



DRAFT MEDIUM TERM FINANCIAL PLAN 2018-19 TO 2021-22

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1 INTRODUCTION

- 1.1 By way of a context in which to consider this Medium Term Financial Plan, it is important to note the outcome of the most recent HMIC PEEL: Police Efficiency 2017 Report published on 12 December 2017, where Suffolk Constabulary is judged to be good in the efficiency with which it keeps people safe and reduces crime. The overall judgment this year is the same as last year. The Constabulary is judged to be good in its understanding of demand; its use of resources to manage demand is assessed to be good; and its planning for future demand is also judged to be good.
- 1.2 The total cost of policing per person per day in Suffolk is 44 pence per day, compared to the national average for England and Wales of 55 pence per day.
- 1.3 This report covers the spending proposals and key issues relating to the budget for 2018-19 to 2021-22. 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.
- 1.4 The report contains appendices that provide more detailed information relating to the proposals.
 - Appendix A (i) MTFP- 4 Year Overview- Option 1- increase council tax by just less than 2% in each year of the MTFP.
 - Appendix A (ii) MTFP- 4 Year Overview- Option 2- increase council tax by nearly £12 per year for two years (6.8% in 2018-19 and 6.3% in 2019-20) and just less than 2% in the last two years of the MTFP
 - Appendix B (i) Planned Revenue Changes 2018-19 to 2021-22-Option 1
 - Appendix B (ii) Planned Revenue Changes 2018-19 to 2021-22-Option 2
 - Appendix C Savings Plan 2018-19 to 2021-22
 - Appendix D Capital Programme 2018-19 to 2021-22
 - Appendix E Precept Option Scenarios
 - Appendix F (i) Forecast Use of Reserves- Option 1
 - Appendix F (ii) Forecast Use of Reserves- Option 2
 - Appendix G Precept Level and Council Tax Requirement Options.
 - Appendix H(i) Treasury Management Strategy
 - Appendix H(ii) Prudential Indicators
 - Appendix I Lending Limits and proposed List of Approved Institutions

The challenging funding context

- 1.5 Since 2010 the financial context for policing has been very challenging. Suffolk's direct funding sources (main government grant, specific grants and council tax) have reduced in cash terms by £4.8m.
- 1.6 When taking account of actual pay inflation, and average inflation for non-pay, this equates to £17m in real terms since 2010.
- 1.7 In addition, the Constabulary has had to absorb other costs such as the impact of the introduction of the Single Tier Pension (£1.8m), the Apprenticeship Levy (£0.4m), as well as other increases such as those connected to pension contributions and insurance premium tax.
- 1.8 In common with other forces across the country, the Constabulary continues to face significant service pressures due to the changing nature of crime. Whilst Suffolk remains a safe county, the Constabulary is dealing with continuing increases in reports of domestic abuse, rape and serious sexual offences, adult and child abuse and allegations of cyber enabled fraud. These are some of the most complex and demanding investigations the service has to undertake and they require a highly skilled workforce. As a result Suffolk Constabulary is facing some significant cost pressures which have to be addressed.

- 1.9 Other legislative changes and procedural changes, such as the changes to managing bail and the impact from the introduction of Virtual Courts have directly increased costs to the Constabulary.
- 1.10 The Constabulary continues to deal with the impact of the shortage in resources of other public sector partners, in particular mental health and ambulance services, resulting in the Constabulary having to absorb additional demand from these areas as the emergency service of last resort.
- 1.11 The funding context for the future continues to be challenging. In the MTFP, inflation is forecast at 2% for pay and 2.5% - 3% for non-pay, equating to over £2.5m of funding pressure each year, and this is before other pressures such as those outlined above are included.
- 1.12 Also, to remain as efficient as possible, the Constabulary must continue to invest in and refresh technology that keeps the policing model fit-for-purpose and able to meet increasing demand and the changing nature of crime. This investment, including body worn video, is significant and has a direct impact on the budget.
- 1.13 As a result of all of these pressures, despite the government grant being maintained at 2017-18 levels, the Constabulary is faced with needing to make significant savings over the MTFP, depending on the level of precept being set.

Service and Financial Planning process and consultation

- 1.14 A joint (Suffolk and Norfolk) financial planning process has been on-going over recent months in accordance with an agreed timetable. An enhanced Service and Financial Planning process has been developed using Outcome Based Budgeting (OBB) principles, and an improved OBB modelling tool. This is the second year that OBB has been used, and improvements to the process have been implemented this year.
- 1.15 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, as well as reviewing areas requiring further investment.
- 1.16 Heads of Department presented savings and investment proposals, and these were modelled against the impact on budgets and outcomes. These outcomes were then reviewed by a Joint Chief Officer Panel against the OBB principles and decisions made about limiting growth and increasing savings. A revised view of the Change Programme (see below) has also been developed.
- 1.17 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 to the PCC. The process concluded with agreement on 'Suffolk only' budgets, the agreement of joint budgets, and costs and savings arising from the process to be included in spending plans.
- 1.18 Given the levels of savings to be found it is important that the Change Programme is sustained over the medium-term to ensure that savings are driven out in a timely fashion to ensure annual budgets are balanced.
- 1.19 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 rolling 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.

- 1.20 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.
- 1.21 During the year the PCC organised a series of public meetings, one in each of the 18 safer neighbourhood policing team areas. He also hosts regular meetings with local businesses to discuss policing issues, which includes representatives from the Chamber of Commerce, the National Farmers Union (NFU), the Country Land and Business Association (CLA), Ipswich and Suffolk Small Business Association (ISSBA), the Federation of Small Businesses (FSB) and the Road Haulage Association (RHA). The PCC also meets with general interest groups such as ProBus, Rotary and the Women's Institute and residents groups such as Neighbourhood Watch.
- 1.22 A public survey on the PCC's proposal for the precept increase captured the views of 961 Suffolk residents, 66% responded positively to the question "As a council taxpayer in Suffolk do you agree with my proposal to increase the policing element of the council tax for 2018/19 by 6.8%?" and 34% answered no.

2 REVENUE BUDGET 2018-19

Home Office Grant 2018-19

- 2.1 The provisional central government grant settlement announcements were made on 19 December 2017. 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 The table below provides a comparison between the 2018-19 provisional grant settlement and 2017-18 figures.

	2017-18 £m	2018-19 £m	Variance %
Police Main Grant	62.701	62.701	0.00
Legacy Council Tax Grants	<u>6.786</u>	<u>6.786</u>	<u>0.00</u>
Total General Grant Allocation	69.487	69.487	0.00

- 2.3 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.
- 2.4 The Provisional Settlement is predicated on PCCs increasing council tax up to the referendum trigger level of £12 per annum.
- 2.5 The Home Office has "re-allocated" (top sliced) £945m in total from the national grant pot (16% higher than the £812m in the prior year). The main items making up the £133m increase are an additional £78m for the development of police technology programmes, £14m to strengthen the response to organised crime through the National Crime Agency and Regional Organised Crime Units, £25m for the Police Special Grant, and £9m to increase funding to Arms Length Bodies such as Her Majesty's Inspectorate of Constabulary and Fire and Rescue Services, and the Independent Police Complaints Commission (IPCC) (to become the Independent Office for Police Conduct).

Grant Damping and the Police Funding Formula

- 2.6 Until recently, the Home Office had been engaging with the police sector on changes to the police funding formula. However, due to changing government priorities, plans for amending the

formula, which were expected to take effect for 2018-19, have been postponed until the next Spending Review.

- 2.7 As a result there were no changes to grant damping for 2018-19 and all PCCs core Home Office grant funding has been maintained at the same level as 2017-18.
- 2.8 The Minister for Policing and the Fire Service, the Rt Hon. Nick Hurd outlined in the Police Grant report that the “Government intends to maintain the protection of a broadly flat police grant in 2019-20 and repeat the same flexibility of the precept, i.e. allowing PCCs to increase their Band D precept by a further up to £12 per annum in 2019-20”.
- 2.9 This approach to 2019-20 is dependent on the police delivering “clear and substantial progress against the agreed milestones on productivity and efficiency in 2018”.
- 2.10 As the Constabulary, and policing as a whole, is committed to delivering further efficiencies, the MTFP has included the assumption that the grant is maintained at the same level for 2018-19 and 2019-20.
- 2.11 Confirmed funding for 2018-19 from the MoJ of £866k for victims services and restorative justice services, has been included in the MTFP for both grant income and planned expenditure.
- 2.12 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.

The budget and precept 2018-19 and the Medium Term Financial Plan

- 2.13 The table below summarises the 2018-19 income position for Option 1 (increase council tax by 1.972% in 2018-19) and Option 2 (increase in council tax in 2018-19 by just under £12).

	Option 1 £m	Option 2 £m
Police Main Grant	62.701	62.701
Legacy Council Tax Grants	6.786	6.786
Precept Income	45.054	47.143
Other Income	<u>8.457</u>	<u>8.457</u>
Total Income (£m) in 2018-19	122.998	125.087

Assumptions in the Financial Model

- 2.14 The PCC’s MTFP remains consistent in providing for; pay and price increases; growth to meet demand and service pressures; a significant change programme to make the required cost reductions; the use of reserves to support one off costs; invest to save measures, and the continued investment in modernising and improving technology.
- 2.15 The following financial assumptions have been used:

	18-19	19-20	20-21	21-22
Police main grant reductions	0%	0%	-1.0%	-1.0%
Legacy council tax grant changes	0%	0%	0%	0%
Council tax base change	1.24%	1%	1%	1%
Collection fund surplus	£440k	£0k	£0k	£0k
Pay awards – officers	2%	2%	2%	2%
Pay awards – staff	2%	2%	2%	1%
Non-pay inflation (average)	2.5%	2.5%	3%	3%

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

	Variation	Variation £m
Main government grants	1.0%	0.6
Tax base increase	1.0%	0.4
Precept	1.0%	0.4
Pay awards officers (full year impact)	1.0%	0.6
Pay awards staff (full year impact)	1.0%	0.3
Non-pay inflation	1.0%	0.3

All the financial planning assumptions will be kept under review.

Change & Efficiency Programme and the Service and Financial Planning Process

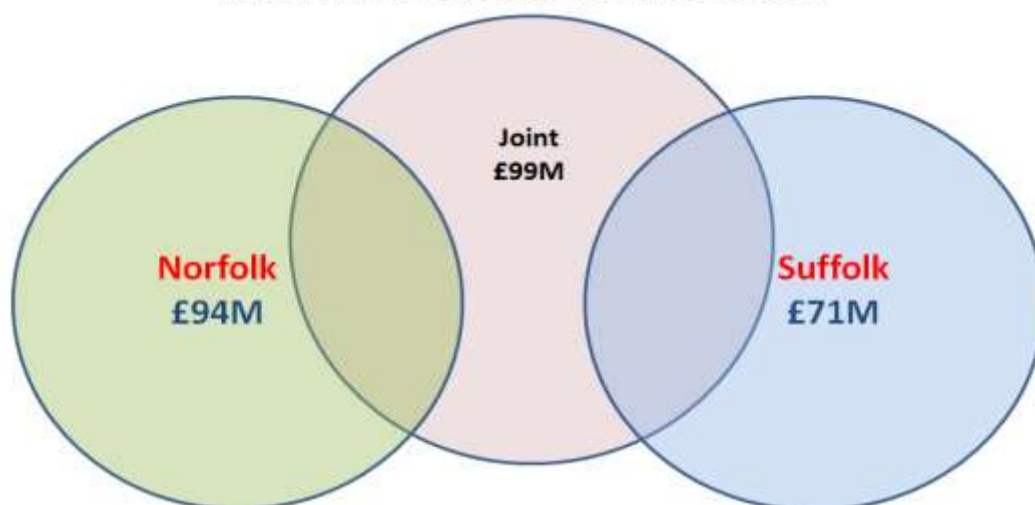
2.17 In response to the challenging financial environment since 2010 as set out in paras 1.5 to 1.13, the Constabulary has been running a successful Change Programme that has delivered savings of £27.5m since its inception. A significant element of that programme has been delivered through collaboration with Norfolk Constabulary.

Collaborative Change

2.18 Suffolk and Norfolk Constabularies have been collaborating for close to a decade. During that period, a large number of business cases have been implemented and total savings have been found from collaboration of £34.5m (£17.1m Suffolk and £17.4m Norfolk).

2.19 The “joint” services budget is now over 1/3rd of the combined budget of both forces and stands at nearly £100m.

Norfolk & Suffolk Collaboration



2.20 As part of the Service and Financial Planning process for 2018-19 to 2021-22, further savings of £3.7m in 2018-19 have been identified from the collaborative units (Suffolk’s share £1.6m rising to £3.0m by 2021-22). These have been assessed in terms of risks and impact on outcomes using the improved Strategic Assessment model that incorporates OBB principles. Detailed business cases will now be prepared to realise these savings during 2018-19 and 2019-20.

- 2.21 As part of this process other areas have been identified and scoped to be developed into detailed business cases in the latter years of the plan (2020-21; 2021-22).
- 2.22 The savings programme themes, and the forecast phasing for realising the savings are set out in Appendix C.

Regional Collaboration

- 2.23 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. Many streams of work are being pursued, including the alignment of policies and procedures across the 7 Forces, which will enable efficiencies to be driven out and 7 Force contracts to be let (for identical products/services). In the longer term every function, with the exception of local policing, could be scoped for collaborative working.
- 2.24 A regional Head of Strategic Procurement has been recruited and work has commenced on developing a regional "procurement contracts pipeline" which will concentrate resources on delivering the greatest possible savings in the short to medium term.
- 2.25 For the purpose of this MTFP, no projected savings have been included, however, the work programme is fully resourced and expected to deliver savings in the latter years of the MTFP.

Precept Options

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

1.9847% Council Tax increase	Budget	Forecast	Forecast	Forecast
	2018/19	2019/20	2020/21	2021/22
	£000	£000	£000	£000
Total Funding (Grant + Precept)	(114,537)	(115,438)	(116,191)	(116,985)
Net Revenue Budget before changes and savi	116,898	120,027	122,504	125,031
REVENUE DEFICIT BEFORE KNOWN CHANGES	2,361	4,589	6,313	8,047
Known / Expected Changes	2,562	3,489	1,870	4,490
Planned use of reserves	(1,711)	(606)	1,000	(449)
REVENUE DEFICIT BEFORE SAVINGS	3,212	7,472	9,184	12,088
Planned Savings	(2,349)	(4,066)	(4,352)	(4,424)
REVENUE DEFICIT / (SURPLUS) AFTER SAVINGS	863	3,406	4,831	7,663
SAVINGS TO BE IDENTIFIED	-863	-3,406	-4,831	-7,663
REVENUE DEFICIT / (SURPLUS)	0	0	0	0

2.27 **Option 2-** increase council tax by nearly £12 per year for 2 years (6.8% in 18-19 and 6.3% in 19-20) and just less than 2% in the last two years of the MTFP.

6.7684% Council Tax increase	Budget	Forecast	Forecast	Forecast
	2018/19	2019/20	2020/21	2021/22
	£000	£000	£000	£000
Total Funding (Grant + Precept)	(116,630)	(119,647)	(120,527)	(121,450)
Net Revenue Budget before changes and savings	116,898	120,027	122,504	125,031
REVENUE DEFICIT BEFORE KNOWN CHANGES	269	380	1,977	3,581
Known / Expected Changes	3,362	4,292	1,870	4,490
Planned use of reserves	(1,282)	(606)	1,000	(449)
REVENUE DEFICIT BEFORE SAVINGS	2,349	4,066	4,848	7,622
Planned Savings	(2,349)	(4,066)	(4,352)	(4,424)
REVENUE DEFICIT / (SURPLUS) AFTER SAVINGS	0	0	495	3,198
SAVINGS TO BE IDENTIFIED	0	0	-495	-3,198
REVENUE DEFICIT / (SURPLUS)	0	0	0	0

Option 1 Appendix A(i)

2.28 Based on the planning assumptions set out in this report, further savings of £7.663m (including £863k in 2018-19) are required to be made in the period 2018-19 to 2021-22, in order to achieve a balanced budget over the period of the MTFP.

Option 2 Appendix A(ii)

2.29 Based on the planning assumptions set out in this report, further savings of £3.198m are required to be made in the period 2020-21 to 2021-22, in order to achieve a balanced budget over the period of the MTFP.

2.30 **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. For comparative purposes, the financial impact of not increasing council tax over the period of the MTFP has been included in Appendix E.

3 CAPITAL PROGRAMME 2018-19 to 2021-22

3.1 The capital programme is a key element of strategic and financial planning. As highlighted last year, due to funding constraints, the impact of capital spending, particularly the investment in “short-term” assets, has a significant impact on the revenue budget.

3.2 Due to the continuing pace of modernisation, and ensuring that the Constabulary is fit-for-purpose, appropriately equipped and has an appropriate estate footprint, there is an increased investment 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; and maintaining the investment in enabling programmes such as Body Worn Video and mobile devices.

- 3.3 There are also a number of key developments coming through national programmes. These include required investments in Windows 10 / Office 365; Automatic Number Plate Recognition (ANPR); National Law Enforcement Data Service; Home Office Biometrics; the Emergency Services Network.
- 3.4 Funding constraints outlined earlier in the paper have meant there has been an increased reliance on reserves to fund short-term assets, and as outlined in last year's report, this leads to a reduction of reserves to minimum levels over the medium-term. This issue is expanded further in the review of adequacy of reserves later in this report (paragraphs 6.10 to 6.17).
- 3.5 It is worthy of note that developments around hosting services in the "cloud" are being explored within policing. At the point where services are provided from the "cloud" there will be additional costs incurred. However, there should be accompanying savings as the number of servers required in-force would be reduced. Developments in this area will continue to be evaluated and incorporated into future plans, as appropriate.
- 3.6 **Appendix D** provides a more detailed analysis of the outline capital programme over the medium term, with the table below summarising these plans.

	18-19	19-20	20-21	21-22
	£k	£k	£k	£k
Suffolk only schemes				
Building Schemes	2,600	1,485	75	10
ICT replacement strategy	830	280	835	721
Emergency Services Network		346	545	1,440
Vehicles and Equipment	836	833	806	767
	4,266	2,944	2,261	2,938
Share of Joint Programme				
ICT Schemes	2,057	1,518	823	1,212
Grand Total	6,323	4,462	3,084	4,150

- 3.7 The Programme (**Appendix D**) is arranged in 3 tables:-
- Table A Schemes or technical refresh programmes already approved for 2018-19
- 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.
- 3.8 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 the net revenue budget.
- 3.9 Key aspects of the programme are outlined below.

Funding the Capital Programme

- 3.10 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.

	18-19 £k	19-20 £k	20-21 £k	21-22 £k
Capital Receipts	3,167	0	1,565	0
Capital Grant	400	400	400	400
Revenue Contribution	282	1,300	1,053	1,300
Capital Financing Reserve	0	1,292	0	2,449
Internal / External Borrowing	2,475	1,470	65	0
Total	6,324	4,462	3,083	4,149

- 3.11 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.
- 3.12 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 2018-19 as being £0.4m. This is approximately a 50% reduction from the capital grant received of £0.8m in 2015-16.
- 3.13 This reduction puts further significant pressure on revenue and reserve funding of the capital programme.

Minimum Revenue Provision (MRP)

- 3.14 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.
- 3.15 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 2018-19

Treasury Management Strategy

- 4.1 Government regulations require the PCC to approve the investment and borrowing strategies and borrowing limits for 2018-19 prior to the start of the financial year. This is incorporated within an over-arching Treasury Management Strategy, which is attached as **Appendix H(i)**.
- 4.2 The Treasury Management Strategy, which includes a number of Prudential Code and Treasury Management Indicators (**Appendix H(i)**), and Lending Limits and proposed List of Approved Institutions (**Appendix I**) have been developed in accordance with the latest guidance issued by the Audit Commission and CIPFA.

Compliance with the Prudential Code

- 4.3 PCCs have flexibility over capital investment in fixed assets that are central to the delivery of appropriate standards of public services. Levels of borrowing can be determined locally, provided that capital investment plans are affordable, prudent and sustainable. A further key objective is to ensure that treasury management decisions are taken in accordance with sound professional practice and in a manner that supports prudence, affordability and sustainability. The Prudential Code is a statutory 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 2018-19 are provided in **Appendix H(ii)**. 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's Chief Finance Officer (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 In order to assess the adequacy of reserves when setting the budget the PCC, on the advice of the CFO, should take account of the strategic, operational and financial risks facing the organisation. This assessment of risk should include external risks, as well as internal risks, for example the ability to deliver planned efficiency savings.
- 5.5 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

Assessment of adequacy

- 5.6 The **General Reserve** 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 and comparisons with similar bodies. Also taken into account is the risk of unforeseen expenditure occurring, risk of failure to deliver the savings programme and sensitivity analysis of changes in assumptions included in the plan.
- 5.7 Within the MTFP appropriate estimates are made on a number of key items including provision of pay and price rises, as well as a forecast of interest movements. In addition, prudent assumptions are made for the forecast capital programme and for future capital receipts included

in the plan. These estimates and assumptions are taking into account the general financial climate to which the authority is subject.

- 5.8 Suffolk Constabulary has managed its demand led pressures within its budget envelope year on year, and where appropriate has used earmarked reserves to meet additional significant demand pressures.
- 5.9 Since 2010 the Constabulary has a proven track record of delivering efficiency savings year on year that will total £27.5m by the end of 2017-18.
- 5.10 In this MTFP robust detailed savings plans are in place for 2018-19 and 2019-20, with additional savings contained in a high level scoped programme for 2020-21 and 2021-22. These are outlined in the main report and in **Appendix C**. In line with Home Office requirements, the detail of which is expected to be confirmed during February 2018, the Chief Constable and PCC are committed to continuing to deliver efficiency and productivity gains in each year of the plan.
- 5.11 The General Reserve is being reduced from £5m (4.4% of budget) to £3.5m (3% of budget) in 2017-18 in order to make balances available for the Budget Reserve and Change Reserve. This is then held consistently at £3.5m throughout the plan and is a prudent and adequate amount to hold as a General Reserve. This is shown in **Appendices F(i) and F(ii)**.

Earmarked reserves

- 5.12 These are reserves that are held for a specific purpose, whereby funds are set aside for future use when that specific purpose arises.
- 5.13 The level of reserves and predicted movement for these reserves is set out in **Appendices F(i) and F(ii)**. All reserve levels are reviewed annually.
- 5.14 The purpose and strategy for each reserve is set out below.
- 5.15 The **Budget Reserve** is being held as a contingency against future demand led pressures and would also act as a contingency to increases of assessed insurance liabilities in excess of insurance budgets and provisions. An element of the reserve is being transferred to the Change reserve to fund the cost of change. The reserve is then being held at £0.450m throughout the plan.
- 5.16 The **Change Reserve** is used to fund the cost of change and / or to pump prime invest-to-save activities. This is predicted to be fully used by the end of the plan.
- 5.17 The **Capital Financing Reserve** is used to fund the short-life asset element of the Capital Programme when the amount required for investing / refreshing in modernising technologies exceeds budget available for this purpose. The strategy is to “top-up” this reserve in the last 3 years of the plan to fund the requirement. The “top-up” will be funded from the efficiency and savings programme.
- 5.18 The **Specified Purpose Fund** relates to funds allocated for specific purposes including partnership funding and is predicted to be fully used by the end of 2017-18.
- 5.19 The **Crime and Disorder Reduction Reserve** is made up from underspends against the PCCs Commissioning budget which have been earmarked to fund future commissioning initiatives.
- 5.20 The **PCC reserve** is made up from previous underspends against the budget for the Office of the Police and Crime Commissioner. The plan is to hold this at £0.409m over the life of the plan, but review this on an annual basis.
- 5.21 The **Safety Camera Reserve** is made up from previous underspends against the approved annual budget. The use is reviewed and agreed at the Driver Offender Re-training Governance Board (DORG).

Conclusion

- 5.22 The current policy, as demonstrated in the MTFP, is to maintain revenue general balances close to an operational guideline level of 3.0% of the net annual revenue budget. This is an acceptable and appropriate position to be in as the prolonged period of fiscal tightening continues.
- 5.23 The earmarked reserves have been described and the strategy is to keep these for specific purposes, and at an appropriate level that ensures taxpayer's money is being used as efficiently as possible. The strategy is to contribute to the Capital Financing Reserve to keep this at an appropriate level through the plan.
- 5.24 Having considered the levels of reserves included in the MTFP, and acknowledging the Chief Constable's commitment to work with the PCC to maintain a balanced 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 described in the report, 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, with Option 2 contributing £429k more to reserves than Option 1.

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 2018-19 in respect of year-to-date financial performance and year-end projection for 2018-19, considered in detail by the PCC, CC and CFO at the Accountability and Performance Panel, and any corrective action agreed and taken as required.
- 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 **Appendices F(i) and F(ii)**.
- 6.11 I have reconsidered the level that is appropriate for the general reserve in the context of the MTFP, and have decided to reduce the level from 4.5% to 3% in order to make available £1.5m for use in earmarked reserves, largely to contribute to the capital programme, and the cost of change over the MTFP period. Leaving the general reserve at 3% (£3.5m) still provides an appropriate balance.
- 6.12 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), planned temporary staffing costs to respond to service pressures, and transition programmes.
- 6.13 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.
- 6.14 The MTFP therefore includes planned contributions to reserves in 2019-20, 2020-21 and 2021-22 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 continuing to develop the Change & Efficiency Programme over the life of the MTFP.
- 6.15 The two principal reasons for the reduction in the overall level of reserves from £6.2m at 31 March 2018 to £5.1m at 31 March 2022 is accounted for by the planned use of the Change Reserve (£1.3m), the planned use of the capital financing reserve (£3.7m) offset by the planned £4m contribution to the Capital Financing Reserve as described above.
- 6.16 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*'.
- 6.17 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 maintain a balanced 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 above, 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 provisional 2018-19 settlement of the Main Police Grant remaining at the 2017-18 level of £69.5m for 2018-19 and 2019-20, results in the Constabulary having to deliver significant recurring savings to fund inescapable inflationary increases.

- 7.2 These financial pressures, together with the changing nature of crime and incidents, means that the Constabulary's structure will continue to transform in order to maintain the delivery of high quality policing in the future.
- 7.3 The Constabulary 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 initiatives with our local public sector partners and collaborative ventures with the Eastern Region.
- 7.4 The MTFP considers, amongst other issues, the financial implications of two alternative options which are to increase the precept by just less than 2% in each year of the MTFP (Option 1), and increase the precept by just less than £12 per annum for 2018-19 and 2019-20, and just less than 2% for the two remaining years of the MTFP (Option 2).
- 7.5 A decision to implement Option 1 would present significant operational and financial challenges for the Constabulary, and could jeopardise delivery of key objectives within the PCC's Police and Crime Plan 2017-2021.
- 7.6 A decision to implement Option 2 would provide the necessary funding required to:
- Maintain police visibility on the county's roads to prevent criminal access to the county and keep road users safe;
 - Further invest in technology to help tackle the changing profile of criminality;
 - Improve the proactive capability of the Constabulary to help combat drug misuse and youth gang violence;
 - Improve emergency response;
 - Enhance the effectiveness of the Safer Neighbourhood Teams; and
 - Maintain financial viability and protect reserves at an appropriate level over the period of the MTFP.

8 CONCLUSION AND SUMMARY OF OPTIONS

- 8.1 The MTFP has been prepared following notification of the provisional 2018-19 government grants via the Home Office on 19 December 2017, and in conjunction with a wide range of assumptions summarised in Section 2 of this report.
- 8.2 As a consequence of the grant funding settlement, the Constabulary will be required to make significant recurring savings in order to meet inflationary cost pressures, 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), E and G**, and summarised below:

Option 1

Based on the planning assumptions set out in this report, further savings of £7.663m are required to be made in the period 2018-19 to 2021-22 (in addition to the planned savings of £4.424m), in order to achieve a balanced budget over the period of the MTFP.

Option 2

Based on the planning assumptions set out in this report, 2018-19 and 2019-20 achieve a balanced budget position, with savings of £3.198m required to be made in the period 2020-21 and 2021-22 (in addition to the planned savings of £4.424m), 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 2018-19 budget proposals;
- (ii) Considers funding of the known changes to the 2018-19 base revenue budget set out at **Appendices B(i) and B(ii)**;
- (iii) Approves the savings plans in **Appendix C**;
- (iv) Approves the proposed capital programme for 2018-19 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 **Appendices H(i) and H(ii)**, and Lending Limits and List of Approved Institutions in **Appendix I**;
- (vi) Considers the proposed use and transfer of reserve balances in **Appendices F(i) and F(ii)**;
- (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.