



STRATEGIC POLICING AND CRIME BOARD

Tuesday, 24 October 2023

Police and Crime Plan Priority: N/A

Presented by: Jane Heppel

Report: Medium Term Financial Plan and Reserves Strategy for 2023/24 to 2027/28

Purpose of paper

1. To provide the Strategic Policing and Crime Board with an update on the Medium-Term Financial Plan ((MTFP), along with the corresponding Reserves Strategy for the period 2023/24 to 2027/28, based on current information and assumptions.

Background

2. The Medium-Term Financial Plan details how resources will be utilised to deliver Force priorities, as per the current Police and Crime Plan and Force strategies.
3. The corresponding Reserves Strategy is drawn up to support the MTFP within the parameters of the Financial Regulations adopted by the Police and Crime Commissioner (PCC).
4. The PCC must consider the required level of general policing fund balances that should be retained before deciding the level of council tax precept. General balances are maintained as a matter of prudence and to meet financial risks. They enable the PCC to provide for known and unknown risks and offer financial resilience.
5. Earmarked reserves are retained for specific risks and planned investments.
6. Provisions are retained for specific purposes or for known future financial obligations.
7. The MTFP is built upon the 2023/24 budget and includes the agreed 7% pay award from September 2023 along with the corresponding additional grant from the Home Office. The total grant settlement for the West Midlands in 2023/24 was £569.7m. The grant reflects the commitments to main police officer uplift numbers and funding the 2022/23 police officer pay award.
8. The other main points to note from the settlement were as follows:
 - The settlement included the opportunity for PCCs to raise their precept by up to £15 per year per Band D property in 2023/24. This was an increase of £5 on the £10 announced as part of the three-year Spending Review in 2021.
 - PCCs were expected to pay for the Police Staff 2022 pay award.
 - Funding for the social care NI levy has been removed from core funding, due to the cessation of the increased contributions in November 2022.

- PCCs were required to absorb other significant cost pressures. These included increases in the cost of gas, electricity, fuel, and general inflation;
 - The Government expects policing 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 £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.
9. It is unlikely that the formula funding review will be enacted before the next Parliament and therefore the plan is constructed on the basis of the existing allocation. The 2023/24 budget had a financial gap of £28.1m and was set with a mix of permanent savings (£9.2m) identified through a PBB exercise and several one-off savings (£18.9m), as detailed in the table below.
10. Consideration has also been given to the current outturn position reported to the SPBC in September 2023, reporting a £16.7m underspend. Along with the updated Estates Strategy being presented to this October board meeting.

Revenue Medium Term Financial Plan

11. The Medium-Term Financial Plan is based on the following set of principles and assumptions:
- Maintain officer numbers at the target uplift headcount of 7,909 plus the 100-stretch target throughout the 5-year period.
 - Maintain staff numbers at 4,281 FTE, subject to a review of vacancies to support balancing the budgets over the medium term.
 - Maintain PCSO (Police Community Support Officers) numbers at 464 FTE.
 - Police Staff vacancy factor of 4% throughout the MTFP.
 - Pay award inflation includes 7% for 2023/24, assumed 2.5% for 2024/25 and returns to pre-elevated (2%) levels thereafter.
 - Changes reflected to police officer starting spinal points.
 - Police Grant is as per Spending Review Settlement for 2023/24 and 2024/25 and then a percentage increase of 1.6% thereafter.
 - General price inflation to reduce for 2024/25 and return to pre-elevated levels by 2025/26.
 - Precept flexibility of £10 during the 5-year period as per Comprehensive Spending Review (CSR) 2022.
 - Income inflated at 1% year on year.
 - Maintain the General Fund Reserve at current levels.
 - Contributions to or use of other reserves as required.
 - Assumed asset life cycle for IT&D equipment is 5 years.
 - A replacement programme for Fleet, Body Worn Camera's, and Tasers.
 - The refreshed Estates Strategy position presented to this board.
 - Status quo in relation to Commissioning and oversight spending in the OPCC.
 - Continue to comply with the Living Wage Foundation's minimum pay rates.

12. The below table summarises the revenue medium term financial plan.

| Police Force Net Expenditure £m | Current Budget 2023/24 | MTFP 2024/25 | MTFP 2025/26 | MTFP 2026/27 | MTFP 2027/28 |
|--|------------------------|--------------|--------------|--------------|--------------|
| Salaries including Overtime | 685.0 | 717.2 | 736.6 | 758.7 | 783.2 |
| Non-Pay Expenditure | 160.8 | 173.0 | 182.9 | 187.9 | 191.2 |
| Income | (138.8) | (139.0) | (141.0) | (142.9) | (144.9) |
| Change Programme including Estates | 10.8 | 13.2 | 6.4 | 2.6 | 2.9 |
| Total Police Force Expenditure | 717.8 | 764.4 | 784.9 | 806.3 | 832.4 |
| Police & Crime Commissioner | 11.9 | 9.1 | 9.2 | 9.2 | 9.3 |
| Total Expenditure | 729.7 | 773.5 | 794.1 | 815.6 | 841.8 |
| Police Grants | (566.1) | (586.6) | (595.6) | (604.9) | (614.2) |
| Precept | (152.4) | (159.4) | (169.1) | (178.8) | (188.7) |
| Planned Contribution to / (from) Reserves | (11.2) | (6.8) | (3.5) | (0.4) | (0.4) |
| Potential Savings Required | 0.0 | 20.7 | 25.8 | 31.4 | 38.4 |
| Balancing the Gap for 2024/25 | | | | | |
| Utilise 2023/24 Underspend to alleviate pressures short term | 0.0 | (10.7) | 0.0 | 0.0 | 0.0 |
| Target Permanent Savings | 0.0 | (10.0) | (10.2) | (10.5) | (10.8) |
| Future Savings Required | 0.0 | 0.0 | 15.6 | 20.9 | 27.6 |

13. The figures in the table above include the 2021 Spending Review settlement providing three-year budgets for all police forces, with total increases to government grant of £550m in 2022/23m £650m in 2023/24 and £800m in 2024/25 to provide forces with the means to recruit and maintain the full 20,000 officer uplift.
14. Following the acceptance of the recommendations of the Police Remuneration Review Board on Police Officer Pay for September 2023 the Home Office has provided forces nationally with additional funding for pay over the Spending Review period of at £330m for 2023/24 and £515m for 2024/25, this is assumed to be in the form of additional Police Grant.
15. To balance the gap for 2024/25 we are planning to utilise £10.7m of the 2023/24 forecast underspend to ease the pressures short term whilst targeting £10m worth of savings across non pay expenditure and a review of vacant posts across police staff establishment.
16. If the flexibility allowed in CSR 2022 is relaxed, the PCC would consider, subject to consultation, raising council tax further, within the limits of any flexibility allowed by government, in order to protect services. In a Force recognised by HMICFRS as an efficient Force, dealing with structural underfunding compared to the substantial demand it encounters, such investment would be targeted at getting upstream of crime demand and focussing on prevention and neighbourhood policing.

17. The below table further details the planning assumptions contained within the revenue Medium Term Financial Plan along with a sensitivity analysis of a 1% variance.

| Expenditure / Income Type | £m |
|---|-------|
| 1% increase in Pay Inflation (full year effect) | 7.0 |
| 1% increase in Price Inflation | 1.7 |
| 1% increase in Core Grant (including Uplift) | (5.5) |
| 1% increase in the Precept tax base | (1.6) |
| £1 increase in the Precept | (0.7) |

18. Other potential risks / issues that have not been factored into the current plan include:
- Market conditions not returning to 'normal' and elevated inflation rates staying at these levels for longer than assumed or becoming embedded into costs.
 - Funding of further transformation projects beyond the current programme.
 - Impact of any national policy changes or legal challenges that would affect the financial position.
 - 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 (Counter Terrorism Unit), Firearms, ROCU (Regional Organised Crime Unit).
 - Financial implications of ESMCP (Emergency Services Mobile Communications Programme).
 - Potential increases in employers' pension rates beyond 23/24. Financial implications of the McCloud and Sargeant cases, however in the main it is expected that the additional costs would be funded by the Home Office and top up grants.

Forecasted Staffing

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

| Forecast Establishment | 2023/24 FTE | 2024/25 FTE | 2025/26 FTE | 2026/27 FTE | 2027/28 FTE |
|---|----------------|----------------|----------------|----------------|----------------|
| Police Officer | 7,900 | 7,900 | 7,900 | 7,900 | 7,900 |
| PCSOs (Police Community Support Officers) | 464 | 464 | 464 | 464 | 464 |
| Police Staff | 4,281 | 4,281 | 4,281 | 4,281 | 4,281 |
| Total Establishment | 12,645 | 12,645 | 12,645 | 12,645 | 12,645 |

20. As we develop our plans to close the funding gap in 2024/25, we would expect to see some adjustments to vacant posts to support savings plans. The police officer full time equivalent (FTE) of 7900 is based on maintaining the headcount of 7,909, plus the additional 100 stretch target linked to maintaining the uplift numbers.

Capital Programme

21. The below tables break down the business-as-usual capital replacement programme, along with the details of what the programme is funding.

| Capital Programme, £m | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 | Total |
|--|-------------|-------------|-------------|-------------|-------------|--------------|
| Fleet Replacement | 4.3 | 5.9 | 6.2 | 6.6 | 6.9 | 29.9 |
| Body Worn Video Replacement | 1.4 | 1.0 | 0.4 | 1.0 | 1.3 | 5.1 |
| Taser Replacement | 0.0 | 0.0 | 1.6 | 1.6 | 1.6 | 4.8 |
| Mobility Devices Replacement | 1.6 | 0.0 | 0.0 | 0.0 | 0.0 | 1.6 |
| Laptops / Desktops Replacement | 5.7 | 2.9 | 5.0 | 2.7 | 1.8 | 18.1 |
| IT Infrastructure | 3.2 | 2.6 | 3.3 | 5.5 | 3.7 | 18.3 |
| Total Capital Replacement Programme | 16.2 | 12.4 | 16.5 | 17.4 | 15.3 | 77.8 |
| Estates Strategy | 7.6 | 33.0 | 5.2 | 0.0 | 0.0 | 45.8 |
| Total Capital Programme | 23.8 | 45.4 | 21.7 | 17.4 | 15.3 | 123.6 |
| Funded by: | | | | | | |
| Revenue Contributions | 9.2 | 12.4 | 16.5 | 17.4 | 15.3 | 70.8 |
| Borrowing | 14.5 | 0.0 | 0.0 | 0.0 | 0.0 | 14.5 |
| Capital Receipts | 0.1 | 30.3 | 7.9 | 0.0 | 0.0 | 38.3 |
| Short Term Contribution from / (to) reserves | 0.0 | 2.7 | (2.7) | 0.0 | 0.0 | 0.0 |
| Total Funding | 23.8 | 45.4 | 21.7 | 17.4 | 15.3 | 123.6 |

22. The fleet replacement programme has been scaled down for 2023/24 to support the savings required but it is anticipated the replacement programme will need to increase back up to a rolling replacement of between 220-230 vehicles per year. The asset life for vehicles ranging depending upon the vehicles use.
23. The Body Worn Video replacement is currently under contract with an asset life of 3 years, payments are spread over the contract period, there is a break clause / option to renew for a further 3 years in 2024/25.
24. The Taser Replacement programme is due for renewal in 2025/26 following an extension to the existing contract / tasers. The asset life is usually 5 years. The MTFP assumption is that the new taser contract will be set up in a comparable way to the Body Worn Video's where the asset cost will be spread over the life of the contract.
25. The IT and Digital Replacement programme is made up of 3 areas – Mobility Devices, Laptops / Desktops, and IT Infrastructure. Mobility Devices are due for renewal in 2023/24 with an expected asset life of 5 years. The capital programme allows for a rolling replacement programme for laptops / desktops with an expected asset life of 5 years. The infrastructure programme allows for upgrades / replacements of our existing infrastructure, IT and Digital have a programme of work planned.

Estates Strategy

26. Due to a revised approach to several schemes, the new strategy reduces the level of capital investment by c£90m to £45.8m supported by £13.3m of one-off revenue costs as summarised in the table below, including the planned funding of these costs.

| Capital & Revenue Costs of Estates Strategy £m | 2023/24 | 2024/25 | 2025/26 | 2026/27 | Total |
|--|------------|-------------|------------|------------|-------------|
| Capital Costs | 7.6 | 33.0 | 5.2 | 0.0 | 45.8 |
| Funded by: | | | | | |
| Borrowing | 7.5 | 0.0 | 0.0 | 0.0 | 7.5 |
| Capital Receipts | 0.1 | 30.3 | 7.9 | 0.0 | 38.3 |
| Short Term Contribution from / (to) reserves | 0.0 | 2.7 | (2.7) | 0.0 | 0.0 |
| Total Capital Funding | 7.6 | 33.0 | 5.2 | 0.0 | 45.8 |
| One Off Revenue costs | 4.5 | 6.4 | 2.4 | 0.0 | 13.3 |
| Funded by: | | | | | |
| Utilisation of 2023/24 Underspend | 3.3 | 0.0 | 0.0 | 0.0 | 3.3 |
| Use of Estate Strategy Reserve | 1.2 | 6.4 | 2.4 | 0.0 | 10.0 |

27. The revised strategy will achieve capital receipts of c£65m from the proposed site disposal programme, and the elimination of backlog maintenance exposure at those sites of c£19m.
28. The planned enhancements at the remaining sites will also address their backlog maintenance issues currently estimated to be c£3m.
29. There will also be an ongoing reduction to revenue expenditure of £6m, due to a mix of lower running costs for the estate coupled with reduced borrowing to fund the programme.

Reserves Strategy

30. The use and maintenance of reserves is based on the following principles and are classified into two categories:
- Maintain 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 years budget pressures.
 - Funding investment in the Change Programme including the Estates Strategy.
 - Earmarking specific funds to meet known or predicted requirements in the future.
 - Creating contingencies to cushion the impact of unexpected events or emergencies.
- I. Funding for planned expenditure on projects and programmes
 - II. As a general contingency or resource to meet other expenditure needs held in accordance with sound principles of good financial management.
31. Over the next 5 years we will look to use a net £32.9m of reserves as detailed in the table below:

| Contribution to / From Reserves £m | 2023/24 | 2024/25 | 2025/26 | 2026/27 | 2027/28 | Total |
|---|---------------|---------------|--------------|--------------|--------------|---------------|
| Uniform and Equipment Reserves | (3.7) | 0.0 | (0.7) | 0.0 | 0.0 | (4.4) |
| Estates Strategy | (1.2) | (6.4) | (2.4) | 0.0 | 0.0 | (10.0) |
| Budget Reserve | (2.6) | (10.7) | 0.0 | 0.0 | 0.0 | (13.3) |
| Short-Term Borrowing from Uniform and Equipment Reserve | 0.0 | (2.7) | 2.7 | 0.0 | 0.0 | 0.0 |
| OPCC - Commissioned Services | (0.4) | (0.4) | (0.4) | (0.4) | (0.4) | (2.0) |
| NaBIS / ROCU Reserves | (0.3) | 0.0 | 0.0 | 0.0 | 0.0 | (0.3) |
| PCC Office Carry Forward (from 2022/23) | (2.9) | 0.0 | 0.0 | 0.0 | 0.0 | (2.9) |
| Total | (11.1) | (20.2) | (0.8) | (0.4) | (0.4) | (32.9) |

32. This includes utilising the £10.7m of the 2023/24 forecast underspend to alleviate some of the financial pressures for 2024/25.

33. The table below details the current level of reserves held from the outturn for March 2023 through to the forecasted level by March 2028 based on use of / contribution to reserves detailed above.

| Reserves £m | 31st March 2023 Actual | 31st March 2024 Forecast | 31st March 2025 Forecast | 31st March 2026 Forecast | 31st March 2027 Forecast | 31st March 2028 Forecast |
|---|---------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|-----------------------------|
| Funding for Planned Expenditure on Projects & Programmes - Revenue | | | | | | |
| Regional / National Reserve | 4.3 | 4.0 | 4.0 | 4.0 | 4.0 | 4.0 |
| PPA / Misuse of Drugs Act | 1.7 | 1.6 | 1.5 | 1.5 | 1.4 | 1.4 |
| POCA (Proceeds of Crime Act) Reserve | 0.9 | 0.9 | 0.9 | 0.9 | 0.9 | 0.9 |
| Change Programme Reserve | 2.6 | 2.6 | 2.6 | 2.6 | 2.6 | 2.6 |
| Estates Strategy Reserve | 11.2 | 9.9 | 3.5 | 1.1 | 1.1 | 1.1 |
| Carry Forward Reserve | 13.0 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Funding for Planned Expenditure on Projects & Programmes - Capital | | | | | | |
| Useable Capital Receipts Reserve | 3.5 | 6.0 | 0.0 | 22.3 | 30.7 | 30.7 |
| Capital Grants Unapplied | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 | 0.8 |
| Reserves held in accordance with sound principles of good financial management | | | | | | |
| Uniform and Equipment Reserve | 6.7 | 11.2 | 8.5 | 10.5 | 10.5 | 10.5 |
| Budget Reserve | 16.2 | 26.7 | 16.0 | 16.0 | 16.0 | 16.0 |
| National Contingency Reserve | 1.4 | 1.4 | 1.4 | 1.4 | 1.4 | 1.4 |
| Council Tax Funding Reserve | 0.8 | 0.0 | 0.0 | 0.0 | 0.0 | 0.0 |
| Total Earmarked Reserves | 63.1 | 65.1 | 39.2 | 61.1 | 69.4 | 69.4 |
| General Fund Reserve | 12.0 | 12.0 | 12.0 | 12.0 | 12.0 | 12.0 |
| Total Useable Reserves | 75.1 | 77.1 | 51.2 | 73.1 | 81.4 | 81.4 |
| Provisions | 13.0 | 9.7 | 10.0 | 10.2 | 10.5 | 10.7 |
| Total Useable Reserves & Provisions | 88.1 | 86.8 | 61.2 | 83.3 | 91.9 | 92.1 |

34. The total reserves of the West Midlands Police and Crime Commissioner as of 31 March 2023 was 13% of the net revenue budget (NRB), if all the funding for planned expenditure is utilised by March 2028 this will reduce to around 8% of the forecast NRB.
35. **Appendix 1** provides an explanation of each reserve grouped into the categories outlined above. Reserves and provisions will continue to be monitored and reviewed regularly throughout the year and medium-term.

Options over the Medium-Term Financial Plan

36. 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.
 - Review and challenge all non-pay budgets including overtime.
 - Seek further income generation opportunities. This includes income from policing events.
 - Identify further invest to save opportunities including environmental projects.
 - Review laptop, desktops, and mobility devices to ensure we do not have more kit than required and consolidate data plans.
 - Utilise vehicle telematics to reduce the fleet size where inefficiencies are identified.
 - Consider partnership and collaboration options.
 - Review / reduce the capital programme and hence the required revenue contributions. Or look at alternative ways of funding such as short-term borrowing.
 - Reserves in place to provide flexibility in managing future years budget pressures.
37. The above options will be explored during the budget setting process for 2024/25 and will be included in the papers when the Commissioner presents the budget and precept proposals for 2024/25 to the police and crime panel.

Summary

38. The medium-term financial plan seeks to find a balance between delivering savings whilst maintaining the following approach.
- Recruitment of a mix of police officers, police staff and PCSOs. Seeking to recruit more underrepresented groups as a keyway to transforming the force to be more representative of the public.
 - Compliance with the Living Wage Foundation recommended minimum pay rates.
 - 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.

Recommendation

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

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Appendix 1 – Explanation of Reserves

40. The following paragraphs provide an explanation of each reserve split by Home Office Category.

Category (i) Funding for planned expenditure on projects and programmes

Regional / National Reserve

41. The Regional / National Reserve includes balances held for regional and national projects including the Regional Organised Crime Unit (ROCU), National Ballistics Intelligence Service (NaBIS), Central Motorway Policing Group (CMPG), Lock-Up Museum and County Lines. This reserve is therefore held by West Midlands on behalf of ourselves and other forces. This reserve has been generated from in year under spends and will be agreed and drawn down annually over the course of the medium term in line with decisions made at the respective boards to support operational activity.

PPA / Misuse of Drug Act Reserve

42. The Police Property Act (PPA) and Misuse of Drug Act reserve allows recovered assets of criminality to be used to fund community-based activity. Funding is secured in several ways including cash seizures and the confiscation of assets through the courts following convictions. The Home Office collect the assets, and these are shared between the Treasury, Courts, Crown Prosecution Service and Police using a prescribed formula. This reserve is being used to fund the Commissioner's Helping Communities Fund which supports projects at Neighbourhood Policing Units.

POCA Reserve

43. The POCA Reserve has been created to hold any surplus POCA income received in year, this will be utilised in future years to either support a deficit in POCA receipts against the budget during a budget year or future planned initiatives.

Change Programme Reserve

44. The Change Programme reserve is made up of carry forwards of phased underspends on projects and programmes between budget years and an enabler for initiatives through the change programme to deliver planned cashable benefits. Future change business cases will be assessed on a case-by-case basis and reserves utilised as required.

Estates Strategy Reserve

45. The estates strategy reserve is made up of:
- Carry forwards of phased underspends on live estates projects between budget years; and
 - Uplift Estates budgets due to timing of grant received versus work carried out.

Carry Forward Reserve

46. This reserve is used to carry forward specific / agreed under spends from the revenue budget and will usually be utilised the following year. Any unutilised carry forwards will be transferred to the budget reserve. This includes:
- Grant No Conditions across BAU Departments,
 - Revenue Contribution to Capital Outlay carry forward due to delays in the capital programme,
 - BAU requests to carry forward due to committed spend moving into future years.

Useable Capital Receipts Reserve

47. The capital receipts reserve holds the balance of receipts received through the sale of police assets and will be used to capital part of the Estates Strategy or BAU capital programme over the current medium-term financial planning cycle. It should be noted capital receipts can only be used for capital purposes.

Capital Grants Unapplied

48. This reserve holds previous year's capital grants that have not yet been applied. The unapplied grants are ring-fenced to be used over the medium-term planning cycle.

Category (ii) Reserves held in accordance with sound principles of good financial management

Uniform and Equipment Reserves

49. The Uniform & Equipment Reserve was created to mitigate the effects of legislative changes in uniform and equipment and to provide some flexibility if policies in relation to uniform and equipment issues change. The reserve has recently been expanded to cover to periodic replacement of major equipment such Tasers, and mobility devices

National Contingency Reserve

50. This reserve is to fund projects and national policing initiatives the West Midlands may be required to contribute funding towards.

Council Tax Funding Reserve

51. The Council Tax Funding reserve, as at 31st March 2023 is made up of the balance of the Local Council Tax Support Grant paid during 2021/22 in recognition of the additional costs of providing local council tax support as a result of the pandemic and the final third of the Local Council Tax Guarantee Scheme paid to cover the repayment of collection fund deficits arising in 2020/21 that were spreadable over the next 3 years rather than the usual period of a year. The reserve will be drawn down to ensure that sufficient income is available in 2023/24 to offset the phased deficit on collection fund arising from 2020/21.

Budget Reserve

52. This reserve will be applied as part of the Commissioner's Medium-Term Financial Plan (MTFP) to reduce the impact of financial pressures.
53. Consideration will be given to utilising the reserve to further support 2024/25 as part of the budget setting cycle.
54. The plan thereafter is to hold the Budget Reserve at the forecast level as of 31st March 2025 to fund any potential future funding gaps from 2025/26 and beyond, linked to the risks associated with potential increases in inflation over and above those forecast through the medium-term financial plan.

General Fund

55. The Police Service, as one of the major emergency services, is required to respond to incidents of an unexpected nature over which it has little or no control. A major incident, or a series of events, could put extraordinary pressure on the budget in a particular year. As a result, financial prudence dictates that a level of General Balances should be retained to provide resilience against the effect of such a situation.
56. The balance of the general fund has been assessed considering the financial risks included within the PCC and Force Risk Registers. A breakdown of these is shown

in **Appendix 2**. This provides the PCC with more accurate, timely and risk-based information on the type of issues that may have significant potential implications for the level of general fund reserves held, both now and in the future.

57. The biggest risk is the additional costs of one-off operational incidents or in-year emergencies that cannot be contained within budget or be fully grant funded by Government.
58. Nationally, Police and Crime Commissioners have provided financial guarantees to organisations in case they fail. This is in respect of the Police ICT Company and the Association of Police and Crime Commissioners Association. In the unlikely event these guarantees are called in these will be funded from the general reserve.

Provisions

59. The CIPFA Statement of Recommended Practice is prescriptive about when provisions are required (and when they are not permitted). A provision must be established for any material liabilities of uncertain timings or amount, to be settled by the transfer of economic benefits. In accordance with this statutory guidance West Midlands Police has established several provisions for prospective claims, damages, and legal costs in association with ongoing claims.
60. The majority of the £13.0m balance relates to insurance provisions (£9.5m). The insurance policies held by the PCC require a significant level of self-insurance, the level of this being recommended by independent advisers. The current provision is expected to be used within the next seven years, however future claims are also expected, the overall provision is expected to increase slightly year on year. The Insurance provision includes Public and Employers Liability, Fire and Uninsured Losses.
61. An additional provision has been made for historic mileage claims in respect of dog handlers (£0.7m). The remaining provision balance (£2.8m) relates to prospective damages and legal costs in association with ongoing claims from 2018-19 which are live legal discussions. Both these provisions are expected to be utilised during 2023/24 as we settle the claims.

Appendix 2 – Financial Risk Assessment

| Appendix 2 – Financial Risk Assessment | Likelihood | Impact | Comment |
|--|------------|--------|--|
| Medium-Term funding remains unclear. | Medium | High | The 3-year settlement ends in 2024/25. The future funding assumes the grant inflates with the rate of inflation for pay awards. Due to the nature of funding settlements future years funding remains unclear and could vary significantly to that planned. £1 change in precept results in £0.7m movement and 1% change in grant results in £5.5m movement in grant |
| 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. |
| Pay awards in the future differ from the assumptions in our financial planning | Medium | Medium | Current assumptions are in line with pay award offers to Police Officers and Staff. If pay awards are higher than this, the savings requirement will increase as outlined in the sensitivity analysis above. |
| 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 were not sufficient then reserves would need to be used. |
| Interest rates increase | Medium | Medium | The budget reflects the current rates of interest being received on investments. Forecasts from our Treasury Management advisers suggest that borrowing rates are likely to increase before coming back down by December 2024. Further borrowing will be considered as we review our capital and revenue plans, consideration will be given to interest rates at the time before making borrowing decisions. |
| General inflation is different to the assumptions included in the budget. | Medium | Medium | A 1% increase would cost around £1.5m. Significant increases in building costs in the medium-term capital programme period could have an impact on some estimates. |
| Income levels not achieved | Low | Low | A 1% loss of income (excluding grants & interest) would cost around £0.3m. |
| Planned savings from the Change Programme and other savings included within the Medium-Term Financial Plan are not achievable. | High | High | Budget Managers have considered the planned savings and confirmed they believe them to be achievable, however if circumstances change and the planned level of savings is not achievable alternatives will be sought in year. |

| | | | |
|---|------|------|---|
| Further Cost Transfer from National Programmes / Projects | High | High | Further cost transfers from the centre (e.g., Emergency Services Network and IT company costs.) |
|---|------|------|---|