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APPENDIX 1

Suffolk Police and Crime Commissioner

Making Suffolk a safer place to live, work, travel and invest

MEDIUM TERM FINANCIAL PLAN 2017-18 TO 2020-21

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1 INTRODUCTION

1.1 By way of a financial context in which to consider this Medium Term Financial Plan, it is important to recognise the relative position of Suffolk in respect of the cost of policing the County. This was reported in the HMIC PEEL: Police Efficiency 2016 Report published on 5 November 2016, and states that 'the officer cost per head of population in the 12 months to 31 March 2016 for Suffolk Constabulary was £78, with the England and Wales force average being £98'.

1.2 This report covers the spending proposals and key issues relating to the budget for 2017-18 to 2020-21. 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.

1.3 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.
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Budget process and consultation

1.4 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 Officers.

1.5 An enhanced Service and Financial Planning process was developed this year using Outcome Based Budgeting (OBB) principles, and a new Outcome Based Budgeting modelling tool.

1.6 OBB is a method for aligning budgets to demand, performance, outcomes and priorities. This approach analyses the activity spending of the entire force, in terms of budgets, establishment, performance, demand and outcomes. This information is then lined up against the priorities and demands of the constabulary and PCC. This allows projects to be developed to target areas that can be made more efficient, and those areas requiring more investment. This process enables improved strategic financial planning.

1.7 The first stage was capturing activity, financial and performance information across the constabularies and developing and implementing the tool and its content. Risk and strategic priority information was also added into the tool.

1.8 The second stage was to analyse the information in the modelling tool. The tool presents information in either the traditional functional view of the forces, but also in the new activity view that enables a strategic review of the inputs and outputs against these activities.

1.9 The information was used in two ways. Functional Senior Managers, having reviewed the information in the tool and the associated inputs and outputs, attended Challenge Panels to present submissions about their strategic issues, savings proposals, growth pressures and capital spend requirements.

1.10 The second strand of the Service and Financial Planning process strategically reviewed the information from the modelling tool from cross-departmental activity spend, and where there were areas that suggested efficiency savings could be made.

1.11 A number of cross-cutting themed Challenge Panels were run, and these scoped the potential value for savings, and whether business cases should then be developed.

1.12 As this process involved both Suffolk and Norfolk Constabularies, including all the joint departments, all the submissions were reviewed by a panel consisting of the Deputy Chief Constables and Chief Finance Officers of both forces, and the joint Heads of Finance and Corporate Development and Change. The submissions were reviewed against OBB principles, and decisions made about limiting growth, and increasing savings. An initial view of the new Change Programme was also developed.

1.13 These outputs were then presented to the Joint Chief Officer team, and further refined after these sessions. Finally the outcomes of the process were presented for consultation with the PCC and final amendments made between the Chief Constable and the PCC. The process concluded with agreement on Suffolk only budgets, the agreement of joint budgets, costs and savings arising from the process to be included in spending plans.

1.14 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.

1.15 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.

1.16 Following the re-election of the PCC on 5 May 2016, the PCC has attended a variety of public meetings, including 18 District Meetings across the county. A meeting on 24 January 2017 between the PCC and members of the Suffolk Business Liaison Group, including the Suffolk Chamber of Commerce, ISSBA (Ipswich and Suffolk Small Business Association) and Country Land and Business Association (CLA) will be discussing amongst other issues, the PCC’s precept intentions for 2017-18.

1.17 The results from the above-mentioned meetings will be presented by the PCC to the Police and Crime Panel at its meeting on 31 January 2017.

2 REVENUE BUDGET 2017-18

Home Office Grant 2017-18

2.1 The provisional central government grant settlement announcements were made on 15 December 2016. 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 In the provisional Police Grant Report on 15th December, Brandon Lewis, The Minister of State for Fire and Policing stated “direct resource funding for each PCC, including precept, will be protected at flat cash levels compared to 2015-16, assuming that precept income is increased to the maximum amount available in both 2016-17 and 2017-18.”

2.3 The table below provides a comparison between the 2017-18 provisional grant settlement and 2016-17 figures.

	2016-17 £m	2017-18 £m	Reduction %
Police Main Grant (incl ex-DCLG funding)	63.591	62.701	1.40
Legacy Council Tax Grants	6.786	6.786	0.00
Total General Grant Allocation	70.377	69.487	1.26

2.4 The Legacy Council Tax grants are based on two historic elements. The first element is in respect of former Council Tax Freeze Grants of £1.895m relating to the decision to freeze the Council Tax in 2011-12, 2013-14 and 2014-15. The second element relates to the Council Tax Support Grant of £4.891m that has been payable since April 2013 when the Government made significant changes to Council Tax Benefit arrangements.

2.5 There are no new Council Tax freeze grant schemes available for 2017-18. The Provisional Settlement is predicated on PCCs increasing council tax up to the referendum trigger level of 2%.

2.6 Top-slicing has substantially increased by 392% from £165m in 2014-15 to £812m in 2017-18.

2.7 The Home Office has “re-allocated” (top sliced) £812m in total from the national police grant pot (42% higher than the £572m in the prior year). The main items making up the £240m increase are an additional £111m for the development of the Emergency Services Network (ESN) to replace Airwave and also to fund other technology programmes, £44m for the national Police Transformation Fund, £28m to strengthen the response to organised crime through the National Crime Agency and Regional Organised Crime Units, £25m for the Police Special Grant, £15m to help fund changes arising from the new Bail reforms, and £17m to increase funding to Arms Length Bodies such as Her Majesty’s Inspectorate of Constabulary, and the Independent Police Complaints Commission (IPCC).

2.8 The Home Office is currently engaging with the police sector on changes to the police funding formula, with a report due to go to the Minister in March 2017 for a decision on next steps. The PCC and CC will be meeting the Minister of State for Fire and Policing in early February 2017 to present a case for a more equitable funding formula, which acknowledges that Suffolk has some of the most deprived neighbourhoods in the country, and has a disproportionately high rate of rural residents compared to England. It is expected that the new formula, with agreed transitional arrangements, will take effect in 2018-19.

2.9 This means that the Home Office has continued to apply a ‘floor-damping’ financial model which results in a cash reduction in main grant for 2017-18 of 1.4% 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 £765k of the 2017-18 main grant of £62.701m will be retained by the PCC to continue funding grants that contribute to delivering the objectives in the Police and Crime Plan 2017-2021 relating to cutting crime, crime prevention, reducing re-offending and community safety.

2.12 Confirmed funding for 2017-18 from the MoJ of £870k for victims services and restorative justice services, has been included in the MTFP for both grant income and planned expenditure.

2.13 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.

2.14 The table below summarises the 2017-18 income position for Option 1 (increase council tax by 1.972% in 2017-18) and Option 2 (no increase in council tax in 2017-18).

	Option 1 £m	Option 2 £m
Police Main Grant (including ex-DCLG funding)	62.701	62.701
Legacy Council Tax Grants	6.786	6.786
Precept Income	43.846	43.011
Other Income	8.257	8.257
Total Income (£m) in 2017-18	**121.591**	**120.755**

Assumptions in the Financial Model

2.15 A significant assumption included in the model is related to the Apprenticeship Levy. The levy was announced by the former Chancellor. The levy applies to all organisations with a pay bill over £3m, and equates to 0.5% of the pay bill to be paid over each month. The levy will be applied from April 2017.

2.16 The Constabulary is to be included on the Register of Apprenticeship Training Providers (RoATP) and will be an employer-provider enabling funded delivery to our own staff (and therefore can draw down income from the Levy). Apprenticeship schemes in Policing are being developed by the College of Policing.

2.17 A prudent assumption of being able to draw down a quarter of the contribution in 2017/18 is included in the plans, and this will be kept under-review as the apprenticeship schemes are implemented.

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

	17-18	18-19	19-20	20-21
Police main grant reductions	-1.4%	-1.5%	-1.0%	-1.0%
Legacy council tax grant changes	0%	0%	0%	0%
Council tax base change	1.51%	1.5%	1.5%	1.5%
Collection fund surplus	£639k	£0k	£0k	£0k
Pay awards – officers	1%	1%	1%	1%
Pay awards – staff	1%	1%	1%	1%
Non-pay inflation (average)	2.5%	2.5%	2.5%	2%

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

	Variation	Variation £k
Main government grants	1.0%	627
Legacy council tax grants	1.0%	68
Tax base increase	1.0%	417
Precept	1.0%	417
Pay awards officers (full year impact)	1.0%	605

Pay awards staff (full year impact)	1.0%	142
Non-pay inflation	1.0%	512

All the financial planning assumptions will be kept under review.

Collaboration and the Change Programme

2.19 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.

2.20 The programme had a number of principal work streams, involving collaboration with Norfolk as well as Suffolk only initiatives.

2.21 In total, by the end of 2016-17 over £26m of savings specific to Suffolk have already been taken from budgets through the Change Programme.

The New Change Programme

2.22 As the financial tables in **Appendices A(i)** and **A(ii)** demonstrate, savings over the medium-term are still required. Government grants are still reducing, and raising the precept does not even cover inflation. In addition, there is clearly an imperative to modernise working practices and ensure the force is fit-for-purpose going forward, resulting in a requirement to develop a new change programme.

2.23 The new change programme will concentrate on two strands:

- Service and Financial Planning process (Outcome Based Budgeting)
- Regional collaboration on new work streams

Service and Financial Planning Process

2.24 As outlined in the introduction Suffolk and Norfolk Constabularies have embarked 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 has then be assessed against the developing priorities and desired outcomes and cross-departmental themes have been scoped and reviewed in the processes set out in Section 1, for inclusion in the new Change Programme. These themes are set out below. The new programme will ensure the use of the budget available is optimised and supports the continuation of transformation and modernisation of policing.

2.25 The Strategic and Financial Planning process is an annual process, and the OBB tool and principles will continue to be used each year, and therefore the Change Programme will be kept under constant review.

2.26 The main programme themes for the new change programme are outlined below:

Property and Exhibit Management

2.27 The purpose of the project is to produce a plan to develop a joint strategy for the management of property, exhibits and files across both forces.

Organisational Transformation

2.28 This theme is wide-ranging and considers many aspects of the organisations including a review of all administration activity across both forces, the organisational redesign of back office functions and back office systems optimisation to ensure the most efficient processes are adopted, enabling additional savings to be generated.

2.29 **Applications Rationalisation**

2.30 This programme will continue the work already undertaken to reduce the overall number of applications used by the forces and therefore reducing costs.

Athena Related Efficiencies

2.31 Athena is the new system that merges intelligence, investigation management, case preparation and custody data and processes as well as other supporting services. As the system is optimised, and process efficiencies are maximised additional savings will be realised.

Telematics

2.32 Vehicle telematics is a proven enabler to identify and make significant fleet savings and involves monitoring how fleet vehicles are driven on a real time basis, collecting information on a wide range of crucial indicators. This will enable the organisations to move vehicles to support operational demand as there will be real time information as to where fleet is being utilised, reduce the bureaucracy of keeping manual log books and increase efficiency by replacing existing service schedules. The main areas for savings are fuel, maintenance, fleet optimisation and accident costs.

2.33 **Regional Collaboration**

2.34 The PCCs and Chief Constables (CC) for the 6 police areas in the East of England together with the CC and PCC for Kent have confirmed their unanimous support for a 'Seven Force Strategic Collaboration Programme'. The costs of the work are being shared by the 7 forces.

2.35 As well as the development of business cases that will generate savings, the programme is also identifying areas of required convergence, e.g. in terms of systems and processes, to enable future collaboration to take place more easily.

2.36 Savings from the programme will be developed over time and will contribute to the "savings to be idenfitied" figures shown in the appendices.

Precept Option Scenarios

2.37 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:

2.38 **Option 1**- increase council tax by nearly 2% in each year of the MTFP

1.972% Council Tax increase	Budget 2017/18 £000	Forecast 2018/19 £000	Forecast 2019/20 £000	Forecast 2020/21 £000
Total Funding (Grant + Precept)	(113,334)	(113,273)	(114,227)	(115,235)
Net Revenue Budget before changes and savings	113,983	116,627	118,254	119,770
REVENUE DEFICIT BEFORE KNOWN CHANGES	**649**	**3,354**	**4,026**	**4,535**
Known / Expected Changes	3,463	1,572	2,000	1,876
Planned use of reserves	(2,398)	(394)	343	346
REVENUE DEFICIT BEFORE SAVINGS	**1,714**	**4,532**	**6,370**	**6,757**
Planned Savings	(1,714)	(2,940)	(3,754)	(4,106)
REVENUE DEFICIT / (SURPLUS) AFTER SAVINGS	**0**	**1,592**	**2,615**	**2,651**
SAVINGS TO BE IDENTIFIED	**0**	**-1,592**	**-2,615**	**-2,651**
REVENUE DEFICIT / (SURPLUS)	**0**	**0**	**0**	**0**

2.39 **Option 2**- no increase in council tax over the MTFP

Council Tax Freeze	Budget 2017/18 £000	Forecast 2018/19 £000	Forecast 2019/20 £000	Forecast 2020/21 £000
Total Funding (Grant + Precept)	(112,498)	(111,554)	(111,582)	(111,625)
Net Revenue Budget before changes and savings	114,983	116,627	118,253	119,769
REVENUE DEFICIT BEFORE KNOWN CHANGES	**2,485**	**5,072**	**6,671**	**8,144**
Known / Expected Changes	3,463	1,572	2,000	1,876
Planned use of reserves	(2,398)	(394)	343	346
REVENUE DEFICIT BEFORE SAVINGS	**3,549**	**6,250**	**9,015**	**10,366**
Planned Savings	(2,714)	(2,940)	(3,754)	(4,106)
REVENUE DEFICIT / (SURPLUS) AFTER SAVINGS	**836**	**3,310**	**5,260**	**6,261**
SAVINGS TO BE IDENTIFIED	**-836**	**-3,310**	**-5,260**	**-6,261**
REVENUE DEFICIT / (SURPLUS)	**0**	**0**	**0**	**0**

Option 1 Appendix A(i)

2.40 Based on the planning assumptions set out in this report, further savings of £2.651m are required to be made in the period 2018-19 to 2020-21, in order to achieve a balanced budget over the period of the MTFP

Option 2 Appendix A(ii)

2.41 Based on the planning assumptions set out in this report, further savings of £6.261m (including £836k in 2017-18) are required to be made in the period 2018-19 to 2020-21, in order to achieve a balanced budget over the period of the MTFP

2.42 **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

2.43 As part of the settlement, the Government has confirmed the 2017-18 threshold levels for council tax rises, which would trigger a referendum among voters, as being 2% or higher.

3 CAPITAL PROGRAMME 2017-18 to 2020-21

3.1 The proposed outline capital programme has been updated to 2020-21. The revenue consequences of the proposed capital programme have been 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 refreshing the growing ICT / digital estate; increasing investment in infrastructure e.g. in networks and servers to deal with the growth in requirements for investigating and storing digital data; new enabling programmes such as Body Worn Video and the Emergency Services Network.

3.3 The growth of the investment in the “short-term” capital estate will need to deliver efficiencies in staffing to avoid putting undue pressure on revenue reserves over the medium-term. This issue will be expanded further in the review of adequacy of reserves later in this report.

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

	17-18	**18-19**	**19-20**	**20-21**
	£k	**£k**	**£k**	**£k**
Suffolk only schemes				
Building Schemes	2,160	1,560	565	0
ICT replacement strategy	738	416	249	684
Emergency Services Network	301	474	1,250	
Vehicles and Equipment	984	958	986	986
	4,183	**3,408**	**3,050**	**1,670**
Share of Joint Programme				
ICT Schemes	2,812	1,112	822	684
Grand Total	**6,995**	**4,520**	**3,872**	**2,354**

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

Table A Schemes or technical refresh programmes already approved for 2017-18
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, which is calculated in proportion to net revenue budget.

Key aspects of the programme are outlined below.

Capital Expenditure

3.5 Capital costs for ICT include an improved programme of equipment and infrastructure replacement.

3.6 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.

3.7 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.

3.8 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 operational and service requirements. The re-provision will be financed by the sale of existing properties.

3.9 Capital costs for fleet are for replacement vehicles and equipment used to service them.

Funding the Capital Programme

3.10 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.

3.11 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. As stated this is putting pressure on revenue reserves, and the schemes designed to modernise the force capabilities will have to deliver additional revenue savings in order to fund the ongoing refresh of the short term assets.

3.12 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.

	17-18 £k	18-19 £k	19-20 £k	20-21 £k
Capital Receipts	2,220	1,760	900	0
Capital Grant	439	400	400	400
Revenue Contribution	1,300	750	1,300	1,300
Capital Financing Reserve	842	0	657	654
Internal / External Borrowing	2,195	1,610	615	0
Total	**6,995**	**4,519**	**3,872**	**2,354**

3.13 Modest external borrowing will be required over the medium-term, but the precise amount and timing of the borrowing has not been decided upon at this point. This will be reviewed over the coming months and will be discussed with the PCC. Any such borrowing will comply with the requirements of the prudential code and will be affordable.

3.14 Annually, PCCs receive a capital grant which must be used to support capital expenditure. The Home Office has given provisional figures for the capital grant for 2017-18 as being £439k.This is almost a 50% reduction from £857k in 2015-16.

3.15 This reduction puts further significant pressure on revenue and reserve funding of the capital programme.

Minimum Revenue Provision (MRP)

3.16 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.

3.17 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 2017-18

4.1 **Treasury Management Strategy**

4.2 Government regulations require the PCC to approve the investment and borrowing strategies and borrowing limits for 2017-18 prior to the start of the financial year. This is incorporated within an over-arching Treasury Management Strategy, which is attached as **Appendix H**.

4.3 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

4.4 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 code, compliance with which ensures prudent financial management.

4.5 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 2017-18 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 2017 are dependent upon decisions taken by the PCC as part of the out-turn report for 2016-17 to be considered in June 2017.

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 The comprehensive Service and Financial Planning process has given a significant review of the various savings proposals and programmes. This process has involved Chief Officers, Heads of Department, Finance, Corporate Development and Change and other enabling departments from both Norfolk and Suffolk Constabularies, 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 Over the last few years, reserves have been used appropriately to fund the capital programme in respect of short-term assets, the cost of change (e.g. redundancies arising from implementing the significant change programme), and planned temporary staffing costs to respond to service pressures, and transition programmes.

6.12 Careful consideration has been given to reserve levels over the medium-term, and beyond when considering and modelling capital financing over the next 20 years.

6.13 The MTFP therefore includes planned contributions to reserves in 2019/20 and 2020/21 in order to protect reserve levels at a sustainable level for the medium and longer-term. This will require additional savings to be found, and this is the basis for further development of the Change Programme over the next 12 months.

6.14 The two principal reasons for the reduction in the overall level of reserves from £9.086m at 31 March 2017 to £7.033m at 31 March 2021 is accounted for by the planned use of the Change Reserve (£1.7m), the planned use of the capital financing reserve (£2.0m) offset by the planned £2m contribution to the Budget Reserve as described above.

6.15 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'.*

6.16 Having considered the levels of reserves included in the MTFP and making planning assumptions already referred to for the period beyond this MTFP, and acknowledging 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 and Capital Finance Reserves), 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 COMMENTARY ON THE FINANCIAL POSITION

7.1 The financial impact of the 2017-18 settlement results in the Main Police Grant being reduced by £890k in comparison with the 2016-17 funding level, which, together with the requirement to fund national cost pressures, including auto-enrolment to pension schemes (£200k) and contribution to the apprenticeship levy (£400k) results in the Constabulary having to find significant savings to fund inescapable inflationary increases.

7.2 Uncertainty regarding future Police Grant settlements will remain until the outcome of the funding formula review is known.

7.3 The financial pressures, together with the stark change in the nature of crime and incidents, mean that the Constabulary's structure needs to continue to transform in order to maintain the delivery of high quality policing in the future.

7.4 We will continue to prioritise dealing with those incidents which cause the highest levels of threat, harm and risk to our communities, and also address key priorities within the PCC's 2017-2021 Police and Crime Plan, whilst continuing to build upon the joint investments with our local public sector partners and collaborative ventures with the eastern region.

7.5 A further challenge facing the Constabulary in 2017-18 will be in the recruitment and retention of police officers, as a consequence of a further 10% reduction in officer numbers, due to retirement and other reasons. Pro-active work is already underway to explore alternative ways of attracting people to consider applying for employment within the Constabulary, which will contribute to reaching the budgeted 1098 full time equivalent police officer posts in 2017-18.

8 CONCLUSION AND SUMMARY OF OPTIONS

8.1 The MTFP has been prepared following notification of the 2017-18 government grants via the Home Office on 15 December 2016 and in conjunction with a wide range of assumptions summarised in Section 2 of this report. Greater financial clarity will be achieved when the outcome of the police funding formula is known.

8.2 Due to the "cash flat" settlement approach the government has adopted for the life of this parliament, the constabulary has to be able to find, as a minimum, savings to fund inflation (around £1.2m each year). In addition to this there are statutory and service pressures, as well as pressures from the changing nature of crime.

8.3 As a result, the Constabulary remains committed to finding further savings, and drive out efficiencies through organisational change and continuing to modernise the policing model and work with other partner agencies, as well as other police forces.

8.4 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:

Option 1
Based on the planning assumption set out in this report, further savings of £2.651m are required to be made in the period 2018-19 to 2020-21, in order to achieve a balanced budget over the period of the MTFP.

Option 2

Based on the planning assumption set out in this report, further savings of £6.261m (including £836k in 2017-18) required to be made in the period 2018-19 to 2020-21, in order to achieve a balanced budget over the period of the MTFP.

9 RECOMMENDATIONS

9.1 It is recommended that the PCC:

(i) Takes account of the overall financial strategy, when considering the 2017-18 budget proposals;
(ii) Approves funding of the known changes to the 2017-18 base revenue budget set out at **Appendix B**;
(iii) Approves the savings plans in **Appendix C**;
(iv) Approves the proposed capital programme for 2017-18 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, and the assessment of financial risks detailed within the MTFP.