



AGENDA NO: 5

INDEPENDENT AUDIT COMMITTEE – 29 OCTOBER 2020

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 2021/22.

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 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 2021/22 and the following three year MTFS for Dorset Police (PCC and Chief Constable) and Devon & Cornwall Police (PCC and Chief Constable).
- 1.5. The report also presents a summary of the assumptions expected to be applied in budget setting.

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- 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 2020 and included a rise in the precept for a Band D property of 4.34% for Dorset and 4.41% for Devon & Cornwall. This enabled resources to be directed into key priority areas.
- 2.2. Each Force received additional funding to allow an increase of police officers under the national Police Officer Uplift Programme. This additional funding, which was partly a specific grant and partly a core grant increase, provided as additional 50 officers for Dorset Police, and 141 officers for Devon and Cornwall Police.
- 2.3. Key features of the 2020/21 budget for each force are shown below:

	Dorset	Devon & Cornwall
Budget for 2020/21	£141.6m	£332.3m
Police Officers (FTE)	1,250	3,241
Staff, inc PCSOs (FTE)	1,170	2,343
Funding (from) / to Reserves	£0.1m	£4.0m*

* includes £3.3m transfer to a new 'Uplift Reserve' for future year infrastructure spend relating to the Police Officer Uplift Programme

- 2.4. Each force continue to require savings in 2020/21. These savings are from a combination workforce restructures, and targeted non staff savings.
- 2.5. The 2020/21 Medium Term Financial Strategy identified a breakeven future budget position for Devon & Cornwall Police, and a forecast deficit from 2021/22 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 Expenditure	141.6	147.0	153.1	158.7	332.3	343.1	353.8	365.7
Projected Funding	141.6	144.9	148.3	151.9	332.3	343.1	353.8	365.7
Projected Deficit	0.0	2.1	4.8	6.8	0.0	0.0	0.0	0.0

- 2.6. The projections are based on future annual precept increases of 1.99% in Dorset, and 2.99% in Devon & Cornwall, and assumed 2% future increases in grant funding for Dorset, and annual grant increases of 2.5% for Devon & Cornwall.

3. CONSIDERATION OF THE BUDGET FOR 2021/22 TO 2024/25

- 3.1. Work on calculating the revenue budget requirement commenced in September for both forces, and a draft budget requirement is expected to be available at the end of October for comparison with anticipated funding. Future capital expenditure and funding requirements have been under consideration since July, and are expected to be finalised alongside the revenue requirements.

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- 3.2. 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 currently being used in calculating the 2021/22 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. A significant factor affecting estimates for 2021/22 in particular is the impact of Covid-19. This will influence some of the spending requirements, and provide opportunity for savings, such as in the vehicle fleet. However the most significant effect is expected to be on funding, both on the national economic situation with regards to core grant, and also on local funding with Council Tax collection rates expected to be hit hard. This could result in lower taxbase increases, and deficits on collection funds being passed back to the Forces. The Government has announced that any deficit can be recovered over three years, but the effect could still be considerable. Work to estimate the impact of the pandemic is continuing, and has not yet been formally built into any figures.
- 3.5. It is expected that the Police Officer Uplift Programme will continue, with a maximum of an additional 67 officers to be funded in Dorset and 188 officers in Devon and Cornwall, both figures potentially subject to a top slice for national activities.
- 3.6. The work to align the budget planning process to the Force Management Statements continues to develop, building on work on last year's budget setting process.
- 3.7. The following timescales are anticipated for the preparation of the budget, although some are estimated due to reliance on external factors. For example, the funding settlement was expected in December last year, but actually became available in late January:

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.

October

Removal of baseline costs and non-recurring costs
Appraisal of reserves position
Revisit of assumptions – including Council Tax collection rates

November

New development and saving proposals - Force, OPCC, Working together arrangements
Funding for unavoidable costs identified

December

High level financial requirement from major review areas above.
Position prior to grant settlement available.

Settlement expected, for comparison with requirement

January 2021

First draft panel report

Final sign off of report to Panel

February 2021

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

PCC sets precept

- 3.8. 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. UPDATE ON THE 2019/20 ACCOUNTS

- 4.1. The accounts were reviewed by this Committee on 11th September, although at that time there were two specific exclusions relating to a revaluation of police pension figures, and the audit of the Local Government Pension Schemes.
- 4.2. At the time of writing, the revaluation figures relating to the McCloud issue have been received, and have been incorporated into the final accounts. The revised figures are currently with Grant Thornton for review. The Local Government Pension Scheme audits remain outstanding.

5. RECOMMENDATION

- 5.1. Members are asked to note the report and the time table for the budget planning process for the financial year 2021/22.

**NEAL BUTTERWORTH
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SCHEDULE OF KEY BUDGET ASSUMPTIONS

This schedule identifies the key assumptions used in the ongoing calculation of the 2021/22 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 2020/21 in future years. In the event that further information is available before February 2021, assumptions will be amended accordingly.
- Police Pension Grant will continue to be received annually at the level received in 2020/21 throughout the period of the MTFS.
- 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 1.0%, except where individual rates are known, or can be separately estimated due to particular inflationary pressures. Actual CPI for August 2020, published on 16 September 2020, was 0.2%
- Future investment income assumes an interest rate achieved of 0.20%. The current actual bank base rate is 0.1%
- 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			
	21/22	22/23	23/24	24/25	21/22	22/23	23/24	24/25
Annual % increase in Police Grant	2.0%	2.0%	2.0%	2.0%	2.5%	2.5%	2.5%	2.5%
Annual increase in police precept	1.99%	1.99%	1.99%	1.99%	2.99%	2.99%	2.99%	2.99%
Annual Pay Award (officers and staff)	2.0%	2.0%	2.0%	2.0%	3.0%	2.75%	2.75%	2.75%

Prior Year Figures, for information and next year estimate

(Future year impact on taxbase / Collection Fund are still being assessed in light of Covid-19 impact)

	Dorset				Devon & Cornwall			
	18/19	19/20	20/21	21/22	18/19	19/20	20/21	21/22
Annual increase in taxbase	1.4%	1.5%	0.5%		2.1%	1.4%	1.5%	
Annual surplus on Council Tax collection funds	£0.8m	£1.0m	£0.2m		£2.3m	£1.3m	£1.4m	

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- A 2.5% pay award has already been agreed for police officers from September 2020. A 2.5% pay award for police staff from September 2020 has been offered by the employer's side, although negotiations are ongoing.
- The employer's current contribution to the police staff pension scheme, plus agreed contributions to deficit will be as set out below. The 2023/24 figures for both forces are subject to the next actuarial valuation, expected to be announced in late 2022.

	Dorset				Devon & Cornwall			
	20/21	21/22	22/23	23/24	20/21	21/22	22/23	23/24
LGPS Base Contribution	17.20%	17.20%	17.20%	17.20%	16.30%	16.30%	16.30%	16.30%
Plus Repayment of LGPS Deficit (cash lump sum)	£0	£0	£0	£0	£0.52m	£0.52m	£0.52m	£0.52m
Estimated Total Cash Contribution	£5.6m	£5.7m	£5.9m	£6.0m	£11.4m	£11.8m	£11.9m	£12.2m
% of Staff Pay Budgets	17.2%	17.1%	17.1%	16.9%	16.70%	16.50%	16.10%	15.80%