services in the region, including supporting victims of domestic abuse and sexual assault. For many of these grant funded schemes the Office absorbs the overhead ensuring the maximum amount of money is allocated to the receivers of the services. The Office continues to support projects such as the Regional Criminal Justice Forum on behalf of the four-regional force / OPCC areas.

## The PCC’s Office has identified £276k worth of savings (around 8%) as part of the budget setting process of its 2023/24 base budget. These savings relate to vacant posts, posts that are now funded from alternative sources of funding and other non-pay budgets.

|  |  |  |
| --- | --- | --- |
| Office of the Police and Crime Commissioner Breakdown | Budget 2022/23 £,000 | Proposed Budget 2023/24 £,000 |
| Governance | 311 | 309 |
| Staff and Office Support costs | 2,284 | 2,234 |
| Consultation, ICT and Supplies and Services | 114 | 42 |
| Police Misconduct Hearings including Legally Qualified Chairs | 35 | 35 |
| Subscriptions | 40 | 40 |
| Bank Charges and External Audit Fees | 85 | 85 |
| Custody Visiting | 10 | 10 |
| Professional Services | 66 | 66 |
| Total Budget | **2,945** | **2,821** |

# Community Safety Funding

## The Commissioner has made a commitment to maintain the levels of Community Safety Funding in 2023/24 at 2022/23 levels at £3,863,308.

# Operational Policing Budget

## In accordance with the Scheme of Consent, it is necessary for the Commissioner to approve an operational policing budget which can be delegated as detailed within the Scheme of Consent. It is consistent with policies and priorities included in the Police and Crime Plan. The proposed operational policing budget is set out in **Appendix 2.** This represents, in more detail, a cost centre-based view of Operational and non-Operational policing in the West Midlands.

## Furthermore, the Chief Constable has commissioned an Operating Model Review with the aim of moving towards an enhanced local policing model. It is too early to reflect the potential impact that this may have on the allocation of budgets, but will remain within the overall envelope. An update will be provided as details are finalised.

# Staffing Budgets 2023/24

## The table below details the forecast staffing levels including those relating to retaining the national uplift programme across the Force for police officers, police staff and PCSO’s. There is a continued commitment to recruit up to the number of Police Officers outlined below:

|  |  |  |  |
| --- | --- | --- | --- |
| Workforce Breakdown | Target FTE  @ 31/03/2023 | Target FTE  @ 31/03/2024 | Current Strength FTE @ 01/02/2023 |
| Police Officers | 7,839 | 7,839 | 7,655 |
| Police Staff\* | 4,199 | 4,199 | 3,817 |
| PCSO | 464 | 464 | 402 |
| Total Workforce | **12,502** | **12,502** | **11,874** |

*\* Following the decisions of the PBB exercise detailed above*

## The 2023/24 funding settlement requires PCCs to maintain their overall officer numbers. Significant recruitment is on-going during the final quarter of 2022/23 to bring our strength up to this target. The 2023/24 budget proposal looks to maintain these numbers to ensure no financial penalties are faced by the Force in the loss of the ringfenced uplift grant.

## Due to the short-term freeze on PCSO and Staff recruitment, strength is currently significantly below our target establishment. The proposed budget makes full provision for the full PCSO establishment. It should be noted however, that the Force is currently piloting a non-degree officer entry route for internal staff and Special Constables, which has been secured with an extra 50 places from the Home Office. The Force will look to run similar pilots for non-degree entry in 2023/24. The Commissioner and Chief Constable are also working together on continued efficiencies and increasing the capability of officers and staff.

# Medium Term Financial Plan

## The Medium-Term Financial Plan has been refreshed and updated based on a number of key assumptions covering likely funding, inflationary increases, expenditure items and the maintenance of the uplift headcount. The table below outlines these assumptions.

|  |  |  |  |
| --- | --- | --- | --- |
| Expenditure Type | Planning Assumptions 2024/25 | Planning Assumptions 2025/26 onwards | 1% Movement  £m (+/-) |
| Salaries | 2.0% | 2.0% | 6.0 |
| Supplies & Services | 5.0% | 3.0% | 0.6 |
| Premises including utilities | 5.0% | 5.0% | 0.6 |
| Income | 1.0% | 1.0% | 0.4 |
| Fuel | 5.0% | 5.0% | 0.1 |
| Other Transport | 3.0% | 3.0% | 0.1 |
| Third Party Payments | 5.0% | 3.0% | 0.1 |
| Police Grant | 1.6% | 1.5% | 5.5 |
| Tax Base | 1.0% | 1.2% - 1.4% | 1.7 |
| Precept (£) | £10 | £10 | 0.7 |

## The Medium-Term Financial Plan reflecting the assumptions outlined above is shown in the table below. Assuming a £10 precept increase through the medium term the forecast funding gap is current £25.2m in 2024/25 growing to £34.9m over the medium term.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Revenue Budget £m | Current Budget 2023/24 | MTFP 2024/25 | MTFP 2025/26 | MTFP 2026/27 | MTFP 2027/28 |
| Police Force Net Expenditure | 700.3 | 753.7 | 771.1 | 790.7 | 807.0 |
| Police & Crime Commissioner | 8.8 | 8.9 | 8.9 | 9.0 | 9.1 |
| Total Expenditure | **709.0** | **762.6** | **780.0** | **799.7** | **816.0** |
| Police Grants | 546.0 | 571.9 | 577.5 | 586.4 | 595.5 |
| Precept | 152.4 | 159.4 | 169.1 | 178.8 | 188.7 |
| Planned Contributions (to) / from Reserves | 10.7 | 6.1 | 3.3 | (0.5) | (0.5) |
| Potential Savings Required | **0.0** | **25.2** | **30.2** | **34.9** | **32.3** |

## There are a number of outstanding risks yet to be added into the medium-term plan, these include:

* The re-profiled revenue costs associated with the Estate’s Strategy, including refurbishment / enhancement costs, co-habitation costs and ongoing revenue consequences of the new builds. Work is ongoing as part of the Operating Model review to finalise the timing and exact costs.
* The impact if pay awards are higher than the 3% in 2023/24 and 2.0% from 2024/25 onwards assumptions.
* Higher than anticipated non-pay inflation.
* Revenue consequences of the Emergency Services Mobile Communications Programme (ESMCP).

# Capital Programme

## The capital programme for 2023/24 to 2026/27 is detailed in **Appendix 4.** The Capital Programme will be financed by a combination of revenue contributions, capital receipts and additional borrowing as required. The exact combination of funding sources will depend upon:

* The extent to which reserves will be required to support total revenue spending over the medium term.
* The long-term costs of borrowing and the impact of borrowing costs on total revenue spending.

## Both the Estates Strategy and operating model are currently being reviewed and the outcomes will be reflected in the updated Capital Programme.

# Prudential Guidelines

## In relation to capital financing the Commissioner is required to set a number of prudential indicators and these are covered in detail in **Appendix 7**.

# Risks and Uncertainties

## Details of the risks and uncertainties inherent in these Budget proposals are summarised in **Appendix 8**.

# Precept Implications

## The table below shows a summary of the precept calculation including the notified Collection Fund net surplus, and compares the precept level with last year’s figures.

|  |  |  |
| --- | --- | --- |
| Summary Precept Calculation | 2022/23  £m | 2023/24  £m |
| Total Revenue Budget | 686.8 | 709.1 |
| Contribution to / from Reserves | -8.1 | -10.7 |
| Net Budget Requirement | **678.7** | **698.4** |
| Police Grant including DCLG | -525.1 | -527.0 |
| Council Tax Support Grant | -19.0 | -19.0 |
| Surplus / Deficit on Collection Fund | 1.6 | -3.0 |
| Precept Requirement | **136.2** | **149.4** |
| Total Tax Base | 726,271.98 | 737,707.31 |
| Band D Precept | **187.55** | **202.55** |

\*An increase of £15.00 per annum

## This produces a charge for each property for 2023/24 as follows.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| Band | Statutory Proportion | 2022/23 Precept £: p | 2023/24 Precept £: p | Change Annual £: p | Change Weekly £: p |
| Band A | 6/9 | 125.03 | 135.03 | 10.00 | 0.19 |
| Band B | 7/9 | 145.87 | 157.54 | 11.67 | 0.22 |
| Band C | 8/9 | 166.71 | 180.04 | 13.33 | 0.26 |
| Band D | **9/9** | **187.55** | **202.55** | **15.00** | **0.29** |
| Band E | 11/9 | 229.23 | 247.56 | 18.33 | 0.35 |
| Band F | 13/9 | 270.91 | 292.57 | 21.66 | 0.42 |
| Band G | 15/9 | 312.58 | 337.58 | 25.00 | 0.48 |
| Band H | 18/9 | 375.10 | 405.10 | 30.00 | 0.58 |

## The statutory calculations required by Local Government Finance Act, 1992 are shown in **Appendix 5**.

# Finance Implications

## This report solely deals with financial issues.

# Legal Implications

## Section 40 of the Local Government Finance Act 1992 requires the Commissioner to set a budget and precept by 1 March each year.

## The Commission must ensure that the precept is sufficient to provide for the expenditure estimates it will incur in the year in performing functions, defraying outstanding expenditure incurred earlier, an expenditure before precepts become sufficiently available and any payments into reserves.

## The Localism Act 2011 has abolished the council tax capping regime and replaced it with the requirement for Authorities to hold a taxpayer’s referendum if excessive increase are proposed. In 2023/24 an excessive increase would be £15.01 or greater.

## Section 25 of the Local Government Act 2003 requires the CFO to report to the Commissioner on the robustness of the estimates made for the purposes of the statutory budget calculations and the adequacy of financial reserves and the Commissioner must have regard to that report when making decisions about the statutory budget calculations. The report is included in **Appendix 6**.

## Information contained in this decision is subject to the Freedom of Information Act 2000 and other legislation. This decision will be made available on the Commissioner’s website.

# Equalities Implications

## The budget provides for the continuation and development of policing services for all people in the West Midlands, irrespective of their protected characteristics of age, disability, gender reassignment, marriage and civil partnership, pregnancy and maternity, race, regional or belief, sex and sexual orientation. Both the Commissioner and the Force are committed to delivering the principles, strategies and priorities of their respective Equality Schemes.

Schedule of Background Papers

Appendix 1 – Summary of Revenue Budgets for 2022/24 and 2023/24

Appendix 2 – Operational Budget 2023/24

Appendix 3 – Capital Strategy 2023/24 – 2026/27

Appendix 4 – Capital Programme 2023/24 – 2026/27

Appendix 5 – Statutory Council Tax calculations 2023/24

Appendix 6 – Report of the Chief Financial Officer

Appendix 7 – Statement of Prudential Indicators

Appendix 8 – Risk Assessment

# Appendix 1 – Summary of Revenue Budgets for 2022/23 and 2023/24

|  |  |  |  |
| --- | --- | --- | --- |
| Income and Expenditure Breakdown | 2022/23 Budget £,000 | 2022/23 CWG Budget included £,000 | 2023/24 Budget  £,000 |
| Police Pay | 431,484 | 12,899 | 439,476 |
| Police Community Support Officers | 14,999 | 0 | 14,728 |
| Police Staff Pay | 165,228 | 3,101 | 170,033 |
| Other Employee Expenses | 14,502 | 37 | 14,560 |
| Sub Total | **626,213** | **16,036** | **638,797** |
| Premises | 21,432 | 119 | 30,508 |
| Transport | 13,269 | 2,929 | 10,132 |
| Supplies and Services | 55,891 | 3,673 | 62,024 |
| Third Party Payments | 103,618 | 88,182 | 16,678 |
| Capital Financing | 18,915 | 0 | 8,169 |
| External Income | -158,615 | -110,940 | -54,710 |
| Ring-Fenced Uplift Grant | -8,242 | 0 | -16,790 |
| Police Pension Grant | -6,965 | 0 | -6,965 |
| Change Programme including Estates Strategy | 12,380 | 0 | 12,509 |
| Police Force | **677,896** | **0** | **700,352** |
| Office of Police and Crime Commissioner | 2,945 | 0 | 2,821 |
| Community Safety Funding | 3,863 | 0 | 3,863 |
| Helping Communities Fund | 400 | 0 | 400 |
| External Commissioning | 1,689 | 0 | 1,689 |
| Victim Services Expenditure | 6,323 | 0 | 6,191 |
| Victim Services Income | -6,323 | 0 | -6,191 |
| Violence Reduction Unit Expenditure | 5,863 | 0 | 4,388 |
| Violence Reduction Unit Income | -5,863 | 0 | -4,388 |
| Total Office of the PCC | **8,897** | **0** | **8,773** |
| Total Revenue Budget | **686,792** | **0** | **709,125** |
| Government Grants | -544,169 | 0 | -545,993 |
| Council Tax including Surplus on Collection Fund | -134,572 | 0 | -152,379 |
| Net Use of Reserves | **8,051** | **0** | **10,753** |

# Appendix 2 – Operational Budgets 2023/24

## The tables below detail the operational budgets for the Force for 2023/24.

|  |  |
| --- | --- |
| Operational Budget | 2023/24 Budget £,000 |
| Police Pay & Allowances | 439,476 |
| Police Staff & Allowances | 184,761 |
| Other Employee Expenses | 14,560 |
| Total Employee Costs | **638,797** |
| Running Costs | 119,342 |
| Income | -78,465 |
| Total Operational Budget | **679,674** |
| Change Programme | 12,509 |
| Capital Financing | 8,169 |
| Total Police Force Budget | **700,352** |

|  |  |
| --- | --- |
| Operational Budget Portfolio Breakdown | 2023/24 Budget £,000 |
| Local Policing including Response | 193,072 |
| Crime | 182,644 |
| Operations | 111,471 |
| Security\* | 41,475 |
| Commercial Services | 95,622 |
| People & Organisation Development | 33,626 |
| Other | 21,763 |
| Total Operational Budget | **679,674** |
| Change Programme | 12,509 |
| Capital Financing | 8,169 |
| Total Police Force Budget | **700,352** |

*\*CTU is net of Counter Terrorism Grant*

# Appendix 3 – Capital Strategy 2023/24 to 2026/27

## **Background and Introduction**

#### The CIPFA (Chartered Institute of Public Finance and Accountancy) 2021 Prudential and Treasury Management Codes require all local authorities (which includes Policing Bodies) to prepare a capital strategy report and there is a need for the Capital Strategy to be approved before the start of each financial year.

#### The Capital Strategy for the Police and Crime Commissioner (PCC) for the West Midlands and West Midlands Police is a key overarching document and sets out the policy framework for developing, managing, and monitoring capital investment.

## **Purpose**

#### This Capital Strategy provides a framework for the development of the Capital Programme which sets out the investment in assets and identifies the resources required for that investment. It also represents the intentions for capital investment reflective of strategic priorities, objectives, and outcomes. Guiding the importance of a link from capital investment to strategic outcomes.

#### To sustain this service and meet the objectives set out in the Police and Crime Plan, the Capital Strategy also gives an overview of how the Police and Crime Commissioner (PCC) will apply the principles set out in the CIPFA Prudential Code to test the affordability of the Capital Strategy. It is therefore also closely linked to the Reserves Strategy and Treasury Management Strategy which includes the Investment Strategy, Borrowing Strategy and Prudential Indicators.

#### Additionally, this strategy aligns to the Police and Crime Plan and demonstrates how investment decisions properly take account of stewardship, value for money, prudence, risk, sustainability, and affordability.

#### The policy sits below the Police and Crime plan and This Work Matters and above more detailed capital strategies for Estates, Fleet, Environmental Sustainability and IT and digital and plays a role in prioritisation and co-ordination of those strategies.

#### The operation of all these strategies and plans is underpinned by the Code of Corporate Governance which includes Contract Procedure Rules and the Force’s Financial Regulations.

#### The strategy also considers how any associated risks are managed and the implications of future financial sustainability.

## **Scope**

#### In managing capital investment for the Police and Crime Commissioner and West Midlands Police this strategy considers the following areas:

#### Governance Framework

#### Capital Expenditure Priorities

#### Capital Investment Priorities

#### Prioritisation Approach

#### Capital Funding

#### Monitoring Capital Projects

#### Benefits Realisation

#### Risk Management

## **Governance Framework**

#### A Capital Strategy Board (CSB) will be set up in early 2023/24 to set the strategic priorities for capital investment, have an overview of the progress in terms of financial position, and benefits realisation. It ensures that capital priorities are aligned to organisational priorities and sees reports on revenue impact as well.

#### It sets the prioritisation framework, setting out the terms and approvals for business cases and business as usual capital plans against an agreed prioritisation framework.

#### This works in line with the 2-gateway process that is currently in place. An outline business case is prepared first and may inform the strategy and MTFP with provisional figures. However, then a full business case is prepared which may require modification.

#### The CSB board investment decisions are made based upon the presentation of a business case. These are considered and challenged at the Capital strategy Board (CSB) meetings; attendees include the Chief Finance Officers of both the Chief Constable and the PCC and representatives from key stakeholders Assistant Director of Finance & Procurement, Head of Corporate Asset Management, Deputy Chief Constable, Director of Commercial Services.

#### The business case process includes a rigorous process of options appraisal including identifying the needs and benefits (both financial and non-financial) of the proposal, the associated risks and the costs profiled over the life of the project (revenue and capital).

#### All the investment decisions made follow Force Standing Orders and the usual approvals process via the Office of the Police and Crime Commissioner.

#### Plans are only revised and updated following the approval given at CSB. These are then built into the longer-term capital plan which forms part of the revenue and capital budget setting process of the Force. The budget plans are presented to the Commissioner’s Strategic Policing and Crime Board and the West Midlands Police and Crime Panel to ensure that there is a wide opportunity for challenge and scrutiny. Following on from this process the PCC formally approves the decision to accept the budget proposal.

#### The delivery of the capital plan is monitored monthly by the S151 Officers for the Force and the PCC and quarterly via reports that are presented to the Strategic Policing and Crime Board.

#### To underpin the capital investment, each year a Treasury Management Strategy is produced which incorporates the Commissioner’s investment strategy and approach to borrowing (The capital investment programme is the key driver of treasury management activity). This report is written by the CFOs of the PCC and the Chief Constable and is presented to the Joint Audit Committee in March each year for consideration before being approved by the Commissioner. Copies of the strategy can be found on <https://www.westmidlands-pcc.gov.uk/finance/annual-investment-strategies/> for each relevant year. The Joint Audit Committee also receive update reports throughout the year on the delivery of the Treasury Management Strategy.

## **Capital Expenditure**

#### As part of the Medium-Term Financial Planning (MTFP), West Midlands Police takes a forward view of the Forces’ asset needs to meet its future objectives. The MTFP links very closely with the Police and Crime Plan 2021-25 in assessing where capital investment priorities may lie.

#### In addition to the change programme the capital programme also provides for business-as-usual expenditure (BAU) such as the replacement of fleet vehicles, replacement or upgrade of core IT systems and equipment not related to change programmes but meeting the definition of capital expenditure.

#### To meet the definition of capital, the expenditure incurred must result in the acquisition, construction, or enhancement of a fixed asset (either tangible or intangible). In the case of enhancement this must be to prolong the life of or increase the market value of the asset.

#### The overarching capital strategy considers and links in the various strategies including estates, fleet, environmental and IT.

## **Capital Investment Priorities**

#### The PCCs Police and Crime Plan 2021-25 (<https://www.westmidlands-pcc.gov.uk/wp-content/uploads/2021/10/The-West-Midlands-Police-and-Crime-Plan-2021-25.pdf?x41638> ) states the priorities and ambitions over the medium term. These are summarised as:

#### Rebuilding community policing,

#### Preventing and reducing crime,

#### Increased confidence in West Midlands Police,

#### Supporting the workforce, organisational change, and new technology,

#### Combatting violence against women and girls and domestic abuse,

#### Prioritising the rights of victims,

#### An efficient and effective criminal justice system,

#### Improving community safety,

#### Reducing Violence,

#### Working together for children and young people,

#### Supporting a friendly,

#### Safe and commonwealth games,

#### Safer Travel

#### The Association of Police and Crime Commissioners (APCC) and National Police Chiefs Council (NPCC) are actively working nationally with all police leaders to reform policing by 2025. A vision for Policing in 2025 has been published and sets out the following five priorities for reform:

# Local policing

# Specialist capabilities like armed policing and organised crime investigation

# Digital policing

# Building a workforce with the right skills for the future

# Improving collaboration in business support services (enabling business delivery)

#### The capitalstrategy and capital programme underpin both the local and national priorities in the investments it makes, particularly in relation to making the best use of resources and creating a modern police service. The investments made through the IT & digitals new approach and the Estates strategy enhance and improve the service for both staff and citizens by providing up to date technology and systems and creating better working environments, optimising available space.

#### Given the significant scope of ambition of the strategy a prioritisation matrix is to be used in approval of capital investments as set out below against which business case’s and BAU capital activity requests can be more objectively prioritised.

## **Prioritisation Approach**

#### The Capital Strategy is led by the priorities outlined in the PCC’s Police and Crime Plan. It translates these priorities into a programme of projects in the PCC’s Capital Programme that will achieve the intended outcome whilst also factoring in other key criteria that make different business cases attractive when pursuing those aims.

#### A prioritisation process is currently being designed that will look to rank and produce a ‘league table’ of Business Cases that can be fitted into a MoSCoW prioritisation which acronym represents four categories of initiatives: must-have, should-have, could-have, and won’t-have, or will not have right now. This could form the basis of an ongoing investment programme, for example ‘must-haves’ should be achieved in year one; ‘should-haves’ in year two and so on, recognising that regular reviews and re-assessment will promote or relegate some projects in the programme.

#### West Midlands Police will set out which of the priorities are key based on the latest plans, to provide some initial rational to the prioritisation score scheme and so people know where to focus their attention.

#### This would allow a rational debate about the relative merits of projects and in the event of a restriction on resources a way of ordering schemes. If, however it was felt that there was a critical and pressing need to override the result a rationale could be agreed and signed off.

#### Assets are vital to the delivery of efficient services, and so the optimum use of resources whilst securing best value in relation to both cost and quality are key considerations.

#### An asset management plan/strategy for each asset classification is held and contains specific details of each asset including the longevity and optimum replacement cycles.

#### The capital investment priorities because of the above will include:

#### Police Buildings to ensure they are fit for purpose and cost effective

#### ICT and systems to exploit the operational and organisational benefits of new technology

#### Police Vehicles

#### Environmental Considerations

## **Capital Funding Strategy**

#### Under the provision of the Prudential Code, the PCC can invest in a capital programme so long as its capital spending plans are “affordable, prudent and sustainable”.

#### The Capital Programme is reflected in the PCC’s Treasury Management Strategy, which is presented annually to the Police and Crime Panel and reviewed by the Independent Audit Committee. It sets out the Prudential Indicators, which determine the limits set against the requirements of affordability, prudence, and sustainability. Link to TM Strategy to be added in.

#### The PCC in consultation with the Chief Constable will identify available sources of funding for the Medium-Term Capital Programme including the identification of potential capital receipts from the disposal of property.

#### The sources of funding available to the PCC to finance capital expenditure are detailed below:

#### **Revenue Contributions** - In some circumstances the Force does allow revenue contributions to be made to fund capital expenditure. This is usually where a piece of equipment is locally purchased but meets the definition of a capital asset. Where affordable within achieving a balanced budget and cashflow – this method of finance avoids the need to pay interest. It is currently WMP preferred method of funding BAU – but this must be planned carefully and budgeted into the revenue budgets at a sustainable level with due care that revenue to capital contributions do not affect front line service adversely.

#### **Government Grants** - The Force also receives a small number and low value of in year other specific grants which could be spent as capital or revenue to fund specific projects. Where possible additional grant income and plans to deliver should be sought.

#### In addition to the funding given to the Force some specific grants are also received by the Counter Terrorism Unit (CTU) and these fund expenditures specific to the CTU.

#### **Capital Receipts** - The financing of the estate’s development programme is dependent on the release of property assets for sale. Achieving the full investment programme will be dependent on progressing schemes listed on the development schedule or identifying alternative assets for disposal.

#### **Prudential Borrowing** - The introduction of the 2004 Prudential Code enabled PCCs, like local Authorities, to determine their own level of capital investment controlled by self-regulation. It gives PCCs the ability to borrow provided that the borrowing is prudent, sustainable, and affordable.

#### The PCC is currently undertaking borrowing on a needs and phased approach to fund the Estates programme and other areas of the capital programme as required. The decision to borrow includes the impact of borrowing costs on the revenue budget. It also ensures the borrowing costs are included in the revenue budget. WMP has significant levels of borrowing and is currently moving closer towards its set borrowing limits. So, there are restrictions on scope for additional borrowing which are closely being monitored.

#### **Reserves (also part of revenue contributions**) - have been under pressure and as such the available ones are earmarked for specific purposes already. As such it should not be assumed that reserves can fund additional capital expenditure. [Link to Reserves policy to be added]

#### In addition to revenue and funding considerations full cashflow considerations and appropriate treasury management advice should be considered in relation to levels of capital expenditure and financing decisions.

## **Monitoring Capital Projects**

#### Capital projects are subject to high levels of scrutiny. The precise scrutiny will vary dependant on the type of project and may be influenced by size or by the makeup of regional involvement. Each project will have a Project Manager and potentially a team to implement the project.

#### Typically, projects will have a dedicated Project Board which, if part of a larger programme, may sit under a Programme Board. Programme and Project Boards will have a Senior Responsible Officer.

#### Heads of Department have overall responsibility for ensuring that the objectives are met for all projects, but particular focus will be placed on ensuring that high-profile projects are delivered on time, achieving the intended outcome and good progress is being made in delivering the programme within planned capital and revenue funding set out in the current year’s budget, the Capital Programme and the MTFS.

#### Progress against the capital programme, including considerations of capital financing, is reported quarterly to our Capital Strategy Board and a summary position to Constabulary Management Board and the Police and Crime Board.

#### The following measures have been put in place to mitigate the risk of slippage in the Capital Programme:

#### Comprehensive assessment of project risks during the development of the business case for each scheme

#### Continual monitoring of the project’s progress will help to identify reasons for delays in delivery so that appropriate action can be taken.

## **Benefits Realisation Review**

#### Upon completion of a capital project, consideration will be given to the use of a Post Implementation Review (PIR). This review will provide a check against the performance compared to the original proposal. It will focus on the outcomes achieved both financial and non-financial, the extent to which the benefits claimed are being realised, and the actual costs both revenue and capital. Using these types of review, we would look to capture learning that can inform our future projects and programmes for the better. The capital management board would receive updates on PIR’s to ensure that it can act on lessons learned.

## **Risk Management**

#### Risk in relation to capital investment projects should be escalated to the capital strategy board. However, the normal risk register process is used to report on all risks. The effectiveness of the controls is tested as part of the Audit Plan and subject to the scrutiny of the Independent Audit Committee. The Constabulary Management Board will consider risk as part of the individual business cases and monitoring of activity. It can also identify risks and ensure their inclusion in the risk register. New risks can be added to the risk register at any time.

# Appendix 4 – Capital Programme 2023/24 to 2026/27

## The table below details the Capital Programme for 2023/24 to 2026/27.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Capital Programme, £m | 2022/23 | 2023/24 | 2024/25 | 2025/26 | 2026/27 | Total |
| Fleet | 4.7 | 4.0 | 5.7 | 6.4 | 6.6 | 27.4 |
| Body Worn Video | 0.7 | 1.4 | 1.0 | 1.0 | 1.0 | 5.1 |
| Taser | 0.0 | 0.0 | 0.0 | 1.8 | 1.0 | 2.8 |
| Mobility Devices | 2.5 | 1.6 | 3.0 | 3.0 | 3.0 | 13.1 |
| Laptops / Desktops | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 | 10.0 |
| IT Infrastructure | 3.9 | 3.2 | 5.5 | 5.5 | 5.5 | 23.6 |
| Firearms Vehicles | 0.0 | 0.2 | 0.0 | 0.0 | 0.0 | 0.2 |
| Total Business as Usual Capital | **13.8** | **12.4** | **17.2** | **19.7** | **19.1** | **82.2** |
| Estates Strategy | 0.0 | 37.0 | 33.0 | 25.0 | 27.5 | 122.5 |
| Total Capital Programme | **13.8** | **49.4** | **50.2** | **44.7** | **46.6** | **204.7** |
| Business as Usual Funded by: |  |  |  |  |  |  |
| Revenue Contributions | 13.8 | 5.4 | 17.2 | 19.7 | 19.1 | 75.2 |
| Borrowing | 0.0 | 7.0 | 0.0 | 0.0 | 0.0 | 7.0 |
| Estates Strategy Funded by: |  |  |  |  |  |  |
| Planned Borrowing | 0.0 | 30.0 | 30.0 | 15.0 | 12.0 | 87.0 |
| Capital Receipts | 0.0 | 7.0 | 3.0 | 10.0 | 15.5 | 35.5 |
| Total Funding | **13.8** | **49.4** | **50.2** | **44.7** | **46.6** | **204.7** |

# Appendix 5 – Statutory Council Tax calculations 2023/24

## The table below details the statutory Council Tax calculations for 2023/24.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| **West Midlands Police & Crime Commissioner Precept Calculation 2023/24** | | | | | | |
|  |  |  |  |  |  |  |
|  |  |  |  |  |  | £ |
|  | Gross Budget Requirement | | |  |  | 709,125,175 |
|  | Less: | Balances and Reserves | | | | (10,752,700) |
|  | **Net Budget Requirement** | | |  |  | **698,372,475** |
|  |  |  |  |  |  |  |
|  | Less: | Police Grant | |  |  | (526,967,333) |
|  |  | Legacy Council Tax Grant | | | | (19,025,734) |
|  | **Gross Council Tax Requirement** | | | |  | **152,379,408** |
|  |  |  |  |  |  |  |
|  | Add/Less: | Balance on Collection Funds | | | | (2,956,793) |
|  | **Net Council Tax Requirement** | | |  |  | **149,422,616** |
|  |  |  |  |  |  |  |
| Apportioned on the relevant tax base as follows: | | | |  |  |  |
|  |  |  |  |  |  |  |
|  | Relevant |  | Total |  | Monthly Instalments | |
|  | Tax base |  | Precept |  | April-Feb | March |
|  | £ |  | £ |  | £ | £ |
| Birmingham | 263,262.00 |  | 53,323,718 |  | 4,443,643 | 4,443,645 |
| Coventry | 86,075.20 |  | 17,434,532 |  | 1,452,878 | 1,452,874 |
| Dudley | 93,834.60 |  | 19,006,198 |  | 1,583,850 | 1,583,848 |
| Sandwell | 76,764.73 |  | 15,548,696 |  | 1,295,725 | 1,295,721 |
| Solihull | 79,168.00 |  | 16,035,478 |  | 1,336,290 | 1,336,288 |
| Walsall | 72,608.66 |  | 14,706,884 |  | 1,225,574 | 1,225,570 |
| Wolverhampton | 65,994.12 |  | 13,367,109 |  | 1,113,926 | 1,113,923 |
|  | **737,707.31** |  | **149,422,615** |  | **12,451,886** | **12,451,870** |
|  |  |  |  |  |  |  |
|  |  |  | Monthly Instalment x 11 | | | 136,970,746 |
|  |  |  |  | **Total Precept** | | **149,422,616** |
|  |  |  |  |  |  |  |
|  |  |  | **Net Precept for Band D property** | | | **£202.55** |
|  |  |  |  |  |  |  |
|  | **Proportion** |  | **Calculated** |  | **Rounded** |  |
|  | **of Band D** |  | **Value** |  | **Value** |  |
|  | **£** |  | **£** |  | **£** |  |
| Band A | 6/9 |  | 135.0333 |  | 135.03 |  |
| Band B | 7/9 |  | 157.5389 |  | 157.54 |  |
| Band C | 8/9 |  | 180.0444 |  | 180.04 |  |
| **Band D** | **9/9** |  | **202.5500** |  | **202.55** |  |
| Band E | 11/9 |  | 247.5611 |  | 247.56 |  |
| Band F | 13/9 |  | 292.5722 |  | 292.57 |  |
| Band G | 15/9 |  | 337.5833 |  | 337.58 |  |
| Band H | 18/9 |  | 405.1000 |  | 405.10 |  |

# Appendix 6 – Report of the Chief Finance Officer as required by section 25 of the Local Government Act 2003

## Section 25 of the Local Government Action 2003 requires the designated Chief Finance Officer of the Commissioner to report to it on the following matters:

## The robustness of the estimates made for the purposes of the statutory budget calculations;

## The adequacy of the proposed financial reserves.

## The Commissioner must then have regard to that report when making decisions about the statutory budget calculations.

## **Appendix 8** analyses the risks and implications if key budget assumptions vary during the year. Any overspendings which cannot be contained within approved budget levels will have to be financed from the Budget Reserve.

## Details of the Commissioners general balances and reserves are set out in **Section 4** of the report. I am recommending that the level of General Balances remains at £12m.

## The 2023/24 Revenue Budget and Medium-Term Financial Plan requires a use of reserves. I have advised the Commissioner that I believe this represents an entirely reasonable, balanced and prudent approach, given current levels of crime and anti-social behaviour, the priorities set out in the Police and Crime Plan and the levels of Government resources likely to be available in the medium term.

## The Insurance fund will continue to be maintained at a level consistent with the insurance cost borne by the Commissioner’s reserve and the level of outstanding self-funding insurance claims at any time. Financing for the Capital Programme includes the use of borrowing, capital receipts, capital grant and revenue contributions. Other earmarked reserves will be applied as expenditure levels and service requirements dictate.

## It will be necessary to retain as much flexibility as possible over the levels of reserves.

## The total level of revenue reserves is estimated to be around £43.3m by 31st March 2024, depending on the use of earmarked reserves and the other factors influencing the use for serves in 2023/24.

## I am therefore able to confirm that, in my professional opinion:

* The estimates made for the purposes of the calculations of the commissioner’s budget requirement for 2023/24, under Section 32 of the Local Government Finance Act 1992 contained in the report are robust.
* The Financial reserves that will remain available to the Commissioner, as a result of agreeing the proposals contained in this report are adequate.

**Mark Kenyon**

**Chief Finance Officer**

# Appendix 7 – Statement of Prudential Indicators

## The Prudential Code for Capital Financing in Local Authorities (Prudential Code) is applicable to the Police and Crime Commissioner and has been developed by the Chartered Institute of Public Finance and Accountancy (CIPFA) to provide a code of practice to underpin the system of capital finance embodied in Part 1 of the Local Government Act 2003. PCCs, like Local Authorities, are free to determine their own level of capital investment controlled by self-regulation.

## The key objectives of the Prudential Code are to ensure that capital investment plans are affordable, prudent and sustainable.

## The Prudential Code supports a system of self-regulation that is achieved by the setting and monitoring of a suite of Prudential Indicators that directly relate to each other. The indicators establish parameters within which the PCC should operate to ensure the objectives of the Prudential Code are met.

## In setting the prudential indicators, the PCC must give due regard to the following matters:

* Service objectives, e.g. strategic planning for the authority
* Stewardship of assets,
* Value for money, e.g. option appraisal
* Prudence and sustainability
* Affordability
* Practicality, e.g. achievability

## The Prudential Indicators below will also be reported in the PCC’s 2022/23 Treasury management policy which will be reported to Joint Audit Committee in March 2022. The PCC has adopted the Chartered Institute of Public Finance and Accountancy (CIPFA): Code of Practice for Treasury Management in the Public Services. The Prudential Indicators for which the PCC is required to set limits are as follows.

## The first prudential indicator is **Capital Expenditure** – this prudential indicator is a summary of the PCC’s capital expenditure plans, both those agreed previously, and those forming part of this budget cycle. It also forms the background to all other indicators, given that the overall rationale of the prudential system is to provide flexibility for borrowing to fund capital investment.

## The actual amount of capital expenditure that was incurred during 2021/22, and the estimates of capital expenditure to be incurred for the current and future years that are proposed in the 2023/24 Budget are as follows.

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
|  | 2021/22 Actual £m | 2022/23 Estimate £m | 2023/24 Estimate £m | 2024/25 Estimate £m | 2025/26 Estimate £m | 2026/27 Estimate £m |
| Capital Expenditure | 26.0 | 13.8 | 49.4 | 50.2 | 44.7 | 46.6 |

## The second prudential indicator is the PCC’s **Capital Financing requirement** (CFR). The CFR is simply the total historic outstanding capital expenditure which has not yet been paid for from either revenue or capital resources. It is essentially a measure of indebtedness and so is the underlying borrowing need. Any capital expenditure above which has not been paid for through a revenue or capital resource, will increase the CFR. The does not increase indefinitely, as the minimum revenue provision (MRP) is a statutory annual revenue charge which broadly reduces the indebtedness in line with each asset’s life, and so charges the economic consumption of capital assets as they are used.

## This Prudential Indicator also provides an overarching requirement that all the indicators operate within and is described in the Prudential Code as follows - **“In order to ensure that over the medium term net borrowing will only be for a capital purpose, the PCC should ensure that net external borrowing does not, except in the short term, exceed the total of capital financing requirement in the preceding year plus the estimates of any additional capital financing requirement for the current and next two financial years”.**

## In considering the proposed capital programme for 2022-23, the anticipated future borrowing requirements are considered in the context of overall capital resources and the impact on the revenue budget.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | 31st March 2022 £m | 31st March 2023 £m | 31st March 2024 £m | 31st March 2025 £m | 31st March 2026 £m |
| Capital financing requirement (CFR) | 76.2 | 74.2 | 109.2 | 135.1 | 145.2 |
| External borrowing | -101.3 | -105.3 | -127.0 | -154.8 | -167.8 |
| Variance | -25.1 | -31.1 | -17.8 | -19.7 | -22.6 |

*Note: The CFR increases when expenditure is incurred and reduces when provision is made to repay deb.*

## The third indicator, **Ratio of Financing Costs to Net Revenue Stream** is intended to demonstrate the affordability of capital investment decisions in terms of the ratio of capital financing costs to overall resources, expressed as a percentage.

## Financing Costs in include the amount of interest payable in respect of borrowing or other long-term liabilities and the amount the PCC is required to set aside to repay debt, less interest and investments income.

## The Net Revenue Stream is the amount to be met from government grants and local taxation. The prediction of the Net Revenue Stream for future years assumes increases in the PCC’s funding from government and the local taxpayer consistent with expectations in the Medium-Term Financial Plan.

## The estimates of the ratio of financing costs to net revenue stream, which are at very low levels, are as follows.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
|  | 2023/24 Estimate £m | 2024/25 Estimate £m | 2025/26 Estimate £m | 2026/27 Estimate £m |
| Financing Costs | 4.0 | 8.1 | 9.5 | 8.0 |
| Net Revenue Stream | 722.1 | 738.3 | 753.6 | 772.2 |
| Ratio | 0.57% | 1.10% | 1.26% | 1.03% |

## The next set of indicators are **Authorised Limit, Operational Boundary and Actual External Debt**, these indicators are intended to ensure that levels of external borrowing are affordable, prudent and sustainable. The Authorised Limit for external debt is a statutory limit that should not be breached under any circumstances. The proposed limits set out below have been calculated to take account of the current PCC’s Capital Expenditure and Financing Plans and allowing for the possibility of unusual cash movements. If this limit is likely to be breached, it would be necessary for the PCC to determine if it is prudent to raise the limit or to instigate procedures to ensure that such a breach does not occur.

## The Operational Boundary is the limit beyond which external debt is not normally expected to exceed. It is a management tool for day to day monitoring and has been calculated with regard to the PCC’s Capital Expenditure and Financing Plans allowing for the most likely, prudent, but not worst-case scenario for cash flow. Temporary breaches of the Operational Boundary, due to variations in cash flow, will not be regarded as significant.

## The following limits are recommended.

|  |  |  |  |
| --- | --- | --- | --- |
|  | 2023/24 £m | 2024/25 £m | 2025/26 £m |
| Authorised Limit for external debt: Borrowing | 140 | 170 | 185 |
| Operational Boundary: Borrowing | 135 | 165 | 180 |

## The PCC’s actual external debt as at 31st March 2023 is anticipated to be £105.3m, excluding transferred debt managed by Dudley MBC.

## The **Incremental Impact of Capital Investment Decisions on the Council Tax** indicator is intended to demonstrate the affordability of capital investment decisions in terms of their impact on the precept.

## As per the Capital Programme, the PCC may propose to undertake borrowing to fund capital investment, the incremental impact on the precept is shown below.

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
|  | 2022/23 £m | 2023/24 £m | 2024/25 £m | 2025/26 £m | Total £m |
| Additional borrowing | 7.0 | 22.5 | 30.0 | 15.0 | 74.5 |
| Interest | 0.1 | 0.2 | 1.4 | 0.8 | 2.5 |
| Repayment of Principal | 0.0 | 0.0 | 2.2 | 0.8 | 3.0 |
| Total revenue effect | 0.1 | 0.2 | 3.6 | 1.6 | 5.5 |

## There will also be some additional revenue costs resulting from capital investment, the effects of which are included in the medium-term revenue forecasts.

## It is recommended that:

1. That the PCC sets an upper limit on **fixed interest rate exposure** as follows:

|  |  |  |  |
| --- | --- | --- | --- |
| Fixed Interest Exposure | 2022/23 % | 2023/24 % | 2024/25 % |
| Upper Limit | 100 | 100 | 100 |

1. That the PCC sets an upper limit on **variable interest rate exposures** as follows:

|  |  |  |  |
| --- | --- | --- | --- |
| Variable Interest Rate Exposure | 2022/23 % | 2023/24 % | 2024/25 % |
| Upper Limit | 20 | 20 | 20 |

## This is the maximum external borrowing judged prudent that the PCC should expose to variable rates.

## These gross limits are set to reduce the PCCs exposure to large fixed sums falling due for refinancing, and are required for upper and lower limits. It is recommended that the upper and lower limits for the maturity structure of borrowings are as follows:

|  |  |  |
| --- | --- | --- |
| Period of Maturity | Upper Limit % | Lower Limit % |
| Under 12 months | 25 | 0 |
| 12 months and within 24 months | 25 | 0 |
| 24 months and within 5 years | 50 | 0 |
| 5 years and within 10 years | 75 | 0 |
| 10 years and above | 100 | 25 |

*Amount of projected borrowing that is fixed rate maturing in each period as percentage of total projected borrowing that is fixed.*

## It is recommended that the upper limits of total principal sums invested for periods longer than 364 days are £40.0m for 2022/23, 2023/24 and 2024/25.

# Appendix 8 – Risk Assessment

## The table below details the risks and implications if key budget assumptions vary during the year.

|  |  |  |  |
| --- | --- | --- | --- |
| Risk | Likelihood | Impact | Comment |
| The change programme costs including the Estates Strategy are significantly higher than planned | Medium | High | Governance structures in place to deliver the change programme. If circumstances change, the financial implications of this will be considered in year. |
| The Capital Programme requirement changes as work streams develop, for example, development of the Estates Strategy | High | High | The programme has been written with some flexibility built in but should strategic choices vary significantly the programme would be reviewed and re-shaped in line with the new requirement. The addition of the Estates Strategy is being programme managed and would be reported through the appropriate governance channels. |
| Pay awards in the future differ from the assumptions in our financial planning | Medium | High | Current assumptions include a 3.0% pay award in September 2023. Due to the current increases in the cost of living it is worth flagging the risk this could increase. |
| Increase in volume and/or cost of policing public order incidents linked to the general economic conditions or other factors | Medium | Medium | Depending on the volume and complexity of any incidents, this could place a significant strain on current contingency budgets. In the first instance savings would look to be found across budgets areas. If this was not sufficient then reserves would need to be used. |
| Interest rates increase | Low | Medium | The budget reflects the low rates of interest being received on investments. Forecasts from our Treasury Management advisers suggest that borrowing rates are likely to increase which will add to the costs of financing the capital programme should borrowing be required over the medium term. |
| General inflation is different to the assumptions included in the budget | Medium | Medium | A 1% increase would cost around £1.2m. Significant increases in building costs in the medium-term capital programme period could have an impact on some estimates. |
| Income levels are not achieved | Low | Low | A 1% loss of income (excluding grants & interest) could cost around £0.3m. |