



AGENDA NO: 5

INDEPENDENT AUDIT COMMITTEE – 11 SEPTEMBER 2019

BUDGET PLANNING PROCESS

REPORT BY NEAL BUTTERWORTH, ALLIANCE HEAD OF FINANCE

PURPOSE OF THE REPORT

The purpose of this report is to provide members with an outline of the Dorset Police and Devon & Cornwall Police budget planning process for the financial year 2020/21.

1. INTRODUCTION

- 1.1. The PCC and Chief Constable share a responsibility to provide effective financial and budget planning for the short, medium and longer term.
- 1.2. The Government's revised Financial Management Code of Practice sets out the need for a Medium Term Financial Strategy (MTFS), and the relationship between the MTFS and the Police and Crime Plan, as follows:

The financial regulations should include the requirement for the PCC, in consultation with the Chief Constable, to identify and agree a medium term financial strategy which includes funding and spending plans for both revenue and capital. The strategy should have regard to affordability and take into account multiple years, the inter-dependencies of revenue budgets and capital investments, the role of reserves and the consideration of risks. It must also have regard to CIPFA's Prudential Code for Capital Finance in Local Authorities, including the requirement to produce an Annual Capital Strategy. The medium term financial strategy should be aligned with the Police and Crime Plan

- 1.3. Both Forces need to produce an Annual Capital Strategy, which was a new requirement in 2019/20, and pulls together Estates, ICT and Fleet strategies. This strategy drives the capital programme, which in turn has revenue financing implications. The annual Treasury Management Strategy, and the risk assessment of it, determines the assessment of robustness of reserves.
- 1.4. This report sets out the high level timetable for consideration of the annual budget for 2020/21 and the following three year MTFS for Dorset Police (PCC and Chief Constable) and Devon & Cornwall Police (PCC and Chief Constable).

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- 1.5. The report also presents a summary of the assumptions expected to be applied in budget setting.
- 1.6. Budget updates will be presented regularly to the relevant Boards of each Force, and where applicable a consistent approach will be adopted.

2. BACKGROUND

- 2.1. The current year budget was set in February 2019 and included a rise in the precept of £24 for a Band D property (11.62% Dorset, 12.75% Devon & Cornwall). This enabled resources to be directed into key priority areas.
- 2.2. Key features of the 2019/20 budget for each force are shown below:

	Dorset	Devon & Cornwall
Budget for 2019/20	£136.7m	£312.1m
Police Officers (FTE)	1,200	3,050
Staff, inc PCSOs (FTE)	1,130	2,258
Funding from / (to) Reserves	£0.6m	(£0.5m)

- 2.3. Each force is required to achieve savings in 2019/20. These savings are from a combination of Strategic Alliance savings, workforce restructures, and targeted non staff savings.
- 2.4. The Medium Term Financial Strategy identified a breakeven future budget position for Devon & Cornwall Police, and a forecast deficit from 2020/21 for Dorset Police, as set out below:

	Dorset				Devon & Cornwall			
	2019/20 £m's	2020/21 £m's	2021/22 £m's	2022/23 £m's	2018/19 £m's	2019/20 £m's	2020/21 £m's	2021/22 £m's
Projected Funding	134.7	137.4	141.4	144.5	312.1	322.0	331.8	341.9
Projected Expenditure	134.7	135.8	137.9	140.0	312.1	322.0	331.8	341.9
Projected Deficit	0.0	1.6	3.5	4.4	0.0	0.0	0.0	0.0

- 2.5. The projections are based on future annual precept increases of £1.99% in Dorset, and 2.99% in Devon & Cornwall, and an assumed cash standstill position on grant funding in Dorset, and grant increases of 1.8% in 2020/21 and 2.1% annually thereafter in Devon & Cornwall.

3. CONSIDERATION OF THE BUDGET FOR 2020/21 TO 2023/24

- 3.1. In previous years the budget considerations have formally commenced in September, although the potential for merger in 2018 did mean that the process started earlier for 2019/20. For 2020/21, work on the MTFS has already commenced in both forces, with initial work taking place on capital requirements and funding during July.

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- 3.2. This work has included ensuring that schemes are costed and prioritised consistently. This is particularly relevant for ICT activity. Decisions regarding capital financing arrangements will necessarily continue to be a separate consideration in accordance with the Prudential Code. Funding of the capital programmes will need to be considered alongside the revenue MTFs as the process progresses, which in turn may impact on the capital programmes.
- 3.3. A schedule of key assumptions that are expected to be used in calculating the 2020/21 budget is set out at Appendix A. It is clear that small variations in many of these assumptions can have a significant impact on the budget and MTFs. As such, the budget process will include consideration of key financial risks, and will include sensitivity analysis as necessary.
- 3.4. Further work is taking place to align the budget planning process to the Force Management Statements. This will continue to develop, building on work on last year's budget setting process.
- 3.5. The following timescales are proposed for the preparation of the budget:

July

Align basis of costing / assumptions used in capital programme forecast expenditure

August/September

Position statements on progress against specific development opportunities / savings, and latest update with financial position to the end of current year and future years.
Assessment of Government Spending Review
Assessment of additional officer funding

October

Delivery of savings forecasts
Removal of baseline costs and non-recurring costs
Appraisal of reserves position
Revisit of assumptions - Council Tax collection rates

November

Workforce mix progress and new areas
New development and saving proposals - Force, OPCC, Working together arrangements
Unavoidable Costs

December

High level financial requirement from major review areas above. Position prior to grant settlement
Settlement position compared with requirement

January 2020

First draft panel report
Final sign off of report to Panel

February 2020

Police and Crime Panel meetings to consider PCC's precept decision
PCC sets precept

- 3.6. The process will enable the existing baseline to be revisited, with new bids and assumption changes added by early December. On receipt of the Grant Settlement a

prioritisation statement will be produced so that final decisions on the budget can be made in early January.

4. RECOMMENDATION

- 4.1. Members are asked to note the report and the time table for the budget planning process for the financial year 2020/21.

**NEAL BUTTERWORTH
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SCHEDULE OF KEY BUDGET ASSUMPTIONS

This schedule identifies the key assumptions used in the ongoing calculation of the 2020/21 budget, where known. At this early stage of the process, all assumptions are subject to change.

Assumptions common to Dorset Police and Devon & Cornwall Police

- Counter Terrorism specific grant will remain at the same level as received in 2019/20 in future years. In the event that further information is available before February 2020, assumptions will be amended accordingly.
- Police Pension Grant, introduced in 2019/20, will continue to be received annually at the level received in 2019/20 throughout the period of the MTF5.
- Turnover on police officers takes into account officers leaving at their 30 year service date, plus an estimate for ill health retirements, transfers out and resignation
- Police Officer pension contributions have been assumed to remain at 31% until the next valuation in 2020, which is expected to be implemented in 2023/24
- Inflation has been applied only to budgets that are subject to inflationary pressures at a notional rate of 2.0%, except where individual rates are known, or can be separately estimated due to particular inflationary pressures. Actual CPI for June 2019, published on 17 July 2019, was 2.0%
- Future investment income assumes an interest rate achieved of 0.80%. The current actual bank base rate is 0.75%
- The capital programme will be financed by capital grant, capital receipts and revenue financing through direct contributions, and use of reserves

Assumptions that are different for each Force

	Dorset				Devon & Cornwall			
	20/21	21/22	22/23	23/24	20/21	21/22	22/23	23/24
Annual % increase in Police Grant	0%	0%	0%	0%	1.8%	2.1%	2.1%	2.1%
Annual increase in police precept	1.99%	1.99%	1.99%	1.99%	2.99%	2.99%	2.99%	2.99%

	Dorset				Devon & Cornwall			
	2016/17	2017/18	2018/19	2019/20	2016/17	2017/18	2018/19	2019/20
Annual increase in taxbase	1.0%	1.2%	1.4%	1.00%	1.7%	1.7%	2.1%	2.00%
Annual surplus on Council Tax collection funds	£1.5m	£0.8m	£0.8m	£0.0m	£2.1m	£2.4m	£2.3m	£2.0m

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- A 2.5% pay award has already been agreed for police officers from September 2019. A 2.5% pay award for police staff from September 2018 is currently assumed, although negotiations are ongoing. The 2019/20 base budget requirement for Dorset assumed a 2% increase, and for Devon & Cornwall assumed a 2.5% increase. A budgeted increase of between 2.5% - 3% is currently being considered by each force for future years for police officers and police staff.
- The employer's current contribution to the police staff pension scheme, plus agreed contributions to deficit will be as set out below. The figures for both forces are subject to actuarial valuation, expected to be announced in late 2019.

	Dorset				Devon & Cornwall			
	19/20	20/21	21/22	22/23	19/20	20/21	21/22	22/23
LGPS Base Contribution	15.50%	16.10%	16.10%	16.10%	14.10%	14.10%	14.10%	14.10%
Plus Repayment of LGPS Deficit (cash lump sum)	£0.55m	£0.58m	£0.58m	£0.58m	£2.113m	£2.163m	£2.163m	£2.163m
Estimated Total Cash Contribution	£6.4m	£6.9m	£7.0m	£7.1m	£13.3m	£13.6m	£13.7m	£13.8m
% of Staff Pay Budgets	17.0%	17.6%	17.6%	17.6%	16.8%	16.8%	16.7%	16.7%