

POLICE AND CRIME PANEL FOR LEICESTERSHIRE

Report of	POLICE AND CRIME COMMISSIONER
Subject	MEDIUM TERM FINANCIAL PLAN UPDATE
Date	THURSDAY, 29 TH JULY 2021 – 2PM
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Purpose of the Report

1. To advise on the current context, assumptions and underlying risks in relation to the Medium Term Financial Plan (MTFP).

Recommendation

2. The Panel is asked to consider the contents of the report.

Background

3. At the Panel meeting on 24 June 2021, the Commissioner delivered a statement which advised Members of his concerns about the long term sustainability of the Police budget and the forecast large deficit for financial year 2024/25. The Commissioner confirmed his desire to scrutinise the MTFP and explore options ahead which is attached at Appendix 1.
4. This report will examine the current underlying MTFP situation. With the Panel's permission, an options report exploring how this will be addressed will be tabled later in the year once the outcome of the Government's Comprehensive Spending Review (CSR) is announced in December.

MTFP Position as at 27 January 2021

5. At the Panel's budget meeting on 27 January 2021, Members received a report on the proposed precept and budget for 2021/22, together with a MTFP projection through to 2024/25. The full report is attached at Appendix 2.
6. The key financial risks identified in the budget report (para. 32) were as follows and are remain unchanged :
 - *"Police Staff Job Evaluation – The Force continues to progress the evaluation of its Police Staff posts. There are £204k of revenue costs included in the base to cover the job evaluation team cost. No further base budget provision has been*

included for 2021-22 and beyond to cover the implementation costs of the scheme. This remains a financial risk until the pay assimilation is completed, the actual costs are confirmed and options to fund these costs are developed.

- *Pay inflation – As part of the Government's Comprehensive Spending review, the Chancellor announced a public sector pay freeze for 2021-22 except for £250 increase for each employee earning less than £24,000 per annum, which equates to £178,000. Pay inflation for 2022-23 is included at 1.75% and 2% for 2023-24 onwards.*
- *Emergency Services Network (ESN) – The latest update suggests that the transition to the ESN is delayed until the latter part of 2021-22. However, a revenue provision of £0.3m has been included in the budget for 2021-22 onwards and a capital provision of £0.6m for 2021-22, rising to £5.2m in 2022-23. The costs are based on the latest national and regional estimates and will be updated when more accurate figures become available. It is highly likely that the cost of the project will be higher than currently estimated and will be revised as and when more detail becomes available. It is important to note the Settlement confirmed no extra funding will be provided to PCCs to meet the future revenue and capital costs of ESN. This therefore represents a significant financial risk.*
- *The National Police Air Service (NPAS) is currently being reviewed and the cost allocation model may change as a result. This is likely to lead to a modest reduction in costs, the extent of which is currently unknown. However, this remains a risk until an agreed position is reached.”*

7. In addition, the following key assumptions (para. 69) were included in the report which outlined the financial challenge for the medium term :

- “That the council tax base grows at 0.5%, 1.% and 1.25% for financial years 2022-23, 2023-24 and 2024-25 respectively.*
- All existing council tax related grants continue up to and including 2024-25.*
- Core Government funding remains the same for the life of the plan including the year one officer uplift grant.*
- The precept increases by £15.00 per Band D equivalent property for 2021-22 and 2% each year thereafter in line with the prevailing national view, and modelling assumptions in each of the other East Midlands region Force areas.*
- Pay awards for officers and staff are included at 0% for 2021-22, 1.75% for 2022-23 and for 2% each year thereafter.*
- Non-pay inflation is included at 2% for 2021-22 and for each year thereafter.*
- At this stage, there are no significant impacts on grant funding incorporated into the MTFP from the Funding Formula Review.*
- No additional, unfunded responsibilities are given to the Commissioner.*
- Further borrowing beyond the capital programme is not required.”*

8. The budget report explained that there was a total of £4.5m of spending (para. 58) planned for 2021/22 of which, £2m related to 50 additional police officers in line with the

former PCC's commitment in his Police and Crime Plan to increase overall police officer numbers where possible.

9. The report explained the position in relation to police officer numbers and how they were funded in terms of the national uplift programme and local precept (para. 47) as follows :

"Police Officers – The Police Officer pay, and allowances budget is calculated based on the latest recruitment and attrition forecasts, taking into account:

- *Rank and incremental changes.*
- *Externally funded and seconded officers.*
- *Allowances.*
- *Changes to the effective rates for National Insurance and Pension contributions.*
- *The full year effect of the September 2020 pay award.*

Year two of the Government's 20,000 officer uplift programme will provide a further 88 officers in total (6,000 nationally). This will increase overall police officer numbers to 2,192 FTEs by March 2022. The estimated total cost of the 88 officers in 2021-22 is £2.6m which will be fully funded by Home Office grants, but only if they are recruited in full. The Home Office will confirm the allocations to Forces for 2022-23 or year three, in due course. This is currently assumed to be around 100 officers. However, the national uplift programme alone will not restore officer numbers to pre-austerity levels of around 2,317 FTEs.

In order to provide a further uplift in officer numbers, the Commissioner has agreed with the Chief Constable that 50 additional officers will be recruited during 2021-22 at a total cost of £2m to be funded through precept. A further 20 officers will be recruited during 2022-23. Of these 70 officers, 50 will be funded through the precept longer term, and 20 will be subsumed into the third and final year of the Government's uplift programme for 2022-23. The locally funded uplift in officers is further to the Commissioner's decision to increase officer numbers by 107 in 2019-20 and 100 during 2020-21. The combined effect of the national and local uplift in full time equivalent (FTE) officer numbers will result in 2,104 by March 2021, rising to 2,242 by March 2022 and 2,342 by March 2023. The estimated cost of the Commissioner's officer uplift is £2m for 2021-22.

The planned increase of 50 officers in 2021-22 will deliver enhancements to neighbourhood policing, the rural and heritage crime team, serious crime investigation, sex offender management, anti-fraud capability, and violent and complex crime investigation and problem solving, including knife crime.

The potential local uplift of 20 officers in 2022-23 will be dependent upon:

- *The precept referendum level for 2022-23 being at least 4% or £10.*
- *The national uplift grant for year three 2022-23 is provided to meet the cost of at least 20 officers.*
- *There are no meaningful adverse changes in any of the other assumptions in the medium term financial plan (MTFP see para.68).*
- *There are no PCC approved additional demands not currently captured in the MTFP arising from digital developments and national initiatives.*

Also included within the MTFP is an estimated 5% increase in the employer's superannuation rate for 2023-24 onwards which will cost around £5m."

10. A Band D precept increase of £15.00 was agreed for 2021/22. In the budget report to this Panel on 27 January it was stated that this would fund the ongoing costs of the 50 additional police officers to be recruited during that year.
11. The budget report went on to confirm that the Budget Equalisation Reserve or BER had an estimated balance of £12.6m by 31 March 2021, and that it would be fully utilised by 2023/24 (para.73.a). This meant that the BER balance would be reduced to zero during 2023/24. Its intended use was to support the ongoing costs associated with the growth of the 257 locally funded officers from 2019/20 to 2021/22 (107 plus 100 plus 50 referred to above), alongside the financial risks and assumptions contained within the report. The budget report identified that a projected funding gap of £13.8m would therefore arise in 2024/25 once the BER had been fully utilised (see para. 70 and Appendix 1 of the budget report).
12. The budget report also confirmed that the General Reserve (para.73.b) would be reduced from £5m to £4.25m, or 2% of the net budget requirement for 2021/22. This is considered to be the minimum level for a Force the size of Leicestershire. The balance of £0.75m would be transferred to the BER to increase its overall balance to £12.6m.
13. The budget report also stated (para 73 b) :

“Over recent years, due to the impact of effective efficiency programmes and through financial prudence, a Budget Equalisation Reserve (BER) has been created. This reserve is currently estimated to be £12.6m at 31st March 2021, increasing to £13m by 31st March 2022 which takes into account the £0.75m transfer from the General Reserve above. Its purpose when established was twofold:

1.To fund ‘invest to save’ and other new initiatives and investments

2.To partly support funding shortfalls in the MTFP.

The Commissioner is currently planning to fully utilise the BER by 2023-24.”

MTFP Position as at 26 February 2021

14. Following the Panel’s budget meeting on 27 January, the Force was made aware of a number of changes which impacted upon the MTFP. The most significant of these was the announcement of the Government’s response to the Public Service Pensions Remedy Consultation which confirmed the deferral of the increase in the employer contributions rate from April 2023 to April 2024. The MTFP had included £4m for this increase in 2023/24 which was no longer required and was deferred to 2024/25. The full list of amendments is attached at Appendix 3.
15. The combined effect of these amendments was to reduce the 2024/25 projected funding gap from £13.8m to £11.8m. The key financial risks and assumptions remained unaltered, as did the position in relation to the reserves i.e. the BER balance of £12.6m would still be fully utilised by 2023/34 and the General Reserve balance would be held at £4.25m.

Efficiency Savings

16. In agreeing the 2021/22 budget, it was recognised that the Force needed to develop an efficiency strategy that aims to move the Force away from being dependant on reserves and builds funds for investment in the future. To date, the £0.5m efficiency target included in the 2021/22 budget has been achieved and is attached at Appendix 4.
17. The drive to identify further efficiencies continues. This work focuses on the following areas as opportunities;
 - I. Control of costs
 - II. Vacancy management
 - III. The repurposing of 106 funding where legally permissible
 - IV. Reversal of workforce modernisation through natural attrition
 - V. Technology and automation to aid headcount reduction
 - VI. VFM review of existing collaborative arrangements
 - VII. Review of officer establishment and recruitment profiles
18. The Force has also considered the need to have a sustainable and stable establishment for the duration of the MTFP period, and to actively strive to avoid establishment 'boom and bust', as this is impactful on both local communities and the workforce, and creates unnecessary pressure for the support services.
19. In addition, unforeseen cost pressures inevitably emerge during each financial year linked to changes in demand and risk. The Force will attempt to address such pressures through efficiency savings where possible, so as to avoid budgetary growth.

The Challenge Ahead

20. As stated above, the newly elected Commissioner has expressed concerns about the long term sustainability of the MTFP, its reliance on the use of reserves and the fact that by 2024/25, the General Reserve will be the only remaining uncommitted reserve which in itself, is at the minimum level of £4.25m.
21. The Commissioner has expressed the view that in his opinion the paper brought to the Panel in January 2021 did not consider all of the financial risks and implications.
22. In relation to Paragraph 73b of the report of January 2021, the Commissioner is of the opinion that the use of the BER to supplement the police budget with a significant increase in establishment, is not a position he can support. This interpretation of the BER criteria has now resulted in noteworthy financial risks for the force.
23. The Commissioner is also concerned that Paragraph 73b of the report of January 2021 failed to reference the points in paragraph 72 of the 'guiding principles' that govern the use of the reserves including the BER :

"The BER can be used to support the budget but there must be a strategy to move reliance away from the reserve over a period of time."

and

"Ongoing reliance should not be placed on reserves to deal with the funding of financial deficits and a clear plan should be in place to move reliance away from one off reserves."

If this criterion had been highlighted more clearly, Panel members may have sought to more robustly challenge the sustainability of the budget proposals in the report.

In short, it is the Commissioner's view that the BER should be used to fund revenue expenditure only if there is a clear exit strategy in place. To date, the Commissioner has seen no evidence of a viable exit strategy which obviously increases the financial risk, although it is acknowledged that this work has begun (see para. 17 above).

24. The Commissioner has raised concerns about a statement in para 47 of the January 2021 report which reads "Of these 70 officers, 50 will be funded through the precept longer term"
25. The view of the Commissioner is that this statement is incorrect. In these circumstances the precept could be used to fund the additional 50 officers in the **short term only** because this strategy was underpinned by the BER which was being used to fund general expenditure **in the short term**. When the BER inevitably reduces to zero it will no longer be possible to use it to fund general expenditure, and so the precept will not be available to fund the additional 50 officers longer term. After the financial year 2023/24 these 50 officers will no longer be affordable.
26. It is accepted, however, that the volatility of the one-year budget settlement causes a tension in seeking to optimise numbers in the short term whilst ensuring sustainability in the longer term.
27. In relation to the further efficiencies outlined in paragraph 17 (above), the Commissioner feels that options IV [Reversal of workforce modernisation through natural attrition], V [Technology and automation to aid headcount reduction] and VII [Review of officer establishment and recruitment profiles] offer the greatest scope for savings. However, the Commissioner is aware that this would involve not maintaining officer numbers in the longer term to the level previously promised to this Panel by the then PCC. Those assurances were dependent on future budget settlements and assumptions that cannot at this point be guaranteed. The Commissioner would not want to mislead the Panel into believing that the long term sustainability of those commitments made by the former PCC can be sustained in the medium to long term-
28. The Commissioner feels he has now been placed in an invidious position and is concerned that the budget as set in January 2021 will set Leicestershire Police on an inevitable course of action to reverse its promise to increase the officer numbers to prevent a substantial budget deficit.
29. The Commissioner also has concerns regarding the decision to reduce the General Reserve to the absolute minimum of £4.25m. In his view this is unsustainable in light of emerging financial risks in the medium to long term. The minimum amount of reserves that should be maintained is 2% of the budget and since the budget is rising, the amount kept in reserves should also rise. The General Reserve will now have to increase. The Commissioner will now require that General Reserve to be increased to £5m to reflect 2.35% of the overall police budget for 2021/22.
30. The Commissioner is also aware that the MTFP does not include any costs in relation to the future implementation of the police staff Job Evaluation scheme (see para.6 above) which is another potential financial risk. Work undertaken since the budget was set suggests these costs could be in the region of £2.9 to 3.7m and may be realised during the current MTFP period. The Commissioner believes that provision in reserves should be made for this.

31. In summary, the Commissioner is concerned that if the original MTFP presented by the former Commissioner and the subsequent approach to managing the budget continues, then the Force will undoubtedly have a budgetary deficit of in excess of £11m at some point in 2023 or 2024.
32. The Commissioner is not prepared to accept this high risk approach and will require a detailed strategy from the Force to mitigate the risk in the short term and reduce the deficit in the longer term.
33. The Government has announced its intentions to seek to deliver a 3 year Comprehensive Spending Review (CSR) when this is announced in December. This may or may not confirm that Government funding remains unchanged for the years ahead, or if the precept referendum thresholds will be capped at 2% or at another level. Pay inflation assumptions may also alter through time.
34. The Commissioner welcomes the views of the Panel on the concerns and risks he has highlighted in this report. He asks the Panel to note the importance of the December CSR announcement, and the steps being taken to produce a detailed strategy which will allow for a sustainable future for the Police Force in Leicester, Leicestershire and Rutland.
35. The Commissioner will bring a further update report to the Panel in due course.

Implications

Financial:	See report
Legal:	None
Equality Impact Assessment:	None
Risks and Impact:	See report
Link to Police and Crime Plan:	Budget

Background Papers

Proposed Precept 2021/22 and MTFP, Leicestershire Police & Crime Panel, 27 January 2021.

List of Appendices

Appendix 1 – PCC Statement to the Panel on 24 June 2021

Appendix 2 – Proposed Precept 2021-22 and MTFP report submitted to the Panel on 27 January 2021.

Appendix 3 – Updated Medium Term Financial Plan (MTFP) 2021/22 to 2024/25 - email to Panel Chairman on 26 February 2021

Appendix 4 - Efficiency Plan 2021/22- email to Panel Chairman on 5 May 2021

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