

AGENDA NO: 5



INDEPENDENT AUDIT COMMITTEE – 11 DECEMBER 2018

MEDIUM TERM FINANCIAL STRATEGY

REPORT BY NEAL BUTTERWORTH, ALLIANCE HEAD OF FINANCE

PURPOSE OF THE REPORT

The purpose of this report is to update members on the progress of the Devon & Cornwall Police and Dorset Police Medium Term Financial Strategies (MTFS) for the financial year 2019/20.

1. INTRODUCTION

1.1 Work is progressing on the 2019/20 budget in line with the timescales set out in the paper to this Committee on 18th September. The draft budget requirement information has been prepared for each Force. Significant shortfalls have been identified in each Force due to three key issues:

- Increased employer contributions following the latest actuarial valuation of the Police Pension Scheme
- Increased assumption on pay awards
- New Strategic Alliance savings unlikely to be realised

1.2 Each Force is working to address the shortfalls through the use of targeted Service Area Challenges. Where appropriate, these are being carried out jointly. Other options for meeting the shortfall are also being considered.

1.3 A revised assumption schedule is attached at Appendix A.

1.4 This paper sets out the emerging pressures on the revenue budget in each Force, and actions being taken to address them.

2. MEDIUM TERM FINANCIAL STRATEGY PROGRESS

Funding

2.1 The Government announced its 2018 Autumn Budget on 29th October. This set out high level indications of departmental spending, including expected allocations to the

Home Office. These allocations were in line with the 2017 Budget, and did not indicate any additional funding for significant issues such as police pensions.

- 2.2 The assumption of flat cash Police Grant settlements throughout the period of the MTFS appears therefore to remain valid. Individual Force allocations will be made available in the draft funding settlement, currently expected to be on or around 6th December.
- 2.3 No detail has been released in respect of any change to the Council Tax referendum criteria. The 2018/19 funding settlement indicated that the referendum criteria would again be £12 in 2019/20. However, this was before the impact of the police pensions revaluation was known. In view of the assumed flat cash position on Police Grant, it is therefore thought possible that the referendum criteria may be revisited in light of the additional pressures, although any confirmation or otherwise of this is unlikely to be announced in advance of the settlement.
- 2.4 Indicative information has started to be received from collecting authorities in respect of Council Tax Surplus and tax base. However, the information is currently too incomplete to provide an update to the overall assumption, with no information yet received in respect of Dorset. It is currently proposed that the planning assumptions set out in Appendix A in this respect remain until all collecting authorities have reported.
- 2.5 £12 precept increase in 2019/20 and 2.99% increase thereafter has been applied in both Forces. The future year assumption has increased from 1.99% following indications that Forces may be able to increase precept in line with Local Authorities beyond 2019/20. The 2019/20 referendum limit is at this stage expected to be £12.

Budget Requirement

- 2.6 Calculation of the detailed budget requirement for each Force is nearing completion, to the degree that a draft budget is available, along with estimates of the following 4 years.
- 2.7 The calculations show that if the assumptions used in the 2018/19 MTFS were to continue to be valid, then the 2019/20 MTFS for each Force would be broadly similar to the 2018/19 forecasts.
- 2.8 However, the 2019/20 MTFS has three key and significant areas of difference in the assumptions used, which mean that the 2019/20 MTFS forecasts cannot be balanced at a £12 precept increase without a programme of significant further savings, impacting directly on workforce numbers. These areas are:
 - Pay Award. There has been considerable pressure to increase the 2018 pay award by more than the agreed 2%. This pressure is expected to increase further in 2019. The government's forecast of average wage growth in 2019 also exceeds 2%. A 3% pay award has therefore now been assumed in 2019 and future years for each Force.
 - Alliance Savings. The 2018/19 MTFS assumed that savings under the Strategic Alliance would commence in 2019/20 for Contact Management, Crime and Justice, Victims and Witnesses and Estates. The potential to achieve savings in these areas next year has since been revisited, and estimates of savings in these areas have been removed from the 2019/20 MTFS.

- Police Pensions. Following an actuarial review of the Police Pension Scheme, the amount required to be paid by employers will increase with effect from 2019/20. This has a significant effect on every Police Force, and the actuarial review and the budgetary arrangements are being challenged nationally. However, current advice from the Home Office and the Police and Crime Commissioner's Treasurer's Society (PACCTS) is clear that forces should budget for the additional cost.
- 2.9 Further financial demands on 2019/20, including a reduction in security grants, and costs of implementing and delivering Police Education Qualifications Framework (PEQF), add to the financial pressure that each Force is facing. In addition, unknown risks, such as the effect of Brexit, may have further implications.
- 2.10 Both Forces are now facing a significant financial shortfall across the period of the MTFS.

3. POTENTIAL MITIGATION

- 3.1 There are several sources of potential mitigation to the shortfall in the indicative MTFS. The key areas of potential mitigation are shown below.

Service Area Challenges

- 3.2 Work is ongoing within both Forces to review a number of service areas that may have the potential to realise savings. Resources have been identified and put in place to oversee and deliver these reviews. The areas to review and challenge have been prioritised, taking into account factors including risk. The amount of savings that may be achieved through this process remains unknown at this stage.
- 3.3 Further work is also being carried out to ensure that savings under the existing Alliance areas are maximised, in line with expectations.

The potential for the Council Tax referendum limit to be increased

- 3.4 The indication within the 2018/19 funding settlement was that Council Tax precept may be increased in 2019/20 by up to £12 per Band D property. There remains no official indication that this will change. However, with the significant additional burdens facing all Forces, and no indication of additional central funding being made in the government's Autumn Budget, it is possible that this may be reconsidered by MCLG and the Home Office. Further information is expected to be announced with the draft 2019/20 funding settlement around the 6th December.
- 3.5 In addition, while the draft budget assumes that from 2020 onwards the referendum limit will be 3%, there clearly remains the potential for this also to change. Firm information in this respect is unlikely to be made available until this time next year

National ICT Projects

- 3.6 Funding has been included within the capital programme for the indicative cost of national ICT projects. A number of these projects have the potential to deliver efficiencies, which could include cashable efficiencies. No estimate of any such cashable efficiencies has yet been included at this stage.

Further work on budget calculations may identify savings

- 3.7 Although the draft budgets have now been compiled, the process of examining financial requirements for the forthcoming year continues, and has the potential to realise unexpected savings. It also, of course, has the potential to uncover unexpected costs although close budget monitoring in the current year should mitigate that risk.

4. CAPITAL PROGRAMME AND FINANCING

- 4.1 Work is progressing in agreeing the Force capital programmes, with alignment between Forces where appropriate. Financing of the programmes has been incorporated into the MTFS, although remains subject to change as work on the programme continues, and will be finalised by the Treasurers as appropriate.

5. RESERVES

- 5.1 Similarly, the use of reserves, and level of reserves and balances held is a key feature of the MTFS. Both Forces hold earmarked reserves for specific purposes, primarily capital, which are expected to be fully utilised by the end of the MTFS period.
- 5.2 In addition, both forces hold General Balances to address unexpected financial risks and issues. These balances are forecast to be in the region of 3% of net revenue budgets by the end of 2018/19 for Dorset Police and 4% for Devon and Cornwall Police. CIPFA recommend that balances held should be between 3% and 5%.
- 5.3 Dorset intend to make provision in the MTFS to increase General Balances beyond 3%, and to reinstate funds used to cover the 2017/18 outturn.

6. RECOMMENDATION

- 6.1 Members are asked to note the report, the progress on the MTFS, and the action being undertaken to address the forecast shortfalls.

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APPENDIX A

SCHEDULE OF KEY BUDGET ASSUMPTIONS (updated November 2018)

This schedule identifies the key assumptions used in the ongoing calculation of the 2019/20 budget.

Assumptions common to Dorset Police and Devon & Cornwall Police

- Government Police Grant funding will remain static in cash terms in 18/19 and thereafter. This includes capital grant.
- Council Tax will increase by £12 in 2019/20 for a Band D property, and 2.99% (previously 1.99%) for each year thereafter
- Counter terrorism specific grant will remain at the same level as received in 2018/19 in future years. In the event that further information is available before February 2019, assumptions will be amended accordingly. Further counter terrorism funding of £160m was announced as part of the Government’s Autumn Budget. The MTFS assumes that neither Devon and Cornwall Police nor Dorset Police will receive any of this additional funding. Neither force received any of the additional counter terrorism funding in 2018/19.
- 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
- A 2% pay award has already been agreed for police officers from September 2018, although there remains the potential that this may be challenged. A 2% pay award for police staff from September 2018 is currently assumed. In view of the pressure on the current year pay award, the 2019/20 base budget requirement will assume that a 3% pay award will be applied on 01 September 2019 and in each subsequent year for police officers and police staff.
- Police Officer pension contributions have been assumed to increase in line with the guidance following the recent actuarial valuation. This assumes a degree of assistance from the Treasury towards the costs in the first year, 2019/20. The potential future contributions, reflected in the MTFS are:

	Devon & Cornwall			Dorset		
	2018/19	2019/20	2020/21	2018/19	2019/20	2020/21
Proposed % Employer Contribution	24.20%	33.90%	33.90%	24.20%	33.90%	33.90%
Proposed Additional Contribution Following Valuation (£m's)	0.000	4.280	10.862	0.000	1.662	4.199
NB: Total Employer Contributions (£m's)	27.100	32.193	39.612	10.475	12.451	15.312

- 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. Inflation on vehicle fuel and utility costs is expected to be 11%. Actual CPI for October 2018, published on 14 November 2018, was 2.4%
- Future investment income assumes an interest rate achieved of 0.90%. The current actual bank base rate is 0.75%

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- The capital programme will be financed by capital grant, capital receipts and revenue financing through direct contributions, use of reserves and borrowing.

Assumptions that are different for each Force

	Dorset				Devon & Cornwall			
	2016/17	2017/18	2018/19	2019/20	2016/17	2017/18	2018/19	2019/20
Annual increase in tax base	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

- The employer's current contribution to the police staff pension scheme, plus agreed contributions to deficit will be as set out below.

	Dorset				Devon & Cornwall			
	18/19	19/20	20/21	21/22	18/19	19/20	20/21	21/22
LGPS Base Contribution	14.35%	15.50%	16.10%	16.10%	14.10%	14.10%	14.10%	14.10%
Plus Repayment of LGPS Deficit (cash lump sum)	£0.35m	£0.55m	£0.58m	£0.58m	£2.064m	£2.113m	£2.163m	£2.163m
Estimated Total Cash Contribution	£5.6m	£6.4m	£6.9m	£7.0m	£13.9m	£13.3m	£13.6m	£13.7m
% of Staff Pay Budgets	15.3%	17.0%	17.6%	17.6%	16.6%	16.8%	16.8%	16.7%