



**MEDIUM TERM
FINANCIAL PLAN
2014-15 TO 2017-18**

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1 **INTRODUCTION**

1.1 This report covers the spending proposals and key issues relating to the budget for 2014-18. It provides the Police and Crime Commissioner (PCC) with information relating to the revenue budget, capital programme and council tax options, together with associated financing issues.

1.2 The report contains appendices that provide more detailed information relating to the proposals.

Appendix A(i) Medium Term Financial Plan (MTFP)- 4 Year Overview- Option 1- take the Council Tax Freeze Grant (CTFG) of 1% in 2014-15, and assume taking the CTFG of 1% in each of the years of the medium term plan.

Appendix A(ii) Medium Term Financial Plan- 4 Year Overview- Option 2- increase council tax by 1.997% in 2014-15, and assume a 2% council tax increase in each of the remaining years of the medium term plan.

Appendix B Planned Revenue Changes 2014-18

Appendix C Savings Plan 2014-18

Appendix D Capital Programme 2014-18

Appendix E Precept Option Scenarios

Appendix F Forecast Use of Reserves

Appendix G Precept Level and Council Tax Requirement Options.

Appendix H Treasury Management Strategy

Appendix I Lending Limits and proposed List of Approved Institutions

Budget process and consultation

1.3 A joint financial planning process has been on-going over recent months in accordance with a timetable previously agreed by the Suffolk and Norfolk Chief Constables and the Suffolk and Norfolk Offices of the PCC. This process was established as a consequence of the substantial and increasing number of collaborated areas and, therefore, the requirement to align as far as possible the service delivery plans in these areas.

1.4 Chief Officers met with senior managers and reviewed and challenged progress on savings targets, and pressures for 2014-15 and beyond. The process concluded with Joint Norfolk and Suffolk Chief Officer meetings that agreed joint budgets, costs and savings to be included in spending plans.

1.5 Decisions regarding the annual budget proposals should be made in the context of the medium to longer-term forecasts, particularly in the current uncertain economic climate. The budget proposals within the report are made within the context of a five-year strategic and financial planning cycle, including the current year. The figures contained within the strategy are based upon current information and stated assumptions.

1.6 In accordance with the requirements of Section 96 (1B) of the Police Act 1996, as amended by section 14 of the Police Reform and Social Responsibility Act 2011, the PCC has an obligation to obtain the views of ratepayer representatives. Accordingly, the proposals for expenditure, including the impact of Options 1 and 2 (paragraph 1.2. above) will be made available to business representatives during January 2014 to enable them to comment upon the proposals.

1.7 The results of the 'Local Policing and Community Safety Survey' undertaken over a six week period in October and November 2013, together with the responses from the ratepayers representatives, and feedback from District meetings and forums, will be taken into consideration by the PCC in the paper on his proposed 2014-15 precept for policing in Suffolk, which will be presented to the Police and Crime Panel on 31 January 2014.

2 REVENUE BUDGET 2014-15

Home Office and Other Grants 2014-15

- 2.1 The provisional central government grant settlement announcements were made on 18 December 2013. The proposals in this report are based on the provisional grant settlement, confirmed local tax base figures, planning assumptions regarding future funding levels, on-going commitments and capital expenditure plans.
- 2.2 The table below provides a comparison between the 2014-15 provisional grant settlement and 2013-14 figures.

	2013-14 £m	2014-15 £m	Reduction %
Home Office Core Grant and Community Safety Fund Grant	45.836	43.627	4.8
DCLG funding	<u>24.935</u>	<u>23.772</u>	<u>4.7</u>
Total General Grant Allocation (£m)	70.771	67.399	4.8

- 2.3 The Home Office grant for 2014-15 for Suffolk has been top-sliced by approximately £1m in order to create a national Police Innovation Fund of £50m, additional resources to improve the national capability of the Independent Police Complaints Commission (IPCC), create additional resources for Her Majesty's Inspectorate of Constabulary (HMIC) (£9m), and the College of Policing (£3m).
- 2.4 In respect of the IPCC top-slicing, it should be noted that the Home Office is assuming that at least initially, Professional Standards Departments within forces will not be reduced despite the top-slicing of PCC grant.
- 2.5 Suffolk and Norfolk PCCs and Constabularies are planning to bid for grants in 2014-15 and beyond from the Innovation Fund for schemes which will promote collaboration with other forces and partner agencies, and improve their use of digital working and technology. These grants will be subject to approval at a later date, and are not a guaranteed income source that can be planned for. In respect of 2013-14, Suffolk and Norfolk PCC's were successful in their joint bid for capital funding in support of the join resource planning system (ERP) and expansion of Automatic Number Plate Recognition (ANPR).
- 2.6 An assessment of the impact of the Innovation Fund capital grant received in 2013-14 on the MTFP 2014-15 to 2017-18 concluded that, as it does not impact on the key elements of the MTFP (including the savings programme, reserves or council tax and budget requirement), the content of the MTFP does not require updating.
- 2.7 The Home Office has applied a 'floor-damping' financial model which results in a cash reduction in formula grant for 2014-15 of 4.8% for all police force areas. The scheme is self-financing within the overall police grant allocation.
- 2.8 However, the Home Office are committed to reviewing the Police Funding Formula, and as a result changes to the grant damping mechanism, and are currently planning on the basis that any changes will be implemented at the earliest in 2016-17. Any change could have significant funding implications for individual police force areas. This will be at a time when it is clear from statements made by the Chancellor that public expenditure will continue to face significant reductions until at least 2020. With this degree of uncertainty, a prudent and flexible approach to financial planning is essential and has been adopted in preparing the MTFP.
- 2.9 In 2013-14 the PCC received a Community Safety Fund Grant of £572k, which was not ring-fenced and was separate from the Home Office Core Grant. This grant was increased to £700k through the use of PCC available funds and was applied to grants that contribute to

delivering the objectives in the Police and Crime Plan 2013-2017 relating to cutting crime, crime prevention, reducing re-offending and community safety.

- 2.10 The MTFP includes an assumption that, of the 2014-15 Home Office Core Grant (£43.627m), £700k will be made available for the purposes described in the above paragraph.
- 2.11 In addition to the figures above, the Council Tax Freeze Grants (CTFG) in relation to both 2011-12 (£1.030m), and 2013-14 (£0.431m) have been assumed to continue for the period of the MTFP.
- 2.12 It is anticipated that funding will be transferred from the Ministry of Justice to PCC's via the Home Office in respect of commissioning of victim's services from October 2014. As budgets are not expected to be confirmed until April 2014, no assumptions have been included in the MTFP for either funding to be received by the PCC, or grants to be awarded.
- 2.13 From April 2013 the Government made significant changes to Council Tax Benefit arrangements through the Local Government Finance Act (2012). These changes impacted on all local authorities as well as PCCs. As a result of these changes the PCCs receive a Council Tax Benefit Grant paid to all billing and precepting authorities. In this regard, the PCC will receive funding of £4.891m in 2014-15.
- 2.14 The revised Council Tax benefit arrangements and the effect on the Council Tax base for the calculation of the precept have been reflected in this report. The Council Tax base, which is a key factor in the calculation of the precept, is based on the final information received from the Borough, District and County Councils.
- 2.15 The table below summarises the 2014-15 income position for Options 1 (take the freeze grant of 1%) and Option 2 (increase the precept by 1.997%)

	Option 1	Option 2
	£m	£m
Income		
Core Home Office grant	67.4	67.4
Council Tax Freeze Grant	1.9	1.5
Council Tax support funding	4.9	4.9
Precept income	38.9	39.7
Other income	7.5	7.5
Total income	120.6	121.0

Assumptions in the Financial Model

- 2.16 A significant planning assumption has been included in respect of revised state pension arrangements. A Pensions Bill was published in January 2013, which outlined the Government's intention to a reformed State Pension of £144 per week from April 2017. In June 2013, the Government announced that the implementation date was being brought forward to April 2016. This change is to be financed by ending contracted out National Insurance contributions for employers and employees for organisations such as the PCC and Constabulary.
- 2.17 The cost of this to the PCC and Constabulary is estimated to be £1.8m per annum and has been included in the forecast from 2016-17 onwards.

2.18 In addition, the following financial assumptions have been used:

	2014-15	2015-16	2016-17	2017-18
Government grant	-4.8%	-4%	-4%	-4%
Council tax base change	1.18%	0%	0%	0%
Collection fund surplus	£301k	£0k	£0k	£0k
Pay awards – officers	1%	1%	1%	1%
Pay awards – staff	1%	1%	1%	1%
Non-pay inflation (average)	2%	2%	2%	2%
Borrowing (long term)	4.51%	4.51%	4.51%	4.51%
Investments	0.75%	0.75%	0.75%	0.75%
Option 1- take the 1% CTFG	1%	1%	1%	1%
Option 2- 1.997% precept increase	1.997%	2%	2%	2%

Planned Revenue Changes

2.19 **Appendix B** provides details of proposed changes to the Constabulary's 2013-14 recurring revenue budgets over the period of the MTFP. Of the £2.7m additional costs in respect of 2014-15, £1.6m relates to funding from PCC reserves of business cases approved by the PCC during 2013-14, including 20 additional police officers for the two years 2014-15 and 2015-16.

2.20 The balance of additional expenditure of £1.1m includes a number of unavoidable changes totalling £400k, together with the costs of new posts which will contribute to delivering the Police and Crime Plan objectives, including the Multi Agency Safeguarding Hub (MASH), Independent Domestic Violence Advisors (IDVA), Sexual Assault Referral Centre (SARC), Special Constabulary recruitment officer and Automatic Number Plate Recognition (ANPR) capacity.

Collaboration and the Challenge Programme

2.21 Suffolk and Norfolk continue with the strategy of collaboration that is recognised by HMIC as an 'exemplar' partnership and one of the most advanced in the country. Most operational areas, except for local policing, have become joint departments, as have most of the back office functions. This means that the financial decisions of both counties are inextricably linked.

2.22 The Chief Constables have a number of work-streams that form part of an overarching and well established Challenge Programme. The original part of the programme was developed to address the savings requirement arising from the four-year Comprehensive Spending Review (CSR1) that covered the period to 2014-15.

2.23 The programme has 5 principal work streams, the first three of which are in collaboration with Norfolk:

- Business Support Review – to create joint back office functions such as HR, Finance and ICT;
- Operational Collaboration – including establishing shared criminal justice, custody and custody investigation units under a Justice Services Command;
- Protective Services Collaboration – joining protective services functions to establish a joint Protective Services Department;
- Suffolk Change Initiatives – Suffolk Local Policing Model, national air service changes and reviews of non-pay expenditure;

- Other regional initiatives – including Eastern Region initiatives for Serious and Organised Crime.

2.24 Currently, the forecast is that the savings from the original programme will be fully realised by the end of 2016-17 (**Appendix C**). This is due to some savings being dependent on the implementation of new software systems to deliver the change. The programme and associated risks are the subject of regular monitoring and review.

2.25 The table below shows that significant progress has been made in implementing the original CSR 1 element of the Challenge Programme. In total, some £15.5m of savings are anticipated from the programme specific to Suffolk, of which some £13.6m have already been taken into account in previous budgets. The remaining balance of savings of £1.9m for 2014-15, 2015-16 and 2016-17 have been included within the assumptions in this report (**Appendix C**).

	09/10 to 13/14	14/15	15/16	16/17	Total
	£000	£000	£000	£000	£000
Business Support Review	3,520	251	438	575	4,784
Protective Services	4,479	83	-	-	4,562
Operational Collaboration	812	388	29	80	1,309
Suffolk Only	4,818				4,818
Total	13,629	722	467	655	15,473

2.26 In June 2013 the Comprehensive Spending Review (CSR2) was outlined by the Chancellor. This covered the period of 2015-16, and the impact of this announcement is reflected in the figures in this report up to 2017-18.

2.27 In order to address a significant part of this projected deficit, new projects for the Challenge Programme are being developed to address the CSR2 targets. Most of the work involves continuing to develop the collaborative arrangements with Norfolk as set out on the previous page.

These projects that cover the entirety of the organisation include:

- A Suffolk estates review;
- A review of cross-border working with Norfolk, and a review of customer access arrangements;
- A further review of Protective Services including greater collaboration with the Eastern Region on Serious and Organised Crime;
- The development of options around Control Room arrangements;
- The development of a Shared Services Partnership for back-office functions including Finance, HR and ICT;
- A review of arrangements covering Operational Business Support across both counties;
- A zero based budget review of Constabulary services to be developed during 2014-15.

2.28 Currently, these projects are estimated to deliver approximately £3.5m of additional savings over the medium-term financial planning period (**Appendix C**) and thus reducing the forecast 2017-18 savings to be achieved to £7.8m and £10.2m respectively, dependant on the precept strategy (**Appendices A(ii) and A(i)**). However, these projects require further detailed work, and therefore the figures outlined contain greater risk than the other savings

figures. Consultation between the PCCs and Chief Constables of both counties will continue as the detailed business cases are developed and approved in relation to these projects.

2.29 The Chief Constable has given a commitment to work with the Police and Crime Commissioner to balance the budget over this period without further reliance on reserves. This will be achieved through:

- Introducing even more efficient ways of working;
- Further collaboration with partners;
- Workforce reductions where unavoidable.

2.30 All collaborative initiatives are being co-ordinated and overseen by a Programme Management Office working within the joint Strategic Change Department and led by an Assistant Chief Constable.

Precept Option Scenarios

2.31 The financial planning process now considers a range of precept options in order to consider the medium term financial outlook. Two scenarios have been modelled in terms of precepting options over the MTFP planning period.

2.32 **Option 1**- take the Council Tax Freeze Grant of 1% in 2014-15, and assumes taking the CTFG of 1% in each of the years of the medium term plan (**Appendix A (i) and Appendix G**).

2.33 **Option 2**- increase council tax by 1.997% in 2014-15, and assumes a 2% council tax increase in each of the remaining years of the medium term plan (**Appendix A (ii) and Appendix G**).

2.34 The overall financial position for the period of the MTFP for each option is summarised below:

Option 1- Take the 1% freeze grant in 2014-15

2.35 Based on the planning assumptions set out in this report, the Constabulary have committed to developing plans to deliver further savings of £143k in 2014-15, rising to £10.2m in 2017-18, in order to provide sufficient funds to support the expenditure plans set out in the MTFP and its associated Appendices, and to achieve a balanced budget over the period of the MTFP.

Option 2- Increase council tax by 1.997% in 2014-15

2.36 Based on the planning assumptions set out in this report, the Constabulary have committed to developing plans to deliver further savings of £2.0m in 2015-16, rising to £7.8m in 2017-18, in order to provide sufficient funds to support the expenditure plans set out in the MTFP and its associated Appendices, and to achieve a balanced budget over the period of the MTFP.

2.37 Importantly, both options 1 and 2 provide sufficient funding during 2014-15 to enable the Constabulary to maintain police officer numbers at around 1200, PCSOs (non-partner) at around 143 and special constables at around 300, and also to invest in new posts which will contribute to delivering the Police and Crime Plan objectives (see paragraph 2.20).

2.38 **Appendix E** shows graphically the impact on the levels of savings to be achieved of the two options over the period of the MTFP.

Council Tax Referendum Principles

- 2.39 At the time of writing this report, the PCC has not received proposed council tax referendum principles applicable to 2014-15. A recent announcement has stated that the Government will not confirm the 2014-15 threshold levels for council tax rises, which would trigger a referendum among voters, until 5 February 2014. An announcement regarding the proposed principles is anticipated around 23 January, with the possibility that the proposed referendum threshold could reduce from 2% to around 1.5%.
- 2.40 This uncertainty introduces a significant degree of risk in respect of the option to increase council tax by 1.997% in 2014-15, and this issue is considered in more detail in Section 6.

Outcome of survey and consultation events

- 2.41 The PCC commissioned an independent survey (undertaken by Swift Research Ltd.) over a six week period in October and November 2013, which resulted in 3472 surveys being completed. The survey included two financial questions.
- 2.42 In response to the first question, 72.8% (2443) 'tended to agree or strongly agree' that Suffolk police provides 'value for money' in their area, with 9.1% (307) 'tending to disagree or strongly disagree', and the remaining 18.1% (608) 'neither agreeing nor disagreeing'.
- 2.43 The second question related to how much people would be prepared to pay for policing in 2014-15, with 50.1% (1738) being prepared to 'pay a little more (equating to between £2 and £7 a year more depending on their council tax band)', with 40.3% (1401) being 'broadly happy with the current amount', and the remaining 9.6% (333) being 'concerned that they were already paying too much'.
- 2.44 A total of 202 members of the public were asked the same two questions at six of the seven public forums, which resulted in 68% 'tending to agree or strongly agree' that Suffolk police provides 'value for money' in their area, with 15% 'tending to disagree or strongly disagree' and the remaining 17% 'neither agreeing nor disagreeing'.
- 2.45 In answer to the second question, 52% were prepared to 'pay a little more (equating to between £2 and £7 a year more depending on their council tax band)', with 35% being 'broadly happy with the current amount', and the remaining 13% being 'concerned that they were already paying too much'.
- 2.46 In addition to the consultation and survey results summarised above, comments received from the ratepayers representatives on the PCC's proposals for expenditure will be taken into account by the PCC in preparing his proposed 2014-15 precept for policing in Suffolk, which will be presented to the Police and Crime Panel on 31 January 2014.

3 CAPITAL PROGRAMME 2014-18

- 3.1 The proposed outline capital programme has been updated to 2017-18, and plays an integral part in delivering the infrastructure that will support the Constabulary in maintaining and improving its operational performance. The revenue consequences of the proposed capital programme have been fully taken into account in preparing the MTFP.

Outline Spending Plans

- 3.2 **Appendix D** provides a more detailed analysis of the outline capital programme over the medium term, with the table below summarising these plans.

	2014-15 £000	2015-16 £000	2016-17 £000	2017-18 £000
Recurring schemes				
ICT	503	555	947	619

Estates				
Vehicles and Equipment	1,154	1,284	1,180	1,122
Total recurring schemes	1,657	1,839	2,127	1,741
Projects				
ICT	558	292		9
Estates	420	945	1,896	1,683
Other	18	37	3	0
Total Projects	996	1,274	1,899	1,692
Slippage – projects spanning financial years 13/14 and 14/15	1,541			
Grand Total	4,194	3,113	4,026	3,433

Capital Expenditure on Recurring Schemes

- 3.3 Recurring capital costs for ICT are predominantly equipment replacement and updating.
- 3.4 Recurring costs for estates include minor improvement works and the strategy budget, which is used to facilitate internal and external moves.
- 3.5 Recurring capital costs for fleet are for replacement vehicles and equipment used to service them.

Capital Expenditure on Projects

- This section contains one-off expenditure for specific items, including some significant collaborative arrangements designed to deliver future operational efficiencies and recurring financial savings;
- Automatic Number Plate Recognition Back Office Function (ANPR BOF) - Single BOF for the two forces to replace outdated technology and support a new joint ANPR Hub;
- Livelink Project – Development of Live Link Project following pilot to main police stations in Norfolk & Suffolk. Further development of the project to include video remands from PICs to Courts;
- Replacement of Back Office System (ERP) – A contract has now been signed for the implementation of an Enterprise Resource Planning system for Norfolk & Suffolk (covering Finance, Payroll, Procurement, Duties Management, HR and Learning and Development);
- Estates Re-provision – as a core part of the Suffolk Estates Strategy, the PCC will continue to dispose of estate infrastructure that is either too large or not fit for purpose, and replaces it with premises that better meet need operational and service requirements. The re-provision will be financed by the sale of existing properties.

Funding the Capital Programme

- 3.6 Funding of the capital programme is provided from a number of sources. Building schemes tend to have a longer life span, typically up to 50 years. As a general rule, these will be funded from capital receipts from buildings that are being replaced and from long-term borrowing.
- 3.7 Vehicles and equipment tend to have a shorter lifespan, typically 3 to 7 years. In the first instance these items will be funded from capital grant, specific grant or revenue contribution. However, the ongoing replacement cost of vehicles and ICT assets and the required investment in collaborative initiatives is greater than the level of capital grant received. The forecast assumes that revenue contributions will fund the shortfall in the programme.
- 3.8 The following funding sources have been identified to support the outline capital programme (**Appendix D**), which will be updated to take account of approved changes to the

programme. In addition, funding will move with the asset whenever there is slippage in the programme.

	2014-15	2015-16	2016-17	2017-18
	£m	£m	£m	£m
Capital Receipts	2.5	1.5	1.1	3.1
Capital Grant	1.0	1.0	1.0	1.0
Revenue Contribution	0	0	0.9	0
Capital Financing Reserve	0	0.4	0.3	0
Use of Change Reserve	0.7	0.2	0	0
Back-funded	<u>0</u>	<u>0</u>	<u>0.7</u>	<u>(0.7)</u>
Total	4.2	3.1	4.0	3.4

- 3.9 Each PCC receives a capital grant, which must be used to support capital expenditure. The Home Office has confirmed the capital grant allocation for Suffolk of £1.0m for 2014-15.

Minimum Revenue Provision (MRP)

- 3.10 The Local Authorities (Capital Finance and Accounting) (England) (Amendment) Regulations 2008 place a duty on authorities to make an amount of Minimum Revenue Provision (MRP) each year that is considered to be prudent. The regulations are supported by statutory guidance to which authorities are required to have regard.
- 3.11 MRP is only used where funding of the asset does not use revenue contributions, capital grants or receipts from asset sales. MRP is charged annually against the Revenue Account reflecting the cost of the asset over its life. The MRP for 2014-15 of £315k and values for the following three years are detailed in **Appendix D**.

4 ANNUAL TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL INDICATORS 2014-15

Treasury Management Strategy

- 4.1 Government regulations require the PCC to approve the investment and borrowing strategies and borrowing limits for 2014-15 prior to the start of the financial year. This is incorporated within an over-arching Treasury Management Strategy, which is attached as **Appendix H**.
- 4.2 The Treasury Management Strategy, which includes a number of Prudential Code and Treasury Management Indicators (**Appendix H**), and Lending Limits and proposed List of Approved Institutions (**Appendix I**) have been developed in accordance with the latest guidance issued by the Audit Commission and CIPFA.

Compliance with the Prudential Code

- 4.3 PCCs have flexibility over capital investment in fixed assets that are central to the delivery of appropriate standards of public services. Levels of borrowing can be determined locally, provided that capital investment plans are affordable, prudent and sustainable. A further key objective is to ensure that treasury management decisions are taken in accordance with sound professional practice and in a manner that supports prudence, affordability and sustainability. The Prudential Code is a statutory piece of legislation, compliance with which ensures prudent financial management.
- 4.4 To demonstrate that these objectives have been fulfilled, the Prudential Code sets indicators that must be determined by the PCC. They are designed to support and record local decision making and for comparison over time. They are not designed to be comparative performance indicators. Details of the proposed indicators for 2014-15 are provided in **Appendix H**. Progress against the indicators will be monitored and reported during the year. The indicators can be changed during the year with the approval of the PCC CFO.

5 RESERVES STRATEGY

Reserves Strategy

- 5.1 It is important to consider the PCC's reserves at the same time as the budget to ensure that resources are available to fund spending at a level commensurate with the needs of the PCC and Constabulary. Forecasting cash flows and balances over the budget period ensures efficient and effective financial management and avoids unnecessary finance charges. Reserves are held for either general purposes (such as working capital or fallback to cover exceptional unforeseen circumstances), or earmarked for specific purposes. The PCC complies with the definition of reserves contained within CIPFA's Accounting Code of Practice.
- 5.2 The Strategy requires an annual review of reserves to be undertaken and reported to the PCC. This reflects guidance on reserves issued by CIPFA. The most recent guidance requires an annual review of reserves to be considered by the PCC as part of good practice in the management of financial reserves and balances.
- 5.3 The minimum prudent level of reserves is a matter of judgement rather than prescription. Neither CIPFA nor statute sets a minimum level of reserves. In determining the level and type of reserves, the PCC has to take into account relevant local circumstances and the advice of the Chief Constable and PCC CFO and CC CFO in making a reasoned judgement on the appropriate level of its reserves.
- 5.4 The ultimate use of reserves will be dependent upon both the timing and level of costs and saving over the period of the MTFP.

General Reserve and Earmarked Reserves

- 5.5 The PCC's reserves consist of two main categories:
- General Reserve – this is held to enable the PCC to manage unplanned or unforeseen events. In forming a view on the level of General Reserve, account is taken of the level of financial control within the organisation, comparisons with similar bodies and the risk of unforeseen expenditure occurring;
 - Earmarked Reserves – These are reserves that are held for a specific purpose, whereby funds are set aside for future use when that specific purpose arises.
- 5.6 In line with the Reserves Strategy, both the PCC CFO and the CC CFO have jointly reviewed the current purpose of each reserve, which resulted in a rationalisation of the number of reserves, with the impact of these changes being reflected in **Appendix F**.

Forecast Use of Reserves

- 5.7 A description of the purpose of each of the PCC's reserves, together with a summary of the projected use and level of reserves over the MTFP period is set out in **Appendix F**. The closing balances as at 31 March 2014 are dependent upon decisions taken by the PCC as part of out-turn report for 2013-14 to be considered in June 2014.

SECTION 25 RESPONSIBILITIES

- 6.1 Under Section 25 of Part II of the Local Government Act 2003, there is a specific requirement for the PCC CFO and the CC CFO to report on the robustness of the budget estimates, the adequacy of balances and reserves and issues of financial risk before the statutory budget decisions are taken.

Robustness of Budget Data

- 6.2 In regard to the robustness of budget information, confidence in this data is the subject of regular review and it has reconfirmed that the processes followed this year (which are the same as that adopted in the previous year's budget setting round) remain sound.
- 6.3 The integrated financial planning model provides the high-level financial data that is used to generate the annual revenue and capital budgets, all of which are reconciled to control totals.
- 6.4 A comprehensive review of the various savings programmes has been undertaken with the Programme Management Office (PMO) and finance staff from both Norfolk and Suffolk Constabularies, and CFO's, resulting in greater financial clarity and consistency in financial plans.
- 6.5 In summary, we are satisfied that the financial data contained within this report is robust; the assumptions underpinning the MFTP have been rigorously reviewed and challenged, and can be relied upon when considering the financial proposals contained in the report and related appendices.

Managing Financial Risk

- 6.6 The Constabulary and PCC are undertaking a substantial number of projects in collaboration with Norfolk constabulary, other forces and public sector partners, all of which have degrees of risk. Successful delivery of these projects is important, as they are a key element of the ambitious savings plans detailed in **Appendix C** and paragraphs 2.25 to 2.29.
- 6.7 Risk registers are in place for all the major projects and robust project management principles are being utilised to help minimise the possibility of not delivering the changes on time or within budget. Any delays in securing planned capital receipts will be managed through the re-phasing of capital investments.
- 6.8 The review of the savings programme described in paragraph 6.4 above concluded with a joint decision being taken by both CFO's to prudently reduce the projected level of savings from a number of the CSR 2 related schemes described in paragraphs 2.26 and 2.28 from £4.4m to £3.5m over the period of the MTFP.
- 6.9 Paragraphs 2.39 and 2.40 make reference to a recent statement that the Government will not confirm the 2014-15 threshold levels for council tax rises, which would trigger a referendum among voters, until 5 February 2014. It is estimated that if the threshold for a referendum is set below the 1.997% council tax rise in option 2, and therefore triggers the requirement for a referendum and the re-billing of council tax bills, the estimated cost would be in the region of £700k.

Adequacy of Reserves

- 6.10 The projected levels of reserves are detailed in **Appendix F**. Over the MTFP period, the general reserve is planned to be constant at £5.0m, which equates to 4.4% of Net Revenue Expenditure (NRE) in 2014-15.
- 6.11 The two principle reasons for the reduction in the overall level of reserves from £16.7m at 31 March 2014 to £11.8m at 31 March 2018 is accounted for by the planned use of the Change Reserve to fund the one-off costs of change arising from various efficiency savings initiatives and the additional cost of the approved temporary increase of 20 police officers in 2014-15 and 2015-16.
- 6.12 The Budget Reserve is available to; pump-prime initiatives which will deliver permanent savings; fund the cost of major crime incidents; fund the cost of other projects approved by the PCC.

- 6.13 The CIPFA guidance notes on reserves include the statement that '*A well-managed authority, for example, with a prudent approach to budgeting should be able to operate with a level of general reserves appropriate for the risks (both internal and external) to which it is exposed*'.
- 6.14 Having considered the levels of reserves included in the MTFP, which are based on the Chief Constable's commitment to work with the PCC to balance the budget over the period of the MTFP without further reliance on reserves, and taking account of the approach to managing financial risk set out in Section 6, our advice is that there will be adequate general and earmarked reserves to continue the smooth running of the PCC and Constabulary's finances over the medium term financial planning period.

7 CONCLUSION AND SUMMARY OF OPTIONS

- 7.1 The MTFP has been prepared following notification of the 2014-15 government grants via the Home Office on 18 December 2013 and in conjunction with a wide range of assumptions summarised in Section 2 of this report.
- 7.2 Delivery of a balanced budget across the 4-year planning period is dependent upon the Constabulary delivering the current cumulative savings plans (CSR 1 and 2) of £2.3m, £3.8m, £5.8m and £6.1m respectively over the 4 years of the MTFP period, and in addition, cumulative savings initiatives (which the Chief Constable has a given commitment to work with the PCC to balance the budget over the period of the MTFP without further reliance on reserves) to be achieved of:
- Option 1- £0.14m, £2.8m, £6.9m, and £10.2m over the 4 years of the MTFP
 - Option 2- nil, £2.0m, £5.3m, and £7.8m over the 4 years of the MTFP.
- 7.3 Under both options, whilst it is possible in 2014-15 to invest in key developments (paragraph 2.20) and maintain police officer numbers at around 1,200, PCSOs at 143, and specials at 300, it will be necessary to consider the operational, staffing and financial implications of the emerging plans which will address the remaining savings requirement set out in the paragraph above.
- 7.4 The two alternative council tax requirement and budget options are proposed to the PCC for consideration, the financial consequences of which are summarised in **Appendices A (i), A (ii) and G**.

8 RECOMMENDATIONS

- 8.1 It is recommended that the PCC:
- (i) Takes account of the overall financial strategy, when considering the 2014-15 budget proposals;
 - (ii) Approves funding of the known changes to the 2013-14 base revenue budget set out at **Appendix B**;
 - (iii) Approves the savings plans in **Appendix C**;
 - (iv) Approves the proposed capital programme for 2014-15 and the draft capital programme over the medium term as set out at **Appendix D**;
 - (v) Approves the Treasury Management Strategy, Prudential Indicators, Treasury Management Indicators, Borrowing Limits in **Appendix H**, and Lending Limits and List of Approved Institutions in **Appendix I**;
 - (vi) Approve the proposed use and transfer of reserve balances in **Appendix F**;
 - (vii) Considers the medium-term financial impact of **Options 1 and 2 (Appendices A (i) and (ii), and G)**, the assessment of financial risks in Section 6, and results of the public consultation and surveys summarised in paragraphs 2.41-2.46, when proposing the precept level and council tax requirement for 2014-15.