



SURREY POLICE AND CRIME PANEL

28 SEPTEMBER 2023

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MEDIUM TERM FINANCIAL FORECAST (MTFF) UPDATE 2024/25 to 2027/28

SUMMARY

1. Each year, as part of the budget setting process, a Medium Term Financial Forecast (MTFF) is prepared to assist with demonstrating whether the Force is financially sustainable in the medium term.
2. This has now been updated to reflect changes since then, for example the pay settlement for officers, and to review and update assumptions in the light of current circumstances.
3. This latest MTFF indicates that cumulative savings of £15.6m will be required in the period up to March 2027. This however is an estimate and could change significantly depending on how actuals events align with the assumptions over time. This is gone in to in more detail in the attached report.

RECOMMENDATIONS

4. The Panel are requested.
 - a) To note the initial outcome of the forecast, the likely need for additional savings and the financial challenge that this represents.
 - b) To note the current assumptions being employed in the scenarios and the risks therein.
 - c) To comment as appropriate.

CONTACT INFORMATION

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INTRODUCTION

5. CIPFA advises that it is good practice that the MTFP should cover at least a 4-year period and be made up of estimated future costs and income based on a range of best guess assumptions. Whilst there is always a degree of uncertainty in a number of the assumptions used the forecast is meant to provide an indication as to the scale of the potential financial challenges an organisation may need to address in the future.
6. At the time of precept setting, it was estimated that in the period from 23/24 to 26/27 £17.0m of savings would be required to deliver a balanced budget. When the full Medium Term Financial Plan (MTFP) was put together in February 2023 this figure had reduced to £15.7m.
7. In August 2023 the MTFP was updated to reflect the period from 2024/25 to 2027/28, to include the recently announced police officer pay settlement with funding, estimates of changes in tax base, grants, and precept and to reconsider inflation. This has reduced the estimated savings required to £15.6m. This is a cumulative figure in that a total of £15.6m will need to have been removed by the time the budget is set for 2028/29 compared to now if it is to balance.
8. Although inflation now appears to be falling and the Government has recognised the pay pressures Forces are under there is still uncertainty as to how the cost base of the Force will change over time. In addition, 2024/25 marks the last year of the 3-year spending review and potentially a general election all adding to the uncertainty. Therefore, some scenario work has been done to look at the impact of changes in key assumptions and the effect this may have on the forecast going forward. This is included within the report.

COSTS

Pay

9. Pay is by far the biggest cost within the Force representing over 80% of total expenditure. The Pay Review Body, whose findings were endorsed by Government, recommended a 7% pay rise for officers from September 2023. For the forecast it has been assumed that there will be a further pay rise of 5% in the year after followed by 2% thereafter reflecting the possible fall in inflation.
10. Staff pay is negotiated locally and unions accepted a 4% pay rise for 2023/24 earlier in the year. Looking forward it has been assumed that 5% will be paid for 2024/25 and then 2% thereafter in line with Police Officers. It has been assumed

that the vacancy rate would remain at 10%. If the Staff pay rise was increased to 7% to match that for Officers this would add £2.4m to costs over a year.

11. The Government recognising the financial pressures on Forces awarded a special grant of £330m in 2023/24 and £515m in 2024/25 to fund any pay increases. This was shared out using formula shares, which sadly disadvantages Surrey as we have the lowest proportion of formula grant in the country but did provide an additional £6.3m in 2024/25. As the grant is only for 2 years it has been assumed it will continue in some form within the Spending Review settlement beyond 2024/25.

12. Each additional 1% on Police and staff pay adds about £1.4m and £0.8m respectively to costs. £2.3m, the cost of the combined increase, equates to about £4.60 on Council Tax. Hence a relatively modest amount of pay inflation translates into a large savings gap or Council Tax increase.

Non-Pay Costs

13. These equate to around 20% of the entire budget. The inflation rate is currently falling but costs are still rising albeit more slowly. Energy costs, in particular fuel, have reduced but contract costs related to CPI are still feeding through. That said a lot of the inflation in costs has it looks as though it will continue to fall and so an allowance of 3% for 2024/25 followed by 2% thereafter has been used in the MTF. 1% change in inflation for non-pay represents additional costs of £0.5m per year.

14. With respect to capital funding for schemes, such as the new HQ, this has been included in the MTF. It may be though that if interest rates continue to rise some capital projects may have to be modified or deferred.

FUNDING

Government Grants

15. In 2022/23 the Government announced a 3-year settlement for Police. This included an additional £150m in 2024/25 and it has been assumed that this will be honoured. For the next Spending Review period it has been assumed that there will be no increase in funding i.e., flat cash. This would be a reduction in real terms.

16. The Uplift program ended in March 2023 and the Government gave a grant of £3.6m to ensure numbers are maintained. It has been assumed that this grant will continue into the future but not increase. Any increase in officer costs as they move up the pay scale would need to be covered locally.

17. The Government has also started its review of the Police funding formula with the intention of it being completed in 2024 and one assumes implementation sometime after. An initial consultation was due to come out this year but so far nothing has

been announced. Given that there is likely to be a General Election within 12 months it seems unlikely that the formula will be implemented before then. The PCC and I have had discussions with the Home office setting out our concerns for Surrey and reminding them that Surrey already receives the amongst the lowest level of funding per head. This lobbying will continue as the work progresses. Although Surrey's share could fall it has been assumed that if this is the case some sort of safety net will be in place mitigating a reduction at least for the life of this forecast. It is also worth reiterating that changes to the Formula only impacts the relative share of resources that each Force gets but does not change the overall level of resources available to policing in general.

Council Tax

18. With regard to Council Tax the Government announced in January 2022, as part of the spending review, that PCCs would be given the flexibility to increase Council Tax by up to £10 in the next 3 years without having to call a referendum. For 2023/24 following lobbying from NPCC and APCC the Government agreed a one-off increase of £15. It has been assumed that this will not be the case for 2024/25 and furthermore increases will be restricted to 2% in the new SR period from 2025/26 onwards.

It is however the PCC that proposes the level of Precept increase each February when the budget is set and the Minister that sets the Referendum Limit.

19. Each £1 difference in Council tax impacts the budget by about £0.5m. It has also been assumed that the tax base will increase by 0.7% in line with the assumptions being used by Surrey CC.

SAVINGS REQUIREMENT

20. Therefore, taking everything in to account the latest MTFP shows that there is a significant potential savings requirement that the Force will need to achieve if it is to balance its budget over the medium term. The results are summarised in the table below:

	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m	TOTAL £m
In year savings	6.0	4.5	2.4	2.7	15.6
Cumulative Savings	6.0	10.5	12.9	15.6	15.6

This is shown in more detail in Appendix A

21. Only £3m of the £6m savings required for 2024/25 has been identified at the moment of which the vast majority is still to be implemented. Work is ongoing to identify further savings and deliver those identified in full. The PCC is being consulted at key stages in the process.

RISKS

22. There are significant risks around the assumptions which can have big impacts (positive and negative) on the MTFP. Some of these, such as pay and inflation, have already been covered. However, areas such as pensions, interest rates, contract costs etc could also have an impact. National ICT programs, such as ESMCP which has already added £1.8m to capital costs, continue to overrun thereby leading to additional costs for Forces.

23. There are also operational risks in respect of the increasing difficulty to attract staff with the skills needed as pay becomes uncompetitive. In respect of staff in areas such as IT it has been difficult to match rates paid in the private sector. For Officers some Forces offer more generous terms leading to an increase in transfers and potential recruits may decide they can get more money and better conditions outside the Force. Demands on the Force may also rise due to increasing economic pressure on the public.

24. Given 80% of costs relate to people a reduction in numbers would be the normal approach to close the budget gap. However, due to the penalty regime in place to ensure Officer numbers are maintained any reduction can only come from Police staff.

CONCLUSIONS

25. The underlying assumption in the forecast is that inflation will be relatively short term and that things will then get back to normal over the life of the forecast. A balance needs to be struck between being realistic with the assumptions but also not driving through cuts which in the end may not be required. Even on this basis £15.6m will be required to be found over the life of the forecast. This gap is created simply by costs rising due to inflation and yet funding staying flat – it is not as a result of any increase in services.
26. If inflation were to become embedded for any length of time and feed through into wages with no funding was provided, then the savings required could easily rise quite sharply. This would be uncharted territory for all Police Forces, and it may be that some may need to consider whether a section 114 notice is appropriate as has been the case in Local Government.
27. It is no understatement to say that these savings are proving to be challenging to deliver, given the efficiencies already achieved, without impacting services. As staff costs represent 80% of total costs most of the savings would need to come through reducing headcount. As it is not possible to reduce police officers due to Uplift it is police staff who would bear the brunt of any cuts. The PCC is doing everything she can with the Force to minimise that impact on residents but in the end the budget does have to be balanced.
28. The PCC and her staff will continue talking to Government to ensure that it understands the funding pressures Policing faces and the impact that this may have on services. This will be particularly important in the run up to the current settlement.
29. Unearmarked reserves currently stand at £10.8m and total reserves £30.8m. Some of this may need to be used on a short term one off basis to cover budget gaps – but this will be avoided is at all possible.
30. The MTFP will be updated during the year to reflect significant changes and will be presented as part of the precept setting process in February 2024.