

Report to the Police Fire and Crime Panel – 7th December 2021

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
- Sensitivity analysis around key financial items
- Update on capital programme

Ben Adams
Staffordshire Commissioner

Contact Officers:

John Bloomer
Chief Finance Officer (S151 Officer for Staffordshire Police)
Telephone: 07974 204774

David Greensmith
Director of Finance (S151 Officer for the Staffordshire Commissioner's Office)
Telephone: 07971 893294

Executive Summary

- 1.1 This report provides an update to the Police, Fire and Crime Panel on the current MTFS covering the years 2021/22 to 2024/25 including an update on the fiscal landscape facing policing since the MTFS was approved.
- 1.2 Since the Police, Fire and Crime Panel considered the 2021/22 MTFS on the 1st February 2021 both Staffordshire and the United Kingdom have seen a gradual return to normality through the lifting of Covid-19 restrictions. Whilst this is welcome, the longer-term impact on the organisation is only now starting to crystallise whether this be through permanent funding changes, through commissioned services or through demand placed on policing. There is also a significant impact on wider public partners including the NHS, Councils and the wider criminal justice system all of which will set the scene for the upcoming 2022/23 refresh.
- 1.3 The recent spending review has provided some indication in relation to funding policing nationally, but there remains some uncertainty at a local level.
- 1.4 The previous commissioner agreed to make permanent the one-off increase in digital forensics posts during the panel on the 1st February 2021 to help manage the significant increase in digital forensics submissions over the last decade. In addition to this a one-off additional revenue contribution was made to capital financing, reducing the underlying need to borrow and reducing ongoing capital charges. The net impact of these changes is shown in the table in 1.5 to reset the baseline from which the 2022/23 MTFS is built.
- 1.5 During the year the Commissioner and Staffordshire Police have been developing proposals to close the identified budget gap in the previous commissioner's report for 2022/23. Working within the assumptions set out in the MTFS report and assumptions from the Chancellor's budget announcement the revised gap position is shown in the table below. At present, this only includes some of the more certain assumptions on costs, income and capital financing:

	2022/23 Plan	2023/24 Plan	2024/25 Plan
Current MTFS Gap	(3.3)	(4.7)	(5.1)
Post PFCP Adjustments	(0.6)	(0.5)	(0.5)
Revised Income Assumptions (Grant)	1.5	1.5	1.5
Capital Financing Costs	0.6	(0.6)	(0.9)
Revised MTFS GAP Estimate	(1.8)	(4.2)	(4.9)
<i>+/- Previous Gap</i>	<i>1.5</i>	<i>0.4</i>	<i>0.2</i>

- 1.6 The overall anticipated impact of these on the MTFS position is positive resulting in a reduced gap in year one 2022/23 with the gap by the end of the MTFS period approximately in line with the original estimate for 2024/25 of around £5m.
- 1.7 The final settlement and subsequent conversations with the Home Office have indicated that the one-off ring-fenced element of the uplift grant (£1.507m for 2021/22) is likely to continue on an ongoing basis as this supports the uplift programme. The MTFS has been updated for this resulting in an additional assumption of £1.5m of income across each year of the MTFS as shown above.

- 1.8 In the above MTFS position it was identified that 71% of the total savings identified over the four-year period is required in 2022/23. This large gap in year one of £3.3m was primarily driven by the slow recovery of the council tax base forecast in 2022/23 which accelerates over the course of the MTFS. A budget support reserve has been established with funding of £1.5m, with the proposed use being to support and smooth the transformation requirement over the MTFS period as required. This will be incorporated into the revised group reserves strategy.
- 1.9 As part of the budget process for 2022/23 the MTFS will be updated as further information becomes available and assumptions become more certain, up until the confirmation of the budget proposal by the Commissioner (and endorsement of the precept for Fire by the Police, Fire and Crime Panel), on 31 January 2022.
- 1.10 Pressure on funding continues into the medium term as uncertainty also remains around assumptions for pay, pensions and increasing prices (RPI). The MTFS assumptions around pay and pensions remain under review but it is likely that with the removal of the public sector pay cap and increasing levels of inflation pay will increase above the current MTFS levels.
- 1.11 The previous commissioner had indicated, for planning purposes, increases in precept of 2.99% for the years 2022/23 onwards. This is assumed in the position shown above; without this, the gap would increase by c.£800k for each 1% not levied. The spending review has awarded the flexibility on the precept of £10 per annum, which is an increase of approximately 4.19% for Staffordshire. The Commissioner will balance the needs of policing for additional funding against the ability of Staffordshire residents to afford the policing precept.
- 1.12 This paper also reviews the Officer Uplift Programme (see pages 7-8) and the progress being made to deliver the additional 300 Officers. The current MTFS includes the plan to recruit 120 of the additional Officers during the current year 2021/22 and plans are on track for delivery. A further 90 Officers are assumed to be delivered within 2022/23.
- 1.13 The Commissioner, as part of setting his first MTFS, will undertake a 'zero based budgeting' exercise to rebuild the budget as opposed to the incremental approach taken in previous years. Whilst the previous methodology has served well it is now an opportune moment to undertake an exercise to fully rebase and rebuild the budget.
- 1.14 A high-level timetable is included in this report, to lay out the necessary steps and key meetings to communicate the 2022/23 budgeting process and updated the MTFS.

National and Local Update

- 1.15 The Group (Commissioner and Staffordshire Police) outturn forecast for the current year at the end of Quarter 2 is £221.573m. This is a positive variance of £0.503m (0.23%) against the annual net revenue budget of £222.075m.
- 1.16 A three-year spending review was set out alongside the Chancellor's Budget announcements on the 27th October and the envelope for the spending review was larger than was anticipated. A multi-year spending review is to be welcomed to aid medium-term planning following several years of single-year settlements.
- 1.17 The amount allocated across public services for day-to-day department spending increases by 3.3% per year in real terms across the spending review period, with the only cuts being to defence (although capital spending will increase). The annual real growth in day-to-day departmental spending for the Home Office is 2.5%. For comparative purposes, during the 2010 spending review, there was an average cut of 3.1% for policing and an increase of 0.9% during the 2015 spending review period. It should be noted that the increases are frontloaded across the majority of government departments which in the case of policing provides a welcome reprofiling of the efficiency challenge.
- 1.18 Whilst the detailed allocations are expected to follow in December, the high-level figures for policing are identified as:
- £550m additional grant in 2022/23
 - £650m in 2023/24 i.e. an extra £100m over the 2022/23 level
 - £800m in 2024/25 i.e. an extra £150m over the 2023/24 level
- 1.19 The £800m assumes £540m for the completion of the Uplift Programme and its sustainability going forward.
- 1.20 Precept flexibility of an increase of £10 per annum has been announced which is approximately a 4.19% increase for Staffordshire. The national picture assumes tax base growth of 1.1% in 2022/23, 1.5% in 2023/24 and 1.4% in 2024/25. Work is ongoing with billing authorities to provide multi year forecasts at a local level, however work to date suggests a 1.6% forecast increase in the base next year set against the current MTFS assumption of 0.5%
- 1.21 The Home Office has committed to reviewing the funding formula for the allocation of core policing grant. A previous review was abandoned in 2017 following consultation with the sector. It is unknown how Staffordshire could be impacted; however, this review will be undertaken against the backdrop of the 'levelling up' agenda as well as some marked performance deviations between Forces over the last decade with Staffordshire's performance being relatively strong over that period.
- 1.22 The government has announced an increase in National Insurance Contributions (NIC's) for both employee and employer. The additional employer contributions will add £1.2m of additional costs on policing nationally, without any additional national funding. This is equivalent to a 1.4% increase in precept just to fund the transfer from policing to HM Treasury. The government has stated that the additional grant outlined above is intended to support the

additional costs (although there remains a risk that panel are asked to note that this funding will not fund the pressure in its entirety).

1.23 Revised priorities will be confirmed within the Police and Crime Plan and will be further shaped by the new Chief Constable in conjunction with the Commissioner and financially will be dependent on the outcome of the comprehensive spending review.

1.24 Both the Commissioner and Staffordshire Police are currently reviewing current planned savings, revenue budget pressures, proposed priority investments as well as information received around income from the 2021/22 final settlement. This work has been undertaken over the months of September and October and has identified the following high-level revenue budget changes:

- Higher inflation than budgeted for. Currently the MTFS assumes a 1.5% inflation rate with the Consumer Prices Index (CPI) running at 3.8% in the 12 months to the end of October. This, combined with a number of contracts tied to the higher Retail Prices Index (RPI) mean inflation is likely to be c.£1m above the amount budgeted for in the existing MTFS. The OBR has stated that they expect inflation to peak at 4.4% in Q2 of 2022, before falling back to 2% during 2023.
- The higher rates of inflation will also necessitate a review of the capital programme given well publicised increases in construction costs. At this stage it is anticipated that offsetting savings will be found within the overall capital programme.
- There remains some uncertainty regarding the level of pay award in the context of a pay freeze for policing this financial year; it has been suggested that anything below 4% would be a real term cut. The NPCC is lobbying for an indication to provide some consistency in assumptions nationally given police pay awards run from September to August and are typically announced in July after the budget has been set for the year in question.
- The ongoing impact of Covid on calls for service has necessitated an investment in resource within the contact centre. To support the public and to meet this increased demand in relation to contacting Staffordshire Police headcount is to be increased in the Force control room by 15. The ongoing impact of this will be built into the MTFS and is c.£600k per annum.
- The Force continues to make significant investment in IT provision both to fix a number of legacy issues but also to technologically enable the Force given the changing nature of crime. This has resulted in a revised IT plan being approved in August 2021. These investments in revenue spend will need to be reflected in the updated MTFS.
- Additional new savings identified to date; primarily around increasing vacancy rates on Police Staff roles, management reviews, balance sheet management, decommissioning legacy IT systems and estates savings.

1.25 In addition to the above, panel should note that whilst the uplift in Police Officer numbers mandated by central government is welcome, in essence this 'ring fences' well over half the

budget from efficiency savings and redesigns. This means that in relation to savings on employment costs these can only come from Police Staff and PCSO roles.

- 1.26 The national insurance increase of 1.25% for Health and Social Care (of which the majority is earmarked for the Health service) will result in a new pressure of £1.2m in 2022/23. This additional employment tax is equivalent to the costs of c.25 Police Officers.
- 1.27 Whilst the government has stated that the increase in grant funding is intended to support additional costs in relation to this, there may still be a requirement to fund some of this increase locally through precept flexibility and/or savings.
- 1.28 The Coronavirus pandemic has affected our short and medium-term financial position with the Government indicating no further support in future years over and above the grant increases stated. 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 the intelligent use of reserves. Reserves for the group are in line with the Commissioners reserves policy.

The Budget Process and Savings/Pressure Review

- 1.29 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.
- 1.30 The table below outlines the proposed budget timetable for the 2021/22 MTFS:

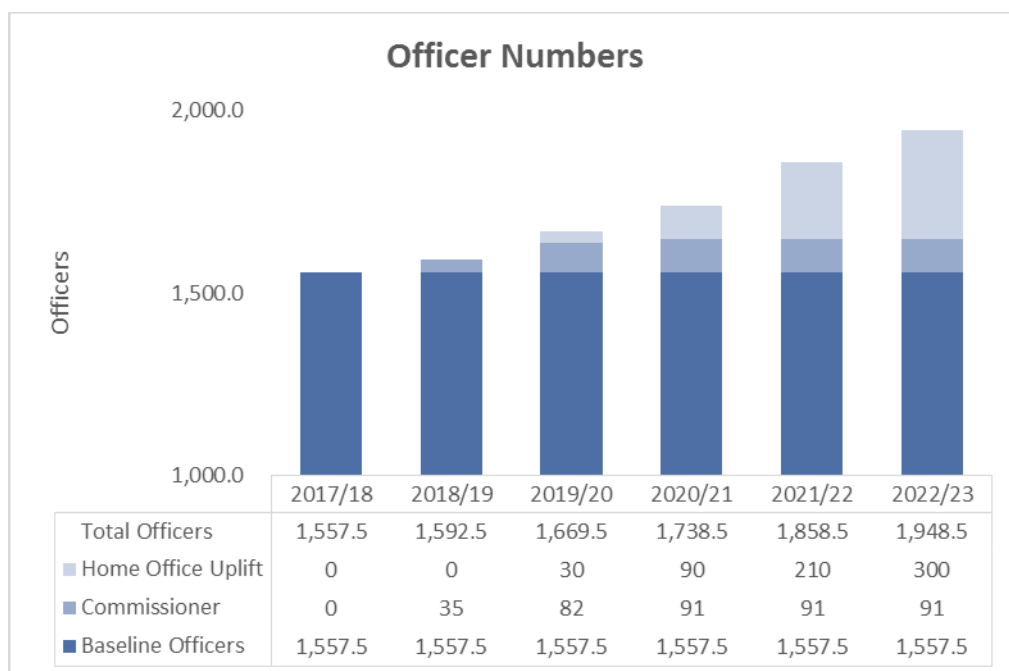
Budget Timetable	Budget Task
August 2021	Budget Preparation commenced
September 2021	Capital Review – Draft 4-year Capital Programme
September 2021 – October 2021	Budget Holder Consultation
November and December	Resource Allocation Challenge Panels
7 December 2021	MTFS update paper to Police, Fire and Crime Panel
December 2021	Provisional Settlement
January 2022	Final Settlement
January 2022	Public Consultation
31 January 2022	MTFS proposals to Police, Fire and Crime Panel
16 February 2022	Precept Notices issued following Commissioner approval

- 1.31 The review of the current MTFS highlighted that 93.8% of current year savings have been delivered or will be delivered by year end. The undelivered saving is anticipated to be delivered totalling £0.130m is anticipated to be delivered in 2022/23.
- 1.32 As part of the above process Staffordshire Police has held budget holder ‘challenge sessions’. These sessions, led by the Chief Constable, have challenged directorate leads around areas for new savings derived from the use of HMICFRS and CIPFA benchmarking where levels of funding and outcomes do not align.

- 1.33 The first round of these sessions has already been held with operational directorates demonstrating a strong grasp of their business area. Following these first sessions areas of focus tasked out to directorate leads to bring back to further panels being held in December.
- 1.34 From here, the incoming Chief Constable will be presented with efficiency options alongside considering areas he wishes to change within the operating model of Staffordshire Police to both drive improved outcomes but also funded necessary changes. Both reviewing the operating model and an emergent multi-year efficiency plan will be fused together under the leadership of the incoming Chief Constable
- 1.35 It is likely, given the review of the operating model and the new Chief Constable starting in mid-December 2021, that the impact of these organisational reviews via challenge sessions will see only minor new savings (beyond those identified in the 2022/23 MTFS process to date) delivered on in 2022/23. Therefore, it is anticipated that the majority of any savings identified will be delivered from 2023/24 onwards. This also means that depending on the detailed financial settlement from the Home Office, the balancing of the budget in 2022/23 will rely on existing planned savings, precept and any short-term funding e.g. reserves.
- 1.36 The front loading of new funding within the spending review may support the above position as well, meaning longer-term gains for Staffordshire are achievable over short-term savings requirements.

Police Officer Numbers

- 1.37 Staffordshire Police has continued to see an increase in officer numbers in 2021/22 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.
- 1.38 The current MTFS sets out plans to recruit 120 of these additional Officers in 2021/22 and this is on track for delivery.
- 1.39 The uplift in officer numbers will continue to see growth the Police Officer numbers through 2022/23; based on the Home Office applying the same distribution formula for Central Government funding at a local level this would result in an additional c.90 in 2022/23.
- 1.40 The graph below shows the cumulative increase of Officer numbers since 2017/18 broken down by Commissioner investment and the Home Office Uplift programme.



- 1.41 There is a potential that the Home Office will change the allocation formula for year three of the programme. This may involve additional numbers into national or regional policing bodies and structures or increased allocations to areas with higher levels of crime than Staffordshire.
- 1.42 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).
- 1.43 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.
- 1.44 To support this known pressure, and the wider uplift programme, there is an earmarked reserve of £2.553m.

Income Assumptions

- 1.45 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 following the spending review and the Police funding settlement is usually received in December.
- 1.46 As outlined in paragraph 1.18 above, the spending review has provided an indication that over the period of the spending review, there will be an additional £800m awarded to policing, with the intention to fund Uplift, and also support the additional costs in relation to national insurance, pay and inflation. At this point in time, it is not clear how much of this will be top-sliced and what this will mean for Staffordshire, therefore the Panel should note that this is not reflected in the current assumptions.

- 1.47 As such inflationary pressures on existing business and investment in service enhancements may need to be funded through increases in precept, savings or additional income being sourced.
- 1.48 The final settlement and subsequent conversations with the Home Office indicate that the one-off ring-fenced element of the uplift grant (£1.507m for 2021/22) is likely to continue on an ongoing basis as this supports the uplift programme. The MTFS has been updated for this resulting in an additional assumption of £1.507m of income across each year of the MTFS.
- 1.49 The previous commissioner had indicated, for planning purposes, increases in precept of 2.99% for the years 2021/22 onwards. The spending review indicated precept flexibility of £10 per annum which is approximately 4.19%, the Commissioner will balance the needs of policing for additional funding against the ability of Staffordshire residents to afford the policing precept.
- 1.50 An unknown is the medium-term impact of the pandemic on our council tax base. In the short term the rebound in the base forecast by billing authorities has been stronger than they indicated in January 2021. Whilst the MTFS set out assumptions based on information received from billing authorities these assumptions resulted in a multi-million pound ongoing impact of the pandemic on local income. This was a main driver of the gap in future years presented to the panel compared to previous years MTFS assumptions.
- 1.51 It is hoped that with the stronger than anticipated economic recovery since the MTFS was set that the council tax base will recover quicker and see less permanent degradation than previously forecast over the entirety of the MTFS. This position will not be finalised until January 2022.
- 1.52 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 during this year 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.
- 1.53 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.
- 1.54 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 representing a real terms cut.

Sensitivity analysis

- 1.55 The MTFS refresh is being undertaken in a more uncertain environment as a result of the Covid-19 pandemic.
- 1.56 Funding assumptions both in relation to local and national funding are likely to cause material changes late on in the planning process. This cannot be avoided but needs to be recognised.

1.57 The current MTFs assumes pay awards at 2.0% per annum. This follows on from the pay freeze in 2021/22. It is worth noting that pay rises in the economy are running much higher levels and issues around recruitment for certain roles are now more likely to appear. This assumption will be reviewed through the MTFs process as indicated above.

1.58 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.

Pay Award	Cost £000's	Impact vs MTFs £000's
2%	3,334	0
3%	5,001	1,667
4%	6,668	3,334

1.59 Inflation is currently assumed at 1.5% outside of specific inflation items identified by finance business partners. The MTFs assumed 2% (the BoE target rate) minus an assumed efficiency of 0.5%. Over the last few months inflation has significantly exceed the BoE target resulting in a need to refresh the inflation assumptions. It is assumed that after 18 months inflation will return to the BoE target.

1.60 The following information has been received from Blue Light Commercial around medium term inflation rates based on their in-depth analysis of the current market:

Category	2021/22	2022/23 +	Reason
Building Materials	6.7%	5-8%	Supply chain shortages and increased demand. Brexit border issues and increasing labour rates of pay
Construction	4.1%	4.0%	Shortage of skilled labour, supply & demand gap and supply chain issues reducing productivity
Facilities Management	2.1%	3.1%	Labour shortages and reduction in movement of labour from EU to UK
Fuel	12.3%	1.8%	Global increases in crude oil costs
IT Services	1.5%	1.9%	Shortage of skilled labour
IT Equipment	4.3%	4.5%	Semiconductor shortages as well as higher shipping costs and demand
Professional Services	2.2%	3.3%	Shortage of qualified professionals
Uniforms	Unknown	Unknown	Unquantifiable however known as rising labour costs
Utilities	5-9%	2.2%	Strong demand, higher commodity prices and adverse weather conditions

1.61 Whilst inflation is anticipated to be higher than previously forecast in 2022/23 the settlement sees a continuation of the policy seen in the last few years nationally to seek increases in expenditure on policing via above inflation increases in local precept.

Capital

- 2.1 As part of the current MTFS refresh, capital plans across both Staffordshire Police and the Commissioner's Office are being refreshed.
- 2.2 The Commissioner has set a desire to see greater economy and efficiency being obtained from infrastructure investment. This includes the benefits arising from such investment both in terms of productivity gain but also cashable savings. This will be a key theme for the Commissioner in agreeing the 2022/23 capital programme.
- 2.3 The Commissioner will repay £3.6m of loans funded by the Public Works Loans Board (PWLB) in the 2021/22 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 will continue to make savings on interest payments
- 2.4 Capital receipts are currently in line with the MTFS plan, with an upside risk that receipts will be stronger than forecast as the economy continues to recover.
- 2.5 The external environment in relation to investment income continues to be challenging. In this period the Bank of England base rate has fallen to 0.10% with investment returns now at this benchmark. Whilst investments are still generating a positive return this is outweighed by the cost of treasury management. 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
- 2.6 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 and Hanley now paying dividends both operationally and financially. For Staffordshire Fire & Rescue this offers a valuable income stream from letting surplus space to Staffordshire Police.
- 2.7 The transfer of IT services from Boeing Defence UK (BDUK) back to Staffordshire Police has successfully been undertaken without service failure, and commercially successful for Staffordshire Police and the Commissioner. The IT programme is currently in the delivery phase and the commissioner remains committed to holding the Force to account for timely delivery to budget.
- 2.8 Two significant programmes included in the 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 the ESN programme based on the ESN model generated by the Home Office last year. Since then a revised model has been received as well as notification of further delays in the programme. This will delay capital spend (resulting in initial savings on budgeted debt charges) as well as see reduced local cost and more national cost. This is however subject to the upcoming CSR.

- The preferred option for Firearms Range provision is currently under development. Revised plans indicate a reduction in the headline cost which will be offset by the higher inflationary costs being experienced within construction costs.
- 2.9 Slippage within the first half of the year around the 2021/22 capital programme is unlikely to be caught up in the second half of the year. This is partially driven by events outside of local control mainly relating to supply chain shortages seen within the wider economy. This slippage will provide a one-off benefit in relation to capital financing costs in 2022/23
- 2.10 Given the improved forecast for capital receipts current indications are that capital financing costs will be lower in 2022/23 than currently provided for, providing a small offsetting saving towards the articulated budget gap.
- 2.11 Inflationary pressures within the wider economy will impact on all areas of the capital programme and will lead to an increase in the cost of the future programme, necessitating additional funding or reductions to the scope of the programme. Work is ongoing to understand this at both a local and national level.

Reserves

- 3.1 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.
- 3.2 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.
- 3.3 A budget support reserve has been established with funding of £1.539m. In the above MTFS refresh reserves this reserve is primarily utilised in year one to smooth the transformation requirement given the MTFS identified that 71% of the total transformation requirement over the four-year period was required in 2022/23. This large gap in year one is primarily driven by the slow recovery of the council tax base forecast in 2022/23 which accelerates over the course of the MTFS.
- 3.4 Reserves overall, when benchmarked against the wider sector, remain low in line with the Commissioners Reserves Strategy.
- 3.5 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 £0.500m per annum.

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, an earmarked reserve of £2.553m exists to support this uplift.