

Security Classification:	<b>UNRESTRICTED</b>		
Discloseable under FOIA 2000:	<b>YES</b>		
Author/Contact:	<b>Paul Bundy</b>	Department:	<b>Support Services</b>
Date Created:	<b>2-5-13</b>	Telephone:	<b>101</b>

**N.B. Paper limited to maximum of 3 sides**

**SURREY POLICE**

PAPER FOR POLICE AND CRIME COMMISSIONER

**Date:** 15/5/13

**MEDIUM TERM FINANCIAL PLAN (MTFP), SAVINGS PLANS AND RISKS**

**1. Purpose**

**1.1.** This report provides the medium term financial plan and the proposed change projects to meet the anticipated gap along with identifying the assumptions and future risks.

**2. Introduction**

2.1. This paper provides the latest projections on the financial position for the period to 2018/19, and how we forecast it will be phased in each component year. It also provides a summary of the Force's change programmes initiated to achieve the level of savings required.

2.2. The Medium Term Financial Plan (MTFP) contains a number of key assumptions, a major one is in respect of the increase in the level of precept expected. The Police and Crime panel endorsed the Police and Crime Commissioners proposed precept increase level for 2013/14 of 1.99% thus avoiding a local referendum and the costs associated with this. It is now assumed that central government pressures will restrict Band D increases to 1.0% in 2014/15 and beyond but acknowledge this is a decision for the Police and Crime Commissioner (PCC) who will reflect the views of the electorate.

2.3. This MTFP incorporates Police Main grant funding as announced in the Local Government Finance Settlement on 13th December 2010 and subsequent announcements. A further announcement regarding the next Spending Review (SR) settlement is expected in June 2013, our current planning assumption is a 1.8% year on year reduction.

**3. High Level Budget Planning**

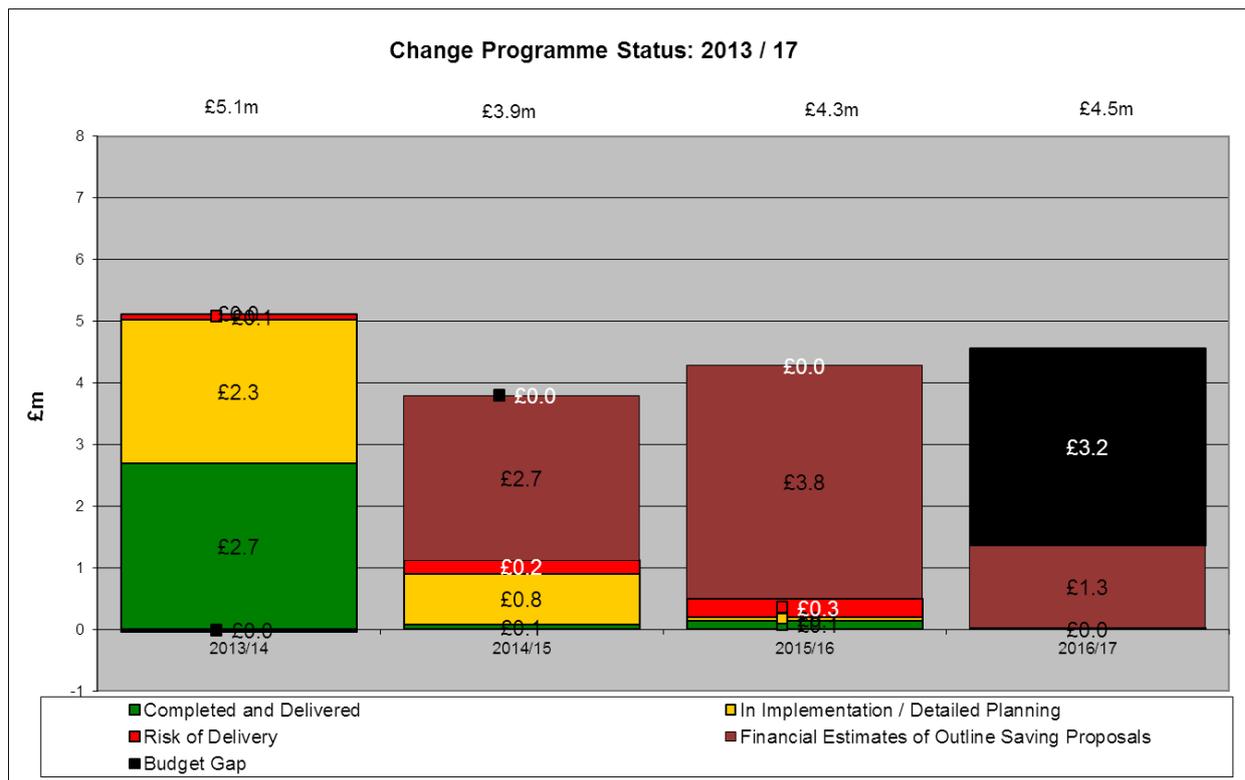
3.1. The Police and Crime Commissioner confirmed the budget for 2013/14. Planning work is on-going for the remaining years of the MTFP period, with a range of assumptions being made, to enable this plan to be prepared. The savings target is shown at Appendix A which shows a saving target over 4 years of £17.8m, to help illustrate this figure this would equate to 380 Police Constables.

3.2. The plan includes financial estimates of outline savings proposals that need further work to establish the business case, these will have oversight at the Chief Officer Group and the Strategic Change Board (chaired by the Deputy Chief Constable) to gain agreement which total £7.8m, thereby saving 167 Police Constable posts. These taken with current approved savings plans of £6.7m (144 Police Constables) leaves an unfunded gap of £3.2m (69 Police constables) subject to decisions to be taken by the Chief Officer Group. Beyond 2016/17 the forecast is for on-going savings required in the region of £4.5m each year.

3.3. The Force is pursuing further savings possibilities, particularly through collaboration, but the scale of the reductions will be painful and protecting the front line is our aim but there will be a point to accept that a reduction of the frontline is a possibility which will have the corresponding impact on service delivery.

## 4. Save Programme

- 4.1. Save schemes are contained within a variety of strategic change programmes. These projects are categorised into the following headings: Closed Projects, Police Collaboration, Digital Justice and Continuous Improvement with details of the savings contained in the table at appendix A.
- 4.2. Shown below is a graphical representation of the status of the change programmes for each of the years covered by the MTFP. The programmes are divided into the following categories with the budget gap shown in black:
- 4.3. Completed and delivered
- 4.4. In implementation or detailed planning phase
- 4.5. Risk of slippage or achievement of the savings.
- 4.6. Early financial estimates of outline saving proposals



## 5. Assumptions

- 5.1. The financial plan is based on a range of assumptions with some of the key assumptions detailed below;
- 5.2. The Local Government Finance Settlement: The funding level for 2013/14 has been confirmed at the level given in the Spending Review (SR) in October 2010. Revised government funding of 1.8% reduction per year has been assumed for the next SR expected to commence in 2015/16. Reductions of this scale equate to real terms cuts of 15% over four years. For 2014/15, the last year of the current spending review, a reduction of 2.8% has been incorporated.
- 5.3. Inflation: Staff pay is assumed to be rising by 1% for 2013/14 and 2014/15, then increasing to 2% from 2015/16 and beyond. Police Officer pay is assumed to be increasing by 1% for the next two year period and then an increase of 2% from September 2015. Non pay inflation is included in accordance with the Bank of England Market Median rates published in February 2013 for all quarters through 2016. This is an area of risk if the police pay arbitration awards a pay increase above the assumptions and / or for police staff the restriction on pay leads to a retention issue. For a 1% increase in all pay (police & staff) would require £1.7m of additional funding.
- 5.4. Localisation of Council tax Support: Due to new government legislation around council tax

support, which has been passed to Borough Councils with a 10% cut in funding, our tax base has been cut by 30k band D properties in 2013/14 reducing our precept receipt by £6.4m, this has been compensated by a £6.7m government grant which has been assumed to remain throughout the MTFP.

- 5.5. The Hutton Report: The government is considering this report into the fundamental structural review of public service pension reform – the impact for the Force is currently being considered and analysed with no impact in the current MTFP as the emphasis is on employees taking a fairer share of the additional cost due to increasing life expectancy. The police officer pension scheme is likely to result in lower employer contribution but it is unclear how the Home Office will deal with this as funding is based on the current employer's contribution rate.
- 5.6. The Winsor report: The impact of the report's part one recommendations, including reducing overtime levels and changing allowance levels and eligibility, has now been included in the MTFP within the saves programme. The part two recommendations are being ratified and are not included until the impact of all the changes have been assessed. The starting salary for probationers and change in constable pay scales achieve savings in early years followed by additional cost latterly.
- 5.7. Precept Compensation Grant 1: As our precept was frozen for 2011/12 a grant of £2.5m is due for four years, ending 2014/15. The MTFP assumes that in 2015/16, the first year after the anticipated end of the current SR period, this precept compensation grant will be incorporated into the main police grant.
- 5.8. Precept Compensation Grants 2 and 3: The Chancellor of the Exchequer announced further opportunities to freeze precept in 2012/13 and 2013/14, however the compensation was for one year and two years only and although it is recognised that there would be of short term financial benefit to the residents of Surrey it did have considerable drawbacks. The offers were rejected and a 2.5% and 2% precept increase set.
- 5.9. Community Safety fund: £659k allocated to the Surrey PCC for 2013/14 for the support of crime reduction and community related initiatives, some of which could be bid for from within the force.

## 6. Risks

- 6.1. The scale of change required to meet the funding shortfall is significant and could increase if some key plans are delayed or savings diminish, or the next spending review requires further contraction of Force's funding, these will all have an impact on the Force's ability to maintain performance and the level of service delivery to the Surrey residents.
- 6.2. The MTFP is built on these assumptions and therefore the possibility of other factors affecting the plan also need to be reviewed and the following are the risks to our financial position in the near future and over the planning period.
- 6.3. On 19th December 2012 the Home Secretary announced a full review of the Police Funding Allocation Formula for 2015/16, as the current floors and ceilings adjustments favour Surrey, any change has the potential to adversely impact our share of Police Main Grant.
- 6.4. The Secretary of State for the Department of Communities and Local Government has indicated that greater pressure will be applied to precepting authorities to freeze Council Tax in future Council Tax settlement rounds, Surrey have resisted a freeze in the last two settlement rounds but may be obliged to accept one in future as Surrey are more dependent on local funding than any other Force we could face a higher percentage funding impact.
- 6.5. The police staff pension is a local government scheme administered by Surrey County Council and as an employer Surrey Police provides 12% of base salary and an additional £1.26m per year in line with the March 2010 Actuarial valuation. The next actuarial valuation is in April 2014 when the required contribution level may change.
- 6.6. Officers and staff in the Police and Local Authority Pension schemes are currently opted out of higher National Insurance contribution levels, in March 2013 the Chancellor announced the implementation of a single tier State Pension from 2016/17 which might impact on employer NI payment levels.
- 6.7. The introduction of pension auto enrolment in 2017 may further impact on employer pension

fund payments from 2017/18.

## **7. Reserves**

7.1. Appendix B shows the general reserve level being maintained at above 4.8% of Gross Budget in each year of the MTFP period. The general reserves strategy is to maintain reserves at 3% of the gross budget which allows some financial planning flexibility as a draw of £3.5m is possible with the level of reserves maintained within the strategy target.

## **8. Decision[s] Required**

8.1. This paper is for information.

Appendix A

COST BASE	SR one		Subsequent SR	
	2013/14	2014/15	2015/16	2016/17
Base budget	208.8	207.7	206.7	206.3
Inflation	2.0	2.6	3.7	4.1
Commitments (including MRP)	0.7	0.3	0.1	-
Improvements	1.3	-	-	-
Strategic Change Programmes:				
Closed Projects	(0.9)	(0.2)	(0.2)	(0.0)
Police Collaboration	(1.3)	(0.1)	(0.0)	0.0
Digital Justice	(1.0)	0.0	0.0	0.0
Continuous Improvement	(1.9)	(1.0)	(0.3)	0.0
Total of Strategic Change Programme Savings:	(5.1)	(1.2)	(0.5)	(0.0)
Financial Estimates of Outline Saving Proposals	0.0	(2.7)	(3.8)	(1.3)
(Gap)/Surplus	0.0	0.0	0.0	(3.2)
<b>Sub total</b>	<b>(1.0)</b>	<b>(1.0)</b>	<b>(0.5)</b>	<b>(0.5)</b>
<b>Total gross budget</b>	<b>207.7</b>	<b>206.7</b>	<b>206.3</b>	<b>205.8</b>
<b>Cost increase % base</b>	<b>-0.5%</b>	<b>-0.5%</b>	<b>-0.2%</b>	<b>-0.2%</b>
<b>FUNDING</b>				
Government Grant	103.5	100.6	98.8	97.0
Community Safety Fund	0.7	0.7	0.7	0.7
Reserves	(1.5)	-	-	-
Surplus/(deficit) on Council Tax Collection Fund	0.9			
Council Tax Support Funding	6.7	6.7	6.7	6.7
Base precept	101.8	97.4	98.7	100.0
Precept increase	(4.4)	1.3	1.3	1.3
<b>Total gross budget</b>	<b>207.7</b>	<b>206.7</b>	<b>206.3</b>	<b>205.8</b>
<b>Band D £</b>	<b>207.51</b>	<b>209.64</b>	<b>211.81</b>	<b>214.01</b>
<b>Band D Net precept increase %</b>	<b>2.0%</b>	<b>1.0%</b>	<b>1.0%</b>	<b>1.0%</b>

4 Year Savings Target £17.8m

Planned Savings £1.7m

2013/14 Budget £5.1m

Budget Gap £3.2m

Estimated Savings £7.8m

Appendix B

