



Item No. on Agenda

Report to the Police Fire and Crime Panel – 26th October 2020

Medium Term Financial Strategy (MTFS)

Current MTFS Update

Report of the Staffordshire Commissioner

Introduction

The purpose of this report is to update the Police, Fire and Crime Panel on the Current Medium Term Financial Strategy (MTFS). This supports delivery of one of the Commissioner's key responsibilities under the Police Reform and Social Responsibility Act 2011.

The report sets out the following:

- Update to current year's budget
- Update to future years' MTFS assumptions
- The impact of Covid on financial performance and position
- Sensitivity analysis around key financial items
- Update on capital programme

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Executive Summary

- 1.1 This report provides an update to the Police, Fire and Crime Panel on the current MTFS covering the years 2020/21 to 2023/24.
- 1.2 Since the previous panel considering the 2020/21 MTFS on the 10th February 2020 both Staffordshire and the United Kingdom have been affected by the Covid-19 pandemic. Whilst this is a health crisis there has been an impact on both Staffordshire Police through new regulations and the Staffordshire Commissioner through commissioned services. There is a significant impact on wider public partners including the NHS, Local Authorities and the wider criminal justice system all of which will set the scene for the upcoming 2021/22 refresh.
- 1.3 In addition to the service level impact, Billing Authorities have provided an indication of the impact on local income collection (through the Commissioners precept on council tax bills). There is an expected significant impact on future levels of income, as well as increased uncertainty due to the fast evolving economic situation.
- 1.4 Further detail on the financial impact is contained in this paper, however to date the support received from central government and provisions made at the close of the 2019/20 financial year are viewed as sufficient for the 2020/21 financial year.
- 1.5 The Group (Commissioner and Staffordshire Police) outturn forecast for the current year is £212.232m. This is a positive variance of £0.170m (0.08%) against the annual net revenue budget of £212.402m
- 1.6 A further provision of £0.500m has been made by the Commissioner in year within the position reported at 1.5. This is to provide support to both any additional in year Covid-19 demand as well, if available, to support the budget process for 2021/22. The assumption at this stage is that this will be available to support the 2021/22 budget.
- 1.7 Both Commissioner and Staffordshire Police have reviewed current planned savings, revenue budget pressures as well as the collection fund and council tax base based on information received from Billing Authorities. This has increased the budget gaps presented to panel on the 10th February 2020. The table below shows the impact of this review:

	2020/21 Actual £000's	2021/22 Plan £000's	2022/23 Plan £000's	2023/24 Plan £000's
Budget Gap	0	(510)	(1,684)	(3,328)
Collection Fund Deficit 2020/21 (spread over 3 years)		(1,072)	(1,072)	(1,072)
Loss of Assumed CT Surplus		(886)	(886)	(886)
Growth in CT Base Reduced to 0.5% from 1.5%		(818)	(1,636)	(2,454)
CSR Assumed Cash Flat Core Grant		0	0	0
Savings & Pressures Review		(2,265)	(2,444)	(2,398)
Gap (Low Case)	0	(5,551)	(7,722)	(10,138)
Reduction in CT Base (in line with current year)		(3,215)	(3,215)	(3,215)
Gap (High Case)	0	(8,766)	(10,937)	(13,353)

- 1.8 The Coronavirus pandemic is affecting funding across the wider public sector and it is unclear if further support will be provided by the Government as part of the Local Government Finance Settlement for 2021/22. Without further support the Staffordshire Commissioner will need to consider how the financial position can be supported through; Council Tax increases, the delivery of further savings, and also the intelligent use of reserves. Reserves for the group are in line with the Commissioners reserves policy.
- 1.9 The commissioner has previously indicated, for planning purposes, increases in precept of 2.99% for the years 2021/22 onwards. Whilst the current referendum limit is unknown, and forms part of the police funding settlement expected in December, the Commissioner will balance the needs of Policing for additional funding against the ability of Staffordshire residents to afford the Policing precept.
- 1.10 The Commissioner has, over both of his terms of Office, been committed to only increase local taxation through the Policing precept where absolutely necessary. His view has been that efficiencies should be delivered within policing & community safety before he would consider asking taxpayers for more. This policy impact has resulted in Staffordshire taxpayers seeing the second lowest increase in council tax, as a percentage, since the Commissioner took Office in April 2012 (with his first precepting decision for the 2013/14 financial year).
- 1.11 The current capital programme is currently being refreshed in light of the successful insourcing of IT services as well as the Joint Estates Strategy across Policing and Fire. The Joint Estates Strategy will provide both fit for purpose accommodation as well as deliver new savings into the MTFS process from reducing running costs.
- 1.12 The Commissioner will continue to support the Chief Constable's Transformation Programme and has committed to ensuring that the scope of the capital programme and achievement of capital receipts will support this, through new IT platforms and Estate, balanced against the long term sustainability of Police and Crime funding.
- 1.13 The uplift in officer numbers will continue to see growth the Police Officer numbers through 2021/22 and 2022/23. For the current year this uplift has been 90 Officers (in addition to replacing those retiring and leaving); based on the Home Office applying the same distribution formula at a local level this would result in an additional 120 in 2021/22 and 90 in 2022/23. This is on the back of the Commissioners investment in Police Officer numbers since 2017/18 which will result, by the end of 2022/23, of an additional 391 Officers since 2017/18.
- 1.14 The Commissioner and Chief Constable have made new revenue investments totalling £1.719m, above and beyond those provided for by Central Government in:
- The Special Constabulary
 - Automatic Number Plate Recognition (ANPR)
 - Technology and Digital Capability
 - Technology Modernisation & Innovation
 - Contact Management Systems
 - Investigations & Intelligence

These are now delivering results and enhancements to the capabilities and capacity of Staffordshire Police in relation to keeping the County safe.

- 1.15 Overall the coming MTFS round will be undertaken in a more uncertain environment than usual. It is likely that we will receive a later settlement than would be ideal, with the potential of this being a one year as opposed to multiyear spending review.

2. The Budget Process and Savings/Pressure Review

2.1 Financial and budget planning work is undertaken jointly with the Chief Constable to detail pressures, potential savings as well as identifying areas for potential new investment in the Policing model, should funding be available to do so.

2.2 The table below outlines the proposed budget timetable for the 2021/22 MTFS:

Budget Timetable	Budget Task
August 2020	Budget Preparation commenced
September 2020	Capital Review – Draft 4 year Capital Programme
September 2020 – October 2020	Budget Holder Consultation
26 October 2020	MTFS update paper to Police, Fire and Crime Panel
30 November 2020	Draft Budget ready for review process
December 2020	Provisional Settlement
January 2021	Final Settlement
January 2021	Public Consultation
1 February 2021	MTFS proposals to Police, Fire and Crime Panel
16 February 2021	Precept Notices issued following Commissioner approval

2.3 The review of the current MTFS highlighted that 93% of current year savings have been delivered. However, it did identify a number of savings that are at high risk of non-delivery, slippage in delivery or have been impacted on by external events such as the Governments Uplift programme. These total £0.801m over the four year MTFS period. These will continue to be reviewed for delivery ahead of the 30th November date for the draft budget review.

2.4 New pressures totalling £1.528m for 2021/22 have been identified by directorates.

- Of these, just under half (£0.736m) relate to national increases in costs such as Home Office IT charges (£0.319m), increase in national airwave charges (£0.127m) and the National Police Air Service (£0.290m). These are outside of local control.
- Of those pressures identified as ‘local pressures’ a number of these relate to inflationary pressures above the estimate contained in the MTFS for inflation (Insurance £0.160m), Fleet costs, in part as a result of greater usage due to increasing Officer numbers, (£0.131m), reduction in specific income streams (£0.178m)
- A pressure of £0.055m has been included due to the planned increase in Special Constabulary Numbers to cover of the expenses of Special Constables.

2.5 The next steps of the budget process will be for directorates to identify new savings proposals and new investments. This will result in a revised MTFS position for review at the start of November internally to feed into the 30th November draft budget for internal review.

3. Income Assumptions

- 3.1 The Commissioner receives funding from a number of sources with the majority of this being received through Core Home Office Funding and the Council Tax Precept. Income assumptions are currently being reviewed as part of the MTFs process ahead of both the anticipated spending review and the Police funding settlement usually received in December.
- 3.2 In relation to the Core Home Office Funding, the current MTFs assumes this will increase year on year in line with the uplift in officer numbers. Stripping out the effect of the Governments increase in officer numbers the assumption is a cash flat settlement.
- 3.3 As such inflationary pressures on existing business must be funded through increases in precept, new savings or additional income sources being sourced.
- 3.4 The commissioner has previously indicated, for planning purposes, increases in precept of 2.99% for the years 2021/22 onwards. Whilst the current referendum limit is unknown, and forms part of the police funding settlement expected in December, the Commissioner will balance the needs of Policing for additional funding against the ability of Staffordshire residents to afford the policing precept.
- 3.5 An area of concern is the economic impact of Covid-19 on council tax collection in year as well as the impact on the council tax base. The current MTFs assumes an increase in the council tax base of 1.5% per annum as well as surpluses on the collection fund of £0.886m. Both assumptions are now seen as over optimistic as a result of the Covid-19 impact. It is now estimated that the base will grow by 0.5% per annum following this year's fall, with no surplus on the collection fund.
- 3.6 Within this billing authorities have provided the Commissioner with assumptions for the impact on the collection fund position in year. Whilst this does not affect the funding received in year by the Commissioner, the deficit on the collection fund will impact on the 2021/22 budget.
- 3.7 It is also worth noting that these estimates have been provided in a more volatile period than before. Whilst more individuals are in receipt of Local Council Tax Support (LCTS) as a means tested benefit, this is within the environment of furlough schemes and support to the self-employed. Whilst the unwinding of these schemes may be perceived to have a greater impact of LCTS claims other individuals may have deferred council tax payments that are now being paid down.
- 3.8 As part of the government's response to Covid-19 it is proposed that the 2020/21 deficit on the collection fund can be spread over the next three years as opposed to being recognised and accounted for in one year (e.g. over the period 2020/21 to 2022/23 as opposed to in 2020/21 only). Whilst detail is awaited on this scheme the current planning assumption is that the Commissioner will look to take up this flexibility.
- 3.9 It is unknown if the Government will address these significant changes in council tax income as part of the spending review. The government has committed to examining this as part of the spending review, however given the financial impact of the pandemic and other government priorities the current assumption is that no support will be forthcoming. It is hoped this is a 'worse case' position.

3.10 The table below shows the movements on Council Tax Precept income compared to the current MTFs based on the information received to date from billing authorities

	2021/22 £000	2022/23 £000	2023/24 £000
2020/21 Collection Fund Deficit	1,072	1,072	1,072
Loss of assumed CT surplus	886	886	886
2021/22 CT Base Reduction	3,215	3,215	3,215
Reduction in CT Base Growth YoY (0.5% growth instead of 1.5%)	818	1,636	2,454
TOTAL MOVEMENT (Loss)	5,991	6,809	7,627

3.11 The above assumes that the economic hit from Covid-19 will not be recovered via economic growth to a point where there is no on-going economic 'scarring' over the next three years.

3.12 Core Home Office Funding itself is made up of a number of funding streams of which one is the central share of business rates. The fall in business rate collection is not anticipated to impact on Police funding due to offset within the overall Core Home Office Funding allocation model.

3.13 Other grants such as legacy Council Tax Support and Pensions Grant are assumed to continue at the current levels and are not increased by inflation.

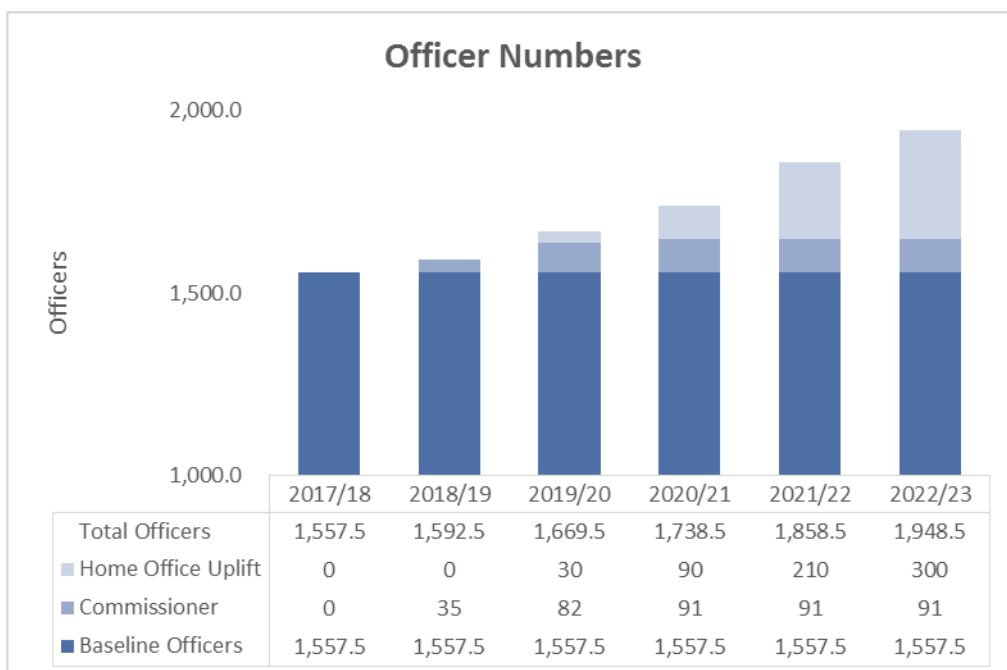
4. Officer Uplift

4.1 Staffordshire Police has continued to see an increase in officer numbers in 2020/21 as a result of the Government's investment in Police numbers. This is in addition to the investments made by the Commissioner in previous years.

4.2 2020/21 is the first full year of the Uplift programme. As a result of this an additional 90 Officers will be in place by the end of 2020/21 compared to before the programme was announced.

4.3 The uplift in officer numbers will continue to see growth the Police Officer numbers through 2021/22 and 2022/23; based on the Home Office applying the same distribution formula at a local level this would result in an additional c.120 in 2021/22 and c.90 in 2022/23. This is on the back of the Commissioners investment in Police Officer numbers since 2017/18 which will result, by the end of 2022/23, of an additional 391 Officers since 2017/18.

4.4 The graph below shows the cumulative increase of Officer numbers since 2017/18 broken down by Commissioner investment and the Home Office Uplift programme.

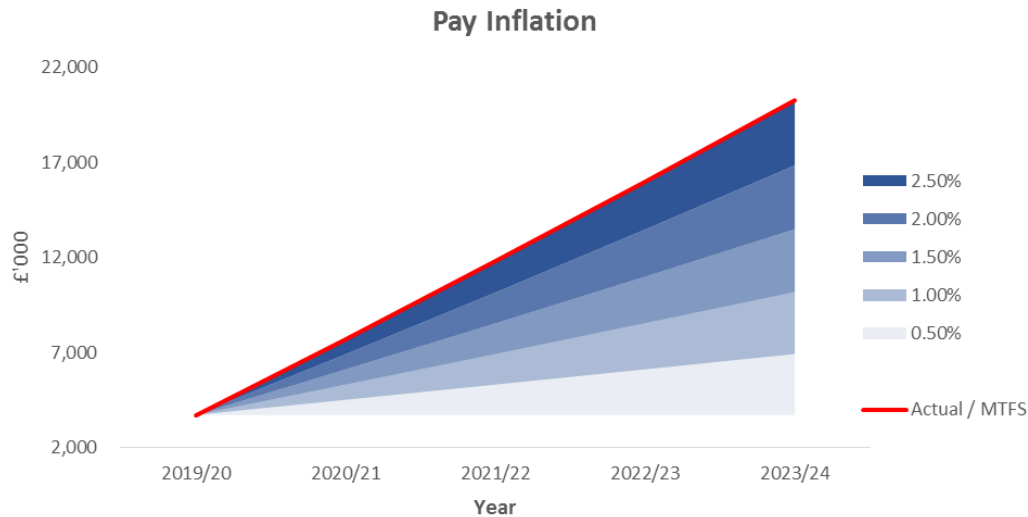


- 4.5 There is a potential that the Home Office will change the allocation formula for years two and three of the programme. This may involve additional numbers into national and regional Policing bodies and structures or increased allocations to areas with higher levels of crime than Staffordshire.
- 4.6 In addition to the officer Uplift programme areas of police staff will require investment to ensure that the uplift in officer numbers has maximum impact. The largest investment so far has been in Learning and Development (to train and sustain officer numbers).
- 4.7 An increase in officer numbers has resulted in increased capital spend on items such as vehicles. This has been funded in year from the revenue Uplift grant, however longer term may present a challenge when the renewal cycle starts in the later years of the MTFS as a higher capital need is required to sufficiently support the welcome higher headcount.
- 4.8 To support this known pressure, and the wider uplift programme, the MTFS contained a planned contribution to earmarked reserves from the 2020/21 uplift funding of £2.644m.

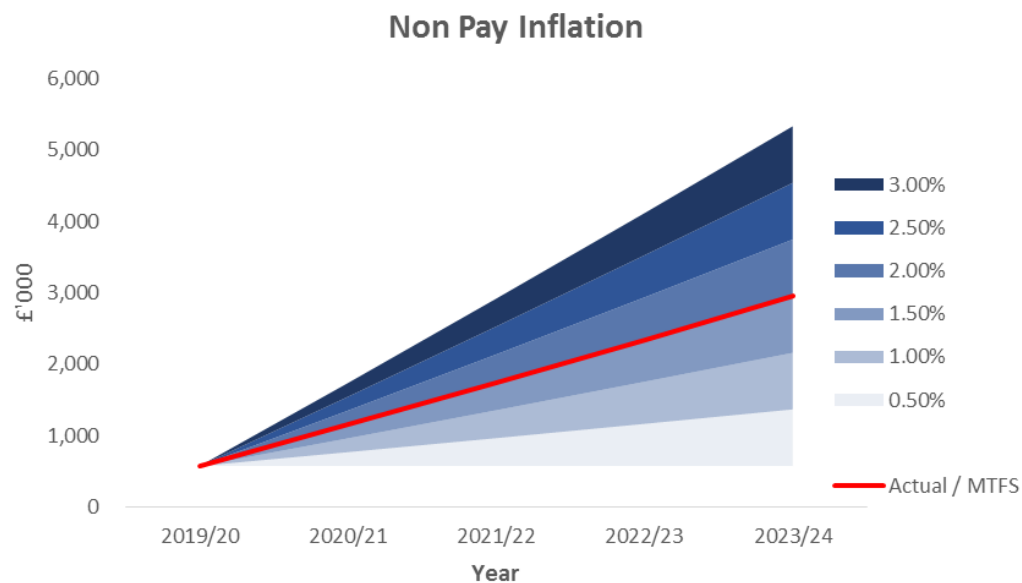
5. Sensitivity analysis

- 5.1 The MTFS refresh is being undertaken in a more uncertain environment as a result of the Covid-19 pandemic.
- 5.2 Funding assumptions both in relation to local and national funding are likely to cause material changes late on in the planning process, something that cannot be avoided but needs to be recognised.
- 5.3 The current MTFS assumes pay awards at 2.5% per annum. This is in line with the award in the current year. The Chancellor has indicated that future public sector pay awards may be less generous than the 2020/21 award. This assumption will be reviewed through the MTFS process.

5.4 Pay makes up around 75% of the total spend this remains one of our single largest assumptions. The table below shows the impact of differing pay awards in terms of sensitivity.



5.5 Inflation is currently assumed at 1.5% outside of specific inflation items identified by finance business partners. The current inflation rate is below this assumption, and below the Bank of England target of 2%, and is under review as part of the MTFS process. The table below shows the impact of differing inflationary impacts.



5.6 The following sensitivity analysis was contained in the February 2020 MTFS paper:

Cost Area	Change	£'000
Police Pay	1%	1,002
PCSO/Police Staff	1%	582
Utilities	1%	44
Vehicle costs	1%	33
Supplies & Services	1%	104
Police Pension Contribution	1%	198
Police Core Grant Funding	1%	1,177
Precept	£1	353
Council Taxbase	1%	794

6. Covid-19

- 6.1 The MTFs review is set against a context of the Covid-19 pandemic both in relation to the in year response as well as the ongoing potential impact on Police funding.
- 6.2 In response to Covid-19 Staffordshire Police stood up its response to the pandemic in February, adapting at pace to the changes in legislation in addition to delivering on its normal 'day to day' business.
- 6.3 The Commissioner prudently established an earmarked reserve at the end of the 2019/20 financial year to support the response to Covid-19 with a balance at year end of £0.478m. The reserve is currently sufficient to cover all the known in year costs in 2020/21 that have not been covered by Central Government support.
- 6.4 Unlike both Councils and Fire Services, Policing has received no additional un-ring-fenced funding to cover Covid-19 costs. Work continues at a national level to secure additional funding for Policing, however this needs to be seen against a background of this being a health emergency. Monthly returns are submitted to the Home Office on Covid-19 related spend.
- 6.5 Support has been received for the provision of medical grade personal protective equipment (PPE). The costs incurred by Staffordshire Police before national supply arrangements (funded by the Department of Health and Social Care) came in to fruition are being recovered from DHSC. Staffordshire Police continues to be in a strong position in terms of locally held stockpiles of PPE.
- 6.6 The Commissioner welcomes the Government's recently launched income recovery scheme for Policing. This operates along similar lines to that for Councils; the scheme will apply to sales, fees and charges where forces would usually generate income, such as policing of sporting fixtures or providing security at airports. The scheme will enable Staffordshire to recover 75p in every £1 of budgeted income lost due to Covid-19 restrictions this financial year once the Commissioner has absorbed 5% of those losses.
- 6.7 Under the scheme, income losses are only eligible for reimbursement if the Commissioner and Force have taken all reasonable steps to negate the costs that would have been incurred. In Staffordshire, significant reasonable steps have been taken to reduce costs for services that were income funded thus protecting the overall impact on the public purse.
- 6.8 Income levels overall remain in line with those expected in the MTFs. Pressures on income from Covid-19 have to date been offset by additional income streams identified and secured.
- 6.9 On the 8th October the government announced that Staffordshire will receive £452,169 from the national £60m allocation to support the enforcement of Covid-19 regulations. The Force is currently drawing up plans for submission to the Home Office in relation to increasing visibility to encourage and ensure compliance with the Covid-19 regulations.
- 6.10 It is important to recognise that Staffordshire Police will continue to Engage, Explain and Encourage compliance with the regulations and only Enforce as a last resort.

7. Capital

- 7.1 As part of the current MTFS refresh capital plans across both Staffordshire Police and the Commissioner's Office are being refreshed.
- 7.2 The Commissioner will repay £1m of loans funded by the Public Works Loans Board (PWLB) in the 2020/21 year. No new loans will be taken out in year with the capital programme funded from a mix of revenue contributions, capital receipts and internal borrowing. By not replacing these loans the Commissioner has saved £0.024m on an ongoing basis in interest payments
- 7.3 Capital receipts within the current MTFS are likely to be impacted by the Covid-19 pandemic, however the impact of this will be dependent on the longer term view of purchasers with demand for those sites for sale remaining strong. To date overall capital receipts received have been greater than the valuations of those sites.
- 7.4 The external environment in relation to investment income has deteriorated since the MTFS was set. In this period the Bank of England base rate has fallen to 0.10% with investment returns moving towards this benchmark. Whilst investments are still generating a positive return there remains an outside risk that interest rates may turn negative over the short term. The reduction in investment income supports the current Treasury Management strategy of using internal borrowing (from internal cash) as opposed to external borrowing, delivering value for the local taxpayer
- 7.5 The Joint Estates Strategy across Staffordshire Police and Staffordshire Fire & Rescue Service offers Staffordshire Police the ability to access high quality accommodation currently used by Staffordshire Fire & Rescue Service without the capital cost of a new build facility. This strategy will form part of the revised Estates capital programme with moves into the joint facility in Tamworth now complete and the joint Police and Fire facility in Hanley due to go live in January 2021. For Staffordshire Fire & Rescue this offers a valuable income stream from letting surplus space to Staffordshire Police.
- 7.6 The transfer of IT services from Boeing Defence UK (BDUK) back to Staffordshire Police has successfully been undertaken without service failure, and to date commercially successful for Staffordshire Police and the Commissioner. The IT programme is currently being refreshed to build on the benefits articulated in the Commissioner's business case on in-sourcing to accelerate the delivery of IT improvements in line with the Commissioner's aim of having the most technologically enabled Police Force.
- 7.7 Two significant changes identified since the MTFS was set, and for potential encapsulation in the 2021/22 MTFS, are for the Emergency Services Network (ESN) and Staffordshire Police's preferred option on Firearms provision.
- Within the current MTFS, provision had already been made for ESN 'readiness costs'. These were the costs to upgrade equipment ready to receive ESN, as opposed to ESN equipment itself. In the current MTFS, the ESN costs are shown as a risk given a lack of clarity on who (Central Government or the Commissioner) would fund. Since the MTFS was set, the Home Office has provided further clarity to the split of national and local funded equipment and costs. The Home Office cost model is currently being analysed as to the local costs that are likely to require local funding.

- The preferred option for Firearms Range provision is currently under development. This is still subject to consideration by the Commissioner, however the current MTFS assumes delivery of this in 2021/22 – this timeline is likely to change and evolve over the progression of that business case.

7.8 Given the improved forecast for capital receipts current indications are that capital financing costs will be lower in 2021/22 than currently provided for, providing a small offsetting saving towards the articulated budget gap.

8. Reserves

8.1 The General Fund reserve remains at 3% of the Net Revenue Budget in line with the Commissioners Reserves Strategy, with no forecast draw on this reserve in year anticipated.

8.2 Earmarked reserves are held for specific purposes. As part of the MTFS refresh process both Section 151 Officers will review the adequacy and intended use of these reserves with a view to providing support to the MTFS. Total reserves including the General Fund Reserve, in line with the policy of building resilience, totalled £16.494m at the 31st March 2020.

8.3 Reserves overall, when benchmarked against the wider sector, remain low in line with the Commissioners Reserves Strategy.

8.4 Reserves, whilst set aside for a particular purpose, currently are utilised in cash terms to support capital spend in lieu of external borrowing. This internal borrowing, if replaced by PWLB through not being available, would result in a cost of £0.387m per annum.

8.5 There is a known future pressure on capital spend and replacement as a result of the welcome uplift in Officer numbers. To support this known pressure, and the wider uplift programme, the MTFS contained a planned contribution to earmarked reserves from the 2020/21 uplift funding of £2.644m. This is currently planned to be made at this level and drawn of in future years

8.6 The Commissioner has established an earmarked reserve at the end of the 2019/20 financial year to support the response to Covid-19. The reserve is currently sufficient to cover all the known in year costs that have not been covered by Central Government funding.

8.7 The Commissioner has also prudently approved an in year appropriation to this reserve of £0.500m to provide some support to the 2021/22 budget (subject to Covid-19 costs in year not requiring this funding).