

SURREY POLICE AND CRIME PANEL 26 SEPTEMBER 2022

MEDIUM TERM FINANCIAL PLAN (MTFP) UPDATE 2023/24 to 2026/27

SUMMARY

1. Each year, as part of the budget setting process, a MTFP 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, such as the pay settlement for officers, and to review and update assumptions in the light of current circumstances.
3. This latest MTFP indicates that cumulative savings of £17.7m will be required in the period up to March 2027. This however is an estimate and could change significantly depending on how the economy performs over the next few years and what impact this has on the assumptions made. 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 challenge that this will present;
 - 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 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 the Force may need to address in the future.
6. At the time of precept setting, it was estimated that in the period from 22/23 to 25/26 £16.8m of savings would be required to deliver a balanced budget. When the full MTFP was put together in February 2022 this figure had changed slightly to £15.8m.
7. In July 2022 the opportunity was taken to update the MTFP to reflect the period from 2023/24 to 2026/27 and also to include the recently announced police officer pay settlement and an element of inflation. This has had the effect of increasing the savings required to £17.7m. It's worth noting that this is a cumulative figure – a total of the £17.7m will need to have been removed by the time the budget is set for 2027/28 compared to now if it is to balance
8. However, 2022/23 is looking to be one of the most economically challenging years in recent memory with inflation in double figures, cost pressures rising and a potential squeeze on Government spending. It is quite difficult to predict what the situation will be like in the next 6 months let alone 4 years. Hence 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 each section in this report.

COSTS

Pay

9. Pay is by far the biggest cost within the Force. The original MTFP, when it was prepared at the end of 2021, had an assumption of 3% pay for 2022/23 with 2% thereafter for both officers and staff. The Government recently announced a pay award for officers which levels out at about 5% for 2022/23. This alone adds a spending pressure of £3.3m over the MTFP period. Although the Government has provided the equivalent of an additional £140m nationally to cover the cost this has been allocated on the basis of formula grant shares. Given Surrey receives the lowest level of formula grant nationally its share of the additional pay grant is also the smallest leaving a funding gap of about £1.5m over the period.

10. Staff pay was settled at 3% on the proviso that negotiations may be reopened if Police Officers got a better settlement. At the moment it is not clear whether this will happen but if parity is sought then this could increase costs by £2.8m. The Government has said that the additional pay grant announced is not only for officers but also staff – no further funding will be forthcoming
11. Going forward it has been assumed in the MTFP that Police and Staff pay increases from 2023/24 onwards will remain at 2%. This is based on an expectation that inflation will fall back quickly and even if it does not there will be pressure for public sector pay restraint. It is worth saying that every 1% increase in pay equates to about £2.1m or the equivalent of £4.20 on Council Tax. Hence if even a modest amount of inflation remains, and this feeds through to pay costs, the resulting savings gap could increase substantially

Non-Pay Costs

12. These equate to around 20% of the entire budget. At the moment vehicle fuel is predicted to be about £0.5m over budget and utilities could be well over £1m once the contract ends. There is also pressure coming from outsourced services, such as cleaning due to rising labour costs, and IT licenses, which are denominated in \$, due to the falling exchange rate. The original assumption was that non pay costs would rise by 2% and this has been maintained as it has been assumed that these increases will be temporary as inflation falls back.
13. With respect to capital funding for schemes, such as the new HQ, this has been included in the MTFP. It may be thought that if interest rates continue to rise some capital projects may have to be modified or deferred.

FUNDING

Government Grants

14. Although the Government did announce a 3-year settlement for Police in 2022/23, which did include additional funding, it did not include any details as to how this may be shared out. Hence for the MTFP it has been assumed that Government Funding will remain level. i.e. flat cash. There have been rumours that the spending review may be revisited but what this could mean is impossible to guess. For the period beyond the SR i.e., 2025/26 onwards it has been assumed that funding will remain as is i.e., as flat cash. This will be a reduction in real terms
15. The Uplift program is due to end in March 2023 and there is no indication that it will continue. That said it not inconceivable that a mechanism will be put in place, as part of the 2023/24 settlement, to ensure that the increase in Police officer numbers achieved through uplift will be maintained. There is also no indication that the increase in costs for officers as they move up the pay scale will be funded.

16. 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. The CC is on the formula grant working group and the PCC and myself 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. Whilst one hopes that the grant could not decrease any further this is by no means guaranteed. 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

17. With regard to Council Tax the Government announced in January 2022 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. In their funding announcements they have assumed that all PCCs will take advantage of this flexibility.

It is however the PCC that proposes the level of Precept increase each February when the budget is set.

18. However, FOR PLANNING PURPOSES ONLY it has been assumed that Council Tax will be increased by 2% (about £5.90) and also that the tax base will rise by 0.5% annually. If Council Tax was increased by the full amount of £10 in 2023/24 and 2024/25 only this would reduce the savings required by £6.6m. Were the tax base to rise by a further 0.5% in one year, say 2023/24, this would reduce the savings by a further £2.4m. Conversely a fall in the collection rate of 1% in just one year would add more than £1m to the savings required

SAVINGS REQUIREMENT

19. 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:

| | 2022/23 £m | 2023/24 £m | 2024/25 £m | 2025/26 £m | 2026/27 £m |
|--------------------|---------------|---------------|---------------|---------------|---------------|
| In year savings | 2.9 | 7.4 | 2.7 | 3.4 | 4.2 |
| Cumulative Savings | Achieved | 7.4 | 10.1 | 13.5 | 17.7 |

This is shown in more detail in Appendix A

20. Given the Force has already delivered over £80m of savings over the last 12 years more radical solutions, such as service redesign, rather than just trimming will be required. The Force has engaged external advisors to assist with this and the PCC is being consulted at key stages in the process.

RISKS

21. 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, continue to overrun thereby leading to additional costs for Forces.

22. 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 is difficult to match rates paid in the private sector. For Officers some Forces offer generous signing on bonuses 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.

CONCLUSIONS

23. The level of uncertainty we are currently experiencing is unprecedented in recent times. The underlying assumption in the forecast is that the current issue with 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 almost £18m 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.

24. If inflation were to become embedded for any length of time and feed through into wages and no funding was provided, then the savings required could easily double if not increase further. This would be uncharted territory for all Police Forces, and it may be that some will need to consider issuing section 114 notices as has been the case in Local Government.
25. It is no understatement to say that these savings will 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 will do everything she can, working with the Force, to minimise that impact on residents but it is not possible to guarantee that there will be no impact at all.
26. 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.
27. 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 2023.

Appendix A – Realistic MTFF Scenario

Surrey - Medium Term Financial Forecast Q1 July - Post officer pay award

| Precept 2.0% with a 0% grant increase, officer pay inflation 5% then 2% from Sept 2023, Staff pay & non pay 2%, tax base 0.5% | 2022/23 | 2023/24 | 2024/25 | 2025/26 | 2026/27 |
|---|----------------|----------------|----------------|----------------|----------------|
| REVENUE COST BASE | £m | £m | £m | £m | £m |
| Base budget | 261.7 | 279.1 | 280.8 | 284.7 | 289.9 |
| Pay Inflation | 6.3 | 6.3 | 4.5 | 4.6 | 4.7 |
| Price Inflation | 0.8 | 1.1 | 1.1 | 1.1 | 1.1 |
| Base Assumptions | 4.0 | 3.4 | 2.0 | 2.1 | 2.1 |
| Unavoidable Costs | 1.4 | (0.6) | 0.0 | - | - |
| Cost of Change net | 0.1 | (0.4) | (0.3) | (0.3) | - |
| Service Growth | 1.0 | (0.4) | - | - | - |
| Estate Strategy Project Expenditure | 0.6 | (0.4) | (0.6) | 1.2 | (0.8) |
| Precept Investment | - | - | - | - | - |
| Operation Uplift | 6.1 | - | - | - | - |
| Total Cost Increases | 20.3 | 9.0 | 6.6 | 8.6 | 7.0 |
| Gross Budget Requirement | 282.0 | 288.2 | 287.4 | 293.3 | 296.9 |
| Annual Savings Requirement | (2.9) | (7.4) | (2.7) | (3.4) | (4.1) |
| Total Gross Budget | 279.1 | 280.8 | 284.7 | 289.9 | 292.7 |
| FUNDING | 2022/23 | 2023/24 | 2024/25 | 2025/26 | 2026/27 |
| | £m | £m | £m | £m | £m |
| Home Office Grant | 78.5 | 82.1 | 82.1 | 82.1 | 82.1 |
| Revenue Support Grant | 32.9 | 32.9 | 32.9 | 32.9 | 32.9 |
| Council Tax Support Grant | 9.2 | 9.2 | 9.2 | 9.2 | 9.2 |
| Operation Uplift Performance | 1.7 | - | - | - | - |
| Specific Grant | 2.0 | 2.0 | 2.0 | 2.0 | 2.0 |
| Local Council Tax Scheme Grant | - | - | - | - | - |
| General Reserves | (0.5) | - | - | - | - |
| Specific Reserves - | | | | | |
| Covid19 | 0.4 | 0.4 | - | - | - |
| OPCC Operational Reserve | 0.3 | - | - | - | - |
| Local Council Tax Scheme | - | - | - | - | - |
| Estate Strategy | 1.2 | - | - | 1.2 | - |
| Cost of Change | 2.1 | - | - | - | - |
| Surplus/(deficit) on Council Tax Collection Fund | 0.5 | (0.4) | - | - | - |
| Base precept | 143.3 | 150.8 | 154.6 | 158.5 | 162.4 |
| Taxbase Improvement | 2.3 | 0.8 | 0.8 | 0.8 | 0.8 |
| Precept increase | 5.1 | 3.0 | 3.1 | 3.2 | 3.3 |
| Total Funding | 279.1 | 280.8 | 284.7 | 289.9 | 292.7 |

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