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APPENDIX 1



MEDIUM TERM  
FINANCIAL PLAN  
2016-17 TO 2019-20

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## 1 **INTRODUCTION**

- 1.1 This report covers the spending proposals and key issues relating to the budget for 2016-17 to 2019-20. 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- increase council tax by just less than 2% in each year of the medium-term plan. |
| Appendix A(ii) | MTFP- 4 Year Overview- Option 2- no increase to Council Tax over the medium-term plan   |
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### **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.
- 1.4 An enhanced “scrutiny” process was developed this year that involved Senior Managers attending a Chief Officer Challenge Panel to review strategic issues, savings proposals, growth pressures and capital spend requirements. The process concluded with Suffolk and Norfolk Chief Constables reviewing the outcomes from the panel reviews, and agreeing joint budgets, costs and savings arising from the process 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 four-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 (1) (b) 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 will be made available to business representatives during January to enable them to comment upon the proposals.
- 1.7 In addition, a council tax precept survey is currently in progress with members of the public.
- 1.8 The results will be collated towards the end of January and presented by the PCC to the Police and Crime Panel at its meeting on 29 January 2016.

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## 2 REVENUE BUDGET 2016-17

### Home Office Grant 2016-17

- 2.1 The provisional central government grant settlement announcements were made on 17 December 2015. The proposals in this report are based on the provisional settlement, final local tax base figures and planning assumptions regarding future funding levels, on-going commitments and capital expenditure plans.
- 2.2 During the course of the last parliament, and through two Spending Reviews, police were required to deal with significant cuts in funding and deliver savings of around 20% in real terms. In the run up to the general election, and subsequently in the lead up to the Spending Review 2015, the expectation given to the police was that further cuts in excess of 25% in real terms would be required over the life of the new parliament and as such all workforce planning had been based on these expectations.
- 2.3 However, due to an improvement in economic forecasts, the Chancellor announced in the autumn statement on the 25th November 2015 that the funding settlement for police would be significantly better than previously expected, and the overall settlement for total police funding would be protected at cash levels, meaning that inflation would have to be absorbed.
- 2.4 In the provisional Police Grant Report on 17th December, Mike Penning, The Minister of State for Policing stated "For 2016-17 direct resource funding for each PCC, including precept, will be protected at flat cash levels, assuming that precept income is increased to the maximum amount available."
- 2.5 The table below provides a comparison between the 2016-17 provisional grant settlement and 2015-16 figures.

|  | 2015-16<br>£m | 2016-17<br>£m | Reduction<br>% |
|--|---------------|---------------|----------------|
| Home Office Core Grant                     | 40.957        | 40.724        | 0.6            |
| Ex-DCLG funding                            | <u>22.998</u> | <u>22.867</u> | <u>0.6</u>     |
| <b>Total General Grant Allocation (£m)</b> | 63.955        | 63.591        | 0.6            |

- 2.6 The Home Office has re-allocated £218m from the national grant allocation (£176m in the prior year). The main items making up this amount are £80m for the development of the Emergency Services Mobile Communications Programme (ESMCP), £55m for the national Police Innovation Fund, £32m to make changes to improve the capability of the Independent Police Complaints Commission (IPCC), £25m for a Police Special Grant contingency fund for police forces that facing significant and exceptional events, and £22m for Major Programmes including the National Police Database Programme.
- 2.7 Suffolk and Norfolk PCCs and constabularies have submitted bids for grants from the Innovation Fund against a variety of criteria that 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 in March 2016 (expected on 21 March 16), and are not a guaranteed income source. This causes uncertainty in financial planning with budgets and precepts needing to be set before this date. However, the costs associated with the bids have been reflected in the MTFP, and no grant income has been assumed in the plans. Grant approval from the Innovation Fund for any of the bids would improve the financial position for 2016-17, and potentially 2017-18.
- 2.8 Earlier this year, the Home Office engaged in consultation on changes to the Police funding formula. The proposal was for the new arrangements to start for 2016-17, with transitional arrangements, over a period of time, to be decided. However, due to an error in the force by

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force exemplifications from the Home Office, along with other issues raised during the consultation period, a decision was taken to postpone the introduction of a new formula until 2017-18.

- 2.9 This means that the Home Office has continued to apply a 'floor-damping' financial model which results in a cash reduction in formula grant for 2016-17 of 0.6% for all police force areas. The scheme is self-financing within the overall police grant allocation.
- 2.10 This does mean however that there is only funding certainty for one year, as the new formula could have significant implications for police funding locally. Therefore a prudent and flexible approach to financial planning needs to continue and has been adopted.
- 2.11 The MTFP includes an assumption that £700k of the 2016-17 Home Office Core Grant of £40.724m, will be retained by the PCC to continue funding grants that contribute to delivering the objectives in the Police and Crime Plan 2013-17 relating to cutting crime, crime prevention, reducing re-offending and community safety.
- 2.12 In 2015-16, the PCC received funding for one year only from the Ministry of Justice (MoJ) in respect of the local commissioning of victim's services of £487k. Indicative funding for 2016-17 from the MoJ of £621k for victims services, and £165k for restorative justice services, have been included in the MTFP for both grant income and expenditure.
- 2.13 In addition to the figures above, the Council Tax Freeze Grants (CTFG) in relation to both 2011-12 (£1.030m), 2013-14 (£0.431m) and 2014-15 (£0.434m) have been assumed to continue for the period of the MTFP at their current levels.
- 2.14 The Government has announced that there will be no new Council Tax freeze grant scheme for 2016-17.
- 2.15 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 2016-17.
- 2.16 The Council Tax base, which is a key factor in the calculation of the precept, is based on final information received from the Borough, District and County Councils.
- 2.17 When the spending review was announced the Government stated that a council tax increase of 2% or above would trigger a referendum.
- 2.18 The table below summarises the 2016-17 income position for Option 1 (increase council tax by 1.958% in 2016-17) and Option 2 (no increase in council tax in 2016-17).

|                                       | Option 1<br>£m | Option 2<br>£m |
|---------------------------------------|----------------|----------------|
| Home Office Core Grant & DCLG Funding | 63.591         | 63.591         |
| Council Tax Freeze Grant              | 1.895          | 1.895          |
| Council Tax Support Funding           | 4.891          | 4.891          |
| Precept Income                        | 42.569         | 41.771         |
| Other Income                          | <u>8.725</u>   | <u>8.725</u>   |
| <b>Total Income (£m) in 2016-17</b>   | <b>121.671</b> | <b>120.873</b> |

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## Assumptions in the Financial Model

- 2.19 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 introduce 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.
- 2.20 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.
- 2.21 As part of the spending review an additional levy was announced by the Chancellor. The Apprenticeship levy applies to all organisations with a pay bill over £3m, and equates to 0.5% of the tax bill to be paid over each month. The levy will be applied from April 2017.
- 2.22 In addition, the following financial assumptions have been used:

|                             | 16-17 | 17-18 | 18-19 | 19-20 |
|-----------------------------|-------|-------|-------|-------|
| Government grant            | -0.6% | -1.5% | -1.0% | -1.0% |
| Council tax base change     | 1.5%  | 1.5%  | 1.5%  | 1.5%  |
| Collection fund surplus     | £979k | £0k   | £0k   | £0k   |
| Pay awards – officers       | 0.58% | 1%    | 1%    | 1%    |
| Pay awards – staff          | 0.58% | 1%    | 1%    | 1%    |
| Non-pay inflation (average) | 1.5%  | 1.5%  | 1.5%  | 2%    |

The following table identifies potential changes to the annual budget (up or down) if the planning assumptions are changed.

|  | Variation | Variation<br>£k |
|--|-----------|-----------------|
| Main government grants                 | 1.0%      | 636             |
| Legacy council tax grants              | 1.0%      | 68              |
| Tax base increase                      | 1.0%      | 415             |
| Precept                                | 1.0%      | 415             |
| Pay awards officers (full year impact) | 1.0%      | 472             |
| Pay awards staff (full year impact)    | 1.0%      | 353             |
| Non-pay inflation                      | 1.0%      | 250             |

All the financial planning assumptions will be kept under review.

## Collaboration and the Change Programme

- 2.23 The Chief Constable has run a well-established and effective Change Programme over recent years. The programme was developed to address the savings requirements arising from the spending reviews of 2010 and 2013 that covered the period up to 2015-16.
- 2.24 The programme had a number of principal work streams, involving collaboration with Norfolk as well as Suffolk only initiatives.
- 2.25 The table below shows the level of savings that have been made in implementing the Change Programme to date. In total, by the end of 2015-16 some £20.801m of savings specific to Suffolk have already been taken from budgets through the Change Programme.

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## Savings delivered via Change Programme to end of 2015-16

| <b>Portfolio</b>       | <b>Savings<br/>achieved to end<br/>of 2015-16<br/>£k</b> |
|------------------------|--|
| Business Support       | 4,338  |
| Justice Services       | 1,179  |
| Protective Services    | 5,676  |
| Other Collaborative    | 1,245  |
| Suffolk Only           | 8,363  |
| <b>TOTAL PROGRAMME</b> | <b>20,801</b>  |

### The New Change Programme

2.26 Despite the improved funding settlement, it was made clear in a recent speech on police reform made by the Home Secretary that the decision to protect police funding overall in cash terms did not change the fact that “every force will still need to make savings year on year” and needed to continue with savings plans to make further efficiencies. Clearly there is also a continuing obligation to modernise working practices and ensure the force is fit-for-purpose going forward. Therefore, there is a clear need to continue with a change programme.

2.27 The new change programme will concentrate on three strands.

- Strategic budgeting review (Outcome Based Budgeting)
- Continued work on the Suffolk Local Policing Review (including working closer with partner agencies)
- Regional collaboration on new work streams

### Outcome Based Budgeting

2.28 Suffolk and Norfolk constabularies are about to embark on a strategic review across both organisations of what is spent on the different activities of both forces, and what outcomes are being delivered to the communities. This information will then be assessed against the developing priorities and desired outcomes to ensure the use of the budget available is optimised and supports the continuation of transformation and modernisation of policing. This will take the form of an Outcome Based Budgeting review (OBB) and will help shape the change programme for the medium term.

### Suffolk Local Policing Review (SLPR)

2.29 Phase 2 of the Suffolk Local Policing Review will be implemented as planned in 2016-17, resulting in a new model for neighbourhood policing, investigations, community contact and emergency response. These changes will contribute savings of £2.718m in 2016-17, and are dependent upon collaboration with a range of public sector and other partners.

2.30 Plans are also in place to deliver further savings from the SLPR of £500k in 2017-18, and opportunities for further collaboration with partners will be explored in 2016-17.

### Regional Collaboration

2.31 A Police Innovation Fund bid has been submitted to the Home office for part-funding in 2016-17 the scoping and feasibility for regional collaboration in the areas of criminal justice, protective services and back office functions.

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- 2.32 Therefore, in conjunction with OBB and these other initiatives, new projects for the Change Programme will continue to be developed. Savings figures projected in later years require more detailed work and business case development, and therefore the figures outlined contain more risk than savings figures identified for 2016-17. There will be continued consultation between the PCCs and Chief Constables of both counties as the detailed business cases are developed in relation to these projects.
- 2.33 All collaborative initiatives are being co-ordinated and overseen by a Programme Management Office working within the joint Corporate Development and Change department and led by a Joint Head of Department.

### **Precept Option Scenarios**

- 2.34 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:
- 2.35 **Option 1-** increase council tax by nearly 2% in each year of the MTFP (**Appendix A (i) and Appendix G**).
- 2.36 **Option 2-** no increase in council tax over the MTFP, (**Appendix A (ii) and Appendix G**).
- 2.37 Both options show a balanced budget for 2016-17 and delivery of planned savings of £5.035m in 2016-17 rising to £6.220m by 2019-20. The balance of savings to be achieved for both options are summarised below:

#### **Option 1**

- 2.38 Based on the planning assumptions set out in this report, further savings of £1.231m are required to be made in the period 2017-18 to 2019-20, in order to achieve a balanced budget over the period of the MTFP.

#### **Option 2**

- 2.39 Based on the planning assumptions set out in this report, further savings of £3.909m are required to be made in the period 2017-18 to 2019-20, in order to achieve a balanced budget over the period of the MTFP.
- 2.40 **Appendix E** shows graphically the level of cumulative savings to be achieved for both options, in order to achieve a balance financial position over the financial planning period.

### **Council Tax Referendum Principles**

- 2.41 As part of the settlement, the Government has confirmed the 2016-17 threshold levels for council tax rises, which would trigger a referendum among voters, as being 2% or higher.

## **3 CAPITAL PROGRAMME 2016-17 to 2019-20**

- 3.1 The proposed outline capital programme has been updated to 2019-20. The revenue consequences of the proposed capital programme have been fully taken into account in preparing the MTFP.
- 3.2 Due to the continuing pace of modernisation, and ensuring that the force is fit-for-purpose, appropriately equipped and has an appropriate estate footprint, there is an increased requirement on the capital programme over the medium-term. This includes significant investment in new ICT programmes such as Body Worn Video.

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

|                                     | 16-17        | 17-18        | 18-19        | 19-20        |
|-------------------------------------|--------------|--------------|--------------|--------------|
|                                     | £k           | £k           | £k           | £k           |
| <b>Suffolk only schemes</b>         |              |              |              |              |
| Building Schemes                    | 1,225        | 789          | 15           | 10           |
| ICT replacement strategy            | 445          | 483          | 465          | 465          |
| Emergency Services Network          |              | 1,000        |              |              |
| Vehicles and Equipment              | 1,029        | 990          | 998          | 1,027        |
|                                     | <b>2,699</b> | <b>3,262</b> | <b>1,478</b> | <b>1,502</b> |
| <b>Share of Joint Programme</b>     |              |              |              |              |
| ICT Schemes                         | 2,326        | 421          | 615          | 635          |
|                                     | <b>5,025</b> | <b>3,683</b> | <b>2,093</b> | <b>2,137</b> |
| <b>Forecast slippage from 15-16</b> | 455          |              |              |              |
| <b>Grand Total</b>                  | <b>5,480</b> | <b>3,683</b> | <b>2,093</b> | <b>2,137</b> |

The Programme (Appendix D) is arranged in 3 tables:-

|         |   |
|---------|---|
| Table A | Schemes already approved for 2016-17  |
| Table B | Schemes requiring a business case or further report to the PCC(s) for approval, |
| Table C | Longer term, provisional schemes requiring further development.                 |

The Programme identifies those schemes which are joint projects with Norfolk. Where applicable, the figures shown relate to the Suffolk share of the overall cost, calculated in proportion to net revenue budget.

Key aspects of the programme are outlined below.

### Capital Expenditure

- 3.4 Capital costs for ICT include an improved programme of equipment and infrastructure replacement.
- 3.5 New projects to help modernise the force are set out in the capital programme including Body Worn Video, and investment in additional ICT storage capabilities to cope with the increasing requirements from policing the modern environment.
- 3.6 There is also an estimated amount for the Emergency Services Network. This is in relation to a national programme which will bring all emergency services onto the same communications infrastructure. This is a major programme requiring a large number of partners and will require significant resources and project management nationally to implement.
- 3.7 Building Schemes include the one-off costs incurred in relation to the disposal of estate infrastructure that is either too large or not fit for purpose, and replace it with premises that better meet need operational and service requirements. The re-provision will be financed by the sale of existing properties.
- 3.8 Capital costs for fleet are for replacement vehicles and equipment used to service them.

### Funding the Capital Programme

- 3.9 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

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funded from capital receipts from buildings that are being replaced and from long-term borrowing.

- 3.10 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.
- 3.11 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.

|                           | 16-17<br>£k  | 17-18<br>£k  | 18-19<br>£k  | 19-20<br>£k  |
|---------------------------|--------------|--------------|--------------|--------------|
| Capital Receipts          | 410          | 870          | 600          | 920          |
| Capital Grant             | 600          | 600          | 600          | 600          |
| Revenue Contribution      | 1,300        | 1,060        | 892          | 616          |
| Capital Financing Reserve | 1,669        | 0            | 0            | 0            |
| Internal funding          | 1,501        | 1,153        | 0            | 0            |
| <b>Total</b>              | <b>5,480</b> | <b>3,683</b> | <b>2,092</b> | <b>2,136</b> |

- 3.12 Annually, PCCs receive a capital grant which must be used to support capital expenditure. The Home Office has yet to confirm the capital grant for 2016-17. The MTFP includes the assumption that funding is reduced by approximately 40% in line with the reduction for overall police capital announced on 17 December 2015. Confirmation of the funding level for 2016-17 will not be known until early February.

### Minimum Revenue Provision (MRP)

- 3.13 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.
- 3.14 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, with the MTFP reflecting the required provision.

## **4 ANNUAL TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL INDICATORS 2016-17**

### Treasury Management Strategy

- 4.1 Government regulations require the PCC to approve the investment and borrowing strategies and borrowing limits for 2016-17 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,

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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 code, 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 2016-17 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 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.

### **Forecast Use of Reserves**

- 5.6 **Appendix F** summarises the projected use and level of the PCC's reserves over the MTFP period. The closing balances as at 31 March 2016 are dependent upon decisions taken by the PCC as part of out-turn report for 2015-16 to be considered in June 2016.

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## 6 **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 CFOs, resulting in greater financial clarity and consistency in financial plans.
- 6.5 In summary, I am satisfied that the financial data contained within this report is robust; the assumptions underpinning the MTFP 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 savings plans detailed in **Appendix C**.
- 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 Detailed monthly financial reports will continue to be prepared throughout 2016-17 in respect of year-to-date financial performance and year-end projection for 2016-17, considered in detail by the PCC and CC and CFO, and any corrective action agreed and taken to ensure financial balance in 2016-17.
- 6.9 Monitoring and oversight of the implementation of the savings plans, together with consideration and approval of future business cases for service redesign and savings will continue to be undertaken through the already established governance arrangements.

### **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 approximately 4.5% of Net Revenue Expenditure (NRE).
- 6.11 The three principal reasons for the reduction in the overall level of reserves from £16.014m at 31 March 2016 to £12.825m at 31 March 2020 is accounted for by the planned use of the Change Reserve (£818k), the planned use of the capital financing reserve (£1.669m) and transfer from the Budget Reserve to support the Change Reserve (£702k).

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- 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 costs of change associated with new savings initiatives; and provide temporary financial support to the Revenue Budget, if required.
- 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 (with the exception of the planned use of the Change Reserve), and taking account of the approach to managing financial risk set out in Section 6, my 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 CHIEF CONSTABLE'S RESPONSE TO THE SPENDING REVIEW 2015**

- 7.1 As part of the Spending Review 2015, it was announced by the Chancellor that there would be no further cuts to police funding. Whilst this is extremely positive news, and will allow the lifting of the current recruitment freeze on student police officers, it is essential that we continue with our plans for service redesign.
- 7.2 Financial pressures, coupled with a stark change in the nature of crime and incidents in recent years, mean that the Constabulary's structure needs to transform to continue to deliver high quality policing in the future.
- 7.3 Our recent strategic assessment outlines a significant departure from 'traditional crime' and an emphasis on vulnerability and specialist crime areas. This is a shift that is reflected nationally, and we are now dealing with much more crime that affects the most vulnerable in our society.
- 7.4 The MTFP outlines the significant savings plans in place for 2016-17, totalling £5.0m. This will allow for reinvestment in additional police officers and staff for priority areas, at a cost of £939k under both options. An increase in the precept under Option 1 of 1.958% would provide additional funding of £830k, which equates to an additional 20 police officers and 3 PCSOs.
- 7.5 As an organisation we will clearly prioritise dealing with those incidents that cause the highest levels of threat, harm and risk to our communities, also address key priorities within the Police and Crime Plan, and continue to build upon the investments we have made in our successful collaborative ventures within the eastern region.
- 7.6 It is acknowledged that our funding from the Home Office is significantly better than we had expected. However, whilst funding for 2016-17 is relatively certain, future years funding could change significantly due to the current uncertain economic climate and the implementation of the deferred review of the police funding formula. Increasing funding available to the Constabulary through an increase in the precept would provide greater financial certainty and additional funds of £830k to invest in agreed priority areas.

### **CONCLUSION AND SUMMARY OF OPTIONS**

- 7.7 The MTFP has been prepared following notification of the 2016-17 government grants via the Home Office on 17 December 2015 and in conjunction with a wide range of assumptions summarised in Section 2 of this report.

## DRAFT

- 7.8 Despite the improved settlement the constabulary is committed to continuing to find savings, and drive out efficiencies through continuing to modernise the policing model.
- 7.9 Under both options, whilst it is planned to provide a balanced budget in 2016-17, it will be necessary to consider the operational, staffing and financial implications of the emerging plans which will not only address the remaining savings requirement, but will also provide funding for further investment in policing priority areas over the period of the MTFP.
- 7.10 The two alternative budget options are proposed to the PCC for consideration, the financial consequences of which are contained in **Appendices A (i), A(ii) and G**, and summarised below:
- 7.11 As a consequence delivering the planned savings of £5.035m in 2016-17, both options provide funding of £939k for additional police officers and staff in priority areas.

### **Option 1**

- 7.12 Based on the planning assumptions set out in this report, further savings of £1.231m are required to be made in the period 2017-18 to 2019-20, in order to achieve a balanced budget over the period of the MTFP. In addition, Option 1 would secure additional recurring income of £830k from the precept increase, which would be invested in 20 additional police officers and 3 PCSOs.

### **Option 2**

- 7.13 Based on the planning assumptions set out in this report, further savings of £3.909m are required to be made in the period 2017-18 to 2019-20, in order to achieve a balanced budget over the period of the MTFP.
- 7.14 **Appendix E** showing graphically the annual impact on cumulative savings to be achieved for Options 1 and 2.

## **8 RECOMMENDATIONS**

- 8.1 It is recommended that the PCC:
- (i) Takes account of the overall financial strategy, when considering the 2016-17 budget proposals;
  - (ii) Approves funding of the known changes to the 2015-16 base revenue budget set out at **Appendix B**;
  - (iii) Approves the savings plans in **Appendix C**;
  - (iv) Approves the proposed capital programme for 2016-17 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) When setting the precept level and council tax requirement, consideration is given to the medium- term financial implications of Options 1 and 2, the assessment of financial risks detailed within the MTFP, and the Chief Constable's response to the Spending Review 2015.