



To:	The Police & Crime Panel for Sussex
From:	The Police & Crime Commissioner for Sussex
Subject:	Revenue and Capital Budget 2016/17
Date:	22 January 2016
Recommendation:	That the Police & Crime Panel note – a) the draft revenue budget for 2016/17; b) the latest Medium Term Financial Forecast; c) the latest savings schedule to 2019/20; and d) the draft capital budget for 2016/17 and capital and investment programme to 2019/20

1.0 Introduction

1.1 This report sets out the latest draft revenue and capital budget proposals for 2016/17, taking into account the impact of the provisional finance settlement. This includes:

- the overall funding position and draft budget for 2016/17;
- spending and saving proposals within the draft revenue budget 2016/17;
- draft capital budget for 2016/17 and capital programme to 2020;
- Medium Term Financial Forecast (MTFF) and savings projections up to 2020.

1.2 The Panel are provided with this information as background to support the reasoning behind the recommended precept increase.

2.0 Grant Settlement

2.1 The Chancellor presented his Autumn Statement on 25 November 2015, including the outcomes of the Government's Comprehensive Spending Review (CSR) up to 2020. The provisional police finance settlement was subsequently announced on 17 December 2015 with the final settlement due to be confirmed in February 2016.

2.2 In his Autumn Statement the Chancellor announced a protection of police funding over the CSR period. This level of protection has been clarified in letters from the Home Secretary and Home Office officials to mean that total cash funding for policing will be maintained over the next four years, taking into account both Home Office grants and maximum allowable increases to the policing element of the precept.

2.3 Despite the protection of police funding there is a continuing need for a significant programme of savings in order to deliver a balanced budget. This is due to the level of additional costs, mainly pay related, which are expected to increase by 4% in 2016/17, outstripping any increases in income.

- 2.4 The precept limits for the CSR period were announced and, as in previous years, any proposed increase of 2% or more will require a referendum for most police areas. An exception has been granted to the ten force areas with the lowest level of precept in England, limiting these areas to a £5 cash increase per annum on a Band D property. The CSR also included an assumption that the Council Tax base would grow by 0.5% in each of the next four years.
- 2.5 The CSR announcement made national commitments over the next four years in a number of areas, including;
- investment in new mobile digital technology, through the Emergency Services Mobile Communications Programme
 - an expectation of improved police procurement, encouraging greater collaboration between police forces and other public/emergency services.
 - transformational funding for forces which have “strong proposals to support efficiency and reform”
 - increase capacity for firearms/Counter Terrorism
 - protecting the National Crime Agency’s budget plus £200m of capital investment to fund new digital and investigative capabilities
 - a reduction in the Home Office administration budget of 30% by 2019/20
 - an apprentice levy of 0.5% of the pay bill.
- 2.6 A provisional police finance settlement has been issued for the first year of the CSR period. This has been used to produce the draft 2016/17 budget, although uncertainty remains in some areas, included those highlighted in the paragraph above.
- 2.7 It was expected that a Funding Formula review would result in a change to the grant allocation for Sussex in 2016/17 and beyond. This has been postponed and will not be implemented until 2017/18. Due to the uncertainty it is not included in the Medium Term Financial Forecast (MTFF).
- 2.8 The current arrangements for ‘damping’ individual allocations continue in 2016. This means that every individual police force area will face the same percentage reduction in core grant funding in 2016/17.
- 2.9 A summary of the provisional grant settlement for Sussex is set out in Table 1 below.

TABLE 1: Provisional Grant Settlement 2015/2016

	2015/16 £'000	2016/17 £'000	Difference £'000	Difference %
Police Core Grant	98,390	97,828	(562)	(0.6%)
Formula Funding	54,201	53,892	(309)	(0.6%)
Total Core Grant Funding	152,591	151,720	(871)	(0.6%)
Council Tax Support Grants	13,202	13,202	-	-
Total Revenue Funding	165,792	164,922	(871)	(0.5%)
Capital Grant	1,766	t.b.c.		

- 2.10 The settlement reduces the core revenue grant funding for Sussex by £0.9m (0.6%) on a like for like basis compared to 2015/16. This level of grant reduction is significantly lower than assumed prior to the CSR announcement in November. The impact of the provisional finance settlement announcement is

that funding reductions for 2016/17 are £7.4m lower than anticipated in the current MTFF.

- 2.11 Legacy grants relating to Council Tax Freeze for 2011/12 and 2013/14, together with the Council Tax Support grant, continue to be included in the baseline Home Office settlement. These are now allocated as specific grants alongside Home Office core funding. These grant amounts remain unchanged but their allocation in future years is subject to outcomes of the Funding Formula review.
- 2.12 Whilst the overall grant figures covering PFI and Counter Terrorism funding were announced within the Home Office settlement, individual allocations to forces have not been announced yet. These along with funding for victims and restorative justice are expected to be announced in January 2016.
- 2.13 Other funding may be made available to individual forces in relation to the Emergency Services Network programme; for firearms capability and other transformation programmes in 2016/17 or within the period up to 2020 but no detailed announcements have been made yet.
- 2.14 The total Home Office capital grant has reduced by 40% but no individual force allocations have been announced and there is the potential for further top slicing of this grant for the Communications Capabilities Development Programme and the replacement for Airwave. Overall this is likely to mean a reduction in the current capital grant to approximately £1m per annum.
- 2.15 No announcements have been made on revenue or capital individual force allocation for future years. We are planning on the basis of a cash reduction in police core grant funding of 1% per annum up to 2019/20. This is based on an assessment of four year funding for policing and actual force settlements in 2016-17 and potential for further reallocation or top slicing of funding within the overall Home Office budget.

3.0 Precept Funding

- 3.1 Draft Council Tax base and collection fund estimates have been received from billing authorities and show a small growth across Sussex, marginally higher than expected. The deadline for billing authorities to provide the final position is 31 January 2016. The latest estimates have been included in the draft revenue budget 2016/17.

4.0 Draft Revenue Budget 2016/17

- 4.1 The draft revenue budget has been updated based on the provisional settlement, estimated Council Tax base position, outcomes from the budget reviews, and other new cost pressures and commitments identified from the budget setting process.
- 4.2 The core grant funding and estimated precept income (based on a 0% precept increase) would provide resources for a draft revenue budget of £250.5m. A summary of the draft revenue budget is attached at Appendix A and summarised in the table below:

TABLE 2: Draft Total Police Fund Revenue Budget 2016/17

	£'000
Base Budget 2015/16	250,645
Base Budget Adjustments	224
Pay Related Costs	10,127
Price Inflation and Other Additional Costs	1,236
Savings Requirement	(11,753)
Draft Revenue Budget 2016/17	250,479

**Assumes no change to current Band D precept (£143.91 per year)*

- 4.3 There is a continuing need for a significant programme of savings in order to deliver a balanced budget. This is due to the level of additional costs, mainly pay related, which are expected to increase by 4% in 2016/17, outstripping any increases in income. The most significant single item for next year is the increase in employer's national insurance contributions as a result of changes to single tier pensions and removal of contracted out arrangements. The estimated cost to Sussex Police of this change is £5.6m per year.
- 4.4 In addition to the grant changes notified in the provisional settlement, a number of changes identified since the last report to the Panel are included in the draft revenue budget. These relate to estimated impact of changes to police officer pay scales and allowances, employment tribunal rulings with respect to holiday pay, the full year impact of increases to national IT charges in 2015, other IT contract changes and other contract inflation.
- 4.5 The draft budget does not include the cost of implementing various change programmes in 2016/17 (project, redundancy and other one off costs associated with Local Policing and Policing Together programmes). These are one off and estimated to cost circa £4m in 2016/17. Funding for these has been earmarked from specific reserves to be drawn down as required in year.
- 4.6 The draft budget only includes unavoidable cost pressures and commitments identified and assessed as part of the budget setting process, i.e. a standstill budget requires the delivery of cashable savings of nearly £12m and the management of new and increasing policing demands and risks within the current level of resources. The separate precept report to Panel outlines proposals for additional investment to meet the most significant policing demands and risks to be funded from an increase in precept in 2016/17. This additional funding and cost is not included in the current forecast.

5.0 Medium Term Financial Forecast (MTFF)

- 5.1 The impact of the latest MTFF assumptions is a savings requirement of £35m for the next four years as set out in table 3 below.

TABLE 3: Estimated Annual Savings to 2019/20

	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	Total £'000
Savings Requirement	11,753	8,481	7,418	7,527	35,179

- 5.2 The Chief Constable is planning on delivering the current programmes of change, including the Local Policing and Policing Together programmes, to modernise policing in Sussex, deliver on the savings requirement over the next four years and enable maximum allocation of resources to national and local policing priorities.
- 5.3 In preparing the draft budget for 2016/17 the Chief Constable, Chief Executive, and Chief Financial Officers consider the implications for future years of the commitments set out in the budget, on-going levels of grant funding and potential new commitments and cost pressures. The latest MTFF and planning assumptions are set out at Appendix B.
- 5.4 The grant settlement for 2016/17 was significantly better than anticipated but there remains some uncertainty on the level of funding for future years and what additional funding and/or operational requirements may be provided or mandated. The MTFF assumptions represent a mid case scenario based on the all the available information at this time.
- 5.5 Funding for 2017/18 onwards is subject to the Funding Formula review, which is likely to have some impact for all forces over the period 2017 to 2020. Based on the Home Office consultation last year there is the potential for significant changes to individual force allocations by as much as 20% of core police grant funding.
- 5.6 The implication of the Chancellor's announcement on protection of police funding for Sussex is predicated on a £5 increase per annum for a Band D household in each of the next four years. The MTFF adopts a prudent approach and does not assume a Council Tax increase for 2017/18 or beyond. This is consistent with the continuation of the approach adopted in the last three years where precept decisions are made on an annual basis against the need for new investment in policing priorities.

6.0 Risks and Issues

- 6.1 New and significant risks emerging for the medium term are set out below.
- 6.2 A 1% pay cap per annum has been set for public sector pay over the CSR period and is reflected in our planning assumptions. There remains specific pay pressures for certain specialist job roles for both police officers and staff. It will be difficult to manage pay pressures for a further four years. In addition there remains other pay pressures and changes arising from employment tribunal cases and reforms being considered by both police officer and police staff pay bodies.
- 6.3 In his Autumn statement the Chancellor announced a new apprentice scheme including new funding arrangements and an apprentice levy. We expect new

arrangements to be implemented from 2017/18 but do not yet know details of the scheme but have included a financial provision for this within the MTFF.

- 6.4 There are continuing risks surrounding **Police IT systems** nationally. The Home Office has made police forces and other law enforcement agencies aware that they will now be required to individually purchase particular products in the future. These are products that were previously funded by the Home Office.
- 6.5 Emergency services mobile communications programme (ESMCP) is replacing the current **Airwave system** with a new Network to run over commercial 4G networks. ESMCP is a cross government departmental programme, including all three emergency services and a wide range of other users. Funding has been announced for the programme as part of the CSR but it is not yet clear on how much of this is new funding and how much will be allocated to individual forces for implementation and transition costs. It is clear that forces will be required to fund a significant portion of their implementation costs.
- 6.6 The programme of change remains complex with operational and organisational risk to delivering the range and volume of change including:
- design work for new operating models for Joint Surrey and Sussex Operations Command and Specialist Crime Command, including scope for regional collaboration, are due to complete in January 2016;
 - regional and national programmes of changes re firearms capability and capacity plus other specialist functions.
 - implementation of a new core finance and HR system for Surrey, Sussex and Thames Valley is due by March 2017.
 - work underway to assess opportunities for collaboration on ICT infrastructure across four south east forces over a five year period.
 - new national and local transformation projects for digitalisation of policing and bluelight collaboration are expected to commence over the next three years.

7.0 Saving Proposals

- 7.1 The Chief Constable's saving plans are based on the programmes of change (Local Policing and Policing Programmes) to deliver improvements in policing and realise cashable savings. A summary of the savings planned up to 2019/20 are set out in Table 4 below.

TABLE 4: Latest Savings Proposals

Work streams	2016/17 £'m	2017/18 £'m	2018/19 £'m	2019/20 £'m	Total £'m
Support Services	1.4	1.3	1.0		3.7
Specialist Crime	1.6	1.7	1.5		4.8
Operations	2.0	1.0	1.0		4.0
Local Policing	8.2	9.6	9.6		27.4
Other	(0.5)	0.2			(0.3)
Contact & Deployment	0.8	0.8	0.8		2.4
Corporate Services	0.6	0.4	0.2		1.2
Total Savings	14.1	15.0	14.1		43.2
Savings Requirement	11.8	8.5	7.4	7.5	35.2
Savings Gap/(Surplus)	(2.3)	(6.5)	(6.7)	7.5	(8.0)
Savings Risk Rating					
Red	3.6	4.4	4.4		12.4
Amber/Green	10.5	10.6	9.7		30.8

7.2 Nearly £65m of savings will have been delivered over the five year period up to March 2016.

7.3 The planned new savings for 2016/17 are based on

- first phase of the Local Policing Programme including elements of neighbourhood policing and criminal justice
- next phase of the Policing Together Programme (collaboration with Surrey Police) including Operations; Specialist Crime; HR, and Finance
- next phase of Estates and Future Workplace programme including rationalisation of accommodation and estates cost reduction
- smaller savings from non-pay budgets and contracts

7.4 Based on all the savings plans for 2016/17 and their risk status there is a high level of confidence in achieving the savings requirement in year with some scope to exceed the target.

7.5 There is still a significant savings requirement up to 2020, currently estimated to be in the region of £35m. This is subject to further change as a result of any grant reductions and the outcome of the Funding Formula review.

7.6 The current level of planned savings, if delivered in full, would meet this requirement, although these plans include nearly £13m of saving targets where detailed proposals or business cases have yet to be developed (represented as red risks in Table 4). If all saving plans and targets are delivered this will provide some headroom and contingency for funding implementation costs. Plans are currently scheduled to be delivered by 2019 but following CSR announcements we know that the savings requirement is over four years to

2020, this provides the opportunity to phase delivery of saving plans over a longer period if needed.

8.0 Capital Programme

8.1 The draft capital and investment programme totals £64m of expenditure over the next four years. The proposed funding is summarised in Table 5 below:

TABLE 5: Draft Capital and Investment Programme Financing

	2016/17 £'000	2017/18 £'000	2018/19 £'000	2019/20 £'000	Total £'000
Home Office Capital Grant	1,000	1,000	1,000	1,000	4,000
Revenue Contribution	2,891	2,290	2,025	2,025	9,231
Reserves and Receipts	26,344	14,484	8,850	1,048	50,725
Total Capital and Investment Programme	30,235	17,774	11,875	4,073	63,956

8.2 The draft capital budget of £30.2m for 2016/17 includes provision for the revised estates and fleet investment plans plus new investments in in-car technology and development of mobile policing. The detailed IT Strategy for 2016 to 2020 is still being developed and the latest draft estimate is included. It includes the latest proposed transfer of funding for specific capital schemes from 2015/16 to 2016/17 following capital reviews throughout the year.

8.3 The capital and investment plans to 2020 require no additional borrowing but subject to assumptions on the profile of delivery of the programme and achievement of capital receipts, the capital and investment reserves will be exhausted by 2020 and provides no headroom for further new investment requirements. These could be significant in relation to Emergency Services Network, ICT Infrastructure, Digitalisation of Policing Services and Criminal Justice. The reducing level of investment reserves over the four year period means prioritisation of capital schemes may have to be reviewed, the current approach of not borrowing may have to be revisited before 2020 and/or provision made in revenue budget for financing of capital investment.

8.4 The draft capital and investment budget for 2016/17 and programme to 2019/20 are set out in Appendix C.

9.0 Reserves

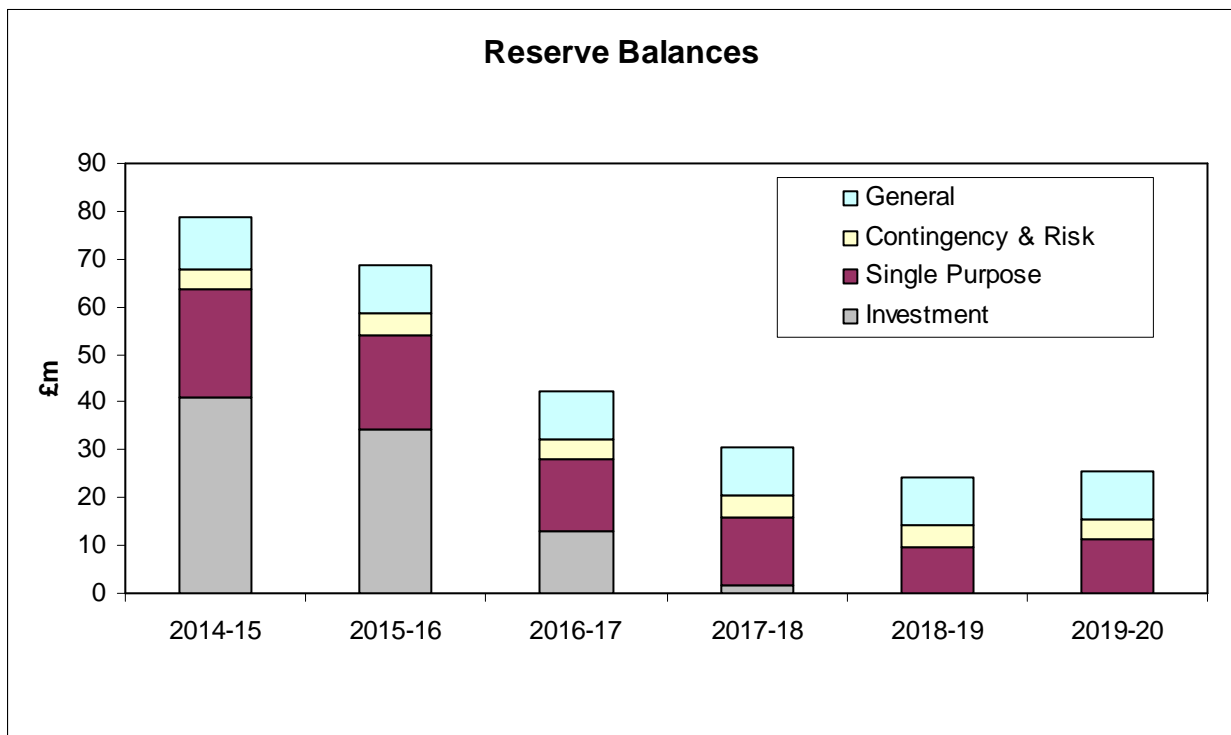
9.1 Reserves are a key part of budget setting and financial planning. The forecast level of reserves up to 2020 is set out in Appendix D.

9.2 The following proposed movements in reserves are included in the draft revenue and capital budgets for 2016/17:

- funding from capital and investment reserves and capital receipts to fund the draft capital budget (£26m);

- funding from the Safer Sussex Roads Partnership (SSRP) reserve to fund specific partnership capital investments (£0.3m);
- funding from the Delegated Budget Holder reserve for the annual subscription for Microsoft Enterprise Agreement payment (£0.45m) and one off implementation costs for implementing Local Policing and Policing Together Programmes (£4m).

9.3 The graph below shows the total forecast level of reserves at 31 March 2020 as £25.6m. This includes general balances of £10m (4.0% of net budget requirement, in line with the PCC's Reserves Policy of 4% of Net Revenue Expenditure).



9.4 The forecast level of uncommitted investment reserves by 2020 is nil. The actual level of investment reserves remaining at 31 March 2020 will depend on achievement of capital receipts in line with Estates Strategy and any revenue budget surplus in 2015/16 and future years which may be transferred to investment reserves.

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Appendices

- A. Draft Revenue Budget 2016/17
- B (i). Total Police Fund Medium Term Financial Forecast
- B (ii). Medium Term Financial Forecast Planning Assumptions
- C. Draft Capital Programme 2015-20
- D. Forecast Use of Reserves 2015-20

Spend Area	£'000
Employees	
Police Officer pay	125,222
Overtime	4,706
Pension Employers Contribution	26,288
Total Police Pay	156,216
Police Staff Pay	67,267
Police Staff Pension Deficit	1,233
PCSO Pay	9,668
Total Police Staff Pay	77,168
Other Employee Costs	1,533
Ill Health Pensions	2,855
Total Pay Costs	4,388
Buildings And Premises	9,508
Transport Costs	5,375
Supplies and Services	38,327
Total Non Pay	53,210
Gross Operational Delivery Budget	290,982
Fees, Charges & Specific Grants Income	(33,720)
Net Operational Delivery Budget (before savings)	257,262
Savings Requirement	(11,753)
Net Operational Delivery Budget	245,509

Office of PCC Budget	1,243
Community, Victims & Restorative Justice	3,132
Grant Income (Victims & Restorative Justice)	(1,498)
Financial Provisions & Reserve Transfers	2,093
Total PCC retained Budget	4,970
Total Police Fund	250,479

Financed by :

Police Grant	97,828
Ex DCLG Grant	53,892
Council Tax Support Grants	13,202
Collection Fund Surplus/(Deficit)	0
Precept	85,557
Total Financing	250,479

Draft Police Fund Medium Term Financial Forecast

Appendix B (i)

	2016/17	2017/18	2018/19	2019/20
	£000	£000	£000	£000
Base Budget	250,645	250,479	249,685	248,916
Pay Costs	10,127	6,056	5,415,	5,512
Price Inflation	394	1,182	1,234	1,270
Cost Pressures	842	450		
Base Budget Changes	224			
Total Cost Increases	11,587	7,688	6,649	6,783
Gross Budget Requirement	262,232	258,167	256,334	255,699
Annual Savings Requirement	(11,753)	(8,482)	(7,418)	(7,526)
Net Budget Requirement	250,479	249,685	248,916	248,173
Home Office Grant	151,720	150,203	148,701	147,214
Council Tax Support Grants	13,202	13,070	12,939	12,810
Collection fund surplus/(deficit)	-	-	-	-
Base Precept	85,557	86,412	87,277	88,149
Total Funding	250,479	249,685	248,916	248,173

Medium Term Financial Forecast Planning Assumptions Appendix B (ii)

Assumption	2015/16	2016/17	2017/18	2018/19	2019/20
Core funding changes	(4.8%)	(0.6%)	(1%)	(1%)	(1%)
Specific Grants change	No Change	No Change	No Change	No Change	No Change
Council Tax Support Grant	£10.14m	No Change	(1%)	(1%)	(1%)
Legacy Council Tax Freeze Grants	£3.06m	No Change	(1%)	(1%)	(1%)
Council Tax base increase	1.21%	2.0%	(1%)	(1%)	(1%)
Collection Surplus/(Deficit)	£0.68m	-	-	-	-
Pay award (Sept average)	1.0%- 1.25%	1.0%- 1.25%	1.0%- 1.25%	1.0%- 1.25%	1.0%- 1.25%
Pay increments	0.5%	0.5%	0.5%	0.5%	0.5%
Police staff pension contributions	1%	1%	1%	1%	1%
Precept	1.95%	0%	0%	0%	0%
General Price inflation	2.0%	2.0%	2.0%	2.0%	2.0%
Fuel and Utilities Inflation	5.0%	2.0%	5.0%	5.0%	5.0%
Investment Interest Returns	0.4%	0.4%	0.4%	0.4%	0.4%
NI Increase	N/A	£5.6m	No further increase	No further increase	No further increase

Draft Capital Programme 2016/2020

Appendix C

	2016/ 17	2017/ 18	2018/ 19	2019/ 20	Total 2016-20
Core Capital Programme	£'000	£'000	£'000	£'000	£'000
Networks	274	55	11	2	341
End User Computing	117	23	5	1	146
Core Infrastructure	465	93	19	4	580
Application Platforms	386	77	15	3	482
Joint Surrey/Sussex IT Strategy	6,372	3,970	2,623	2,222	15,187
Joint SERIC IT Strategy	264	397	79	16	756
Total Information Technology Strategy	7,877	4,615	2,752	2,248	17,493
Fleet Strategy	2,991	3,463	3,207	641	10,303
Specialist Crime	791	370	74	15	1,250
Criminal Justice	22	4	1		27
Operations Department	303	283	98	20	704
Communications	128	66	53	11	257
HR Shared Business Services	7	1			8
Core Capital Programme	4,243	4,188	3,433	687	12,551
Total Core Capital Programme incl. IT Strategy	12,120	8,804	6,185	2,935	30,043
Major Change Initiatives	3,758	752	150	30	4,690
Total Estates Strategy	14,054	8,158	5,528	1,106	28,845
Total Asset Replacement Programme	303	61	12	2	378
Total Investment Programme	30,235	17,774	11,875	4,073	63,956

Forecast Use of Reserves

Appendix D

USABLE RESERVES	Capital and Investment Reserve	Capital Receipts	Asset Seizures	Delegated Budget Holder Reserve	Sussex Safer Roads Partnership	PFI	Insurance	Operation	General Reserve	Total Reserves	% NBR
	£	£	£	£	£	£	£	£	£	£	
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	4.2%
2015/16											
Approved Contributions			44	2,000					109	2,153	
Estimated Contributions	834	2,895								3,729	
Estimated Commitments	(625)	(10,791)			(315)					(16,004)	
Approved Commitments				(3,445)						(3,445)	
Transfers Between Reserves	1,067			(1,067)				56	(890)	(834)	
Estimated Balance at 31/3/16	34,416	0	306	4,838	1,688	12,794	1,874	2,506	10,026	68,448	4.0%
2016/17											
Estimated Contributions		4,800								4,800	
Estimated Commitments	(21,255)	(4,800)		(4,000)	(289)					(29,630)	
Approved Commitments				(450)						(450)	
Estimated Balance at 31/3/17	13,162	0	306	388	1,399	12,794	1,874	2,506	10,026	42,455	4.0%
2017/18											
Estimated Contributions		2,550								2,550	
Estimated Commitments	(11,655)	(2,550)			(279)					(2,829)	
Estimated Balance at 31/3/18	1,507	0	306	388	1,120	12,794	1,874	2,506	10,026	30,521	4.0%
2018/19											
Estimated Contributions		2,500								2,500	
Estimated Commitments	(6,299)	(2,500)			(52)					(2,552)	
Transfers Between Reserves	4,792					(4,792)				0	
Estimated Balance at 31/3/19	(0)	0	306	388	1,068	8,002	1,874	2,506	10,026	24,170	4.0%
2019/20											
Estimated Contributions		2,500								2,500	
Estimated Commitments	1,452	(2,500)								(2,500)	
Transfers Between Reserves	(1,452)					1,452				0	
Estimated Balance at 31/3/20	0	0	306	388	1,068	9,454	1,874	2,506	10,026	25,622	4.0%