



**POLICE & CRIME
COMMISSIONER**
For Leicester,
Leicestershire & Rutland

Your Communities - Your Commissioner

**Police and Crime Panel for Leicester,
Leicestershire and Rutland**

2nd December 2024

Finance and MTFP Update

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Security Classification	Not Protectively Marked

Purpose of Report

1. At the Police and Crime Panel meeting in February 2024 the panel were presented with the 2024/25 budget requirement, the MTFP for the period of 2024/25 to 2027/28 and the precept proposal.
2. This report provides an update on the financial position for 2024/25, an updated MTFP including an update on the assumptions, an update on the pressures facing the policing area over the MTFP and progress made towards the efficiency savings target.
3. The report also sets out the process that the Commissioner is working to for the 2025/26 budget setting.

Request of the Panel

4. In their role to scrutinise the actions and decisions of the PCC, the Commissioner requests that the panel examines the contents of this report. He would specifically like to ask the panel their opinion on the following questions;
 - a. Is the Panel content in the way that the PCC has held the Chief Constable to account on this important subject?
 - b. Would the panel like to make any recommendations to the PCC in relation to this matter?

Local Context

5. Leicestershire Police are within the lower levels of funding received nationally in comparison to other forces, receiving the 11th lowest level of funding per head of population. The strategic approach to the budget deficit has been to ensure it overcomes this challenge by integrating effectively the workstreams to reduce the budget with the broader force transformation work.
6. The Commissioner has received regular updates from the Chief Constable that the transformation work within the Force is achieving the budget deficit targets, whilst still ensuring the force can deliver its core functions, deliver good service and high standards. It is recognised that this period of transformation is extremely complex as it brings together a number of critical operational, organisational enhancements against a significant financial shortfall.
7. To build on that work, and looking forward to 2030, the Chief Constable is looking to create an operating model which is sustainable and delivers against The Pledge and the Police and Crime Plan. The approach is to align transformation, Police and Crime Plan priorities and budgetary requirements through cohesive planning arrangements.

8. During 2024 the Force have enhanced resources in the Contact Centre whilst transformation work is undertaken. We have seen how excess demand impacts on service delivery and the current higher investment has improved performance to the public.
9. The outturn forecast for the current year is £240.775m. This is a positive variance of £2.316m (0.96%) against the annual net revenue budget of £243.091m. This is likely to change as we continue through the financial year.

Financial Planning Assumptions - Income

10. There are a number of uncertainties around the level of funding that the PCC will receive over the MTFP. The MTFP presented to the Police and Crime Panel in February included the following assumptions relating to income:

Assumption	2024/25	2025/26	2026/27	2027/28
Increase in Central Government funding (%)	7.1	1.5	1.5	1.5
Precept Increase (%)	4.76	4.54	4.34	4.16
Precept Increase (£)	13	13	13	13
Tax Base Increase (%)	1.2	1.5	1.5	1.5
Collection Fund (£000)	250	250	250	250

11. At Corporate Governance Board on the 18th September 2024, it was agreed to update the assumptions in line with national guidance and professional judgement.
 - a. Central grant funding – it was agreed to continue to assume an increase of 1.5% per annum from 2025/26 onwards. This is equivalent to c.£2m per annum.
 - b. Precept increase – it was agreed to reduce the precept assumption from £13 increase to a £10 increase per annum for a Band D property. This is equivalent to c.£1.1m per annum.
 - c. Tax base – It was agreed for the taxbase to remain at an estimated increase of 1.5%.
 - d. Pay award funding – the government agreed to fund the 4.75% pay award for Police Officers and Police Staff. This has been confirmed at £2.4m for 2024/25 and based on the same formula the force is assuming an additional £4.8m per annum for the full year effect of the 2024/25 pay award.
 - e. As the Autumn Budget provided no additional information relating to the amount of income the PCC will receive for 2025/26, no further adjustments have been made to the assumptions above.
12. Based on the above information the estimated funding expected to be received is as follows:

	2024/25	2025/26	2026/27	2027/28
Estimated Funding at Budget Setting	£m	£m	£m	£m
Home Office Grants	144.6	146.6	148.7	150.7
Precept	98.5	104.6	110.7	117.1
Estimated Available Funding	243.1	251.2	259.4	267.8
Estimated Funding as at Sept 2024	£m	£m	£m	£m
Home Office Grants	144.6	146.6	148.7	150.7
Pay Award Funding	2.4	4.8	4.8	4.8
Precept	98.5	103.5	108.6	113.8
Estimated Available Funding	245.5	254.9	262.1	269.3
<i>Difference</i>	<i>2.4</i>	<i>3.7</i>	<i>2.7</i>	<i>1.5</i>

Financial Planning Assumptions – Expenditure

13. There were a number of assumptions presented at the Police and Crime Panel in February relating to expenditure which any changes would have significant impact on the MTFP. The following assumptions were included within the MTFP in February:

Assumption	2024/25	2025/26	2026/27	2027/28
Pay Inflation - Police Officers (%)	2.5	2.0	2.0	2.0
Pay Inflation - Police Staff & PCSOs (%)	2.5	2.0	2.0	2.0
Non-Pay Inflation (%)	5.0	2.0	2.0	2.0

14. Pay inflation – Pay Inflation was assumed at 2.5% for 2024/24 and 2% for the remainder of the MTFP. The Government announced a pay increase of 4.75% for Police Officers and Staff. It was agreed at Corporate Governance Board that it would be prudent to increase the pay inflation assumption to 2.5% for each year of the MTFP.
15. Non pay inflation – the average total increase is estimated to be 2% per annum for 2025/26 onwards, compared to 5% for 2024/25. Inflation has decreased since budget setting from 4.4% to 2.2% therefore have agreed to keep inflation at 2% over the MTFP.

Sensitivity Analysis

16. Funding from both local and national sources are likely to cause material impact on the MTFP and are often announced late in the planning process. Therefore the assumptions built on these uncertainties should be stress tested to understand the material impact of each of these on the MTFP.
17. The following table highlights the financial impact each assumption has on the MTFP if they were to change by either 1%; or the in the case of Precept; £1:

Assumptions	Change	£m
Government Funding	1%	1.4
Precept	1%	0.9
Precept	£1	0.4
Tax Base	1%	1.1
Pay Inflation	1%	2.0
Non Pay Inflation	1%	0.5

18. Central grant funding - A 1% increase/decrease would be c.£1.4m per annum. If government grant is set at flat cash this would result in a further deficit of £2m for 2025/26, £4.1m for 2026/27 and £6.1m for 2027/28. If government grant was to increase in line with current inflation (2.2%) this would result in additional income of £1.2m for 2025/26.

Sensitivity Analysis	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
Government Grant				
Current Assumption (1.5% annual Increase)	144.6	146.6	148.7	150.7
Flat Cash		144.6	144.6	144.6
Difference		2.0	4.1	6.1
Increase by 2.2% (current rate of inflation)		147.8	149.8	152.0
Difference		-1.2	-1.1	-1.3

19. Precept – The Commissioner has not made any decisions around the level of precept for 2025/26 and beyond. The precept has been modelled on a number of different scenarios and for illustrative purposes the below analysis models £5 increase, £10 increase and £20 increase. A £1 increase is equivalent to c.£0.35m. If the referendum limit is set at £5 instead of £10 this would increase the deficit by £1.8m for 2025/26, £3.6m for 2026/27 and £5.4m for 2027/28. If the referendum limit was increased to £20 instead of £10 this would provide an additional £3.4m for 2025/26.

Sensitivity Analysis	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m
Precept				
Current Assumption (£10 Increase)	98.5	103.5	108.6	113.8
£5 Precept Limit		101.7	105.0	108.4
Difference		1.8	3.6	5.4
£20 Precept Limit		106.9	115.6	124.6
Difference		-3.4	-7.0	-10.8

Updated MTFP

20. The MTFP was reviewed in September including a review of the current assumptions, the pressures identified in year and the savings identified as part of the efficiency savings target.
21. A MTFP has to be formulated using the best information available at the time of producing it. The updated MTFP has been produced on this basis, accepting that it is subject to change as new information emerges that can and will, change the assumptions inherent in the plan.
22. Upon updating the current assumptions, in year pressures and savings the table below shows the forecast movement in the MTFP since the budget was set in February:

MTFP	2024/25	2025/26	2026/27	2027/28
Budget Gap reported at PCP in Feb	-	(9.7)	(10.8)	(9.6)
Add back Efficiency Savings Target	(5.4)	-	-	-
Revised Budget Gap	(5.4)	(9.7)	(10.8)	(9.6)
Add back 6% vacancy factor	(3.3)	-	-	-
Pressures	(3.1)	(8.0)	(8.9)	(10.0)
Savings	8.6	6.4	6.2	6.2
Budget monitoring	3.1	-	-	-
2024/25 Pay Award Grant	2.4	4.8	4.8	4.8
Review of Precept Assumption	-	(1.1)	(2.1)	(3.3)
Revised Budget Gap	2.3	(7.6)	(10.8)	(11.9)

23. As outlined in para 13b the reduction in precept increase from £13 to £10 has increased the budget gap by £1.1m for 2025/26. At this time it is not known what the referendum limit will be for a Band D property but anything less than £10 would increase in the budget gap further for 2025/26 and beyond.
24. Taking into account the changes within the MTFP, there continues to be a budget deficit from 2025/26 onwards. The cost of the Force's authorised FTE establishment and supporting infrastructure is neither affordable nor sustainable from 2025/26 onwards, without a significant increase in funding. Alternatively, the delivery of substantial ongoing revenue savings and/or reduction in service delivery will be required to close the gap.

Pressures and Savings

25. As part of the review a number of pressures have been identified which impact on the medium-term financial plan. These include:
- Pay Award pressures – The 4.75% pay award agreed for Police Officers and Police Staff for 2024/25 equates to an increase of £2.7m part year for 2024/25 and estimated cost of £4.8m full year cost for 2025/26 and beyond. The grant funding is £0.3m short of the amount required to fund the part year affect in 2024/25. The total cost to Leicestershire Police of pay awards decided by the government, but

not funded by the government, from September 2022 to 2024 is now £7.3m in 2024/25.

- b. Vacancy factor reduction - As part of the budget setting process and to support with closing the budget deficit the Force applied a higher vacancy rate of 6%. Returning to the customary vacancy rate across the Force will result in additional pressure of £1.3m per annum.
- c. Pay inflation – given the uncertainty around the pay awards the pay inflation assumption has increased from 2% to 2.5%, which in turn increases the budget deficit by £0.6m for 2025/26, £1.7m for 2026/27 and £2.8m for 2027/28.
- d. National Pressures – The national government has introduced a number of changes which impose costs on the Leicestershire Police without funding these additional costs and which therefore impact on the MTFP. These unfunded cost pressures include the changes in legislation relating to XL Bully dogs, increase to Home Office ICT charges, contributions to Bluelight Commercial and increased contribution to NPAS.
- e. Contractual Changes – there are a number of contractual changes or increases in demand which are driving up costs. These include contractual changes relating to Payroll, interpreter costs, increase in temporary alarms and increase in legal services.
- f. Investment – there are a number of areas which require additional investment since setting the budget and have resulted in additional costs pressures for the Force. These include SFR medical costs (a cost-effective solution to obtaining medical evidence), redaction software and Storage Area Network (SAN) maintenance and support costs.

26. There are a number of pressures that have been identified but due to uncertainty have not been factored into the MTFP. These include:

- a. Digital transformation and Cloud migration – the Force has developed a digital transformation strategy, part of which includes the move from on premise data storage to Cloud storage which will enhance operational analytical capability. The risks and costs associated with this are factored into the funding envelope but are likely to change through time as the migration evolves.
- b. Neighbourhood Policing additional 13,000 personnel – the Government has announced it intends to increase neighbourhood policing officers and PCSOs by up to 13,000 funded through shared services and procurement savings. No further details are available although the Home Secretary has confirmed a national review will commence imminently. It should be noted that many such savings are already captured and budgeted for, so any growth in personnel costs will potentially increase future budget deficits in the absence of any

additional funding. No related cost savings are included in the current budget requirement.

- c. Forensic Service Provision – the regional contract is due for renewal in April 2025. Leicestershire’s annual costs are £0.9m in 2024/25. This could potentially increase to £1.9m in 2025/26. At this stage, given the uncertainty, an increase of only £0.2m is included for 2025/26 in line with existing contract terms.
- d. Employer’s National Insurance increase – the Government’s October budget report confirmed the changes to employer’s national insurance contributions which will increase Leicestershire’s costs by c.£4m in 2025/26. We await confirmation of any funding to offset this. Currently, both the additional cost and any potential funding are not included in the MTFP.

27. The 2024/25 budget setting process identified the requirement for a staff vacancy factor of 6% equating to £3.2m plus efficiency savings of £5.4m. Savings are being identified across the force.

28. The majority of savings have been generated by staff salary savings. To date £5.8m of savings have been realised (see below).

- a. 109 FTE staff posts have been removed from the establishment, in addition a further 4.83 FTE staff posts have been removed, realising a sustainable saving of £4.4m.
- b. ECU staff funded via the POCA reserve has resulted in a £0.21m.
- c. To date, 7 FTE voluntary redundancies have been approved and will deliver a saving of £0.19m (£0.24m full year sustainable saving). The PCC has agreed that the associated exit costs will be funded from reserves.
- d. Robust vacancy management in the first four months of 2024/25 has realised a saving of £1.02m.

29. Future savings of £1.3m are forecast based on current vacancy levels across the organisation. However, this is subject to future variations in starters and leavers.

30. Non-pay savings include, officer overtime, stationery, hotel accommodation, operational equipment, fuel, debt charges, and grant income equating to £1m.

Budget Setting Process

31. The budget process for 2025/26 is currently underway and both the Force and OPCC are working collaboratively to build a bottom-up budget based on requirement to deliver an efficient and effective police service and deliver on the Police and Crime Plan.

32. The Commissioner has requested a review of the current approach including a review of the timeline for the budget and how the budget is built. The Commissioner has requested that the presentation of the budget has its limitations in that it is broken down and analysed by types of Income and Expenditure (Subjective Analysis) rather than by Service Delivery (Service expenditure analysis). Although from an accounting perspective subjective analysis is commonly used across the sector and is a requirement of statistical returns, it doesn't inform the local taxpayer of the cost of police activities at a service division level. The Commissioner feels this would be a more useful aggregation of costs to aid decision making, ensuring best value and inform the taxpayer of how precept is used.

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