



Item No. XX on Agenda

Report to the Police Fire and Crime Panel – 13th November 2023

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

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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 2023/24 to 2026/27 including an update on the fiscal landscape facing policing since the MTFS was approved and current year financial performance.
- 1.2 The MTFS for the period 2023/24 to 2026/27 was approved by the Staffordshire Commissioner following presentation to the Police, Fire and Crime Panel on 6th February 2023.
- 1.3 This MTFS report provides an update to the assumptions within the report and outlines key pressures facing the group.
- 1.4 As part of the budget process for 2024/25, the MTFS will continue to be updated, up until the budget proposal by the Commissioner (and endorsement of the precept for Policing and Crime by the Police, Fire and Crime Panel), on 5th February 2024.
- 1.5 A high-level timetable is included in this report, to lay out the necessary steps and key meetings to communicate the 2024/25 budgeting process and updated the MTFS.

The Budget Setting Process and Savings/Pressure Review

- 2.1 Financial and budget planning work is undertaken jointly with the Chief Constable to identify pressures and 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 2024/25 MTFS:

Date	Activity
August 2023	Review capital programme commences
August 2023	TOM v budget reconciliation and recalculation of pay budgets
September 2023	Revised MTFS position based on recalculation of pay budgets and known pressures/savings to date
September 2023	Command review of current MTFS
September 2023	Review inflation assumptions
September 2023	Review reserves position
w/c 2 nd October 2023	Resource Allocation Challenge panels (to present the pressures and flag any risks – this should be linked to FMS)
November	Resource Allocation Challenge panels (purpose being to determine areas of priority for review for next year)
13 th November 2023	Police Fire & Crime Panel – MTFS Update
Beginning of December 2023	Presentation of draft budget requirement to the Commissioner
December 2023	Refine detailed budgets
December 2023	Finalise capital programme
December 2023	Funding settlement
January 2024	Public Consultation regarding precept
Mid-January 2024	Final Council Tax Precept Positions from districts

January 2024	Draft Panel report – presentation to SGB (Finance Panel on 31/01/2024)
5 th February 2024	Police Fire & Crime Panel – Recommendation of the budget and precept decision

- 2.3 A review of the capital programme is currently underway, with this currently showing a reduction in forecast capital spend over the life of the MTFs period. This is welcome in light of higher inflation and higher borrowing costs.
- 2.4 As part of the above process, Staffordshire Police will hold budget holder ‘Resource Allocation and Challenge panels. These sessions, led by the Chief Constable, will challenge command leads around areas for new savings derived from the use of HMICFRS and CIPFA benchmarking where levels of funding and outcomes do not align. This year the Force is piloting Priority Based Resourcing (PBR) reviews across a handful of areas to provide further scrutiny and greater understanding of use of resources.
- 2.5 Whilst from an overall net revenue budget of c.£250m per annum a savings challenge of £5m for 2024/25 represents 2% of that overall budget a number of constraints are placed on where savings can be found.

- Nationally police officer numbers are ringfenced (over 50% of the budget is spent just on police officer salaries)
- Locally contact (call handlers) numbers are ringfenced.
- The majority of non-pay costs are linked to headcount ergo by ringfencing headcount this ringfences this spend
- Fees and charges are nationally set

The result of this is that savings have to be made on a much smaller base, with around 75% of the base budget ringfenced fully or in part. The reality is that with these constraints it is unavoidable that over the MTFs period Police Staff Headcount will need to be reduced and capital programmes contained to minimise increases in borrowing costs.

- 2.6 To aid the planning process the following strategic guidelines have been set out within which planning will be undertaken:
- That the current police officer baseline is as a minimum maintained at 2,000fte
 - Precept increases over the life of the MTFs (measured from the Commissioner’s first precepting decision in January 2022) will be below the rate of inflation, average pay awards and state pension increases delivering a real terms reduction in the policing precept
 - Back office support services will reduce as a share of the overall budget over the life of the MTFs ensuring more funding is directed to front line service delivery
 - The capital programme where possible will be funded from internal borrowing only over the MTFs, in light of the current increased PWLB rates, except to manage short term cashflow,
 - The overall capital programme will not grow from the amounts allocated in the 2023/24 MTFs with new additions being offset by reductions elsewhere
 - The General Fund Reserve Balance will be maintained, where possible, to support the ability to internally borrow and provide stability

- Savings will be sought from increased efficiency; income generation or non-pay spend within Staffordshire Police and redundancies avoided where possible
- A commitment to avoid 'cost shunting' between local partners

Local Context and updated Financial Position 2023/24

- 3.1 Staffordshire Police continue to be subject to an 'engaged' phase of monitoring by His Majesty's Inspectorate of Constabulary, Fire and Rescue Services (HMICFRS) based on their inspection that reported in September 2022. This has necessitated investment into the policing model and an update of this is provided within this paper. However, the inspectorate remains of the view that strong progress is being made in addressing these issues.
- 3.2 Whilst responding to the concerns of HMICFRS remains an area of focus the Commissioner has also supported investment in to, and secured additional funding for, areas that the public have told him are important to making Staffordshire a great place to live, work and visit. These investments since the budget was presented to panel on the 6th February 2023 are:
- The recruitment of 25 additional staff into the Contact Centre on a temporary basis and an additional 5 on a permanent basis;
 - Temporary Audit and Assurance posts to support service improvement;
 - Recruitment of transferees, bringing experience at pace into Staffordshire Police to complement our existing recruitment of student officers;
 - Retention payments to detectives given the national shortage of detectives;
 - Investment into vetting to reduce both vetting waiting times, thus speeding up recruitment, as well as to support the Force in ensuring its people meet the highest standards that the public rightfully expect;
 - Moving the Staffordshire Roads Policing Unit to a 24/7 basis.
- 3.3 The Group (Commissioner and Staffordshire Police) outturn forecast for the current year at the end of Quarter 2 is £242.472m. This is a positive variance of £0.476m (0.20%) against the annual net revenue budget of £242.947m.
- 3.4 Despite the overall inflationary pressures, the in-year budget has been managed robustly and offsetting savings and income have been found to manage within the in-year budget.

Review of MTFS 2023/24

- 4.1 Both the Commissioner and Staffordshire Police are reviewing current planned revenue savings, pressures, proposed priority investments and capital spend. 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 2% inflation rate in 24/25 in line with expectation in the October 2021 budget. With the Consumer Prices Index (CPI) running at 6.7% in the 12 months to the end of August. This, combined with a number of contracts tied to the higher Retail Prices Index (RPI) mean inflation is likely to be considerably above the amount budgeted for in the existing MTFS.

Inflation predictions in future years are increasingly difficult to rely upon due to market volatility.

- The pay award for September 2023 was higher than budgeted, which has had an on-going impact to future years. In addition, given the uncertainty regarding the level of pay awards in future years, the 2024/25 assumption has been increased from 2% to 3% and 2% thereafter in line with future inflation estimates.
- Staffordshire's anticipated share of the 2024/25 pay award grant has been included, which is expected to part-fund the additional costs in the year. The table below shows pay pressures compared to the original MTFS assumption totalling £8.1m that are offset by a pay award grant of £7.8m – this leaves a variance of £0.3m that requires local funding.

4.2 The table below shows the forecast movement in the MTFS position since the MTFS was set in February 2023 for the changes indicated above:

	2024/25 £m	2025/26 £m	2026/27 £m
Underlying position (after use of earmarked reserves)	(3.4)	(4.5)	(5.5)
<i>Reserve movements</i>	3.4	0.1	0.0
Reported budget gap February 2023	0.0	(4.4)	(5.5)
<i>Reverse assumed use of reserves</i>	(3.4)	(0.1)	0.0
<i>Pay pressures (para 4.1)</i>	(8.1)	(8.1)	(8.3)
<i>Pay award grant (para 4.1)</i>	7.8	7.8	7.8
<i>Rank & supervisory mix (para 4.6)</i>	(1.3)	(1.3)	(1.4)
<i>Pay review (increase from 2% to 3% in 24/25 and increased incremental drift)</i>	(1.2)	(3.3)	(5.7)
<i>Changes to capital financing (para 4.12)</i>	0.5	0.0	0.0
<i>Other emerging savings (para 4.12)</i>	0.7	0.7	0.8
<i>Other emerging pressures</i>	(0.6)	(0.6)	(0.5)
<i>Non-pay inflation review (increase from 2% to 3% in 24/25)</i>	(0.2)	(0.1)	0.2
Revised (Gap)	(5.8)	(9.4)	(12.6)

4.3 The table below shows the changes in assumptions based on the MTFS set in February 2023, compared to the changes assumed in the table above:

Category		2024/25 %	2025/26 %	2026/27 %
Pay award	MTFS	2.00	2.00	2.00
	Revised	3.00	2.00	2.00
General non-pay inflation	MTFS	2.00	2.00	2.00
	Revised	3.00	2.00	2.00

- 4.4 The majority of the increase in gap has been driven by factors outside of the Commissioner's control, namely around a higher inflationary environment.
- 4.5 Projecting forward, inflation assumptions will be more challenging over the coming MTFs period than historically has been the case. This heightened risk underpins the Commissioner's approach to maintaining a general fund reserve with a minimum balance of 3% of the net revenue budget.
- 4.6 The pay pressure reflects significant investment in transferees (c.50 FTE) and rank mix; this is a result of the need to stand-up specialist investment areas such as the Public Protection Unit at pace. Alongside this, the challenges in recruiting to staff roles has resulted in offers increasingly being made at the top of the grade result in additional pressure versus budgeted assumption of vacant posts being at the bottom of the scale. In addition, whilst the pay award grant is welcome, it does not cover the full cost of the pay award in future years due to issues such as the compounding effect of the uplift intakes moving through what are now grades that are 7% higher is not funded.
- 4.7 It has been assumed that the Home Office will fund any pay award above 3%, as has been the case in 2023/24.
- 4.8 The position shown above assumes a precept increase of 2.99%, which equates to a £7.79 increase on a band D property, which is what was assumed in the approved MTFs in February 2023.
- 4.9 If the full flexibility on the precept of 3.84%, which equates to £10 per annum for a band D property was agreed for the remainder of the MTFs, this would reduce the budget gap by £0.808m in 24/25.
- 4.10 In 2023/24 the maximum precept increase permissible was 5.76%, which equates to £15 per annum for a band D property. If this option was available and exercised in 2024/25 this would reduce the estimated budget gap by a further £1.829m.
- 4.11 The 2023/24 MTFs assumed a use of reserves in years 2023/24 to 2025/26. For planning purposes, these have been reversed in presenting the position outlined above. The funding remains available to be used and is earmarked in the budget support reserve.
- 4.12 Whilst using the budget support reserve remains available to use over the life of the MTFs the usage of the reserve needs to be balanced against a number of factors. These factors include using the reserve to smooth out the incremental savings requirement, allowing for targeted one off investment, or to continue to address the challenge of moving the Force away from an 'engaged' phase of monitoring.
- 4.13 Additional new permanent savings identified to date and reflected in the table above are a review of the capital programme (£0.497m), insurance (£0.167m), ROCU (£0.347m). Work continues to in relation to identifying further savings opportunities to close the budget gap, with savings targets given to Command leads in the Force of c.£1.8m.

- 4.14 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.
- 4.15 In addition to the pressures indicated in the above, there are pressures arising on a number of contracts, namely Healthcare in Custody and interpreters' services.

Income Assumptions

- 5.1 The Commissioner receives funding from a number of sources with the majority of this being through core Home Office funding and the Council Tax precept. Income assumptions are currently being reviewed as part of the MTFs process; the Police funding settlement is usually received in December.
- 5.2 A three-year spending review (SR21) was set out alongside the Chancellor's budget announcements on the 27th October 2021; the 2024/25 MTFs will be the final year of this period. For core grant funding, it is assumed that Staffordshire will receive its share of an additional £150m to Policing. In 2025/26, it is assumed that core funding will increase by 2% and by 2.5% thereafter.
- 5.3 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.
- 5.4 The Spending Review indicated precept flexibility of £10 per annum which is approximately 3.84% in 2024/25. The Commissioner will balance the needs of policing for additional funding against the ability of Staffordshire residents to afford the policing precept.
- 5.5 The impact of recent economic challenges on our council tax base is unknown. An assumption of a 1.5% increase in the council tax base is included within the position as well as a surplus on the collection fund of £0.650m.
- 5.6 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.

Inflation Assumptions and Sensitivity

- 6.1 Once again, the MTFs refresh is being undertaken in an uncertain environment as a result of the cost of living crisis and levels of high inflation.
- 6.2 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.
- 6.3 The table below sets out the budget assumptions presented to the panel for the 2023/24 MTFs:

Description	2023/24 Budget	2024/25 Estimate	2025/26 Estimate	2026/27 Estimate
Police Officers				
Pay Award	3.0%	2.0%	2.0%	2.0%
Incremental uplift	1.0%	1.0%	1.0%	1.0%
Pension Contribution	31.0%	31.0%	31.0%	31.0%
Police Staff				
Pay Award	3.0%	2.0%	2.0%	2.0%
Incremental uplift	1.0%	1.0%	1.0%	1.0%
Pension Contribution	21.5%	21.5%	21.5%	21.5%
Non Pay Inflation				
General	4.0%	2.0%	2.0%	2.0%
Utilities & Fuel*	54%	2.0%	2.0%	2.0%
Funding & Income				
Government Funding	1.95%	1.50%	2.0%	2.5%
Council Tax Base Increase	1.46%	1.5%	1.5%	1.5%
Variable Income Charges	2.0%	2.0%	2.0%	2.0%
Council Tax Precept Increase	4.83%	2.99%	2.99%	2.99%

* % increase stated is an average across budgets

- 6.4 Consumer Prices Inflation is running at 6.7% as at August 2023, which is higher than the 4% assumed in the MTFS for 2023/24.
- 6.5 In addition to this CPI rate the rate experienced in certain business areas is significantly in excess of this. For example, increases in the cost of outsourced forensic work is currently between 10% and 20% dependent on category and provider.
- 6.6 The non-pay inflation assumption for 2024/25 has been revised from 2% to 3%. Current estimates indicate that inflation will remain at high levels, falling to around 5% by the end of 2023. It is then expected to keep falling and reach the Bank of England's 2% target in the first half of 2025.
- 6.7 The current MTFS assumes pay awards at 2% per annum for 2024/25. For planning purposes, the assumption reflected in this MTFS update is an increase to 3% in line with non-pay inflation.
- 6.8 For indicative purposes, the table below from the 2023/24 MTFS highlights the impact of changes to the MTFS position:

Cost Area	Change	£'000
Police Pay	1%	1,171
PCSO/Police Staff	1%	748
Utilities	1%	28
Vehicle costs	1%	41
Supplies & Services	1%	97
Police Pension Contribution	1%	780
Police Core Grant Funding	1%	1,299
Precept	£1	360
Council Taxbase	1%	939

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 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 2024/25 capital programme.
- 7.3 The Commissioner will repay £1.6m of loans funded by the Public Works Loans Board (PWLB) in the 2023/24 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.
- 7.4 External debt, held in the form of Public Works Loans Board (PWLB) debt has decreased for five years in a row. With the above £1.6m repayment this is forecast to fall for a sixth year in a row this year.
- 7.5 In light of the current increased PWLB rates, the planning assumption is that the capital programme will be funded from internal borrowing only over the MTFS, except to manage short term cashflow.
- 7.6 In contrast to recent years, the external environment in relation to investment income now represents an opportunity for additional investment income. The Bank of England base rate has risen to 5.25% with investment returns now at or above this benchmark.
- 7.7 The in-year capital programme has been reviewed in light of high inflation and issues around supply chains. This has resulted in both reprofiling and also some targeted removals from the programme.
- 7.8 The current interest rate environment does not support locking in long term borrowing, given PWLB rates are running at over 5%. Whilst there is no immediate need to borrow in the current year, by adopting a stance of only borrowing internally, the Commissioner will be strongly placed to either avoid these high borrowing costs, or to seek to borrow when market conditions allow over the life of the MTFS.
- 7.9 In addition to the above, the current internal cash balances are earning a significantly higher rate of return than budgeted. In the immediate coming year this will, based on current rates, earn c.£0.750m of new investment income to offset some of the pressures the group is facing.

Reserves

- 8.1 The General Fund reserve is £9.489m, which is 3.91% of the net revenue budget in line with the Commissioner's 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.
- 8.3 A budget support reserve was established in 2021/22. The projected balance of this at the year-end is £5.266m following budgeted use of £0.361m in 2023/24 and transfers in of £0.750m in 2023/24. The current MTFS this is drawn on to support the budget over the medium term so is unavailable to further close the budget gap but may be reprofiled accordingly.
- 8.4 Reserves overall, when benchmarked against the wider sector, remain in line.
- 8.5 Reserves, whilst set aside for a particular purpose, currently are utilised in cash terms to support capital spend in lieu of external borrowing. In 2024/25, this internal borrowing, if replaced by PWLB through not being available, would result in a cost of c.£1.500m per annum based on the current programme.