



SURREY POLICE AND CRIME PANEL
26th SEPTEMBER 2024

MEDIUM TERM FINANCIAL FORECAST (MTFF) UPDATE
2025/26 to 2028/29

SUMMARY

1. Each year, as part of the budget setting process, a 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 and to review and update assumptions in the light of current circumstances.
3. This latest MTFF estimates that cumulative savings of £23.4m will be required for the 4 years from 2025/26 to 2028/29. This, however, is an estimate and could change depending on how actual events align with the assumptions over time. This is gone in to in more detail in the attached report.

RECOMMENDATIONS

4. The Panel is invited:
 - 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 for the MTFF to cover at least a 4-year period and should include an estimate of future costs and income based on a range of prudent 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 future years.

6. An MTFF was prepared at precept setting and this was reviewed again shortly afterwards. This has now been updated to reflect the recently announced police officer pay settlement and changes in general and pay inflation assumptions. This potential budget gaps that have been identified are summarised in the table below:

MTFF Forecasts	2024/25 £m	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m
At Precept Setting	3.8	7.1	4.4	2.8	
February Review	3.8	7.2	4.4	2.8	
August Review		10.2	5.5	3.5	4.2

7. The change in the potential gap has been driven in the main by assumptions related to inflation in goods and services and pay for 2025/26 for Police Officers and Police Staff. This has led to a cumulative savings estimate of £23.4m for the period from 2025/26 to 2028/29 which will need to be removed by the time the budget is set for 2028/29 compared to now if it is to be sustainable in the medium term.
8. Although the rate of inflation now appears to be falling and the Government has recognised the pay pressures Forces are under and there is still uncertainty as to how the cost base of the Force will change over time. 2024/25 marked the last year of the 3-year spending review and it is not clear yet as to what the future funding situation will be. Hence some scenario work has been done to look at the impact of movements in key assumptions and the impact this may have on the estimated savings 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 4.75% pay rise for officers from September 2024, this will increase the cost base considerably into next financial year where it is assumed another pay award will take place. The government central assumption is to include 2.5% annually year on year however it is highly debatable whether this will be realistic.

10. Staff pay is negotiated locally but is normally broadly in line with police officer pay. For Surrey, the Staff Union accepted a 5.5% pay rise for 2024 and it has been assumed that staff pay will rise between 2% and 4% from April 2025 and then 2% thereafter. It has also been assumed that the staff vacancy rate would remain at 10%. If the Staff pay budget was increased to match the vacancy rate assumed for Officers, this would add £5.6m to costs over the period to 2028/29.
11. The Government recognising the financial pressures on Forces awarded a special grant of £175m in 2024/25 to fund the 4.75% officer pay award over the 2.5% assumed to be included in Forces budgets. The Government is yet to announce how this funding will be shared out and the PCC has made representations to the Home Secretary to consider using headcount or total budget rather than formula grant shares for the allocation of funding. As Surrey has the lowest formula grant share using this allocation method for the additional funding will lead to Surrey getting the lowest amount. Hence it is highly likely that the grant will not cover the whole cost of the pay rise for officers and certainly will not contribute to the increase in pay for staff.
12. Each additional 1% on Police and staff pay adds about £2.4m to costs. This equates to £4.80 on Council tax and therefore a relatively modest amount of pay inflation translates into a large savings gap and possibly Council Tax increase.

Non-Pay Costs

13. These equate to around 20% of the entire budget. As the inflation rate continues to fall prices are rising more slowly although past increases are still baked in. It has been assumed that inflation will bottom out at 2%. A 1% change in inflation for non-pay represents additional costs of £0.6m per year.
14. With respect to capital funding for projects, such as the new HQ, the cost of this is has been included in the MTFF.

FUNDING

Government Grants

15. 2024/25 marked the last year of the 3-year settlement for Forces. The new Government has said that they anticipate a 1-year settlement being made for 2025/26 with a 3-year settlement following the year after. That said it is unclear what the changes the new Government will make to funding. They have said that public expenditure is very tight and so it has been assumed that there will be no cash increase in funding over the entire MTFF period. The National Police Chief's Council and PCCs are putting together a submission for the spending review to highlight the financial pressures within Forces - in particular with regard to capital funding and pay.

16. The previous Government gave a grant to ensure that the additional officer numbers achieved under Uplift were maintained and it has been assumed that this grant will continue but not increase. Any increase in officer costs as they move up the pay scale however will need to be covered locally.
17. The previous Government conducted a review of the Police funding formula, but no changes were implemented. The new Government has not signalled its intention in this area and so it has been assumed that there will be no change for the life of this forecast.

Council Tax

18. The previous Government recognising the financial pressures on Forces, following lobbying from Chief Constables and PCCs, permitted greater flexibility in setting Council Tax increases than the £10 flexibility included within the 2022 spending review. The level of Council Tax increase flexibility given to PCCs will be something the new Government will no doubt announce later in the year. However, given that the current Spending Review period has ended it has been assumed for modelling purposes that the Council Tax referendum limit will be set at the historical level of 2%. Were, for example, the limit to be set at £10 for 2025/26 this would reduce the recurrent savings requirement by approximately £1.75m in that year.

It is however the PCC that recommends the level of Precept increase 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 0.5%.

SAVINGS REQUIREMENT

20. Therefore, taking everything in to account the latest MTFE shows that there is a significant potential savings requirement 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:

	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	TOTAL £m
In year savings	10.2	5.5	3.5	4.2	23.4

This is shown in more detail in Appendix A

21. Work is being undertaken to identify where these savings can be delivered from. Savings are initially being identified through tactical reviews and service transformation to minimise the impact on front facing services. Savings are also being identified as quickly as possible, and wherever possible additional savings above and beyond the target will be made in-year in order to reduce the operating cost base of the following year, and help reduce the gap, noting that this may also provide a potential one-off surplus from an underspend for that year as was the case in 2023/24. That surplus would then be available to offset other costs, such as capital requirements for borrowing which further reduce pressure in the following years. Progress so far is summarised in the table below:

	2025/26 £m	2026/27 £m	2027/28 £m	2028/29 £m	TOTAL £m
Savings found in previous years	1.6				1.6
Tactical savings	0.2				0.2
Transformation	2.2	3.3	0.1		5.6
To be identified	6.2	2.2	3.4	4.2	16.0
Total	10.2	5.5	3.5	4.2	23.4

22. Of the £5.6m Change savings identified only £1.1 has been delivered, although a program is in place to deliver the rest. Regarding the unidentified savings for 2025/26 the Force is undertaking an in-depth budget review to identify one off savings until a longer-term solution can be implemented. That said reserves may also be needed on a one-off basis to balance the budget for 2025/26 depending

on the settlement, council tax and cost increases. Whilst the use of reserves will enable the budget to be balanced for 2025/26 the requirement to find permanent savings will remain.

RISKS

23. There are significant risks around the assumptions which can have big impacts (positive and negative) on the MTF. 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 and regional programs such as ICT, SERCOP, NPCC could also lead to additional costs for Forces.
24. Given 80% of costs relate to people a reduction in employee 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. The options for reducing the 20% non-staff costs are limited due to the fact that most of these costs i.e. transport, buildings, forensics, ICT support the front line. However, work is being done to renegotiate contracts and procure jointly with other Forces.
25. Whilst the Force is making every effort to not impact services as a result of savings required there is a risk that this will not be possible.

CONCLUSIONS

26. The underlying assumption in the forecast is that inflation will continue to fall and that things will then get back to normal over the life of the forecast. A balance needs to be struck between being prudent with the assumptions but also not driving through cuts which in the end may not be required. Fundamentally however the budget gap is created simply by costs, in particular pay, rising at a faster rate, mainly due to inflation, than funding. It is not as a result of any increase in services.
27. The Force has historically delivered savings every year to balance the budget but as a result the search for future savings becomes more difficult. As is the case with Councils Forces are under a legal obligation to balance their budget and if they are not able to do this the s151 Officer must consider whether to issue a s114 notice. For Surrey there are reserves that can be called upon in the short term to cover the gap, although this would impact the projects some of these reserves are being held for, and vacancies could be held open which would enable the budget to be balanced but doing this could impact services. Hence at the moment the likelihood of a s114 notice being required for Surrey is low.
28. The PCC and the CC individually and through the NPCC and APCC 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. The MTFF will be updated again to reflect any updates and will be presented as part of the precept setting process in February 2025.

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