

MEETINGS: Police & Crime Panel	DATE: 4 th February 2020	AGENDA NO:
DEPARTMENT: PCC's Office - Finance	AUTHORS: Nick Adams - CFO ASC	
NAME OF PAPER: 2020/21 Medium Term Financial Plan, Precept and Budget Requirement		

1. RECOMMENDATION

The Police and Crime Panel is asked to consider and support the following recommendation that will be tabled at the Police and Crime Board on 5th February 2020.

That the Police and Crime Commissioner for Avon and Somerset (PCC) considers the budget proposals and background information covered in the Medium Term Financial Plan and approves, subject to consultation with the Police and Crime Panel:-

- i. A revenue budget requirement for 20/21 of £328.451m*
- ii. An initial capital plan for 20/21 of £19.887m*
- iii. Funded in part by a proposed council tax precept to be levied in respect of general expenses of £130.068m (equivalent to a Council Tax Band D of £227.81 – an increase of £10 on 2019/20), to be apportioned to each collecting authority according to the following table:-*

	Tax Base (No.)	£'000	%
Bath and North East Somerset Council	66,879.90	15,236	11.7%
Bristol City Council	128,566.00	29,289	22.5%
North Somerset Council	79,185.00	18,039	13.9%
South Gloucestershire Council	96,745.00	22,039	16.9%
Mendip District Council	40,978.57	9,335	7.2%
Sedgemoor District Council	41,435.78	9,439	7.3%
South Somerset District Council	60,710.78	13,831	10.6%
Somerset West and Taunton Deane Council	56,449.87	12,860	9.9%
TOTAL	570,951.00	130,068	100.0%

2. PURPOSE OF REPORT AND BACKGROUND

Our Medium Term Financial Plan (MTFP) sets out the financial plans for both revenue and capital budgets over the next five years. It is prepared:-

- following discussions and consultation with budget holders;
- in conjunction with service and workforce planning; and
- through ongoing conversations between the PCC and the Chief Constable.

By necessity, the paper has been delayed whilst we awaited confirmation of the police grant settlement, which was conveyed to us on 23rd January 2020. This paper is therefore

reflective of the final settlement detail and as well as the final council tax position supplied to us by our local collecting authorities.

3. COUNCIL TAX CONSIDERATIONS AND PUBLIC CONSULTATION

The final plan reflects an **increase in council tax of £10 in 2020/21**, representing the maximum increase permitted without incurring the cost and risk of a local referendum. The decision to increase the precept by £10 is reflective of:-

- The result of the public consultation (see below) which demonstrated overwhelming support for increases to the policing precept; and
- The opportunity to support investment in an additional 75 police staff investigator roles, and maintaining the 15 additional PCSO's working with schools which were introduced in 2019/20 utilising the serious violence grant.

From 2021/22 onwards our plans assume annual increase of 1.99% p.a. The impact on the average band d policing precept over the course of the MTFP period is as follows:

	Actual	MTFP				
	19/20 £p	20/21 £p	21/22 £p	22/23 £p	23/24 £p	24/25 £p
Av. Band D Precept	£217.81	£227.81	£232.34	£236.97	£241.68	£246.49
Annual increase %		+4.59%	+1.99%	+1.99%	+1.99%	+1.99%
Annual increase £p		+£10.00	+£4.53	+£4.62	+£4.72	+£4.81

The PCC has formally consulted the public on its views regarding the precept through surveys conducted throughout the year. The results of these surveys confirm continued support from the public to increases in the policing precept. The following table sets out the results of this survey:-

Apr – Sep 2019; Survey Results	No.	%
An average increase of £24 in council tax (£2 per month)	984	65.6%
An average increase of £12 in council tax (£1 per month)	240	16.0%
Keep it the same as its current level	125	8.3%
Don't know	151	10.1%
TOTAL Surveyed	1,500	100.0%

Oct – Dec 2019; Survey Results	No.	%
A 4% increase – average of 70p per month	545	72.7%
A 2% increase – average of 35p per month	156	20.8%
Keep it the same as its current level	15	2.0%
Don't know	34	4.5%
TOTAL Surveyed	750	100.0%

4. REVENUE PLAN HEADLINES

Our MTFP forecasts the following position

	20/21 £'000	21/22 £'000	22/23 £'000	23/24 £'000	24/25 £'000
Budget requirement	328,451	341,669	354,957	367,728	379,610
Less; funding	328,451	341,669	354,957	365,228	375,610
Deficit	balanced	balanced	balanced	2,500	4,000

In summary we are forecasting a balanced position for the next 3 years followed by a deficit position of £2.5m in 23/24 rising to £4.0m in 24/25. Within this we have accounted for:-

- An **extra 403 police officers by March 2023**, being the anticipated allocation of 368 extra officers through Government funding, as well as an additional 35 officers funded from local efficiencies;
- A new **investment of 75 additional police staff investigator posts**, and maintenance of the uplift of **15 PCSO's** which was funded from 19/20 serious violence grant, both of which are made by possible by the additional precept flexibility of a £10 increase;
- An increase to our revenue contributions to **support capital investment** across our digital capabilities, as well as our estate, fleet and equipment requirements.

The key assumptions that underpin this forecast include:-

- Increases in **revenue grant funding** (+£43.6m by 24/25) to both support the cost of delivering the uplift in officer numbers and provide for an annual 2.5% inflationary increase to help us in managing the wider pressures forecast on our budget;
- Increases in **council tax funding** (+£25.7m by 24/25) achieved through both increases to the precept (see above) and increases to the tax base of 1% in 20/21, followed by 1.5% increases p.a. thereafter;
- Annual increases to **pay costs** (+£35.7m by 24/25) of 3% p.a. reflecting the ongoing relaxation of the restrictions placed on pay increases for police officers and staff after several years of freezes;
- Increases in the cost of **pensions** (+£4.5m by 24/25), reflecting the confirmed increases to staff pensions effective from April 2020, and provision for further upward pressure in these costs in future years;
- Increases in **non-pay costs** (+£5.1m by 24/25) driven by both general and specific (e.g. fuel, utilities) inflationary pressures;
- Increases in our **cost of capital costs** (+£1.3m by 24/25) as we provision for uplifts to direct and indirect revenue consequences of funding our capital plans;
- Increases in costs to support **new growth and investment** (+£38.3m) which includes the delivery of increases in officer numbers that exceed the Governments officer uplift targets, as well as provision for local growth funded through the precept and within our existing efficiency plans;
- Delivery of new **planned savings** (-£7.1m – of which £6.7m already achieved) and a further **targeted savings** (-£2.0m) by 22/23 which will be focus of ongoing work.

5. CAPITAL PLAN HEADLINES AND RESERVES

The draft capital programme forecasts the following position:-

	19/20	20/21	21/22	22/23	23/24	24/25
	£'000	£'000	£'000	£'000	£'000	£'000
Forecast Capital Expenditure	15,024	19,887	14,702	15,931	20,518	7,369
Less; Forecast Capital Funding	15,024	19,887	14,702	15,931	12,765	7,369
Deficit	balanced	balanced	balanced	balanced	7,843	balanced

In summary we are forecasting:-

- Total capital expenditure of £93.4m over this financial year, and the next 5 years;
- Total capital funding of £85.6m over the same period;
- Resulting in a shortfall of £7.8m in 23/24 at this point in our planning process.

Some of the key areas of capital investment are:-

- **ICT Asset replacement** – the plan includes £28.7m for the ongoing replacement of IT assets, which include both end user devices (e.g. laptops, mobile phones, body worn video cameras) as well as IT infrastructure (e.g. networks, security and storage);
- **Fleet replacement** – the plan includes £16.1m for the ongoing replacement of our fleet of vehicles;
- **Emergency Services Network (ESN)** – the plan includes £11.5m to implement this national airwave (police radios) replacement programme. The timing and value of this project remains the subject of significant ambiguity at this point in our planning, with the expectation of the final business case being available in February 2020;
- **ERP system** – the plan includes an estimate of £7.5m to replace our Enterprise Resource Planning (ERP) system which provides for HR, financial and procurement capabilities;
- **New Yeovil police station** – the plan includes £5.8m investment to support this project to re-provision a new fit for purpose police station on our existing site;

Our plans will remain subject to ongoing review, particularly in relation to national programmes as the outlook for these becomes clearer.

Our Capital funding forecasts assume:-

- A reduction in our Home Office **capital grant** funding (confirmed in the settlement announcements), to £0.3m p.a.
- An uplift to our recurring **contribution from revenue budgets** to help compensate for this loss of capital grant. Our revenue budgets will support an annual recurring contribution of £7m towards capital projects;
- After an initial increase in our **capital reserves** to £13.9m at the end of 19/20 (reflecting the forecast use of funding against the 19/20 plan), we forecast that these reserves will be fully used by the end of 23/24;
- Use of **Capital receipts**, after being realised through the sale of buildings and other assets. This will exhaust all current planned opportunities to generate receipts from the sale of buildings in our estate;
- **Borrowing** a further £12m of borrowing is planned, of which £6m will be taken by the end of the 2019/20 financial year. This borrowing will be used to fund our

investment in longer life assets (e.g. buildings). The revenue cost of this borrowing has been built into our revenue forecasts.

6. RESERVES AND MANAGEMENT OF FINANCIAL RISK

Decisions on **reserves** will be taken once the 2019/20 outturn position is clear – this is currently projected a small 1.1% underspend due to timing of recruitment during the year.

Given the uncertainty and risk being managed by the PCC and the forecast gap in capital funding (see above) – a transfer of any underspend into capital reserves at year-end is recommended, and it is on this basis that our MTFP has been modelled.

Current reserve levels are £38.7m of which £9.6m are ring-fenced for non-discretionary purposes (e.g. PFI accounting, regional funds, road safety funds). This level of reserves is substantially reduced from their peak £60 million in 2015 and the Avon & Somerset level remains very close to the national average level held by PCCs as % of revenue spend.

Our MTFP forecasts an initial increase in the level of reserves at the end of 2019/20, in line with the above recommendation to transfer revenue underspends to capital funding. This is then forecast to reduce annually over the next five years as funds are used in support of our capital plans.

Our plans recognise a number of **risks** in relation to financial planning. These include:-

- Grant Funding – The grant funding confirmed in the settlement only provides information for the 20/21, with the value of future grant funding to be determined through the Spending Review expected to happen over the Summer of 2020. We have made assumptions that funding will continue to grow to both support the cost of delivering the officer uplift, as well as for an inflationary pressures to enable us to manage increases in existing costs. If our assumptions are inaccurate our plans will need to be revised;
- Funding formula – police grant funding is distributed in accordance with a historic formula, which has been widely discredited as effective. This may be reviewed during the course of the MTFP, affecting Avon & Somerset's allocation of main grant. Any weighting of the formula further away from population will see reductions in funding;
- Capital Plan – is currently unfunded in year 4 after using all existing capital reserves and capital receipts, and after sustainable increase to our revenue funding for capital and a material uplift in borrowing (see above);
- Pension costs – Pressures on employers' contributions continue to increase. This year the LGPS contribution has been increased from 13.2% to 16.3%. Last year the contribution for police pension increased in 2019 from 24% to 31%. The recent age discrimination ruling will increase pension liabilities in coming years;
- Pay and inflation – we have provided (see above) for pay awards and inflation but there remains a risk of pay awards outstripping the increases in grant and precept funding;
- National Police Programmes (e.g. ESN) – the scope and ambition of National programmes is increasing. This includes several initiatives which have already seen both delays and rising costs, some of which could be passed onto individual PCCs.

7. EQUALITY ANALYSIS

All business cases in support of change, both with revenue and capital implications are subject to an equality impact assessment. This way we can ensure that those decisions on how we allocate our funding across budgets and plans are cognisant of equality issues.

8. SUSTAINABILITY

Sustainability is important in regard to ensuring the organisation is living within both its financial limits (financial sustainability) as well as within its environmental limits through ensuring effective and efficient use of natural resources. In fulfilling the objectives in terms of financial sustainability, this report, and our regular quarterly financial reports, ensure we are able to maintain a good overview of our financial sustainability. Wider environmental sustainability considerations are also accounted for within the budget and capital programme.