

REPORT TO THE POLICE AND CRIME COMMISSIONER FOR BEDFORDSHIRE

Date	20 June 2016	Report No	
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Title
2017/18 to 2020/21 Medium Term Financial Plan

Purpose
To provide an overview of the latest forecasts in relation to the Bedfordshire Police medium term financial plan from 2017/18 to 2020/21.

Executive Summary
<p>This report provides information about the predicted level of funding Bedfordshire Police are expected to receive over the medium term, albeit this is caveated on a number of assumptions.</p> <p>This predicted level of funding is compared to the estimated level of spend over the same period and provides the Commissioner with the estimated funding gap of £8.3M over the next four years.</p> <p>This is an improved position to that reported in February when the budget was set as forecasts around the tax base and the collection fund mean that funding has increased by circa £0.500M.</p> <p>The report then highlights, at summary level, the savings plan that Bedfordshire Police has already identified for the four-year period. At this stage it is estimated that budget gaps, based on the current savings plan are likely to be experienced from the 2019/20 financial year but these can be filled by use of the budget reserve.</p>

Recommendations

1. That the Board note the estimated Medium Term Financial Plan for the period 2017/18 to 2020/21;
2. That the Commissioner and Joint Audit Committee, based on the issue of sustainability, receive regular updates on the savings plan for the Medium Term and the likelihood of those savings coming to fruition;

Background/Supporting papers

2016/17 to 2019/20 Medium Term Financial Plan (PCC Strategic Board, Nov 2015)
2016/17 Revenue Budget (PCC Strategic Board, Jan 2016)
2016/17 Revenue Budget (Police & Crime Panel, Feb 2016)
2015/16 Revenue, Capital & Treasury Management Outturn
(PCC Strategic Board, June 2016)

Contribution to the Police and Crime Plan

An effective internal financial control framework is imperative for the Commissioner to ensure that she is utilising his ensuring value for money in the use of public monies and an important part of that framework is to review the medium term financial plan of the Force.

Report

1.0 Introduction

- 1.1 The purpose of this report is to forecast the financial position of Bedfordshire Police over the medium term. Following the Chancellor's Autumn statement in November 2015 this has improved significantly as Police funding has been protected over the period of the spending review.
- 1.2 It was announced last year that the Policing Minister has deferred the introduction of a new formula until 2017/18. This review is still crucial for Bedfordshire Police as the level of threat, risk and harm and level of funding to deal with that demand is not equitable with other Forces in England & Wales. This view is also taken by HMIC who state that Bedfordshire carries a significantly greater level of complex crime risk compared to other Force areas without the resources to deal with it. This is based upon analysis that shows that the proposed proportion of funding allocated for Bedfordshire Police does not match its relative need in relation to recorded and victim-based crime and most concerning, more serious crime types such as Serious Acquisitive Crime (SAC) i.e. Domestic Burglary, Robbery and Vehicle Crime), Violence with Injury, Gun Crime and Knife Crime.
- 1.3 The report will provide evidence of where, in trying to achieve a balanced budget over the four year period the validity of savings plans has been challenged and the use of reserves is required to bridge the savings gap, albeit at the end of the period under

review. This is not a sustainable funding scenario for Bedfordshire as reserves will start to reach a minimum position over this four year period.

2.0 2016/17 Budget

- 2.1 The 2016/17 budget was presented to the Police & Crime Panel on 4th February 2016. The approved budget equated to £101.483M and was based on a precept increase of 1.99%. This figure was achieved after taking **£4.009M** worth of savings out of the budget, this on the back of savings totalling £25.3M between 2011/12 and 2015/16. The 2016/17 savings included the force-wide transformational change programme that introduced a new policing model from April 2016, the reducing budgeted average pay per police officer as new recruits are employed on different terms & conditions to longer serving officers, further collaboration both regional and local with our strategic partners from Herts and Cambs and budget challenge work that was carried out during the year.
- 2.2 This budget will be monitored on a regular basis and the first report will be presented to the next PCC Executive Board.

3.0 Medium Term Financial Plan Assumptions

- 3.1 As the Medium Financial Term Plan (MFTP) covers a number of financial years and has a significant level of variables, it is an evolving document that is refreshed and reviewed as more information becomes available nationally, such as Spending Review, Funding Formula, Council Tax principles, and further work is done locally such as income generation, collaboration and local savings initiatives, all of which impact on the overall plan itself.
- 3.2 The 2015 Spending review was announced on 25th November and was far more favourable than we had expected. The Chancellor announced that *“police spending would be protected in real terms over the spending review period, when the precept is taken into account”*. This was confirmed when the provisional financial settlement for the police service was made in December 2015. This showed, linked to the Chancellor’s spending review statement that the level of reductions policing had seen to its central funding had been scaled back and the earlier projections of 3% to 5% grant reductions had been reduced to 0.6%. Whilst not specific, the settlement highlighted that, as long as Commissioners increased the police element of Council Tax by the maximum allowed, currently 2%, then over the medium term the police budgets should be protected, in accordance with the Chancellor’s autumn statement.
- 3.3 Whilst this is positive news for Bedfordshire Police, and the service as a whole, it still means that the level of real terms funding will reduce over the medium term. This is due to the fact that there are unavoidable cost pressures such as pay awards, inflation, the cost of borrowing and increased costs in providing both police officer and police staff pension schemes. Projections are that over the medium term (2017/18 to 2020/21) savings of £8.3M will still need to be found from within the Commissioners budget.
- 3.4 The review of the funding formula, originally planned to be introduced from 2016/17 was postponed and should now be introduced from 2017/18. This review is very important to Bedfordshire Police as we have never received the level of funding the existing formula would suggest we deserve. Both the Commissioner and Chief Constable will be continuing to push to receive a greater level of funding for Bedfordshire, but at this stage no assumptions regarding the funding formula review have been made in our medium term financial planning.

- 3.5 As the MTFP covers a four year period the savings figures for the latter years will be subject to further development and refining. There is obviously more certainty with regards to the 2017/18 and 2018/19 savings figures although these will require further refinement once more information is gathered and decisions are made. Bedfordshire has a reliance on collaboration savings, through its Alliance with Cambridgeshire and Hertfordshire and to ensure consistency for planning purposes the three Forces have a dedicated collaboration team, working with the Force and Commissioner Chief Finance Officers (CFOs) providing estimates for planning purposes of the likely savings that can be achieved. These saving assumptions are based on the same set of assumptions thus providing a level of consistency across the strategic alliance for planning purposes.
- 3.6 Bedfordshire Police has also embarked on a Quality Improvement Programme (QIP) that introduced from April 2016, this improves the efficiency of the Force and looks to drive down demand. While the new model has been implemented there are still pieces of work being refined that may have an effect on the savings we can expect to achieve. Other savings that come out of the budget challenge process identify savings throughout the year via the budget monitoring process.
- 3.7 Assumptions also need to be made about growth. In the shorter term requirements are much better defined than the latter years of the planning process. We are already aware that some savings build into the 2016/17 budget in relation to the collaboration of the Custody function will not be achieved so some growth has to be built in to account for that. While not agreed yet it is highly likely that following a review of the staff pension scheme we expect that the employer contributions to increase.
- 3.8 Assumptions are also made on the amount of inflation applied to the medium term plan, the ability of the PCC to increase the amount of income received via the Council Tax system, the size of the tax base and the results of the collection fund all feed into the medium term plan. A summary of these assumptions is contained in the following bullet points:
- The Police Grant will see a cash reduction of 4% over the 4 year period to 2020/21, this reduction will be spread evenly and will equate to 1% each year. This cash reduction is inclusive of any top-slicing the Home Office may announce.
 - Council Tax will be increased by 1.99% in each of the 4 years within the medium term plan.
 - The tax base (the number of equivalent Band D properties) will increase by 1.50% in 2017/18 and then by 0.75% in the following 3 years of the medium term plan.
 - Budget shortfalls will be found in the year they occur (i.e. they are not cumulative)
 - The collection fund surplus has been estimated at £400,000 in 2017/18 reducing to £250,000 in 2018/19 and staying consistent at that level through to 2020/21.
 - No growth has been included for the potential devolving of Airwave costs to Forces
 - No changes to the allocation of the funding formula have been incorporated in any years
 - Funding for the central collaboration team and the Athena project team will come from the Performance & Change Reserve to 2017/18.

4.0 Medium Term Financial Forecast

- 4.1 In recognising the assumptions above and based upon the latest information available the forecast for the next four years is tabulated below. The table below highlights the the need for savings over the next four years.

Table One - Medium Term Financial Forecast 2017/18 to 2020/21

	2017/18	2018/19	2019/20	2020/21
	£'000	£'000	£'000	£'000
Estimated draft budget (a)	103,986	103,889	104,256	104,809
Estimated funding (b)	101,788	101,936	102,266	102,627
Shortfall (a-b)	2,198	1,953	1,990	2,182
Savings	2,968	1,953	1,774	715
Use of Reserves	0	0	216	1,467
Budget Surplus	770	0	0	0

- 4.2 This table highlights that over the four year period it is estimated that the level of savings that Bedfordshire Police will need to find is approximately £8.3M, on top of the £29.3M of savings it has realised between 2011/12 and 2016/17. It also highlights that from 2019/20 the budget reserve will start to be called upon and unless further savings are identified in 2020/21 growth of £1.467M will be added to the following year's budget.
- 4.3 The use of a budget reserve in order to balance the budget is a useful tool in the short term as can be seen by the 2019/20 forecast that includes a contribution from reserves of £0.216M. However, once contributions from reserves are built into the base budget they automatically become a budget pressure for the following year and by 2020/21 this pressure equates to £1.467M and this reserve will be depleted by the following year if the use of it continues to rise. In an ideal scenario a budget reserve would not be used and the budget would be balanced by permanent savings.
- 4.4 This is an improved position when compared to the forecast made at the time the budget was set. The estimated funding has increased in 2017/18 by £0.547M, this is a result of better information with regard to the increasing tax base and the increased size of the collection fund surplus. While these figures cannot be guaranteed recent history suggests these are reasonable expectations. This has allowed a more prudent approach when considering the savings plans in particular those related to the collaboration programme as in the last two years we have had to build growth back into the budget when savings from collaborative functions did not come to fruition.

5.0 Reserves Forecast

- 5.1 The Commissioner holds a number of earmarked reserves, as explained in the following paragraphs. The levels of reserves are formally reviewed at budget setting and outturn stages of the financial year, but are informally reviewed as part of the on-going medium term forecasting process:

- **Performance and Change Reserve** – this reserve is to support the delivery of the Medium Term Financial Plan and associated savings plans. The criteria for using this reserve is that it must be possible to demonstrate how it aids the delivery of these savings through;
 - assisting with pump priming collaborations;
 - assisting with redundancy costs and other set up costs arising from restructuring;
 - performance and pump priming initiatives that reduce demand, enabling the successful management of change;
 - invest to save opportunities.
- 5.2 Use of this reserve will not involve on-going revenue expenditure that would normally be funded through the Revenue Budget and will be restricted to clearly targeted one-off items that demonstrate a return on the investment aligned with the Strategic Plan.
- 5.3 Any decisions to use this reserve should be taken while fully cognisant of the latest four year forecast of pressures on this reserve and the proposal should set out the risks that will be mitigated by the investment and an indication of the improvement that will be realised.
- **Devolved Budgets Reserve** – a reserve against which approved carry forwards will be held at the end of the financial year prior to them being added to the ensuing year’s budget.
 - **Budget Reserve** – a reserve to help finance the revenue budget over the period of the medium term plan.
 - **Capital Expenditure Reserve** – this reserve will be a revenue reserve but primarily utilised for funding one-off expenditure associated with the approved capital programme of the PCC and supporting the delivery of her Estates Strategy.
 - **Insurance Reserve** – an insurance reserve will be held by The PCC to fund self-insurance liabilities arising from increases in insurance excesses and aggregate stop losses. The level of this reserve will be subject to regular fund adequacy audits by external advisers, as before.
- 5.4 Appendix A contains an estimate of reserve balances over the 5 year period from 1st April 2016 to 31st March 2021. This shows that reserve balances are expected to reduce by £7.5M over this period to a balance of £6.2M by the end of the 2020/21 financial year.
- 5.5 Like the medium term plan forecast this is predicated on a number of assumptions, changes to any of these will change the reserve balances. Any decision regarding the use of reserves will be made by the OPCC after taking advice from his Chief Financial Officer.

6. Recommendation

1. That the Board note the estimated Medium Term Financial Plan for the period 2017/18 to 2020/21;
2. That the Commissioner and Joint Audit Committee, based on the issue of sustainability, receive regular updates on the savings plan for the Medium Term and the likelihood of those savings coming to fruition;

Public Access to Information

Information in this report is subject to publication under the Freedom of Information Act 2000 and other legislation. Any information that should not be made publically available should be included in an appendix to this report and the reason for restriction given.

Is any 'restricted' information appended to this report? No If 'yes' please advise reason for restriction.

Report Author	Stuart Goodwin, Senior Accountant
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