

To:	The Police & Crime Panel for Sussex
From:	The Police & Crime Commissioner for Sussex
Subject:	Medium Term Financial Forecast and Budget Timetable 2016/17
Date:	9 October 2015
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 2016/17. It also contains the Medium Term Financial Forecast (MTFF) covering the period up to 2020.
- 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 66% of the overall budget. The Treasury's Comprehensive Spending Review (CSR) will set out the government funding, at departmental level, over the next four financial years. It is due to report on 25 November 2015 and is expected to show continued reduction in grant levels; with non protected departments asked to prepare options for reduced spending of between 25-40%.
- 1.4 Alongside the CSR the Home Office have announced intentions to change the way in which funding is allocated to police forces in England and Wales. The new police funding formula will take effect from 1 April 2016 and has been subject to public consultation.
- 1.5 The Home Office are refining the funding model in light of responses to the consultation and are expected to share details in October 2015. Initial feedback suggests that individual police force allocations could increase/decrease by up to 20%. The impact for Sussex Police is not yet known and so the current MTFF does not take account of any potential changes as a result of the new formula.
- 1.6 The main changes to the medium term forecast since the budget for 2015-16 was approved in February 2015 are:
 - restatement of the 2016-17 baseline budget taking into account savings expected to be achieved in 2015-16;
 - inclusion of an additional year of financial planning to 2019-20, reflecting the next CSR period;
 - 5% cash reduction in grant (increased from 3% in previous plan), reflecting CSR announcements to date;
 - 1% pay cap for the public sector;

- an increase in the council tax base across Sussex; and
- estimated new cost pressures

1.7 The MTFF and budget planning assumptions for 2015-16 will be updated between now and February 2016, when the final budget is expected to be approved by the Police & Crime Commissioner.

2.0 Savings

2.1 The latest MTFF generates a savings requirement for the next four years (2016-20) of £61m. This is in addition to the £65m savings achieved since 2010.

Estimated Savings Requirement 2016 to 2020

2016-17 £'000	2017-18 £'000	2018-19 £'000	2019-20 £'000	Total £'000
18,753	14,568	13,759	13,519	60,599

2.2 A summary of the savings planned to 2019-20 are set out below and in more detail in Appendix 3.

Latest Savings Position

	2016-17	2017-18	2018-19	2019-20	Total
	£000	£000	£000	£000	£000
Support Services	258	288	0		546
Corporate Services	37	0	0		37
Specialist Crime	627	214	0		841
Local Policing	8,300	9,600	9,600		27,500
Business Enablement	(165)	0	0		(165)
Contact & Deployment	475	10	0		485
Other Savings Initiatives	209	500	500		1,209
Total Savings	9,741	10,612	10,100	0	30,453
Surplus/-Deficit brought forwards	1,408	(7,605)	(11,560)	(15,219)	1,408
Total Savings Plan In Year	11,148	3,008	(1,460)	(15,219)	31,861
Savings Target (MTFF)	18,753	14,568	13,759	13,520	60,600
Annual Surplus /(Deficit)	(7,604)	(11,560)	(15,219)	(28,739)	(28,739)

2.3 The savings schedule includes the total savings expected from proposals agreed as part of the Local Policing Programme but only those for the 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. If a 20% target is achieved for all of these areas of business (Policing Together and enabler services) then the total savings required up to at least March 2019 will be achieved.

- 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 is being explored. The one-off use of reserves is also being considered, whilst ensuring a level of contingency remains to cover the overall uncertainty in 2016-17 funding.
- 2.6 Some options have already been identified to help balance the 2016/17 budget, including:
- £1m from the Estates Maintenance budget (achievable for one year but will be reviewed for future years);
 - £2m from capital financing, cost of change and other contingency budgets (this requires a reduction in capital commitments and removes in year flexibility in the budget);
 - £2m from the roll forward of the 15-16 surplus (this requires a positive plan to ensure this is realised in year but based on current forecasts and assumptions is achievable); and
 - £3m from new saving plans from Policing Together Programme and other services outside scope of the Local Policing Programmes.

3.0 Assumptions

- 3.1 Assumptions supporting the MTFF are set out Appendix 4. Some of the key assumptions are detailed below.
- 3.2 **Government grant** to individual police forces for 2016-17 will not be announced until December. Based on latest indications, a cash reduction of 5% has been included for 2016-17 and beyond. This does not account for any changes in the funding formula used to allocate the funding (see paragraphs 1.4 and 1.5).
- 3.3 **Pay Inflation:** police officer and staff pay is to be capped at 1% from 2016 for 4 years.
- 3.4 **Non pay inflation** is based on the latest Bank of England Market Median rates and is included at 1.2% in 2016-17 and 2% thereafter for planning purposes. Fuel and utilities are based on an average 5% increase. A different inflation rate 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 and a nil increase in precept each year. There has been no announcement on whether a council tax freeze grant will be payable in 2016-17. Previous years have attracted a freeze grant, at a level equivalent to a 1% precept increase but this has not been assumed in the MTFF.

- 3.6 **National Insurance (NI):** police officers and staff in the Police and Local Authority Pension schemes are currently opted out of higher rate NI contributions. In March 2013 the Chancellor announced an acceleration of his plan to implement a single tier state pension from April 2016. An element of this plan is to increase employers NI contributions from the current 10.4% 'contracted out' rate to the 13.8% 'contracted in' rate. Based on the latest information on the scope of the change, this is estimated to increase costs by £4.7m in 2016-17 and subsequent years.
- 3.7 **Police staff pension funding:** the police staff pension scheme is managed by West Sussex County Council (WSCC) and employer contributions are currently 17.4% of police staff pay. WSCC previously confirmed that the annual contribution will continue to increase by 1% per year up to 2016-17. This is estimated to cost an additional £0.6m per year. The next triennial valuation review is due in April 2017 and the MTFF assumes the continuation of a 1% increase per annum thereafter.
- 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 +/-£2.4m per year.

MTFF Sensitivity Analysis

	Movement	Value
Core Grant	1%	£1.6m
Precept	1%	£0.8m
Pay award	1%	£2.4m
Tax base	0.5%	£0.4m

4.0 Precept Options

- 4.1 In January 2015, when considering the Police and Crime Commissioner's proposed budget for 2015-16, the Police and Crime Panel supported a precept increase of 1.98%.
- 4.2 The increase to the Band D council tax for 2015-16 was £2.79 per household, making the total Band D council tax for Sussex £143.91. This compares to a national average for all Police & Crime Commissioners' (excluding London) of £164. Sussex remains the 4th lowest level of precept in England and Wales and this position will be maintained unless significant precept changes are agreed.
- 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 2016-17.

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 5.
- 5.2 The outcome of the Comprehensive Spending Review (CSR) and any changes to the police funding formula are not known. However, based on announcements from the Home Office and Treasury the maximum impact is assessed as;

	% change	Value
Spending review	40%	£64m
Funding Formula	20%	£32m
Total	60%	£96m

- 5.3 The current MTFF assumes the level of grant reduction will be 25% (in real terms) or £31m. In the event that the worst case scenario of a 60% reduction in grant occurs, additional savings of £65m 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 2019-20 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 2018-19 is set out in the table below with a more detailed view attached at Appendix 6.

Current Capital Programme

	2014-15	2015-16	2016-17	2017-18	2018-19	Total 2014 -19
	£'000	£'000	£'000	£'000	£'000	£'000
ICT Strategy	6,123	4,363	1,964	1,380	295	14,125
Fleet Strategy	2,817	2,889	2,675	2,636	3,143	14,160
Estates Strategy	6,670	13,653	11,549	8,649	0	40,521
Major Change Initiatives	5,171	2,989	2,200	0	0	10,360
Operational Investments	1,140	1,551	675	328	102	3,796
Total Capital & Investments	21,921	25,445	19,063	12,993	3,540	82,962

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 £16m 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 7 and summarised below:

	Estimated Balance as at year end			
Reserve	2015-16	2016-17	2017-18	2018-19
	£000	£000	£000	£000
Investment	18,262	8,954	5,005	5,005
Single Purpose	14,653	13,914	13,636	13,584
Contingency & Risk	3,706	3,706	3,706	3,706
General	10,916	9,566	9,316	9,316
Total	47,537	36,140	31,663	31,611

- 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 2016-17.

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 2016-17. However, the risks highlighted in this report should be noted, particularly in the context of £65m savings already achieved for the period 2010 – 2015.
- 8.2 The financial climate will remain uncertain and challenging throughout this upcoming CSR period (2016 – 2020). 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.

Carl Rushbridge
Chief Finance Officer
Office of Sussex Police & Crime Commissioner

Mark Baker
Director of Finance
Sussex Police

Contact: Carl Rushbridge, Chief Finance Officer
Email: carl.rushbridge@sussex-pcc.gov.uk
Tel: 01273 481582

Contact: Mark Baker, Director of Finance
Email: mark.s.baker@sussex.pnn.police.uk
Tel: 01273 404008

Appendices:

1. Medium Term Financial Forecast
2. Medium Term Financial Forecast - Incremental Budget Changes
3. Savings Programme
4. Medium Term Financial Forecast Planning Assumptions
5. Areas of Financial Risk 2016-17 and Beyond
6. Current Capital Programme
7. Estimated Reserve Balances