

RESOURCES SCRUTINY COMMITTEE – 15 JUNE 2010

UPDATED MEDIUM TERM FINANCIAL FORECAST TO 2015

REPORT BY TREASURER, CHIEF CONSTABLE AND CHIEF EXECUTIVE

Introduction

1. The Police Authority agreed the Medium Term Financial Forecast (MTFF) for the period 2010-15 in February 2010. As part of budget planning for 2011-12 the Police Authority and Resources Scrutiny Committee will receive regular updates on financial planning assumptions during the year. This report provides the first update, in the current financial year, of the MTFF including progress towards 2011-12 savings target and sets out the approach and timetable for the budget planning for next year and the medium term to 2015.

Background

- 2.1 The current year, 2010-11 is the final year of the current Comprehensive Spending Review. Whilst funding is uncertain, real term and cash reductions in the level of general and specific grants are expected for the next four years.
- 2.2 The new government has already announced reductions in grant funding for the current year of £2.4m for revenue and £0.2m for capital and savings of at least this level per annum can be expected over the medium term.
- 2.3 The High Level Working Group on police value for money has produced proposals for savings of £545m across all Forces in England and Wales by 2014. Proposals relate to overtime, business support, IT and procurement, the last two elements account for £400m and are based on national contracts or arrangements. The estimated share of these savings for Sussex would be between £6m and £7.5m.
- 2.4 As well as funding reductions the Force faces cost pressures mainly pay related; pay awards, pay increments, national insurance and pension increases, but also on inflation and other specific operational cost pressures and funding streams.
- 2.5 The new government has made a number of policy announcements with financial implications for Police Authorities, most notably a commitment to council tax freezes. We are awaiting detailed announcements to assess the impact on the medium term financial strategy.
- 2.6 The new government have announced an emergency budget in June and we may get some indication of future funding at this point but it is likely to be much later in the year following a Comprehensive Spending Review over the summer and autumn before we have a more detailed picture of funding for next year and the medium term.

Latest Planning Assumptions

- 3.1 The updated MTFF including key assumptions, sensitivity analysis, risks and pressures is attached at Appendix A.
- 3.2 The updated forecast continues to show a requirement for significant savings over the next four years. Assumptions agreed in February produced a shortfall in funding of over £30m over four years 2010-15, the latest forecast indicates an

increase to £34m. The underlying position, assuming a funding freeze after 2015, is for an on-going saving requirement of £4m per annum.

Estimated Funding Shortfall at 2.5% Precept

	2011-12	2012-13	2013-14	2014-15	Total
MTFF (Feb 2010)	£11.4m	£6.9m	£5.9m	£5.9m	£30.1m
Latest MTFF v1.1 (May 2010)	£11.4m	£7.3m	£7.3m	£8.3m	£34.3m
% of annual budget	4.4%	2.8%	2.8%	3.2%	13.2%

3.3 The forecast has changed due to the inclusion of one new funding pressure and following a review of all assumptions a more pessimistic view has been taken on police officer pensions and specific grant funding in later years 2013-15. These changes significantly affect the funding shortfall from 2013 onwards; the forecast position for 2011-12 is unchanged at the moment. Details of these changes are:

- assumed cost to force of the RART and RIU funding gap based on grant reduction from April 2010 cessation (£0.4m)
- assumption on specific grant reductions of 5% each year extended for the whole four year period (£2m)
- further increase in police officer pension costs following next valuation 2013 (£1m)

Other Budget Risks and Pressures

4.1 The MTFF does not include a number of known potential costs and/or funding risks with respect to:

- introduction of the carbon trading scheme;
- additional funding to meet identified backlog maintenance gap
- one off cost associated with planning and resourcing for the 2012 Olympics.
- on-going costs of implementing national IT systems;
- any additional investment required for the new regional serious and organised crime unit.
- The additional reduction in funding recently announced by the Policing Minister.

4.2 The likelihood, impact and justification of the above and any other significant pressures or proposed investments will be assessed during the budget build for 2011-12 and alternative funding or approached considered. Any additional costs or investment included in the MTFF will increase the funding shortfall above the current £11m for 2011-12.

4.3 Changes in any of the assumptions will impact on the funding shortfall and level of savings required up to 2015. A sensitivity analysis showing the impact of any variation in assumptions is included at Appendix C.

- 4.4 Whilst the approach of the new government with regard to how plans for budget deficit reduction will impact on police funding is not yet clear, we do know the grant funding has not been protected in 2010-11 and that funding reductions for this year have been based on 1.5% savings on total grant funding. Funding reductions of at least the amounts proposed by the High Level Working Group on police value can be anticipated and this is in line with current planning assumptions.
- 4.5 Other policy announcements of the new government which may impact on the MTFF include proposals to freeze Council Tax increases, freeze pay awards/bills across the public sector and an intention not to implement in full plans for increases to employers national insurance contributions from April 2011. The latter two proposals would potentially have a positive impact on the MTFF if they are not directly matched by grant reductions over and above our current assumptions.
- 4.6 A summary of the potential impact of the above proposals on the MTFF compared to current assumptions is set out below.

Funding	Costs
Council Tax current assumption 2.5% (0% council tax = £2.2m)	Pay award current assumption 2.5% Sept 2010 & 1% pa from Sept 2011 (0% pay award = £1-2m)
Grant assumptions 2%,5% reductions in general/specific grants) (Further 1% Home Office grant = £1m) (Further 5% Specific grant = £1m)	National Insurance current assumption is 1% increase from April 2011 = £1.3m

Serving Sussex 2015

- 5.1 The approach being taken to address the funding position over the medium term is through a joint strategic approach with the Police Authority and Sussex Police to determine what policing should look like in 2015 and beyond within the likely funding available.
- 5.2 A number of streams of work have been identified which:
- Encompass the main strategic issues
 - Have the potential for significant savings and efficiency gains to achieve at least £30m savings by 2015
 - Draw in existing work that needs to link in with the Programme
 - Quest projects, response & volume crime and intelligence
 - IS Modernisation – structure and service delivery of the IS function
 - Spending Wisely – running parallel to the Serving Sussex 2015 Programme. Anti Social Behaviour - included due to the importance of an effective Sussex Police response, in conjunction with partners, to incidents of ASB within local communities. Work in this area is being progressed by the Community and Justice Department and the Serving Sussex 2015 team will ensure that identified processes are resilient, financially efficient and fit with any new service delivery model the force may wish to adopt
 - South East Collaboration

- Estates – review undertaken by Lawrence Hobbs and now awaits decisions on Force structure and proposes a model for sharing much more estate with partners
- Include new work commissioned by the Programme team
 - Local Delivery Model – developing a model for the delivery of local policing in the future
 - Preferred Partner – exploring opportunities for bilateral working with Surrey Police in respect of protective services, in addition to the ongoing Regional Collaboration work
 - Public Contact in a Digital Age – other means of service delivery e.g. on line, self-service, which has the potential to improve customer satisfaction and save money
 - Support Functions – looking at the size and structure of our support functions to include HR, Finance and IS and opportunities for delivering more efficiently in the future eg shared services
 - 5x5x5x5 - innovation workshop to identify potential areas for cost reduction and efficiencies

The governance structure for Serving Sussex 2015 has been agreed by the Police Authority and outcomes and options will be presented in the autumn. It is anticipated that financial savings from the work programmes will arise only in part in 2011-12.

Spending Wisely

- 6.1 Work is on-going to identify the all current proposed efficiencies and savings for 2011-12 and beyond that can be used to bridge the latest funding gap to 2015. The current estimated firm savings proposals as shown at Appendix D and summarised below.

	2011-12	2012-13	2013-14	2014-15	Total
Firm Savings Proposals	£3.5m	£0.6m	£0.3m	£0.3m	£4.7m
Other Identified Savings	£3.5m	£1.7m	£0.1m	£0.1m	£5.4m
Total Savings	£7.0m	£2.3m	£0.4m	£0.5	£10.1m
Latest MTFF v1.1 (May 2010)	£11.4m	£7.3m	£7.3m	£8.3m	£34.3m
Savings Gap	£4.4m	£5.0m	£6.9m	£7.8m	£24.2m

- 6.2 The firm saving proposals represent all those areas where initial or final business cases have been agreed implementation plans are being prepared. These are set out at Appendix D
- 6.3 Other identified savings represent a mixture of provisional estimates and target amounts, all of which are subject to business case assessment and approval. These include on-going work on Quest volume crime and case management, Finance and Business Review, collaboration and contract reviews. Some of these proposals may require further investment, not currently agreed within the 2010-11 budget, in order to be achieved. These and further areas of work on-going for 2011-12 are show at Appendix D.
- 6.4 In addition to the above further work on the Spending Wisely Programme is being undertaken as agreed by Chief Officers on

- Divisional and Department saving proposals from budget holders, force wide spending reviews including star chamber scrutiny process and some specific zero based budget reviews
- other proposals generated from direct involvement with officers and staff

6.5 Budget proposals will be considered and scrutinised by the Force Strategic Boards and the Force Executive Board and updates provided to the Resources Scrutiny Committee and full Police Authority during the remainder of 2010.

Capital Budget

7.1 A 3 year Capital programme was agreed by the Police Authority at its meeting in February and set out the prioritised investment plans, and the expected performance outcomes, from the Authority's estates, fleet, information systems and protective services equipment.

7.2 The latest capital strategy covers the period to 2014. Based on current funding sources, approved borrowing and assumptions on the level of capital grant, there is an estimated funding shortfall in 2013-14 of £1.5m.

Sources available	Revised 2010-11 £m	2011-12 £m	2012-13 £m	2013-14 £m	Remaining 4 Year Programme £m
Proposed Capital Programme	14.962	12.151	7.745	6.978	41.836
Grant	2.900	3.112	3.112	3.112	12.236
RCCO	1.800	1.800	1.800	1.800	7.200
Capital Receipts	0.000	2.408	0.000	0.000	2.408
Capital Reserve Specific	0.499	0.000	0.000	0.000	0.499
Capital Reserve General	9.633	2.535	0.000	0	12.168
Borrowing support revenue	0.000	1.242	1.242	0	2.484
Borrowing support capital	0.000	1.054	1.591	0.642	3.286
Major Change Reserve	0.000	0	0	0	0.000
Asset Replacement Reserve	0.130	0	0	0	0.130
External Funding	0.000	0	0	0	0.000
Other Grants	0	0	0	0	0.000
Capital Funding	14.962	12.151	7.745	5.554	40.412
Funding Surplus (+)/Shortfall (-)	0.000	0.000	0.000	-1.424	-1.424
Cumulative Funding Gap	0.000	0.000	0.000	-1.424	-1.424

Financing/Reserve Balances	01/04/2010 £m	01/04/2011 £m	01/04/2012 £m	01/04/2013 £m
Capital Reserve	12.668	2.535	-	-
Capital Receipts*	2.408	2.408	-	-
Asset Replacement Reserve*	3.882	5.352	6.202	7.052

7.3 Following decisions by the Authority on the capital budget outturn for 2009-10 the capital programme is being reviewed and reprofiled. However despite current programme slippage we run out of capital reserves and capital receipts by the end of 2011-12 based on the current programme. The draft reprofiled programme is attached at Appendix E.

7.4 The level of ongoing funding assumes £1.8m from the revenue base budget and a capital grant of around £3.1m. There is a risk around the level of future grant following the finalisation of the CSR this year.

7.5 The capital planning process for 2011-12 and beyond will need to clearly prioritise works to live within reduced funding sources. It is likely that there will be limited new investment unless linked to Serving Sussex programme. A much harder criteria for investment will be required to ensure essential, urgent and invest to save schemes are included where the need is greatest.

Reserves

- 8.1 Following decisions by the Authority on reserves based on the outturn position for 2009/10, the overall level of reserves remains healthy and is at a higher level than assumed. The level of general balances now stands at 3.77% of net revenue expenditure.
- 8.2 Total reserves stand at £49m with the combined total for non-earmarked reserves (general, asset replacement and major change) at £15m. The operational contingency stands at £2.2m, enabling the Force to deal with a very significant incident outside of the day to day budget.
- 8.3 Reserves will be reviewed as part of the budget build to ensure we maintain the optimum level of specific and general reserves for medium term planning requirements.

Conclusion

- 9.1 The financial outlook for Sussex Police continues to be challenging as replicated across the public sector. The full extent of the funding shortfall is still uncertain and will not be fully known until the completion of the CSR in the autumn. The Serving Sussex Programme is setting the strategic direction for the Force, by determining what Sussex Police should look like in 2015 and beyond within available finding. Regular updated reports on the MTFF will be brought to the Committee and Police Authority during the year.

RECOMMENDED - that the assumptions and approach for Medium Term Financial Planning is agreed.

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Medium Term Financial Forecast Summary (Draft Version 1.1 May 2010)

	Assumes a 2.5% Precept			
	2011-12	2012-13	2013-14	2014-15
	£000's	£000's	£000's	£000's
Approved Base Budget	260,749	260,478	260,598	260,787
Additional Pay Costs				
Police officer pay award	1,731	836	864	893
Police staff pay award	1,352	854	879	906
Increment changes - officers & staff	2,008	2,350	2,397	2,458
Police officer allowance changes	196	88	91	93
Additional national insurance	1,322			
Police officer pension contribution	1,870			985
Police staff pension contribution	757	784	807	832
Police officer pension volume changes	341	374	382	391
Total Pay Costs	9,577	5,286	5,420	6,558
Additional Non Pay Costs				
Price Inflation	979	971	954	907
RART/RIU contribution	359			
Capital financing charges	60			
Total Non Pay Costs	1,398	971	954	907
Funding Changes				
Reduction in specific grants	1,140	1,143	1,095	1,050
Removal of 2010-11 one-off costs	(1,020)			
Total Funding Changes	120	1,143	1,095	1,050
Savings & Efficiencies				
Savings Identified	(6,963)	(2,287)	(432)	(451)
Savings Requirement	(4,403)	(4,993)	(6,848)	(7,799)
Total Savings and Efficiencies	(11,366)	(7,280)	(7,280)	(8,250)
Net Change in Costs	(271)	120	189	265
Budget Requirement	260,478	260,598	260,787	261,052
Funded by				
Home Office Grant	99,744	97,414	95,084	92,754
Formula Grant	71,983	71,984	71,985	71,986
Council Tax Precept	88,995	91,443	93,963	96,556
Collection Fund Surplus (Deficit)	(244)	(243)	(245)	(244)
Budget Requirement	260,478	260,598	260,787	261,052

Medium Term Financial Forecast Assumptions (Draft Version 1.1 May 2010)

Assumption	Risk	2011-12	2012-13	2013-14	2014-15
Home Office grant reduction	High	-£2.3m (2%)	-£2.3m (2%)	-£2.3m (2%)	-£2.3m (2%)
NNDR funding	Medium	-	-	-	-
Tax base increase	Medium	0.25%	0.25%	0.25%	0.25%
Collection deficit	Medium	£0.25m	£0.25m	£0.25m	£0.25m
Pay award (Sept average)	Low	+2.0%	+1.0%	+1.0%	+1.0%
Pay Increments	Low	+1.0%	+1.0%	+1.0%	+1.0%
Employers National Insurance	Low	+1.0%	-	-	-
Police officer pension contributions	Medium	+1.5%	-	-	+1.0%
Police staff pension contributions	Medium	+1.5%	+1.0%	+1.0%	+1.0%
Price inflation	Low	+2.0%	+2.0%	+2.0%	+2.0%
Investment Interest	Low	+0.75%	+0.75%	+0.75%	+0.75%
Specific Grants change	Medium	-5.0%	-5.0%	-5.0%	-5.0%

Note: Risk status relates to likelihood of assumption being worse than currently estimated.

Medium Term Financial Forecast Sensitivity & Risk Analysis (Draft Version 1.1 May 2010)

Sensitivity Analysis

Assumption	Current Assumption	Variation	Sensitivity
Home Office grant reduction	Cash reduction 2% pa (equal to floor protection)	1%	£1.0m.
NNDR funding	Cash freeze	1%	£0.7m
Precept increase	2.5% pa	1%	£0.9m
Tax base increase	0.25% pa	0.1%	£0.1m
Collection deficit	£0.25m pa (equal to 0.3%)	0.1%	£0.1m
Pay award (officers & staff)	2.75% from Sept 2010 1.0% from Sept 2011-14	1%	£2m
Pay increments	1% of pay costs pa	0.5%	£1.0m
National insurance increase	1% increase in employers contribution from April 2011	0.5%	£0.6m
Police Officer pension contributions	1.5% from April 2011 1% from April 2014	0.5%	£0.6m
Police staff pension contributions	1.5% from April 2011 1% pa from April 2012	0.5%	£0.4m
Price inflation	Average increase of 2.0% pa	1.0%	£0.5m
Investment interest	Interest rate at 0.75%	0.25%	£0.2m
Specific grants	Net reduction of 5% pa	1.0%	£0.3m

Potential Cost Pressures & Funding Risks (2011-15)

Assumption	Issues	Estimate
NPIA IT Systems	Potential to shift cost of national computer systems	£0.5m pa
Carbon Levy	Net loss on new carbon trading scheme	£0.1 to £0.5m pa
Olympics 2012	Additional planning and support costs (2011-13)	£0.75m to £1m
Backlog Maintenance Backlog	To bring the estate up to standard	Tbd

Spending Wisely Savings Profile (MTFF Draft Version 1.1 May 2010)

Heading	Status	2011-12 £000	
Student Officer Course	Green	145	Based on the recommended option in the business case assuming 120 cohorts. Full year effect of previous spending wisely carried forward.
Spending Wisely Full Year Impact	Green	1,243	
ASU	Red		Work is ongoing and detailed options have been produced. This reflects the most up to date position This collaboration work stream went live in April 2010 and the savings reflect the net position of the three streams Savings reflected in the business case. Savings reflected in the business case. Savings reflected in the business case. Savings reflected in the business case. Savings as new recruits on South East Allowance replace Trans Rent and Housing Allowance. Anticipated savings on renewals of Public & Employers Liability and Motor Liability Insurance. Savings reflected in the business case Savings reflected in the business case
TSU/Covert/WP	Amber	28	
IS Modernisation	Green	723	
Command & Control	Amber	300	
Hewlett Packard Contract	Amber	83	
Telephony Project	Amber	110	
Allowances	Amber	348	
Insurance Contracts	Green	153	
Digital Evidence Project	Amber	240	
Evidential Drug ID tests	Green	45	
Total		3,418	

Status

Amber: initial business agreed, subject to final business case and implementation

Green: business case agreed and being implemented

Other Savings Opportunities

Heading
Deployment
Quest: Volume Crime
Quest: Intelligence
Reduction in Overtime
On-going Workstreams
Finance & Business
Fleet
Estates
Programme Management
Collaboration:
Legal Services
ASU
Vetting
Procurement
IS Related
IMPACT
Server Replacement
Other
Procurement - contracts
Pension cost review
Insurance & risk review
Use of Reserves
Zero Base Police Officer Pay
Non Delegated Review
Reduction in borrowing costs

Draft Capital Programme 2010-14

Scheme	2010/11 £'000	2011/12 £'000	2012/13 £'000	2013/14 £'000	Total £'000
IMPACT	952	1,262			2,214
IMPACT - Info Security		306			306
CDD	952	1,568			2,520
Digital Interview Recording	465				465
C & J Department	465				465
Crawley Custody	875				875
HQ Redevelopment	41				41
Sussex House Protective Services	287				287
Key Buildings Power Upgrades		204	50		254
Generator Upgrades	152	150	150		452
Brighton East Generator	11				11
Chichester Redevelopment	5				5
Kingstanding Redevelopment	1,370	554			1,924
Window Replacements	95	51	50		196
Lewes Police Station	1,550	404			1,954
Bodium Block	55	50			105
Astley House Replacement	1,391	2,058			3,449
Slaugham Refurb	-8				
Estates Strategy	5,824	3,471	250		9,554
Fleet Replacement	3,051	3,187	3,199	3,467	12,904
Fleet Other	-49				
Fleet Strategy	3,001	3,187	3,199	3,467	12,904
Finance	25				25
Finance	25				25
Digital Evidence		500	500	250	1,250
CRASH		100	100		200
Collaboration & ISIS	50	50	250	250	600
SAP Enhancements	35	38			73
NEMESIS/CIMS Enhancements	25				25
Storage environment upgrade	491	500	255		1,246
Video Witness upgrades		20			20
Fleet System Replacement					
Holmes upgrade	20	50	50	50	170
CIMS Upgrade	50	50	50	50	200
ABM NEMESIS	67				67
Command & Control Enhancements				50	50
Active Directory Update	-1	100			99
Sharepoint Upgrade		210		150	360
Exchange Upgrade		180	200	150	530
Command & Control System	1,246	165	50		1,461
OIS Enhancements	45				45
Federated Data	120	100	100	100	420
Mobile	239	150	100	100	589
Server Refresh	235			250	485
Airwave	13				13
Content Management Refresh		130		100	230
Implementation of Contac Man Strat	407	72			479
CRM Enhancements	39				39
PENTIP		100			100
Disaster Recovery/Business Continuity	192	40			232
Software Support Environment	96	70			166
Network Capacity Upgrade		60		60	120
GIS Upgrade & Refresh	22	75			97
Case & Custody			750	500	1,250
Business Objects Upgrade/refresh	81	50	50	150	331
Covert Intelligence Refresh		100	180		280
ICCS Refresh			100		100
Telephony Unified Comms	682	254	150	100	1,186
Contact Centre Refresh			200	400	600
Desktop			200	200	400
Portal & Workflow		250	500	250	1,000
NSBIS	-25				
Fleet IT System	-7				
Remote Access	-29				
Information Systems Strategy	4,092	3,414	3,785	3,160	14,513
ANPR Strategic Roads	229	160	160		549
Operations Department	229	160	160		549
TSU Equipment	374	350	351	351	1,425
HQ CID	374	350	351	351	1,425
CAPITAL STRATEGY TOTALS	14,962	12,151	7,745	6,978	41,955