

To:	The Police & Crime Panel for Sussex
From:	The Police & Crime Commissioner for Sussex
Subject:	Medium Term Financial Forecast and Budget Timetable 2017/18
Date:	23 September 2016
Recommendations:	That the Police and Crime Panel note the content of the report

1.0 Introduction

- 1.1 This report sets out the latest budget planning assumptions for the financial year 2017/18. It also contains the Medium Term Financial Forecast (MTFF) covering the period up to 2021.
- 1.2 The MTFF takes into account the estimated implications of on-going and potential new commitments, as well as anticipated changes in funding and other cost pressures. It is based on previous Home Office and Treasury announcements, as well as local market intelligence.
- 1.3 Funding to Sussex Police from central government currently represents 65% of the overall budget.
- 1.4 The Home Office funding formula review announced last year was postponed and will not be implemented until 2017/18 at the earliest. This will change the way in which funding is allocated to police forces in England and Wales but as the impact for Sussex Police is not yet known.
- 1.5 The next announcement from central government is due in December 2016. Prudently, given previous reductions in core grant levels and current uncertainties above, the current MTFF continues to include a 1% reduction per annum in core revenue grant funding up to 2020/21.
- 1.6 The main changes to the medium term forecast since the budget for 2016/17 was approved in March 2016 are:
 - inclusion of an additional year of financial planning to 2020-21;
 - reserves plan updated following the final outturn for 2015/16
- 1.7 An ongoing review to assess the cost of change to enable future savings is underway – informed by the emerging detail from the Change Programme and savings plans.
- 1.8 The MTFF and budget planning assumptions for 2017/18 will be further updated between now and February 2017, when the final budget is expected to be approved by the Sussex Police & Crime Commissioner.

2.0 Savings

- 2.1 The approved existing MTF from 2016/17 to 2019/20 included a savings requirement of £35m. Against this requirement, a savings target of £42 million was agreed, to enable the balance to be used as either future investment in priority areas or as mitigation against any slippage in savings achieved.
- 2.2 Rolling forward the savings requirement for another year into 2020/21, based on existing assumptions on grant and funding levels, would result in further savings in 2020/21 of £7.7m – increasing the total savings requirement to £42.8m.

Estimated Savings Requirement 2016 to 2021

2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	2020/21 £'000	Total £'000
11,753	8,742	7,149	7,695	7,681	42,806

2.2 A summary of the current savings plans are set out below.

Latest Savings Position

Savings Work Streams	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000	Total £000
Specialist Crime (Capability Programme)	1,411	1,411	0	0	2,822
Operations Command (Future Savings)	985	985	0	0	1,970
Contact & Deployment:					
- <i>Quest Resourcing</i>	10	0	0	0	10
- <i>Communications Future Savings</i>	683	684	0	0	1,367
- <i>Front Office Future Savings</i>	117	118	0	0	235
Sub-total Contact & Deployment	810	802	0	0	1,612
Business Enablement:					
- <i>People Services</i>	574	574	0	0	1,148
- <i>Finance & Services</i> (Finance ERP and JTS savings)	60	60	0	0	120
- <i>Corporate Communications</i> (Joint Vetting, Change Delivery Branch, Corporate Development Department and Corporate Services Future savings)	256	318	0	0	574
- <i>ICT</i>	222	681	0	0	903
- <i>Estates</i> (Estates future savings and future workplace programme)	663	663	0	0	1,326
Sub-total Business Enablement	1,775	2,296	0	0	4,071
Local Policing:					
- <i>Local Policing Programme</i>	11,384	8,511	0	0	19,895
- <i>Criminal Justice (LPP)</i>	436	0	0	0	436
- <i>PCSO's (LPP)</i>	567	0	0	0	567
- <i>Custody (LPP)</i>	0	545	0	0	545
- <i>Fleet future savings</i>	47	47	0	0	94
Sub-total Local Policing	12,434	9,103	0	0	21,537
Other Savings Initiatives (Pay Allowances)	250	0	0	0	250
TOTAL SAVINGS	17,665	14,597	0	0	32,262
Savings Surplus/(Gap) brought forward from prior year	(1,466)	7,457	14,905	7,210	(1,466)
TOTAL SAVINGS PLAN IN YEAR	16,199	22,054	14,905	7,210	30,796
Savings Requirement Target	8,742	7,149	7,695	7,681	31,267
SAVINGS SURPLUS/(GAP)	7,457	14,905	7,210	(471)	(471)

2.3 The savings schedule includes the total savings expected from proposals which were agreed as part of the Local Policing Together Programme (joint services with Surrey Police) and enabler services (estates, fleet etc.) where a business case has been approved.

- 2.4 The planning assumption and target for these areas is a 20% savings target. Plans are currently scheduled to deliver savings to March 2019 which, if met, will deliver the majority of the savings requirement for the next four years. This provides opportunity to phase delivery of savings plans over a longer period if necessary, subject to further changes resulting from the funding formula review and/or additional cost pressures.
- 2.5 All budgets are being reviewed in order to identify further savings, particularly to address the current shortfall in 2016/17, including savings from existing programmes which can be brought forward. In addition, one off or on-going reductions to contingency budgets, capital financing or other discretionary funding are being explored. One-off use of reserves can also be considered, whilst ensuring a level of contingency remains to cover the overall uncertainty of future funding and additional cost pressures.
- 2.6 A comprehensive review of the savings programme is currently underway. This will focus on both the quantum of savings to be achieved in each work stream, as well as the phasing of the savings across each year in the MTFF. A recent change programme was solely dedicated to obtaining greater clarity on the least certain 'purple savings' included in the current plans. The outcome of these reviews will be reflected in the update to the MTFF as will any potential areas of underspend or overspending within the current years balanced 2016/17 overall budget.

3.0 Assumptions

- 3.1 Assumptions supporting the MTFF are set out Appendix 3. Some of the key assumptions are detailed below.
- 3.2 **Government grant** to individual police forces for 2017/18 will not be announced until December. Based on latest indications, a cash reduction of 1% has been included for 2017/18 and beyond. This does not account for any changes in the funding formula used to allocate the funding (see paragraph 1.4).
- 3.3 **Pay Inflation:** police officer and staff pay inflation is included in the MTFF at 1% from 2017 for 4 years.
- 3.4 **Non pay inflation** is based on the Bank of England Market CPI forecast rates and is included at 2% from 2017/18 for planning purposes. Different inflation rates will only be applied where there is a contractual commitment or specific market assessment.
- 3.5 **Precept:** the MTFF assumes a modest increase in tax base of 1% and a nil increase in precept each year. There has been no announcement on whether a council tax freeze grant will be payable in 2017/18. The MTFF assumes the precept freeze grant will be rolled into the main Police Grant and is therefore subject to the similar grant reduction assumptions (1%).
- 3.6 **National Insurance (NI):** A single tier state pension was implemented by central government from April 2016. Previously police officers and staff in the Police and Local Authority Pension schemes were opted out of higher rate NI contributions. The impact of this change was to increase employers NI

contributions from the previous 10.4% 'contracted out' rate to the new 13.8% 'contracted in' rate. This led to an estimated increase in costs of £4.7m in 2016/17 and subsequent years and is included within the MTFF.

- 3.7 **Police staff pension funding:** the police staff pension scheme is managed by West Sussex County Council (WSCC) and employer contributions are currently 18.4% of police staff pay. The latest triennial valuation review is underway and the results anticipated in December 2016 will be applied in April 2017. The current MTFF assumes continuation of a 1% increase per annum.
- 3.8 The following table sets out how changes in assumptions would impact on the MTFF and savings requirement. The key sensitivities are in relation to reductions in grant funding and agreed pay increases. Each +/-1% reduction in core grant funding would change the savings requirement by +/- £1.6m per year; the same change for pay increases would change the savings requirement by +/-£1.9m per year.

MTFF Sensitivity Analysis

	Movement	Value
Core Grant	1%	£1.6m
Precept	1%	£0.9m
Pay award	1%	£1.9m
Tax base	1%	£0.9m

4.0 Precept Options

- 4.1 In January 2016, when considering the Police and Crime Commissioner's proposed budget for 2016/17, the Police and Crime Panel supported a precept increase of 3.474%.
- 4.2 The increase to the Band D council tax for 2016/17 was £5 per household, making the total Band D council tax for Sussex £148.91. This is in line with government expectations laid out in the final 2016/17 Police Grant Report Q&A's which assumed all PCC's would maximise their precept to the 2%/£5 referendum limit each year.
- 4.3 As in previous years, the Police & Crime Commissioner has asked the Chief Constable to present a business case for any new investment required in 2017/18.

5.0 Risks

- 5.1 There is always the possibility of other issues affecting the MTFF and these will be regularly reviewed. Some key risks are set out in Appendix 4.
- 5.2 The outcome of the Comprehensive Spending Review (CSR) and any changes to the police funding formula are not known. However, based on previous announcements from the Home Office and Treasury the maximum impact is assessed as;

	% change	Value
Spending review	40%	£66m
Funding Formula	20%	£33m
Total	60%	£99m

- 5.3 The current MTFF assumes the level of grant reduction will be 1% (in real terms) or £2m. In the event that the worst case scenario of a 60% reduction in grant occurs, additional savings of £97m will need to be found, above the level already shown in the MTFF.

6.0 Capital

- 6.1 Proposals for an updated capital programme to 2020/21 are currently being developed. This is being overseen by a Joint Investment Board, which will review existing projects and consider new investment. A draft capital and investment programme will be prepared in November, together with proposed financing.
- 6.2 The current capital programme to 2019/20 is set out in the table below with a more detailed view attached at Appendix 5.

Current Capital Programme

	2016/17	2017/18	2018/19	2019/20	Total 2016-20
	£'000	£'000	£'000	£'000	£'000
ICT Strategy	5,923	4,197	1,283	1,256	12,659
Fleet Strategy	3,526	3,467	2,995	2,987	12,975
Core Operation Programmes	2,180	528	302	292	3,303
Major Change Initiatives	5,604	204			5,808
Estates Strategy	15,141	3,584	4,970	1,500	25,195
Asset Replacement Programme	550				550
Total Capital & Investments	32,924	11,980	9,550	6,035	60,489

7.0 Reserves

- 7.1 Reserves are maintained for general, specific and investment purposes. They provide the main financing source for the capital programme with capital receipts and investment reserves totalling nearly £33m estimated to be used to fund capital investment over the next three years.
- 7.2 A summary of current and forecast reserves is set out in Appendix 6 and summarised below:

	Estimated Balance as at year end			
Reserve	2016/17 £000	2017/18 £000	2018/19 £000	2019/20 £000
Investment	10,442	2,916	0	1,150
Single Purpose	17,054	16,775	14,990	14,990
Contingency & Risk	6,074	6,074	6,074	6,074
General	10,807	10,807	10,051	10,051

Total	44,377	36,572	31,115	32,265
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- 7.3 A formal review of reserves and the reserves policy will be undertaken in October for the Police and Crime Commissioner to agree as part of budget setting for 2017/18.

8.0 Conclusion

- 8.1 Based on the latest MTFF and current savings plans, it is forecast that a balanced budget can be achieved for 2017/18. However, the risks highlighted in this report should be noted, particularly in the context of £78m savings already achieved for the period 2010 – 2016.
- 8.2 The financial climate will remain uncertain and challenging throughout this upcoming CSR period (2016 – 2021). The position is kept under constant review, including using information provided by HM Treasury and the Home Office and will be further updated once announcements are made in November and December.

Recommended – that the Police & Crime Panel note the content of the report.

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Appendices:

1. Medium Term Financial Forecast
2. Medium Term Financial Forecast Incremental Budget Changes
3. Medium Term Financial Forecast Planning Assumptions
4. Areas of Financial Risk 2017/18 and Beyond
5. Summary of the Capital Programme
6. Estimated Reserve Balances

Medium Term Financial Forecast

Chief Constable	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000
Employees				
Police Officer Pay (incl. overtime)	128,406	130,661	132,931	135,221
Police Pension Employer Contributions	29,976	30,420	30,871	31,330
Total Police Pay	158,383	161,081	163,802	166,551
Police Staff Pay	69,494	71,591	73,736	75,931
LGPS Pension Deficit	1,233	1,233	1,233	1,233
PCSO Pay	8,707	8,981	9,262	9,549
Total Police Staff Pay	79,434	81,805	84,231	86,713
Other Employee costs	2,753	2,822	2,892	2,964
Total Pay Costs	240,570	245,708	250,925	256,228
Buildings & Premises	9,832	10,078	10,628	11,004
Transport Costs	5,217	5,348	5,481	5,618
IT & Communications	10,927	11,200	11,480	11,765
Other Supplies & Services	19,813	19,895	20,391	20,898
Total Non-Pay Costs	45,788	46,521	47,980	49,284
Cumulative Savings Target	(8,742)	(15,891)	(23,586)	(31,267)
Gross Operational Delivery Budget	277,616	276,338	275,319	274,246
Income	(22,427)	(22,427)	(22,427)	(22,427)
Specific Grants	(8,593)	(8,593)	(8,593)	(8,593)
Total Income and Grants	(31,021)	(31,021)	(31,021)	(31,021)
Net Operational Delivery Budget	246,595	245,318	244,298	243,225
Police and Crime Commissioner	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000
Office of the PCC	1,218	1,253	1,289	1,326
Community Safety & Victims Services	3,584	3,584	3,584	3,584
Grant Income (Victims)	(1,949)	(1,949)	(1,949)	(1,949)
Financial Provisions	3,035	3,059	2,860	2,751
Transfers to/from Earmarked Reserves	0	0	0	0
Total PCC Retained Budget	5,888	5,947	5,784	5,712
TOTAL POLICE FUND	252,484	251,265	250,082	248,937
Funding Sources	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000
Core Policing Grants	162,778	160,662	158,572	156,513
Council Tax Precept	89,707	90,604	91,510	92,425
NET BUDGET REQUIREMENT	252,484	251,265	250,082	248,937

Medium Term Financial Forecast Incremental Budget Changes

Incremental Budget Changes	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000
Base Budget	254,977	252,484	251,265	250,082
Base Budget Changes	(1,237)	0	0	0
Pay Costs	5,838	5,095	5,173	5,260
Price Inflation	1,125	1,224	1,247	1,276
Cost Pressures	450	0	0	0
New Investments	73	(390)	92	0
Total Cost Increases	6,249	5,929	6,512	6,536
Gross Budget Requirement	261,226	258,413	257,777	256,618
Cumulative Savings Target	(8,742)	(7,148)	(7,695)	(7,681)
Net Budget Requirement	252,484	251,265	250,082	248,937

Funding Sources	2017/18 £000	2018/19 £000	2019/20 £000	2020/21 £000
Core Policing Grants	162,778	160,662	158,572	156,513
Council Tax Precept	89,707	90,604	91,510	92,425
NET BUDGET REQUIREMENT	252,484	251,265	250,082	248,937

APPENDIX 3**Medium Term Financial Forecast Planning Assumptions**

Assumption	2017/18	2018/19	2019/20	2020/21
Core funding changes	-1%	-1%	-1%	-1%
Specific Grants change	No Change	No Change	No Change	No Change
Council Tax Support Grant	-1%	-1%	-1%	-1%
Legacy Council Tax Freeze Grants	-1%	-1%	-1%	-1%
Tax base increase	1%	1%	1%	1%
Collection Surplus/(Deficit)	-	-	-	-
Pay award (Sept average)	1.0% - 1.25%	1.0% - 1.25%	1.0% - 1.25%	1.0% - 1.25%
Police staff pension contributions	1%	1%	1%	1%
Precept	0%	0%	0%	0%
General Price inflation	2%	2%	2%	2%
Investment Interest Returns	0.40%	0.40%	0.40%	0.40%
Employers NI Increase	No further increase	No further increase	No further increase	No further increase

Areas of Financial Risk 2017/18 and Beyond

Issue	Assumption	Comment
Maintaining & improving service performance levels	Resources sufficient to meet targets and priorities in the Local Policing Plan and Strategic Policing Requirement	The Chief Constable believes that there are sufficient resources to deliver future Police and Crime Plan priorities and Strategic Policing Requirement. However there remains risk from the cost of major operations including counter-terrorism, particularly if these are not fully funded nationally.
Pay and price budgets and establishment control	Provision for national pay awards ceiling of 1%. Staff turnover and increments based on detailed analysis of current staff profile and trends. General price inflation of 2%	The number of police officer leavers is difficult to predict but recruitment and promotions are managed during the year across the Force to match staffing need and resources to budget. Close corporate monitoring of the overall budget and management action to maintain financial discipline. Pay and price contingency is available to meet any unexpected increases in year.
Limits to Precept Increases	Precept planning assumption of a 0% increase.	The Localism Act 2011 gives a statutory obligation for council tax referendums to be held should a precept higher than prescribed be considered by the Police and Crime Commissioner (PCC). The Secretary of State for Communities and Local Government set the level above which a referendum would be required at 2%. Decisions on any increase to the precept are made by the PCC annually. Compared to other police areas across the country, Sussex has a low level of precept.
Grant Levels	Overall revenue grant reduction of 0.6% in 2016/17. Funding levels for 2016/17 are assumed to reduce by 1% cash pa to 2021 (25% real terms reduction). Changes to the grant formula may further reduce the level of grant payable.	2017/18 allocations are subject to the CSR (real term reductions up to 40% possible). Legacy council tax grants are included in core Home Office; allocation of this funding this could change in future years. Any change to the grant formula could have a significant impact on base funding (+/-20%).
Budget Estimates (Expenditure)	Provision for specific on-going cost pressures	The Chief Constable and his finance team will undertake a detailed examination of the budget estimates including all identified additional costs for 2017/18, supported by input and review by the PCC's Chief Financial Officer. Only spending pressures in future years that are known at this stage have been included in the Medium Term Financial Forecast (MTFF).
National IT Systems	Move to full cost charging without transfer of funding from Home Office.	Further potential costs related to the national changes to training and the creation of the national police college could continue in 2017/18.

Issue	Assumption	Comment
Local Policing Programme; Policing Together Programme and other cash releasing savings.	Savings requirement of £31m to 2020/21	Action plans to deliver savings from April 2017 are being finalised by Chief Officers and regular monitoring will be undertaken to track achievement of savings and ensure any additional action required is undertaken during the year. The achievement of savings in 2017/18 and beyond heavily depends on the delivery of savings from the Local Policing Programme and the Policing Together Programme (joint vision and services with Surrey Police). Wider blue light collaboration will contribute to the delivery of savings over the medium term.
Levels of reserves	Forecast to reduce over the term of the MTFF	Currently used to finance the capital programme and major change initiatives. It remains a risk that the level of reserves is adequate to meet unplanned demand.
Interest rates, investment and borrowing	Interest rates assumptions of 0.40% Borrowing at fixed rates.	Forecasts of investment income for 2017/18 onwards are based on estimated cash balances and interest rate forecasts as set out in the treasury management strategy. A prudent position has been adopted with regard to anticipating future increases in interest rates. At this stage, no borrowing has been planned to finance the capital programme in 2017/18 or beyond.
Income Assumptions	Income budgets reduced for specific items.	Some risk of achieving on-going level of income targets included in Divisional and Department budgets. This will be monitored during the year and appropriate action or mitigation agreed as necessary. Additional income may be received in-year due to unforeseen events. Budget adjustments will be requested where appropriate. The increase in firearms licence costs will provide additional income.
Policing of Gatwick Airport	Funding of £12.9m in 2017/18.	The existing public Services agreement for Policing Gatwick Airport expires on 31 March 2017. Negotiations are currently underway to renew this agreement for a further three years to 31 March 2020.
Reductions in security grants	Potential reductions in Airport and other security grants.	MTFF assumes that grants will continue at current level. If subsequently reduced, savings will be made to cover the reduction outside of core savings targets.
Operation Otter	Costs in excess of government grant to be met from Reserves or central reimbursement	The 2017 Labour Party Autumn Conference being held in Brighton is planned for. The scale of the operation is expected to be relatively low key and additional costs are not expected to be significant.
Public disorder	Additional cost of overtime and associated costs	Whilst action will be taken to mitigate the overtime and other additional costs relating to policing public order operations, significant costs may be incurred on anticipated events in 2017/18. It is proposed that in-year over-achieved savings will be used as a first source for funding, otherwise the public order contingency, other revenue budget and operational reserve provides potential sources of funding if necessary.
Operational Demands	Public Protection and Digital Forensics	Key operational pressures include continuing increase in demand and complexity of public protection cases (domestic abuse and vulnerable children/adults) plus changes in nature/type of evidence collection (more digitally based); requiring additional time/resource and cost to process.

Summary of the Capital Programme

	2016/17	2017/18	2018/19	2019/20	Total 2016-20
	£'000	£'000	£'000	£'000	£'000
Core Capital Programme					
Networks	5				5
End User Computing (formerly Bus Prod)	100				100
Core Infrastructure	1,397				1,397
Joint Surrey/Sussex IT Strategy (Sussex share only)	4,133	3,983	1,283	1,256	10,655
Joint SERIC IT Strategy (Sussex share only)	288	214			502
Total Information Technology Strategy	5,923	4,197	1,283	1,256	12,659
Fleet Strategy	3,526	3,467	2,995	2,987	12,975
Specialist Crime	893			92	985
Criminal Justice	74				74
Operations Department	889	479	252	200	1,819
Communications	325	50	50		425
Core Capital Programme excluding IT Strategy	5,707	3,996	3,297	3,279	16,278
Total Core Capital Programme incl. IT Strategy	11,630	8,193	4,580	4,535	28,937
Major Change Initiatives	5,604	204			5,808
Total Estates Strategy	15,141	3,584	4,970	1,500	25,195
Total Asset Replacement Programme	550				550
Total Investment Programme	32,924	11,980	9,550	6,035	60,489

ESTIMATED RESERVE BALANCES

	Investment		Single Purpose				Contingency and Risk		General	
USABLE RESERVES	Capital and Investment Reserve	Capital Receipts	Asset Seizures	Delegated Budget Holder Reserve	Sussex Safer Roads Partnership	PFI	Insurance	Operational	General Reserve	Total Reserves
	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000	£'000
Audited Balance at 31/3/15	33,141	7,896	262	7,350	2,003	12,794	1,874	2,450	10,807	78,577
Approved Contributions	1,234	2,694	413	2,110	162				0	6,613
Outturn Transfer Requests	(10,780)			864			1,749			(8,167)
Approved Commitments		(1,720)	(310)	(1,970)	(30)					(4,030)
Transfers Between Reserves	992			(992)						0
Estimated Balance at 31/3/16	24,587	8,870	365	7,362	2,136	12,794	3,623	2,450	10,807	72,994
2016-17										
Approved Contributions	1,237									1,237
Estimated Contributions		4,800								4,800
Estimated Commitments	(15,381)	(13,670)		(4,864)	(289)					(34,204)
Approved Commitments				(450)						(450)
Estimated Balance at 31/3/17	10,442	0	365	2,048	1,847	12,794	3,623	2,450	10,807	44,377
2017-18										
Estimated Contributions		4,050								4,050
Estimated Commitments	(7,526)	(4,050)			(279)					(11,855)
Estimated Balance at 31/3/18	2,916	0	365	2,048	1,568	12,794	3,623	2,450	10,807	36,572
2018-19										
Estimated Contributions		2,500								2,500
Estimated Commitments	(5,405)	(2,500)			(52)					(7,957)
Approved Commitments										0
Transfers Between Reserves	2,489			(1,733)					(756)	0
Estimated Balance at 31/3/19	0	0	365	315	1,516	12,794	3,623	2,450	10,051	31,115
2019-20										
Estimated Contributions		4,000								4,000
Estimated Commitments		(2,850)								(2,850)
Estimated Balance at 31/3/20	0	1,150	365	315	1,516	12,794	3,623	2,450	10,051	32,265