APPENDIX 1

Suffolk Police and Crime Commissioner

MEDIUM TERM FINANCIAL PLAN 2013-14 TO 2016-17

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1 INTRODUCTION

1.1 This report covers the spending proposals and key issues relating to the budget for 2013-17. 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 plans have been drawn up in line with the PCC's manifesto commitment to maintain the number of constables and police community support officers and not increase council tax in 2013-14.

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

Appendix A(i)	Medium Term Financial Plan- 4 Year Overview- Option 1- take council tax freeze grant in 2013/14
Appendix A(ii)	Medium Term Financial Plan- 4 Year Overview- Option 2- increase council tax by 1.997% in 2013-14
Appendix B	Known Changes 2013-17
Appendix C	Savings Plan 2013-17
Appendix D	Capital Programme 2013-17
Appendix E	Precept Option Scenarios
Appendix F	Treasury Management Strategy
Appendix G	Lending Limits and proposed List of Approved Institutions
Appendix H	Forecast Use of Reserves
Appendix I	Precept Level and Council Tax Requirement Options.

Budget process and consultation

1.4 A financial planning process between Norfolk and Suffolk has been ongoing over recent months in accordance with a timetable agreed by the two constabularies and the former police authorities. 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.

1.5 The process to date has involved Chief Officers meeting with the senior managers within their portfolios, and representatives from the Finance and Strategic Change departments. These planning meetings reviewed and challenged progress on current savings targets; additional revenue savings and pressures for 2013-14; future medium-term savings opportunities to be developed, and changes to the capital programme. The process concluded with a Joint Chief Officer meeting to review the findings of these meetings and made further recommendations to develop the detailed spending and savings options for 2013-14 and beyond.

1.6 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.

1.7 In accordance with the requirements of Section 134 of the Local Government Act and as required under regulations, the PCC has an obligation to consult with business ratepayers and other partners, as well as a general obligation to consult the public, when setting the Constabulary budget and council tax precept for 2013-14. This requirement will be met through the extensive consultation activities that have already been undertaken to date, and with the inclusion of key financial information in the Police and Crime Plan, which is being consulted upon in the period leading up to its publication by 31 March 2013.

2 REVENUE BUDGET 2013-14

Assumptions in the Financial Model

2.1 The provisional central government grant settlement announcements were made on 19 December 2012. The proposals in this report are based on the provisional settlement, provisional local tax base figures and planning assumptions regarding future funding levels, on-going commitments and capital expenditure plans.

2.2 The table below provides a comparison between the 2013-14 provisional grant settlement and 2012-13 figures.

	2012-13 £m	2013-14 £m	Variance %
Home Office Core Grant / Neighbourhood Policing Fund	45.8	45.3	-1.1
Revenue Support Grant / Business Rates	25.5	24.9	-2.4
Total General Grant Allocation (£m)	71.3	70.2	-1.6

2.3 In addition to the figures above, the Council Tax Freeze Grant (CTFG) in relation to 2011-12 of £1.03m will continue to be received in 2013-14 and 2014-15.

2.4 The government has used the floor-damping scheme to ensure that the cash reduction in formula grant for the police next year is 1.6% for all PCC areas. This has been achieved by reducing the formula allocation for those PCCs who are above the floor. The scheme is self-financing within the overall police grant allocation, with Suffolk receiving additional formula grant funding of £1.13m in 2013-14 as a result of the redistribution of resources under the current arrangements.

2.5 The Home Office is planning to undertake a major review of the police funding mechanism in 2013-14, which may result in different grant levels being received in future years.

2.6 In determining the financial forecast, the following assumptions have been used:

	2013-14	2014-15	2015-16	2016-17
Government grant	-1.60%	-2.80%	-1.80%	-1.00%
Council tax base decrease	-11.07%	0.00%	0.00%	0.00%
Precept	0.0%	2.00%	2.00%	2.00%
Pay awards – officers	0.58%	1.00%	1.59%	2.00%
Pay awards – staff	0.79%	1.00%	1.59%	2.00%
Non-pay inflation (average)	2%	2%	2%	2%
Borrowing (long term)	4.51%	4.51%	4.51%	4.51%
Freeze Grant	1.00%	1.00%	0.00%	0.00%
Number of Officers	1200	1200	1200	1200
Number of PCSO's – Non-Partner	142	142	142	142
Number of Specials	350	350	350	350

2.7 The only financial figure that is certain is the 1.6% decrease in government grant in 2013-14. The council tax base decrease and collection fund surplus for 2013-14 are provisional figures, with the tax base decrease arising from national changes in council tax benefit arrangements, which are largely mitigated by a corresponding grant to the PCC.

Financial Summary 2013-17

2.8 The table below illustrates the budget summary for the forthcoming four years **(Appendix A (i))**, based on the assumptions summarised above:

	2013-14 £m	2014-15 £m	2015-16 £m	2016-17 £m
Revenue Expenditure	-125.3	-126.1	-127.8	-130.1
Revenue Income	5.2	5.3	5.4	5.5
Precept Income	42.4	43.7	44.6	45.5
Freeze Grant	1.5	1.5	0.0	0.0
General Grants & Business Rates	70.2	69.7	69.7	69.7
General Grant Reductions	0.0	-1.4	-2.6	-3.3
Other Grants	4.3	4.3	4.3	4.3
Revenue Funding of Capital	-2.0	-1.7	-0.5	-2.2
Cumulative Savings Plans	3.7	4.6	5.1	5.9
Cumulative Funding Gap Before Further Savings (£m)	0.0	-0.1	-1.8	-4.7

2.9 In respect of former community safety and crime and disorder reduction grants, it has been assumed that the sum of £572k, which is included in the general grant figure above in 2013-14, will be fully committed in that year in pursuance of the PCC's crime and disorder objectives.

2.10 It has also been assumed that the former Police Authority's corporate budget of £1.19m for 2012-13 will be ring-fenced to meet the on-going running costs associated with the Office of the Police and Crime Commissioner.

Estimated Funding Gap

2.11 Based on the current assumptions, which together with the changes to the Constabulary's recurring cost base detailed in **Appendix B,** represent a balanced budget for 2013-14, with further savings required of £0.1m in 2014-15, £1.7m in 2015-16 and £2.9m in 2016-17 respectively. These savings are in addition to those already planned and being implemented **(Appendix C)**.

2.12 Substantial work has already been undertaken to identify options for achieving the further savings required, and it is anticipated that a provisional plan will be in place by 31 March 2013. With the forecast shortfall in the first two years being only £100k, the Constabulary has more time to formulate robust plans to deliver the savings required in 2015-16 and 2016-17, whilst minimising the impact on service provision.

Precept Option Scenarios

2.13 The MTFP is based on accepting the Council Tax Freeze Grant (CTFG) of 1% in 2013-14 (which is payable in 2013-14 and 2014-15), and then levying a 2% increase in council tax precept for each year commencing 2014-15 **(Appendix A (i) - Option 1 and Appendix E)**.

2.14 An alternative option is to levy a 2% increase in each year from 2013-14. This would generate additional recurring income of £425k in 2013-14 and £442k in 2014-15 **(Appendices A (ii) - Option 2 and Appendix E)**.

2.15 The increased income arising from Option 2 would contribute to making modest contributions to reserves of £394k and £350k in 2013-14 and 2014-15. It would still be necessary, however, to make recurring savings of £901k in 2015-16 and £2,933k in 2016-17. Option 2 would provide greater financial stability by incorporating the precept income stream into the recurring base budget in 2013-14.

2.16 In a recent survey undertaken on behalf of PCC Chief Finance Officers, of the 26 respondents, 6 indicated that the PCC was likely to take the CTFG, 14 were likely to increase council tax, and the remaining 6 were currently undecided.

Council Tax Referendum Principles

2.17 On 20 December 2012 the Department for Communities and Local Government issued guidance on council tax freeze. The paragraphs below are relevant extracts from the letter:

'The Secretary of State announced to the House of Commons on 19 December the council tax referendum principles he proposes to set. He has proposed that a two per cent referendum principle will apply for all principal local authorities, PCCs and Fire and Rescue Authorities. This means that if an authority or PCC wishes to raise their relevant basic amount of council tax in 2013-14 by more than two per cent, they will have to arrange for a referendum to give the local electorate the opportunity to approve or veto the increase. The result of a referendum will be binding.

There are some exceptions to the 2 per cent excessiveness principle, covering shire district councils, Fire and Rescue Authorities and PCCs whose 2012-13 own Band D council tax is in the lower quartile for their category of authority. For these authorities and PCCs, a referendum need only be held where the increase in the relevant basic amount of council tax for 2013-14 is more than 2 per cent and there is a cash increase of more than £5 in the relevant basic amount'.

2.18 In regard to the exceptions to the 2% 'excessive principle' described in the paragraph above, it has been confirmed that Suffolk is not in the lower quartile for their category of authority, therefore the excessive limit which would trigger the requirement for a referendum for Suffolk would be if the basic amount of council tax increase for 2013-14 is more that 2% higher than the equivalent 2012-13 figure. Option 1 and 2, therefore, would not trigger a referendum.

3 CAPITAL PROGRAMME 2013-17

3.1 The proposed outline capital programme has been updated to 2016-17, 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 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.

	2013-14 £k	2014-15 £k	2015-16 £k	2016-17 £k
Recurring schemes				
ICT	300	300	300	300
Estates	325	325	325	325
Fleet	1,374	1,230	1,230	1,230
Total recurring schemes	1,999	1,855	1,855	1,855
Projects				
ICT	1,288	484	64	
Estates	1,600	2,010	2,110	2,154
Other	352	75	39	
Total	5,239	4,424	4,068	4,009

3.3 The above programme does not include slippage in 2012-13 of partly completed schemes, the balance for which will be carried forward to 2013-14.

Capital Expenditure on Recurring Schemes

3.4 Recurring capital costs for ICT are predominantly equipment replacement and updating.

3.5 Recurring costs for estates include minor improvement works and the strategy budget, which is used to facilitate internal and external moves.

3.6 Recurring capital costs for fleet are for replacement vehicles and equipment used to service them.

Capital Expenditure on Projects

3.7 This section contains one-off expenditure for specific items, including some significant collaborative arrangements designed to deliver future operational efficiencies and recurring financial savings:

- Airwave - minor expansion of the existing coverage.

- New Property Store – a collaborative venture to accommodate the storage requirements of the six Eastern Region Forces, Suffolk County Council and the MOD, is currently being led by Suffolk.

- Body Armour Replacement – backlog due to re-tendering delay at a national level.

- Estates Re-provision – as part of the Suffolk Estates Strategy it is planned to dispose 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.

- Replacement of Back Office System (ERP) – Procurement options for Norfolk & Suffolk joint replacement systems (covering Duties Management, HR, Payroll, Procurement and Finance) are currently being finalised. Assuming approval, expenditure will be incurred in 2013-14.

Funding the Capital Programme

3.8 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.

3.9 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.

3.10 The following funding sources have been identified to support the outline capital programme **(Appendix D - Page 3)**, 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.

	2013-14 £m	2014-15 £m	2015-16 £m	2016-17 £m
Capital Receipts	1.9	2.3	3.1	1.3
Capital Grant	1.0	1.0	1.0	1.0
Revenue Contribution (including MRP)	1.5	1.1	0.0	1.7

Change Reserve		0.8			
	Total	5.2	4.4	4.1	4.0

3.11 Each PCC receives a capital grant, which must be used to support capital expenditure. The Home Office has confirmed the capital allocation of a capital grant of £1.01m for 2013-14.

Minimum Revenue Provision (MRP)

3.12 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 backed up by statutory guidance to which authorities are required to have regard.

3.13 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.

4 ANNUAL TREASURY MANAGEMENT STRATEGY AND PRUDENTIAL INDICATORS 2013/14

Treasury Management Strategy

4.1 Government regulations require the PCC to approve the investment and borrowing strategies and borrowing limits for 2013-14 prior to the start of the financial year. This is incorporated within an over-arching Treasury Management Strategy, which is attached as **Appendix F**.

4.2 The Treasury Management Strategy, which includes a number of Prudential Code and Treasury Management Indicators (**Appendix F**), and Lending Limits and proposed List of Approved Institutions (**Appendix G)** 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 good 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 2013-14 are provided in **Appendix F**. 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.

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 Authority. 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 such as the Major Crime fund. 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 use of reserves will be dependent upon the successful delivery of efficiency savings in the timeframes planned and on the basis of the information provided within the report.

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 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 H**. The closing balances as at 31 March 2013 are dependent upon decisions taken by the PCC as part of out-turn report for 2012-13 to be considered in June 2013.

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 data, confidence in the robustness of this data has been the subject of a recent comprehensive review. The review 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 CFO's and Constabularies, 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 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 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**.

6.7 A prudent approach has been taken within the savings plans in respect of collaboration by re-profiling the PMO projected savings in 2013-14 from £2.1m to £1.6m, to allow for possible slippage in the programme of 3 months, with a 6 month delay being included for the period 2014-15 to 2016-17.

6.8 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.

Adequacy of Reserves

6.9 The projected levels of reserves are detailed in **Appendix H**. Over the MTFP period, the general reserve is projected to be constant at £7.46m, which equates to 6.6% of Net Revenue Expenditure (NRE).

6.10 The principle reason for the reduction in the overall level of reserves from £14.2m at 31 March 2013 to £11.3m at 31 March 2017 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.

6.11 The sum of £325k has been transferred from Corporate Contingency Reserve to the General Reserve following a review of its potential future requirement.

6.12 The Budget Reserve of £1.97m is available to pump-prime initiatives which will deliver permanent savings.

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 and taking account of the approach to managing financial risk set out in Section 5, 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 2013-14 government grants via the Home Office on 19 December 2012 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 planned savings of £3.7m, £0.9m, £0.6m and £0.7m respectively over the 4 years of the MTFP period, and in addition, currently unplanned savings initiatives of £0.1m in 2014-15, £1.7m in 2015-16 and a further £2.9m in 2016-17.

7.3 This represents both a significant financial and operational challenge in the context of delivering the PCC's manifesto commitment to maintain the number of constables and police community support officers and not increase council tax in 2013-14.

7.4 Two alternative budget options are proposed to the PCC for consideration, the financial consequences of which are set out in **Appendices A (i), A (ii) and E**.

7.5 Under both options, whilst it is proposed to maintain police officer numbers at 1,200 and PCSO numbers at 142, there remains uncertainty in relation to future government funding, which will necessitate the need to keep under review the number of police officer, PCSO and police staff numbers over the medium-term planning period and beyond.

8 RECOMMENDATIONS

8.1 It is recommended that the PCC:

- (i) Takes account of the overall financial strategy, when considering the 2013-14 budget proposals;
- (ii) Approves funding of the known changes to the 2012-13 base revenue budget set out at Appendix B;
- (iii) Approves the savings plans in Appendix C;
- (iv) Approves the proposed capital programme for 2013-14 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 F, and Lending Limits and List of Approved Institutions in Appendix G;
- (vi) Approve the proposed use and transfer of reserve balances in Appendix H;
- (vii) Considers the medium-term financial impact of Options 1 and 2 (Appendices A (i) and (ii), E and I) and paragraph 2.14, and the assessment of financial risks in Section 5, when setting the precept level and council tax requirement.