

MEDIUM TERM FINANCIAL STRATEGY

PURPOSE OF THE REPORT

1. The purpose of this report is to provide members with updated Medium Term Financial Strategy (MTFS) financial projections which take into account year-end adjustments, 2011-12 budget monitoring, an updated capital programme and progress with the CSR 2015 Savings Plan along with a review of the assumptions included in the MTFS approved in February 2011 when the budget and precept for the year were approved.
2. The report considers the implications of the updated MTFS for the CSR 2015 Savings Plan and for use of the flexible facility approved by the Police Authority to utilise up to £6m of reserves to support the Force in achieving the savings necessary to balance the budget over the medium term in the light of frontloaded reductions in Government funding.
3. It also provides an update on a range of issues that have potential implications for future iterations of the MTFS in lead up to budget and precept setting for 2012/13. Assuming that the Police Reform and Social Responsibility Bill is enacted, this will be the last budget to be set by this Authority. The Authority's final budget and MTFS will establish the financial situation that will be inherited by the Police and Crime Commissioner (PCC) in May 2012.

BACKGROUND

4. The MTFS seeks to provide comprehensive information on the backdrop against which Members will be asked to make decisions on spending plans together with the level of precept and proposals for the use of reserves. It incorporates financial projections covering a five year period and is a living document bringing together the resource implications of key strategies and other important plans to ensure that they are deliverable against a background of increasingly significant financial constraints.
5. The Authority approved its current MTFS on 15 February 2011 along with the budget and precept for 2011/12. At that stage, members noted the added significance in view of the fact that the Authority is in a period of transition ahead of the elections for a Police and Crime Commissioner in May 2012 when it will be abolished if the Police Reform and Social responsibility Bill is enacted.

6. Members are well aware that in those circumstances it will fall to this Authority to agree the 4 year Policing Plan and to approve the budget and set the level of Council Tax for 2012/13.
7. The MTFS document explains the underlying assumptions within the financial forecast and models the level of reserves and cashflow. It also considers unfunded risk and other factors impacting on the Authority. It is necessary therefore to continuously review the position as the year progresses. This report represents the first formal review of the previously agreed Strategy.

INFORMATION

8. The latest update of the MTFS financial forecast is attached at Appendix 1a. Details of the implications on the impact on the Performance Improvement Reserve (PIR) are shown at Appendix 1b. These highlight changes from the forecasts approved in February 2011. The cashflow projection is shown at Appendix 1c.
9. The estimates of external funding have been maintained at the level in the original MTFS aside from an adjustment in 2011/12 of £58k due to a late revision by the billing authorities of the amounts of Collection Fund surpluses.
10. Members were made aware at the time of approval of the MTFS earlier in the year that whilst funding information was reasonably certain for 2012/13, some uncertainty remains e.g. there is still no information as to whether there will be another initiative to provide Government support if Council Tax is frozen once again.
11. There is even more uncertainty for 2013/14 and beyond, where there are significant concerns over the future of funding for Neighbourhood Policing/PCSO Grant after 2012/13 when this support is likely to be subsumed within the General Grant.
12. A range of additional issues are currently being monitored to assess the potential impact on budget forecasts including:-
 - a) The Local Government Resource Review
 - b) Revisions to the Funding Formula for General Grant distribution
 - c) The Localism Bill (Council Tax Referenda)
 - d) The implications on funding for and potential increased demands upon policing of budget reductions in local authorities and other parts of the public sector

13. The revised financial forecast includes details of carry forwards following the completion of the accounts for 2010/11. It reflects information on the latest budget monitoring position for 2011/12, as at Period 4 which indicates that there is a predicted underspend of £1.4m. The MTFs assumes that this will be used, in part, to offset increased costs in 2011/12 not yet reflected in the base budget.
14. These include under-recovery within the Police Pay Holding Account. This has been discussed at the Resources Committee. Previous budget monitoring reports have referred to the need to address this matter following the under-recovery being identified in 2010/11. The MTFs projections at Appendix 1a now include provision for the latest estimates of the impact of revised assumptions. An uplift in the Police Pay budget of £1.3m in 2011/12 rising to £2.4m by 2013/14 is required. The calculations used in connection with the Police Pay Holding Account are very sensitive to assumptions on numbers of retirements, recruitment and intake. Last year officers uncovered that a by product of the freeze on officer recruitment was an increase in the average cost of officers leading to an under-recovery of costs within the Holding Account. This offset the projected budget underspend last year. Ongoing information will be included in budget monitoring reports for 2011/12 as the year progresses to take account of any balance on the Police Pay Holding Account.
15. Provision has also been made for other known pressures such as the increased fuel costs. This is substantial, notwithstanding the fact that the Force is now part of a pan Government procurement arrangement and despite reductions in the size of the vehicle fleet.
16. The additional budget pressures within the forecast have already been reduced in part by reductions in the estimates of capital financing costs. These reflect reductions in the Minimum Revenue Provision (MRP), amounting to £178k in 2011/12 and £403k over the five year period of the MTFs. This takes into account the revised costs within the capital programme and adjustments to the amounts in respect of the MRP holiday which allows provision in respect of the Cough Road Custody Suite and Divisional Headquarters to be deferred until it becomes operational. The projections also now take into account the capitalisation of interest in connection with Clough Road; again, up to the time it becomes operational. This is in line with International Financial Reporting Standards.
17. The estimates of interest payable within capital financing costs have been further reduced as a result of revisions to interest rate assumptions lowering the expected rate at which the Authority is likely to borrow. The rate has been reduced from 5% to 3.5%. £6m of borrowing has already been undertaken at rates below this figure and the Force and Authority are continuing to monitor

movements in the money markets with a view to taking further advantage of the attractive rates currently on offer.

18. The Capital Programme has been revised and summarised details are included at Appendix 2 which again shows details of changes from the estimates previously approved.
19. The MTFFS projections at Appendix 1a retain details of the previously agreed target savings for the CSR 2015 Savings Plan. A full report on the CSR 2011 - 2015 will be considered in the report at item 8 on this agenda. This shows that it is currently estimated that the plan will under achieve its target in terms of permanent budget savings by £0.3m and there will be £4.46m less in terms of one-off savings over the CSR period when compared with those originally forecast. If this gap is not closed then this will require alternative savings to be identified or further calls on the PIR beyond those already envisaged.
20. Other issues which will give rise to changes in budget pressures which cannot be assessed at this time include:-
 - a) The Police Reform and Social Responsibility Bill
 - b) Parts 1 and 2 of the Winsor Review of Police Terms and Conditions
 - c) The Hutton review of public sector pensions
 - d) Police officers' and Police staff pay awards
 - e) Police Inspections and vfm Profiles
 - f) Inflation
 - g) Interest rates
 - h) The Olympics
21. The Authority has retained a significant level of reserves in the PIR in order to mitigate the impact of any failure to deliver anticipated savings and also to provide a cushion against further reductions in Government grants or unforeseen spending pressures.
22. Funds earmarked to support the Voluntary Early Retirement and Redundancy (VER) Scheme and retraining and redeployment initiatives were originally allocated from the PIR. The VER Scheme was extended to 31 March 2011. The balance of the amount set aside that is no longer required will now be available generally to support the revenue budget.
23. The PIR is held in addition to the General Reserve, set at 3% of net revenue budget, and specific Risk Management and Partnership Reserves, Provisions

and limited contingencies within existing budgets in the form of the Business Development Fund and Chief Constable's Performance Fund.

INDICATIVE BUDGET FORECASTS 2011/12 to 2015/16

24. The detailed MTFs forecasts retain the original assumptions for marginal changes in external funding from 2013/14 after significant reductions in 2012/13 and a precept/Council Tax freeze in 2011/12 followed by increases of 2.5%. This increase is applied to a Council Taxbase estimated to rise by 1k Band D equivalent properties each year. These assumptions will be updated later in the year.
25. The forecast assumes pay freezes for 2011 and 2012 for all but the lowest paid with increases for Police Officers and Police Staff at 1.5% included for 2013/14 and at 2.5% thereafter.

FUNDING GAP AND PROPOSALS

26. As explained above, the figures in Appendices 1a, 1b and 1c assume that the original savings targets as set out in the MTFs agreed in February 2011 for 2011/12 to 2013/14 are maintained and achieved. If this is the case then with the adjustments that have been made to the financial forecast and offsetting 2011/12 costs by £1m by use of the projected underspend, there will be a call on reserves of £2.589m (£67k in 2011/12, £852k in 2012/12 and £1,607k in 2013/14) against the £6m flexible facility previously agreed.
27. The financial forecast also assumes that a further £953k of savings will need to be added to the CSR targets in 2014/15 and 2015/16 to bring the budget back into balance.
28. After taking account of the additional usage referred to in para 25, the implications for reserves are that there will be a projected PIR balance at the end of 2015/16 of £19.432m. It must be noted however that this excludes the shortfall of £4.46m in the current projections of savings against those in the original CSR Savings Plan.
29. At this stage no account has been taken of savings from Regional Working which if achieved would reduce the call on reserves or the level of local savings that will need to be achieved.

CASHFLOW

30. The forecasts also model cashflow throughout the period of the MTFs and during which the Authority will operate within its approved borrowing limits and other prudential indicators agreed within annual Treasury Management Strategy Statements (TMSSs).

31. The Authority will seek to maintain a minimum cash balance for working capital purposes of £10m. Detailed cash movements are monitored as part of regular Investment Review Meetings.
32. External borrowing will have to be undertaken during the period of the MTFS and treasury management activity will be reported to the full Police Authority in accordance with the arrangements set out in the TMSS.

OPTIONS/RISKS AND OPPORTUNITIES

33. Clearly there are substantial risks that key assumptions used in the MTFS will be inaccurate. This report seeks to provide members with information on the efforts that are being made continuously to seek to ensure that the MTFS represents the best information available and that the assumptions used are as realistic as possible.
34. There are significant uncertainties with regard to the level of funding that will be available to support policing in the future.
35. The reports elsewhere on the agenda in relation to the CSR 2015 Savings Plan and Regional Collaboration provide more detailed information on the extent to which risk is considered as part of the business decision making process and efforts being made to exploit opportunities to secure further savings and efficiencies
36. There are significant risks associated with the level of business change now being implemented. The Authority will therefore need to continue to balance the level of risk and uncertainty within the MTFS with the level of reserves it wishes to retain in order to mitigate those risks.
37. The MTFS forecasts set out in the Appendices to the report assume that the CSR 2015 Savings Plan will deliver the savings originally envisaged and that further savings will be required in later years in addition to use of reserves. The latest position on the Plan is set out in the report at agenda item 8. The extent to which savings will not be achieved will need to be covered by additional savings being identified or by further use of reserves.
38. At this stage, savings from Regional Collaboration have not been included. Arrangements are in hand to agree the basis on which all four authorities in the Region will include savings in their respective budgets and MTFS projections. Identification and inclusion of these savings within the financial forecasts in the future will mitigate the need for local savings and for the use of reserves.
39. Officers are continuing to develop the financial forecasts with a view to allowing members to consider options interactively in the run up to budget setting.

POLICING PLAN AND PERFORMANCE

40. The MTFS provides details of the resources available to support the delivery of the Policing Plan and performance.

IMPACTS OR LINKS TO COLLABORATION

41. The original MTFS made provision for the Authority's contribution towards the cost of Regional Working. It also set out details of the savings suggested in the business cases approved for implementation in respect of Scientific Services and Procurement to enable Members to see the potential impact of the scale of the savings in context. However, those savings were not hard-wired into the budget and the MTFS.
42. The report at item 9 on this agenda provides a detailed update on Regional Collaboration generally and includes a copy of the milestone plan produced by the Head of Regional Collaboration. This plan, which was considered by the Regional Collaboration Board on 25 August and will be considered by JPAC on 22 September 2011, will be a key factor impacting on work that is being conducted by the Treasurers and Finance Directors in the Region to agree a process by which savings can be incorporated into financial plans on an agreed and consistent basis by all Forces and Authorities.

FINANCIAL IMPLICATIONS

43. The detailed projections in the Appendices 1a to 1c summarise the financial implications of the issues considered in this report. Information on the Capital Programme is included in Appendix 2.

LEGAL IMPLICATIONS

44. The Authority has a duty to ensure that proper procedures are in place for the management of its financial affairs. The Authority has an established process of making budget decisions against the background of a five year financial forecast included within the MTFS. This is essential as the Treasurer is required to confirm that the budget is robust and that the level of reserves is adequate.

EQUALITY AND DIVERSITY AND HUMAN RIGHTS

45. There are no immediate equality and diversity and human rights issues arising from this report however it will be necessary to consider these matters as an integral part of the process of implementing individual business and spending decisions.

CONCLUSIONS

46. The Authority has used its MTFS as a key tool in developing its plans for service delivery to ensure that they are financially sustainable over the medium term and to demonstrate that the Authority is in a position to live within its means.
47. The revised MTFS represents the first significant update and refers to the specific reports elsewhere on this agenda in connection with progress on achieving budget reductions required in the CSR 2015 Savings Plan and on Regional Working.
48. The report sets out proposals for using a combination of 2011/12 projected underspends, additional use of reserves and increases in the CSR Savings Plan targets in later years as a strategy at this stage for addressing the need to balance the budget.
49. Whilst the MTFS does not yet include assumed budget savings in connection with Regional Working arrangements are being developed in conjunction with the other Force and Authorities in the Regional for these to be included in future iterations of the document.
50. There are a substantial number of issues that have the capacity to significantly impact on the Authority in the run up to setting the budget for 2012/13 which will probably be the last budget that will be agreed prior to its abolition.
51. Members will need to continue to be provided with updated information on the MTFS in the period to setting the budget in February 2012.

RECOMMENDATIONS

52. It is recommended that the Committee:-
 - a) Notes the revised MTFS,
 - b) Consider the implications for use of the flexible facility of £6m of reserves to support the Force during the CSR period,
 - c) Requests further updates on the costs and savings associated with Regional Working,
 - d) Requests that further updates of the MTFS be reported to future meetings

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Background Documents:	JB/MTFS/2011 v.2	

