



INDEPENDENT AUDIT COMMITTEE – 18 SEPTEMBER 2018

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 budget planning process for the financial year 2019/20.

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. With effect from 2019/20, both Forces need to produce an Annual Capital Strategy, which is currently being developed from the existing Estates, ICT and Fleet strategies. This strategy will drive 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 2019/20 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 2018 and included a rise in the precept of £12 for a Band D property (6.17% Dorset, 6.81% Devon & Cornwall). This enabled resources to be directed into key priority areas.
- 2.2. Key features of the 2018/19 budget for each force are shown below:

	Dorset	Devon & Cornwall
Budget for 2018/19	£125.5m	£293.6m
Police Officers (FTE)	1,211	2,990
Staff, inc PCSOs (FTE)	1,097	2,173
Funding from Reserves	£2.3m	£3.6m

- 2.3. Each force is required to achieve savings in 2018/19. 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 largely breakeven future budget positions, although Dorset was forecasting a deficit in 2020/21 and 2021/22, as set out below:

	Dorset				Devon & Cornwall			
	2018/19 £m's	2019/20 £m's	2020/21 £m's	2021/22 £m's	2018/19 £m's	2019/20 £m's	2020/21 £m's	2021/22 £m's
Projected Funding	125.5	129.1	131.0	133.0	293.6	302.9	307.8	312.9
Projected Expenditure	125.5	129.1	132.8	135.3	293.6	302.9	307.8	312.9
Projected Deficit	0.0	0.0	1.8	2.4	0.0	0.0	0.0	0.0

- 2.5. The projections are based on a precept increase of £12 for a Band D property in 2019/20, followed by annual 1.99% increases, and an assumed cash standstill position on grant funding.

3. CONSIDERATION OF THE BUDGET FOR 2019/20 TO 2022/23

- 3.1. In previous years the budget considerations have formally commenced in September. For 2019/20, the significant added complexity of accounting for the proposed merger alongside business as usual work means that work on the budget has had to start earlier.
- 3.2. Most significant is the work taking place to improve the forecasts for the likely timing of capital expenditure, and to use common assumptions. This includes ensuring that

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schemes are costed and prioritised consistently. This is particularly relevant for ICT convergence activity. Decisions regarding capital financing arrangements will necessarily continue to be a separate consideration in accordance with the Prudential Code.

- 3.3. Further considerations in view of the proposed merger will include a reassessment of the timing of Strategic Alliance savings. The budget, and MTFs, will need to be drawn up on the basis of the existing corporations sole separately and on a going concern basis.
- 3.4. In due course, consideration will separately to the potential merged organisation including savings arising out of a merger, and potential costs such as harmonisation of pay. This will follow the full business case and the receipt of a “minded to” decision from the Minister. This is expected to follow the budget setting process for 2019/20.
- 3.5. A schedule of key assumptions that are expected to be used in calculating the 2019/20 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.
- 3.6. Further work is taking place to align the budget planning process to the Force Management Statements. It is anticipated that this will develop further this year and be fully aligned for the 2020/21 budget setting process.
- 3.7. The following timescales are proposed for the preparation of the budget:

June / 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

Delivery of savings and alliance 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, Strategic Alliance
Unavoidable Costs

December

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

January 2019

First draft panel report
Final sign off of report to Panel

February 2019

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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. RECOMMENDATION

- 4.1. Members are asked to note the report and the time table for the budget planning process for the financial year 2019/20.

**NEAL BUTTERWORTH
ALLIANCE HEAD OF FINANCE**

**Members' Enquiries to: Neal Butterworth, Alliance Head of Finance
(01305 222356)**

SCHEDULE OF KEY BUDGET ASSUMPTIONS

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% 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.
- 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. A 2% pay award for police staff from September 2018 is currently assumed, although staff associations are seeking a higher figure. The 2019/20 base budget requirement will assume that a 2.0% 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 remain at 24.2% throughout the period of the MTFS
- 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 July 2018, published on 15 August 2018, was 2.3%
- Future investment income assumes an interest rate achieved of 0.90%. 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			
	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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- 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%