



Sussex Police & Crime Commissioner

To:	The Police and Crime Commissioner for Sussex
From:	Chief Finance Officer
Subject:	Medium Term Financial Strategy 2017/18 to 2020/21
Date:	27 March 2017

Purpose of Report:

The Medium Term Financial Strategy (MTFS) sets out the key financial issues facing the Police and Crime Commissioner for Sussex over the period 2017/18 to 2020/21, and provides options for delivering a sustainable budget and capital programme over the medium term.

It also sets out how the Commissioner can provide the Chief Constable with the resources to deliver the priorities as set out in the Police and Crime Plan 2017/18 to 2020/21.

The MTFS sets the financial context for the Commissioner's revenue budget, capital and investment programme and precept decisions.

Recommendations:

As set out on the attached report it is recommended that the Police and Crime Commissioner:

- Agrees the principles set out in the MTFS;
- Approves the MTFS for 2017/18 to 2020/21

MEDIUM TERM FINANCIAL STRATEGY 2017/18 to 2020/21

Report by Iain McCulloch, Chief Finance Officer to the Police and Crime Commissioner for Sussex

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1 Purpose of the Medium Term Financial Strategy

- 1.1 This is the Medium Term Financial Strategy (MTFS) of the Police and Crime Commissioner for Sussex (the Commissioner). It covers a period of four years but will be reviewed annually to reflect the dynamic nature of both policing and changes in funding. It describes the financial direction of the organisation and outlines financial pressures.
- 1.2 The MTFS provides options for delivering a sustainable budget and capital programme over the medium term. It also sets out how the Commissioner can provide the Chief Constable with the resources to deliver the priorities in the Police & Crime Plan 2017/18 to 2020/21 within a challenging financial climate.
- 1.3 The MTFS sets the financial context for the Commissioner's revenue budget and capital programme and precept decisions.
- 1.4 The overall financial strategy seeks to deliver the Commissioner's Police and Crime Plan, support the mission, vision and values of Sussex Police and meet the requirements of the Strategic Policing Requirement.

2 Benefits of the Strategy

- 2.1 The MTFS assists in:
 - Supporting delivery of the Police & Crime Plan;
 - Improving financial planning and the financial management of the Commissioner's resources, both revenue and capital;
 - Maximising use of resources available to the Commissioner and Chief Constable, both internal and external;
 - Ensuring that the Commissioner and Chief Constable provide value for money and continue to deliver efficiency gains;
 - Allowing development of longer term budgets and strategic thinking;
 - Reviewing the Commissioner's policy on the use of reserves, ensuring the position continues to be sustainable with sufficient resources over the medium term;
 - Responding to external pressures, including changes to the police funding formula and funding reductions; and
 - Developing a sustainable budget over the medium term.

3 Principles of the Strategy

3.1 The key principles underlying the Commissioner's MTFS 2017/18 to 2020/21 are:

- Overall expenditure of the Commissioner will be contained within approved estimates each year;
- The Commissioner will seek to maintain a General Reserve of a minimum of 4% of Net Revenue Expenditure to cover any major unforeseen expenditure or loss of funding but will review on a regular basis the opportunity cost of maintaining reserves at this level against the benefits of alternative approaches. A flexible approach will be adopted appropriate to circumstances.
- The Commissioner will maintain earmarked reserves for specific purposes when appropriate and which are consistent with achieving objectives;
- The Commissioner will continue to prioritise the achievement of value for money and efficiency in establishing the framework for policing within Sussex and in commissioning and procurement decisions;
- The Chief Finance Officer, Director of Finance and Chief Constable will prepare a rolling programme of four year budget forecasts to inform the Commissioner's budget and precept decisions;
- The Commissioner, supported by the Chief Finance Officer, Director of Finance and Chief Constable, will continue to contribute to national reviews of police funding and make representations on a national basis for the fair and equitable funding of Sussex Police.

4 Review of the Strategy

4.1 The Commissioner's MTFS review for 2017/18 to 2020/21 has been carried out under the following key themes:

- The financial context in which the Commissioner operates;
- The Commissioner's current financial position;
- The future budget pressures and funding reductions which the Commissioner may face over the period of the strategy;
- Budget savings
- The Commissioner's capital and investment programme; and
- Reserves policy.

5 Police and Crime Plan 2017/21

- 5.1 The Commissioner has a statutory duty to set the policing and crime objectives for Sussex through a Police & Crime Plan. A new Plan has been developed for the Commissioner's second term of office which sets out the strategic policing objectives for how policing services will be delivered across 2017/21.
- 5.2 The Commissioner has identified four policing and crime objectives as follows:
- Strengthen Local Policing
 - Work with local communities and partners to keep Sussex safe;
 - Protect our vulnerable and help victims cope and recover from crime and abuse; and
 - Improve access to justice for victims and witnesses.
- 5.3 The aims, outcomes and measures which underpin each of these objectives have been developed to ensure they reflect accurately the expectations of the public. The Chief Constable has developed a new Operational Delivery Plan which sets out how Sussex Police will support and deliver policing services to achieve the policing objectives set out in the plan.
- 5.4 The plan can be viewed at this link [Police and Crime Plan 2017-18](#).

6 Sussex Police Operational Context

- 6.1 The successful delivery of the strategy requires the Chief Constable to manage a complex set of resources, demands and priorities whilst reviewing and revising plans to meet changing needs and available financial resources.
- 6.2 Demand for policing is changing as new types of crime emerge and require a different approach to policing, often working closely with partners including other blue light services. This includes an increased need for digital and cyber policing skills to address increasing cyber-crime, and increasing use of social media driving demand, such as at public events. Changes in Public and Society perceptions, awareness and demographics increase policing demands to address child sexual exploitation and other child protection matters, protecting vulnerable people and those with mental health problems, hate crime, victims of domestic violence and honour based violence, female gender mutilation and a changing perception and nature of terror threats.
- 6.3 Local Policing remains at the heart of the delivery of Policing Services to communities within the Sussex Police Area in line with the Police and Crime Plan and Operational Delivery Budget.

6.4 The Force is in the process of delivering its local policing model. The model makes a series of changes to modernise local policing, taking account of changing demand and shifting patterns of crime, whilst addressing the challenge of a reducing budget. The model is being delivered through a programme of work which aims to maintain the delivery of local policing outcomes, protect frontline policing and meet national standards whilst maximising the use of available resources to reduce cost. It is being delivered over the period of the MTFS via a programme of planned transformation which covers response, investigations, neighbourhoods policing and public protection.

Demand Management and Prioritisation

6.5 To ensure the Force prioritises its resources and understands necessary service levels to manage its demand, work has been undertaken to obtain a clearer understanding of demand for policing services in Sussex. Analysis of data obtained both locally and nationally including crime and incident data and demography has identified areas of predicted demand and has informed a more accurate allocation of resources across a revised Neighbourhood Policing Team model. This approach to local policing will balance the response to emergencies with policing activity to prevent crime before it happens and reduce reoffending.

6.6 The programme will reduce the overall budget for local policing by £22 million over the period of then MTFS, achieved through a three year programme of re-design and staged implementation. The programme has a robust governance process and decisions about how resources are prioritised and targeted are based on the scrutiny of detailed designs based on demand and associated business cases illustrated by the examples in response and public protection below:

(a) Response

6.7 The Force has sought specifically to protect front-line policing; consequently PC numbers in Response are not being reduced by the Local Policing Programme. However, the programme has sought to produce management efficiencies in Response, and to target front-line resources more effectively based on demand. The demand analysis for Response takes into account 13 different measures (such as numbers of Grade 1 calls, demand from high risk MISPERs, demand from prisoners, and investigations demand handled by Response). PC numbers in the new model have been re-distributed divisionally based on these pressures and have been allocated to new 'hubs' based in areas of high demand from Grade 1 calls. As such, resources are now distributed in a more targeted way. Process changes will also mean that they are used more flexibly and effectively.

(b) Public Protection

- 6.8 The PCC and the Force have chosen to re-invest in specific areas where we know that there is growing demand. A detailed analysis of public protection demand was undertaken in 2015 and updated in 2016 to provide a robust evidence base for investment in public protection.
- 6.9 32 Public Protection demand types were identified across the areas of safeguarding, investigation and protective demand, activities were then mapped under each demand category in workshops with practitioners, and future demand trends were projected through regression analysis of historic data. The project used this evidence to calculate the estimated the FTE effort required to deal with current demand levels in Public Protection - this formed the basis for targeted investment in officer numbers within this area of Investigations. The evidence was also scrutinised geographically to understand where resources needed to be based.
- 6.10 Alongside the investment a series of 'optimisation opportunities' have been identified to ensure that the additional resource will be targeted in the most effective way (for instance a review of processes in Public Protection to identify efficiencies and a planned assessment of best practice across the Multi Agency Safeguarding Hubs).
- 6.11 An ongoing focus on demand management and prioritisation of resources as above, will be included in operational delivery and associated financial planning.

7 Investment in Priorities

- 7.1 The Police and Crime Commissioner, in consultation with the Chief Constable has identified four areas of local policing to be strengthened through further investment supported in part by the 2017/18 precept increase of £3m. Public consultation resulted in 78% of responses being in favour of the £5 increase. The total investment of £4.2m will see over 100 additional police officers and specialist staff employed in the following areas:

- **Community Priority Crime Teams** (£1.03m) – 24 posts dedicated to intervene proactively to prevent and disrupt local crime gangs and take offenders off the streets;
- **Specialist Firearms Officers** (£1m) – 52 posts across Sussex and Surrey to uplift the counter terrorism and firearms capabilities;
- **Public Protection Investigators** (£1.25m) - 30 posts to provide additional capacity for public protection, within the Safeguarding Investigation Units;
- **Expert Youth Teams** (£0.92m) – 20 posts to work directly with schools, colleges and universities to provide community policing

that focuses on prevention advice and interventions, supporting the vulnerable and those most at risk, and dealing firmly and quickly with incidents.

8 Efficiencies and Partnership Working

- 8.1 Sussex Police continues to undertake a significant programme of change activity through the "Policing Together" programme with Surrey and with other forces in the South East region, in order to meet the financial challenges of the MTFS, increase resilience and improve service delivery, as follows:

'Policing Together' - Collaboration Programme with Surrey

- 8.2 The Force works closely with Surrey Police. Effective partnership working, information sharing, integrated problem solving and the co-commissioning of services are being delivered through a number of joint services including; Operations Command (including Roads Policing, Tactical Firearms, Operations Support and Planning & Resourcing), Specialist Crime Command, Finance, Procurement, Fleet, People Services (including Learning & Development and Occupational Health) and Information, Communications & Technology (ICT).
- 8.3 Work is underway to consider further opportunities to bring our policing services together and/or to align policies, procedures and working practices, these include:
- The Specialist Crime Command (SCC) – this has already delivered £6m savings across Surrey and Sussex, but a further £4.7m saving has been identified across both forces by the end of 2018/19. The existing SCC operating model is not resilient enough to withstand a further budget reduction of this size without transformational change and so the Specialist Crime Capabilities Programme (SCCP) has therefore been established to deliver a new operating model that both achieves the required savings and maximises opportunities for collaboration between both Sussex, Surrey and other stakeholders in the region. A high level Target Operating Model has already been scoped and the SCCP is now progressing this into detailed design.
 - The joint Operations Command comprises of Roads Policing, Tactical Firearms, Operations Support and Planning & Resourcing. Operating as a single command has resulted in increased capacity and resilience, however in a number of areas the Command is still operating with different legacy IT systems and different ways of working across the two forces. As such the business case for a new target operating model was agreed in June 2016, which will deliver redesigned services more effectively and at reduced cost. This programme has now moved into the detailed design phase.

Other Partnership Working

- 8.4 The co-location of specialist resources in the form of Multi-Agency Safeguarding Hubs is also being progressed. The Hubs will coordinate all response and activity around the identification, assessment and management of vulnerable victims. This will ensure single outcomes and a more consistent and effective service for the most vulnerable within our communities.
- 8.5 In order to support joint working and the collaboration of both back office and front line policing capabilities, work is underway to implement a new Enterprise Resources Planning (ERP) system for Sussex, Surrey and Thames Valley Police.
- 8.6 The Digital Enablement Programme continues to coordinate work on four key priorities; Mobile Data, Niche, Public Facing Digital Services (community messaging, online crime reporting and track my crime systems) and Body Worn Video. These work streams are critical to the effective delivery of operational policing and public engagement. The programme is overseen by the Digital Enablement Oversight Board, which provides a single strategic direction for Digital Enablement across the two forces, monitoring progress against a five year road map and ensuring that activity is aligned to business strategies and delivers the operational capabilities required by other change programmes.
- 8.7 The Mobile Data devices project used by frontline staff, has a rolling programme to update devices and enhance their capabilities. End users report that their productivity increases by up to 20% as a result of the latest devices.
- 8.8 Surrey and Sussex are also exploring further opportunities to align technology applications and infrastructure with Hampshire Police and Thames Valley Police, as part of the South East Region Integrated Policing (SERIP) programme. (See para 9.20 'Police Transformation Fund)
- 8.9 Sussex PCC and the Force are developing a new approach to Video Enabled Justice and to support this development have applied for Transformation funding to further develop the proposals across the SouthEast region, to make it scalable, both regionally and nationally.
- 8.10 East Sussex Fire and Rescue Services are co-locating their Head Office functions at Sussex Police's Lewes Headquarters.
- 8.11 The Force has recently acquired a fleet vehicle workshop site, near Crawley Down, which will be a key enabler to drive significant efficiencies, not just within the Joint Transport Service for Surrey and Sussex Police, but which will act as a Fleet Management and Servicing

hub by enabling fleet management/maintenance between the Police and Fire and Rescue Services in both Surrey and Sussex.

- 8.12 Underpinning delivery of all this change will be a comprehensive workforce strategy that includes recruitment, training and development of officers and police staff, within a culture of partnership working to build an organisation that is fit for future challenges in the digital age and that will ensure public confidence in the policing service through effective service delivery. An improved workforce planning and establishment control approach has been introduced, included monthly, transparent reporting during 2017/18 and beyond on changing workforce numbers as a result of staff recruitment arising from investment in priorities and staff reductions arising from budget savings.

9 Force Financial Context

- 9.1 The last 5 years have seen unprecedented reductions to the funding provided by the Government to Policing Bodies in England and Wales. Over the last 7 years, Sussex has had to make £76m of reductions and efficiencies to head towards balancing its books (source: HMIC PEEL assessment and 2016/17 revenue budget). In addition it has also had its ability to raise additional tax revenue from the precept restricted by the excessiveness rules.
- 9.2 Sussex experienced significant impact from the reductions because it receives more in core policing grant in proportion to its council tax; around 63% being from grant. In addition Sussex has the fifth lowest precept of any PCC in England and Wales. Sussex was also the 4th lowest net cost per head of population in 2016/17 according the HMIC Value for Money Profiles.
- 9.3 Despite reducing its workforce, making efficiencies, transforming activities using technology, cutting waste and selling property there is still the need to reduce expenditure further to match spending plans with anticipated resources.
- 9.4 This means we need to maintain the pace of change, continue our programme of change and continue to explore further collaboration and alignment. All of this will need to take place as we constantly review and redeploy our resources to meet the ever changing nature and threat to our public.
- 9.5 Investment in extending our cyber-crime capabilities, supporting victims of crime, protecting the vulnerable and those trapped by modern day slavery and anti-terrorism capabilities.

Funding Formula Review

- 9.6 A review of the funding formula is underway and public consultation on a proposed model is expected during 2017/18. In the meantime, current arrangements for individual Force allocations continue to be in place for 2017/18 by way of a one year only settlement based on the current formula.
- 9.7 Due to the uncertainty and range of possible outcomes no assumptions regarding the funding formula changes have been included in the MTFS.

Police Grant Settlement

- 9.8 The police grant decision for 2017/18 was approved and then published on 1 February 2017.
- 9.9 The key elements of the settlement are:
- A one year settlement;
 - All forces core grant reduced by 1.4%. Total funding protected in flat cash terms as long as PCCs maximise ability to increase the precept as provided for in the new flexible referendum principles;
 - The council tax referendum limit for English Forces remained at 2% but with additional flexibility for the ten lowest precept Forces to raise the tax by £5 per Band D equivalent household which includes Sussex;
 - Grants relating to previous council tax and freeze grants retained and payable but that there would be no new council tax freeze grant for 2017/18;
 - The Home Office will be making “allocations” of £812m which is 42% higher than 2016/17 as illustrated in the following table:

Home Office Allocations	2017/18 £m	2016/17 £m	Variance £m
PFI (Private Finance Initiative)	73	73	0
Police technology programmes (including Airwave)	417	284	133
Arms-length bodies	54	37	17
Strengthening the response to organised crime	28		28
Police transformation fund	175	131	44
Special Grant	50	25	25
Pre-charge bail	15		15
Major programmes		22	(22)
Total	812	572	240

- No new re-allocations were announced with the 2017/18 settlement.
- Arms-length bodies include national policing bodies delivering services and governance essential to the efficient and successful functioning of the police service. This includes the HMIC's PEEL inspection programme, the College of Policing direct entry schemes and increased funding to support the Independent Police Complaints Commission (IPCC) as it becomes the Independent Office for Police Conduct with an expanded role in investigating allegations involving the Police.
- Strengthening the response to organised crime supports the National Crime Agency (NCA) and Regional Organised Crime Units (ROCU).
- The value of the Transformation Fund increased to £175m from the 2016/17 figure of £131m which included innovation funding of £55m.
- The overall police capital grant has reduced from £82m in 2016/17 to £72.2m in 2017/18.

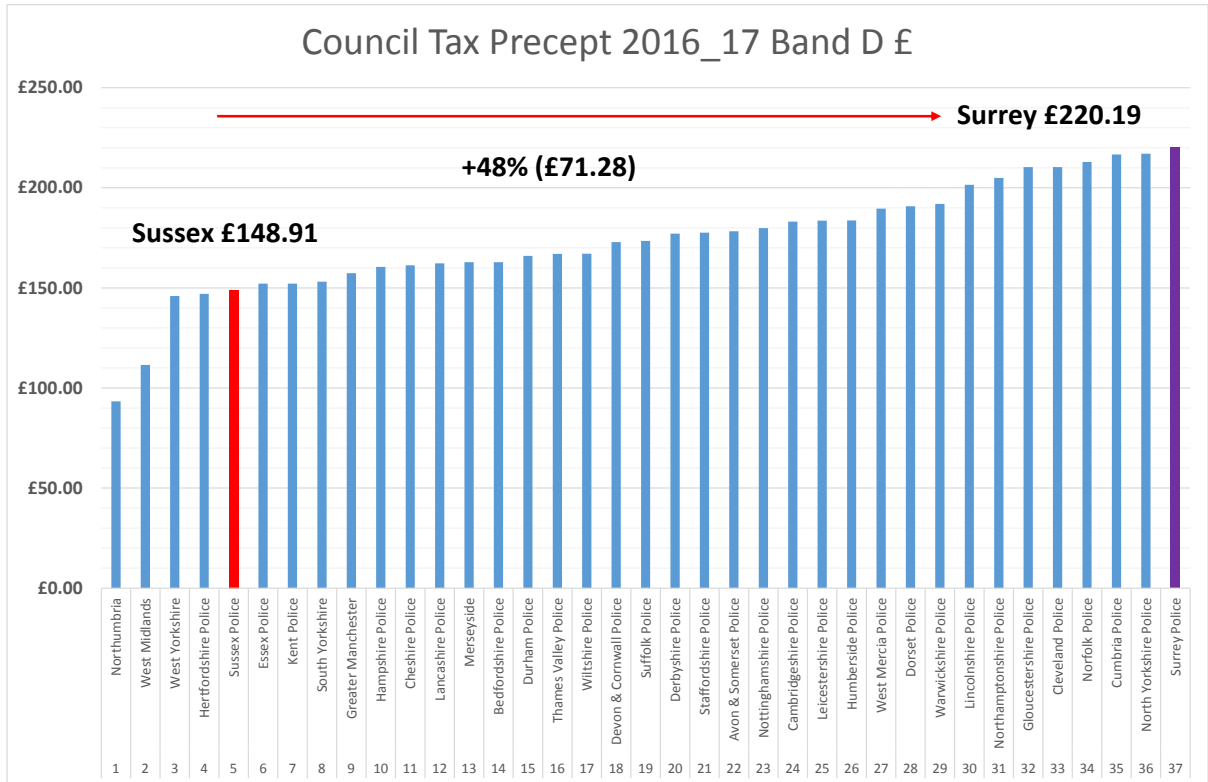
9.10 For Sussex, implications of the local settlement are as follows:

- Police core revenue and formula funding grants reduced by £2.1m (1.4%) to £149.6m (£151.7m 2016/17);
- Option to protect "spending power" with a £5 increase to the precept;
- Capital grant reduced by £1.766m to £0.906m for Sussex Police.

9.11 This MTFS is prepared on the assumptions as laid out in that settlement.

The Council Tax Precept

9.12 Since 2007/08, council tax increases nationally have been constrained by the Government's capping and excessiveness council tax principles. Nationally the proportion of funding from formula grant and specific Home Office grants has reduced, and the proportion from council tax has increased. The council tax for Sussex was the fifth lowest of policing bodies during 2016/17 at £148.91 per annum for Band D properties. The table below shows the range of precepts.



9.13 The schedule below sets out the level of Band D council tax over the last 3 years:

Year	Band D Council Tax
2017/18	£153.91
2016/17	£148.91
2015/16	£143.91

9.14 The Localism Act 2011 introduced a power for the Secretary of State for Communities and Local Government to issue principles that define what should be considered excessive Council Tax, including proposed limits. From 2013 onwards, any PCC that wishes to raise Council Tax above the limits that apply to them will have to hold a referendum.

9.15 The final settlement for 2017/18 confirmed that the 2% referendum threshold will continue in 2017/18. Additional flexibility is given to the lowest ten precepting PCCs which includes Sussex to increase their precept by up to £5.

9.16 This MTFS as presented includes the approved £5 precept increase for 2017/18 but does not include the assumption beyond 2017/18 to increase their precept. Annual precept decisions are for the Commissioner to determine.

9.17 Income from the council tax precept for Sussex equates to 36% of core funding (Precept, main policing grant, revenue support grant).

	2017/18 £m	2017/18 £m	Proportion %
Total Revenue		257.116	
Expenditure		0.105	
Less Appropriations from Reserves			
Net Budget Requirement		256.966	
Less			
Main Police Grant	96.461		
Revenue Support Grant	53.137		
Council Tax Legacy Freeze Grant	3.062		
Council Tax Local Support Grant	10.14		
		162.800	64%
Balance to be raised locally		94.166	
Less estimated net surplus on collection funds		0.950	
Council Tax Requirement		93.216	36%

9.18 Sussex will remain in the lowest precept grouping throughout the period of this strategy.

9.19 Assumptions regarding the Council Tax base include:

- An increase of 1.54% for 2017/18 using the latest growth estimates provided by billing authorities (Tax base figure was 605,656.6 which was an increase of 9,199.29 over the previous year);
- A council tax base growth of 0.5% is then assumed each year thereafter in line with Home Office assumptions used in the final settlement;
- The Local Authorities in Sussex have also advised of surpluses on collection funds, which equates to £0.950m for 2017/18 and which is reflected in the MTFS. No further surplus on collection funds is assumed for the rest of the MTFS period.

9.20 The Home Office Council Tax calculations incorporate rebasing of the council tax base each year to reflect Council Tax Requirement Return submissions from Local Authorities and Police and Crime Commissioners. The Home Office tax base growth assumption of 0.5% is then applied to subsequent years. This directly reflects the Council Tax Base assumptions in this MTFS.

Police Reform and Transformation Fund

9.21 The value of the Police Reform and Transformation Fund has risen to £175m from £131m in 2016/17 which includes the Innovation Fund which was worth £55m in 2016/17. This funding stream will continue to promote innovation, collaboration and improved efficiency.

9.22 In 2016/17 the Police and Crime Commissioner for Sussex was successful in a bid to the Home Office Innovation Fund and secured an award of £0.485m in 2016/17 and £0.971m in 2017/18 for the South East Regional Integrated Policing Programme (SERIP). This project is in partnership with Hampshire Constabulary and Thames Valley Police.

9.23 The SERIP transformation funding will enable development of a four force commoditised IT services platform, including NICHE RMS, and a high capacity resilient network connection between the forces and cloud storage. This solution will provide a common and scalable connectivity solution that will deliver shared and resilient connectivity that can be used by any of the forces across a range of collaborative programmes.

9.24 This SERIP programme approach also includes:

- A new Command and Control platform;

- Body worn video;
- Development of a scaleable ERP / duties business proposition and governance framework across non-SE Forces and including other agencies e.g. Fire and Rescue;
- Business development work to align 2 Mobile Policing Programmes to enhance interoperability and prepare for business transformation surrounding the Emergency Services Mobile Communications Programme implementation and discovery
- Outline Business Case work re Digital Intelligence and Investigations, building on early discovery work and broadening across the four Forces to assess opportunities for regional alignment and economies of scale.
- The Sussex Police and Crime Commissioner, working with criminal justice (CJ) partners in Sussex, Surrey, London and Kent is committed to maximising the benefits of video in the criminal justice system. It is the joint ambition of the CJ agencies in the South East to deliver the best service to all participants within the justice system, with swifter access to justice for victims and a positive experience for witnesses, while increasing operational efficiencies and the benefits that technology can bring.
- The PCC together with its justice partners, and supported by Accenture has developed a fully costed business case for the roll-out of a VEJ solution across, Sussex, Surrey, Kent and London. A solution has been designed to address the issues with scheduling and connecting video streams as well as issues with the perception of video services. Analysis has shown that implementation of the VEJ service would realise significant benefits to all CJ agencies over the duration of the business case (6 years).

Other Income

- The PCC will continue to seek additional sources of external funding for policing and to maximise its income, for example through developers contributions such as the Community Infrastructure Levy and/or Section 106 monies, as well as developing a 'trading mindset' for some of its more commercially aligned services.

10 2016/17 Financial Position

- 10.1 The Commissioner's net revenue budget for 2016/17 before the use of reserves is £253.835m (£254.977m after reserves). The Quarter 3 revenue monitoring report shows a projected budget surplus of £4.867m as at 31 December 2016.

Revenue Monitoring Quarter 3 Position PCC Group	Projected Outturn 2016/17 £m	Approved Budget 2016/17 £m	Variance 2016/17 £m
Chief Constable	243.690	247.748	(4.058)
Police and Crime Commissioner	5.728	6.087	(0.359)
Appropriations (to)/from Reserves	0.692	1.142	(0.450)
Net Expenditure	250.110	254.977	(4.867)
Central Government Grant Income	(164.922)	(164.922)	0.000
Council Tax Precept Income	(90.055)	(90.055)	0.000
Central Grant and Precept Total	(254.977)	(254.977)	0.000
Surplus transfer (to)/from Reserves	(4.867)	0.000	(4.867)

10.2 Underspend in year is predominately due to Police Officer numbers being below the original budgeted level. This is a one-off impact in 2016/17 only, as plans were put in place to recruit additional Police Officers in the second half of the 2016/17 year. This was in line with revised workforce plans, future growth and investments.

10.3 Actual net underspend from the current year will be transferred to reserves in accordance with the reserves policy. This will be available to support the change programme.

10.4 The Commissioner has an approved revised capital budget for 2016/17 of £36.9m. The third quarter capital monitoring report outlined a forecast outturn of £33.9m as at 31 December 2016. The reduction in the revised estimate for the year reflects changes to the timing of and revision to projects.

10.5 We will continue to monitor the capital and investment programme to review and revise projects accordingly.

11 Medium Term Budget Pressures

11.1 When calculating the medium term budget projections consideration has been given to a number of budget pressures including

- Reductions in grant funding;
- Pay and price increases;
- Revenue implications on the capital and investment programme; and
- Other cost pressures

Reductions in Grant Funding

11.2 The financial settlement has reduced total core revenue grants to Sussex by £2.1m (1.4%) to £149.6m (£151.7m 2016/17).

11.3 We have assumed that a reduction of this level will continue for the next 4 years in the MTFS up to and including 2020/21.

Pay and price inflation

11.4 The indicative budget forecasts for 2017/18 reflect a positive approach to managing the impact of inflation on budgets wherever possible, in that there have been no automatic budget increases for inflationary pressures other than inflation provision being provided to meet energy, business rates and rent increases. In addition, estimates for future pay awards at 1% have been included.

Revenue implications of the capital and investment programme

11.5 A revised four year capital and investment programme has been produced, which is summarised in Section 13. The implications of this programme are fully reflected in the MTFS.

Other cost pressures

11.6 **Apprenticeship Levy** – The Government is introducing a new Apprenticeship Levy tax in accordance with Part 6 of the Finance Act 2016 which comes into effect on 6 April 2017. It is estimated that will add a further £0.8m cost pressure for the Force to meet during 2017/18. Development of a Force Apprenticeship Scheme and how this will be introduced is currently underway as the new scheme does not apply to existing apprenticeships. We will explore the use of these potential resources with new recruit intakes and trainees. This will be kept under review by the Establishment Board.

12 Medium Term Savings Proposals

12.1 As mentioned previously, there has been a period of sustained financial pressure throughout the previous CSR which will continue to impact on the MTFS.

12.2 There is still a significant savings requirement up to 2020/21 estimated as nearly £36m within the MTFS and set out in the table below.

Savings Requirement	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	Total £m
Proposed budget savings	(11.262)	(7.797)	(8.346)	(8.336)	(35.741)

12.3 The Chief Constable’s saving plans are based on the programmes of change to deliver improvements in policing and realise cashable savings wherever possible, for example:

- Local Policing Programme including elements of local investigations, response policing and completion of neighbourhood policing and criminal justice projects
- Policing Together Programme (collaboration with Surrey Police) including Operations; Specialist Crime capability; Contact & Deployment communications and front office changes, People Services (HR) and Corporate Services.
- Further savings from rationalisation in the operational estate, including maximising collaborative opportunities;
- Savings through procurement particularly within ICT and Estates;
- Maximising income generation for areas of service provision (particularly in the back office) that have the potential to be more commercially aligned.

12.4 Staff costs represent a significant element of our core cost base (84% of Gross Operational Delivery Budget for 2017/18) and therefore there will continue to be changes to workforce numbers and structures throughout the MTFS. However the principles of neighbourhood policing and collaboration will remain.

12.5 The achievement of savings in 2017/18 and beyond heavily depends on the delivery of savings from the Local Policing Programme and the Policing Together Programme (joint vision and services with Surrey Police). Wider blue light collaboration will contribute to delivery of savings over the medium term.

12.6 2017/18 will be the biggest year of savings to be achieved in the MTFS and revised governance arrangements are now being introduced to track achievement of savings, monitor the pace of change sufficiently to provide management with early warning should plans not progress as anticipated and ensure any additional action required is undertaken during the year. The Force Director of Finance has raised at the Joint Chief Officer meeting, Force Executive Board and the Change Programme Board, the issue of translating savings targets into detailed business cases earlier than was achieved in previous years. Improvements to financial monitoring are also being put in place and a more rigorous process of monthly review will be carried out throughout 2017/18.

12.7 A summary of the savings planned for the period of the MTFS are set out in the table below.

Work streams	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	Total £m
Specialist Crime	0.6	1.0	0.5	0.5	2.6
Operations	0.8	1.2	0.0	0.0	2.0
Contact & Deployment	0.5	0.6	0.3	0.3	1.7
Support Services	1.6	1.5	0.4	0.4	3.9
Corporate Services	0.4	0.3	0.1	0.0	0.8
Local Policing	12.4	9.1	0.0	0.0	21.5
Other	0.3	0.2	0.0	0.0	0.5
Total Savings	16.6	13.9	1.3	1.2	33.0
Savings Requirement	11.3	7.8	8.3	8.3	35.7
Savings Gap/(Surplus)	(5.3)	(6.1)	7.0	7.1	2.7

12.8 If all planned savings for 2017/18 are achieved this will exceed the savings target requirement in year by £5.3m, however further plans will be required to meet the full savings target requirement by 2021 based on the current MTFS estimates to meet the estimated remaining gap of £2.7m (plus any further gap from unachieved savings in 2016/17) beyond current plans. The Force will continue to review its savings plans to ensure quality service delivery is maintained, future financial risks are taken into account and funding can be directed to priority areas.

There is still a significant savings requirement up to 2021, currently estimated to be in the region of £33m. This estimate could be impacted by any further changes as a result of anticipated grant reductions and the outcome of the Funding Formula review.

13 Capital Estimates and Financing

13.1 The following table summarises the 4 year capital and investment programme:

Capital & Investment Plans	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	Total £m
Information Technology	5.352	1.283	1.257	-	7.892
Fleet	3.460	3.239	3.067	2.907	12.673
Specialist Crime	-	-	0.092	-	0.092
Corporate Development	0.099	0.060	-	-	0.159
Operations	0.478	0.252	0.200	-	0.930
Communications	0.050	0.050	-	-	0.100
Shared Business Services	0.204	-	-	-	0.204
Estates Strategy Investment	8.819	8.020	5.750	0.600	23.189
Total Capital and Investment Programme	18.462	12.904	10.366	3.507	45.239

13.2 Key areas to note in the proposed programme are:

- Building Works – There will be a continuation of estates rationalisation and this will include taking account of future use of remaining properties.
- Computer and Communications
 - Technology plays an important role in the delivery of services to communities and there is a drive to deliver on-line self-service platforms to allow individuals to obtain information or access non-emergency services at a time and place which suits their needs. Investment will continue including the roll out of devices for front line staff.
- Vehicles and Equipment – The vehicle replacement programme will continue in 2017/18.

13.3 The Estates Strategy identifies opportunities to rationalise the estate, reducing costs by providing efficient and affordable buildings. The future workforce will be smaller, but investment is required to enable officers and staff to be equipped and supported to work flexibly and with agility across the estate and offsite or within the community - including opportunities for co-location or joint initiatives with partners. The strategy also includes the approach to funding, by identifying potential surplus sites to generate capital receipts – these will be closely monitored throughout the period of this MTFS.

13.4 The following table summarises how the 4 year capital and investment programme will be financed:

Funding	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m	Total £m
Home Office Capital Grant	0.906	0.906	0.906	0.906	3.624
Revenue Contribution	2.025	2.025	2.117	2.025	8.192
Reserves and Receipts	15.531	9.973	7.343	0.576	33.423
Total Capital and Investment Programme	18.462	12.904	10.366	3.507	45.239

13.5 The capital financing approach remains to maximise the use of Capital Receipts to support the capital programme after the use of capital grant whilst maximising the overall benefit in underpinning the Revenue budget.

14 Reserves

Background information on Reserves

- 14.1 Sections 32 and 43 of the Local Government Finance Act 1992 require billing and precepting authorities in England and Wales to have regard to the level of reserves needed for meeting estimated future expenditure when preparing budgets.
- 14.2 In establishing reserves, the Commissioner must comply with the Code of Practice on Local Authority Accounting in the United Kingdom (the Code). The Chief Finance Officer is required as part of the budget setting process to provide a statement on the adequacy of reserves.
- 14.3 CIPFA guidance on Reserves and Balances (LAAP Bulletin No. 77 November 2008) and the requirements of the Code suggests twice yearly reviews of reserves. By doing this, the visibility of reserves is increased and consideration of the use of reserves is placed at the forefront of the decision making process. Reserves are cash backed balances, held on the balance sheet until they are spent or released for other purposes. As such, they can only be spent once, and are not part of the base budget.
- 14.4 The Commissioner's balance sheet reserves are detailed in Appendix A and summarised below:
- General Reserve
 - **General Reserve** – a contingency for unexpected events or emergencies and a working balance to help with the impact of uneven cash flows and avoid unnecessary temporary borrowing.
 - Earmarked Reserves for the purpose of Contingency and Risk
 - **Operational Reserve** – provides for major policing operations and events where exceptional and unforeseen circumstances result in additional expenditure to the Force.
 - **Insurance Reserve** – provides for the self-funding of uninsurable risks such as payments of compensation or damages.
 - Earmarked Reserves for the purpose of Investment
 - **Capital and Investment Reserve** – to support planned one-off and non-recurring investments of a capital and revenue nature.
 - **Capital Receipts Reserve** – contains receipts from the sale of assets which can be used to finance future capital expenditure.

- **Capital Grants & Contributions Reserve** – to hold unused elements of grant and external funding in line with accounting regulations.
- Earmarked Reserves for single use purposes
 - **PFI Reserve** – to meet future contractual contributions of the custody PFI scheme.
 - **Asset Seizure Reserve** – proceeds of Crime Act (POCA) income to be spent within the following year.
 - **Delegated Budget Holder Reserve** – revenue budgets carried forward for future use by delegated budget holders.
 - **Sussex Safer Road Partnership (SSRP)** - ring-fenced funds to finance future capital and/or revenue expenditure on SSRP.

14.5 CIPFA guidance issued in June 2003 confirms that relevant bodies should make their own judgements on such matters, taking into account relevant local circumstances and an assessment of risk and the advice of the Chief Finance Officer.

Reserves

14.6 The Commissioner must retain adequate reserves so that unexpected budget pressures can be met without adverse impact on the achievement of key objectives and council tax payers. The Commissioner’s policy for reserves and balances is based on a thorough understanding of the organisation’s needs and risks. Part of this process is to give a clear explanation of the existing and proposed use of reserves and this is addressed in the paragraphs below and at Appendix A.

General Reserve

14.7 The expected General Reserve at 1 April 2017 is £10.2m. This meets one of the key principles to seek to maintain the general reserve at a minimum of 4% of the net revenue budget. The closing general reserve at March 2021 is estimated to be £10.1m and 4% of net revenue budget.

Earmarked Reserves

14.8 The following reserves have been set aside for specific purposes. The table shows the strategy for use of earmarked reserves over the MTFS and is summarised in the following table:

Reserves	2016/17 £m	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m
General Reserve	10.240	10.280	10.280	10.130	10.130
Contingency & Risk:					
Operational	2.450	2.450	2.450	2.450	2.450
Insurance	3.623	3.623	3.623	3.623	3.623
Total Contingency & Risk	6.073	6.073	6.073	6.073	6.073
Investment Reserves:					
Capital & Investment	9.045	1.002	0	0	0
Capital Receipts	0	0	0	0	0.624
Total Investment	9.045	1.002	0	0	0.624
Single Use Reserves:					
PFI	12.794	12.794	12.794	12.794	12.794
Asset Seizure	0.365	0.365	0.365	0.365	0.365
Delegated Budget Holder	7.038	5.938	3.814	0.621	0.621
SSRP	1.847	1.568	1.516	1.516	1.516
Total Single Use	22.044	20.665	18.489	15.296	15.296
Total Reserves	47.402	38.020	34.842	31.499	32.123

Operational Reserve

14.9 The expected Operational Reserve at 1 April 2017 is £2.45m. This meets one of the key principles to seek to maintain the operational reserve at a maximum of 1% of the net revenue budget. The closing operational reserve at March 2021 is estimated to be £2.45m and 1% of the net revenue expenditure budget.

Insurance Reserve

14.10 The Insurance Reserve is maintained for potential liabilities and costs which fall onto the Commissioner where no external insurance cover is arranged by or available to the Commissioner. Potential liabilities include storm damage, business interruption and claims that would fall within the Commissioner's policy excess limits. The level of this reserve is £3.6m and it is not anticipated that this will change over the period of the MTFS.

Investment Reserves

14.11 The Capital Receipts received in year will be applied to fund capital expenditure in year.

14.12 The Capital and Investments Reserve is also then used to support planned expenditure of a capital or revenue nature in line with investment and replacement plans included within the MTFS. This is dependent on the financing requirements of the capital plans included within the relevant asset strategies e.g. the future IT Strategy, the Estates Strategy and the Joint Transport Vehicles Strategy.

Single Use Reserves

- 14.13 The PFI reserve is currently £12.8m and it is not anticipated that this will change over the period of the MTFS.
- 14.14 The Asset Seizure reserve will be reviewed on an annual basis but is currently expected to remain at £0.4m for the period of the MTFS.
- 14.15 Under-spend transfers to the Delegated Budget Holder reserve (DBHR) are agreed annually with the PCC as part of the final outturn and movements in year are agreed by exception. This reserve is then available to support the change programme. The estimated balance in the DBHR at the 1 April 2017 is expected to be £7.0m with £0.6m remaining at the end of the MTFS period in 2021.
- 14.16 The Sussex Safer Road Partnership (SSRP) reserve is where the PCC holds the balance of any SSRP under-spend amounts on behalf of the SSRP partnership as ring-fenced funding. The movements are based on the latest SSRP strategy plans approved by the SSRP board.

15 Indicative Budget Forecasts 2017/18 to 2020/21

- 15.1 All budget pressures, budget savings, funding assumptions and proposed use of reserves outlined earlier in this Strategy are summarised below, to show an overall position for the Group representing the combined budget forecasts for the Commissioner and Chief Constable. Having considered the savings proposals and the availability of reserves to support the medium term plan an important consideration is the precept proposal for 2017/18. The MTFS only includes a precept increase of £5 for the 2017/18 year with no further increase in subsequent years.

15.2 The key medium term financial forecast planning assumptions are summarised in the following table:

Assumption	2017/18	2018/19	2019/20	2020/21
Core funding changes	-1.4%	-1.4%	-1.4%	-1.4%
Specific Grants change	No Change	No Change	No Change	No Change
Council Tax Support Grant	-	-1.4%	-1.4%	-1.4%
Legacy Council Tax Freeze Grants	-	-1.4%	-1.4%	-1.4%
Tax base increase	1.54%	0.5%	0.5%	0.5%
Collection Surplus/(Deficit)	£0.95m	-	-	-
Pay award	1%	1%	1%	1%
Police staff pension contributions	1%	1%	1%	1%
Precept	3.36%	0%	0%	0%
General Price inflation	2%	2%	2%	2%
Investment Interest Returns	0.40%	0.40%	0.40%	0.40%

15.3 The Medium Term Financial Forecast (MTFF) for the total Police Fund budget position is set out below:

Group Budget Forecast	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m
Base Budget	254.977	256.966	254.203	252.425
Budget pressures				
Employee pay and price increases	7.252	4.024	5.196	5.279
Price inflation and cost pressures	4.195	1.250	1.279	1.312
New investments	3.101	(0.390)	0.092	-
Total Budget pressures	14.548	4.884	6.567	6.591
Proposed budget savings	(11.262)	(7.797)	(8.346)	(8.336)
Total Budget	258.263	254.053	252.424	250.680
Income				
Home Office Grant Income	(96.461)	(95.110)	(93.779)	(92.467)
Home Office Revenue Income	(53.137)	(52.393)	(51.659)	(50.936)
Council Tax Support Grant	(10.140)	(9.998)	(9.858)	(9.720)
Council Tax Freeze Grant	(3.062)	(3.019)	(2.977)	(2.935)
Council Tax Income	(90.188)	(93.683)	(94.151)	(94.622)
Council Tax Precept increase	(3.028)	-	-	-
Council Tax Collection Fund surplus	(0.950)	-	-	-
Total Income	(256.966)	(254.203)	(252.424)	(250.680)
Funding gap/(surplus) before reserves	1.297	0.150	-	-
Planned use of reserves				
Transfers (from)/to Reserves	(1.297)	0.150	-	-
Funding gap/(surplus) after reserves	-	-	-	-

15.4 The Group forecast budget set out above shows how, after the planned use of reserves, savings and the precept, there is no funding gap for

the period of the MTFs, which meets the key principle of the Commissioner's Strategy that overall expenditure will be delivered within a sustainable budget over the medium term.

15.5 The budget includes £3.1m made available from the 2017/18 precept increase for new investment in additional capacity and resources in line with Police and Crime Plan and Operational Delivery priorities.

15.6 The Medium Term Financial Forecast for the Chief Constable's budget position is set out below:

Chief Constable's Operational Delivery Net Revenue Budget

Chief Constable	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m
Employees				
Police Officer Pay (incl. overtime)	129.547	130.699	132.968	135.258
Police Pension Employer Contributions	26.824	27.267	27.717	28.175
Total Police Pay	156.371	157.966	160.685	163.433
Police Staff Pay	68.564	70.577	72.636	74.743
LGPS Pension Deficit				
PCSO Pay	6.442	6.630	6.822	7.019
Total Police Staff Pay	75.006	77.207	79.458	81.762
Other Employee costs	5.566	5.634	5.703	5.774
Total Pay Costs	236.943	240.807	245.846	250.969
Buildings & Premises	11.080	11.352	11.929	12.332
Transport Costs	4.558	4.675	4.794	4.916
IT & Communications	6.005	6.175	6.349	6.526
Other Supplies & Services	34.867	35.265	36.084	36.920
Total Non-Pay Costs	56.510	57.467	59.156	60.694
Cumulative Savings Target	(11.262)	(19.059)	(27.405)	(35.741)
Gross Operational Delivery Budget	282.191	279.215	277.597	275.922
Income	(22.793)	(22.793)	(22.793)	(22.793)
Specific Grants	(8.227)	(8.227)	(8.227)	(8.227)
Total Income and Grants	(31.020)	(31.020)	(31.020)	(31.020)
Net Operational Delivery Budget	251.171	248.195	246.577	244.902

15.7 The Medium Term Financial Forecast position for the Police and Crime Commissioner's budgets are set out below:

Police and Crime Commissioner (PCC) Net Revenue Budgets

Police and Crime Commissioner	2017/18 £m	2018/19 £m	2019/20 £m	2020/21 £m
Office of the PCC	1.274	1.313	1.352	1.392
Community Safety	1.635	1.635	1.635	1.635
Victims Services	1.952	1.952	1.952	1.952
Grant Income (Victims)	(1.952)	(1.952)	(1.952)	(1.952)
Financial Provisions	3.335	3.359	3.159	3.050
Treasury Management Interest	(0.299)	(0.299)	(0.299)	(0.299)
Transfers to/from Earmarked Reserves	(0.150)	0.000	0.000	0.000
Total PCC Controlled Budgets	5.795	6.008	5.847	5.778
TOTAL POLICE FUND	256.966	254.203	252.424	250.680

15.8 The 'Office of PCC includes salary and associated costs of the PCC, Chief Executive, Chief Finance Officer and any other staff employed to support the PCC as well as office-running costs. It also includes other local policing body costs such as external audit. The 2016 HMIC Value for Money profiles highlighted that in 2016/17 the PCC budget was the 6th lowest per head of population of the policing bodies in England and Wales.

15.9 The Police and Crime Act that received Royal Assent in January 2017 introduced new duties and responsibilities for the PCC. As a result of this and as part of continuing improvement a review of staffing was completed in 2016. The new structure is now in place and will be kept under review during the MTFS period to ensure it is fit for purpose.



Community Safety

15.10 The PCC continues to support Community Safety initiatives and Community Safety Partnerships (CSP) through the Community Safety Budget. Having protected the individual allocations again in 2017/18 the PCC is continuing to encourage collaboration between CSPs, in particular to share staff resources. A review of CSP funding and commissioning will be completed in 2017/18 and the outcome will determine the future strategy.

15.11 The budget also includes the Safer in Sussex Fund that provides financial support to local community groups, voluntary and third-sector

organisations that are working to reduce crime, improve community safety and help people recover from the impact of crime. The PCC will continue to develop and grow this market to provide services that meet the needs of local residents and help to keep Sussex safe.

Victim Services and Restorative Justice

15.12 The Ministry of Justice allocates a grant to the Commissioner to spend on victim services and child sexual abuse services. The grant is allocated between Police and Crime Commissioners on the basis of population. A total grant of £1.952m has been allocated to Sussex in respect of Victims and Restorative Justice for 2017/18.

15.13 We make no assumptions about future grant settlements in the MTFS and this funding stream and subsequent spend does not impact on the precept decision.

Provisions, Treasury and Reserves

15.14 Financial provisions include the revenue and financing costs of the capital programme, interest receivable on cash balances and the pay and price contingency.

15.15 Investment and borrowing are managed via the PCCs Treasury Management Strategy which can be found at this [link](#).

15.16 The PCC is responsible for the management of all reserves and the reserves strategy has been explained elsewhere in this MTFS.

16 Risk Assessment

16.1 The MTFS contains the most up to date information at the time of drafting but the Commissioner's financial position is dynamic. A comprehensive financial risk assessment is undertaken for the revenue and capital and investment budget setting process to ensure all risks and uncertainties affecting the Commissioner's financial position are identified. The Commissioner faces a number of significant financial pressures that could affect the position over the medium term. An assessment of the likelihood and impact of each risk and the management controls in place are detailed in Appendix B and summarised in the following table overleaf:

Risk	Likelihood	Impact	Risk Management
Levels of reserves not sufficient to cover future unexpected costs	Possible	High	Reserve strategy to maintain General Reserve balance at 4% of budget plus another Operational Reserve balance maintained at 1% of budget. Monthly budget monitoring.
Pay awards and price inflation being higher than anticipated	Possible	Medium	Budget based on best information available and set at prudent levels.
Future precept increases limited by excessiveness principles determined by the Government	Likely	Low	Future precept planning assumes 0% increase.
Reduction in council tax collection following the introduction of the localised council tax support scheme	Unlikely	Low	Billing authorities' factor in prudent collection rates to mitigate this risk. General Reserve balance maintained at 4% of budget.
Further reductions in funding including unfavourable review of funding formula	Possible	High	Balance on General Reserve is maintained at 4%; forward planning assumes 1.4% revenue grant reduction observed in 2017/18 will continue through the period of the MTFS; regular monitoring and proactive input to the funding formula review and consultations.
Failure to deliver planned savings	Possible	High	General Reserve balance maintained at 4% of budget and Operational Reserve at 1% of budget. Action plans to deliver savings raised at Force level via Joint Chief Officer meetings, Force Executive Board and Change Board. Monthly budget monitoring will be undertaken, including closer scrutiny by the PCC's Chief Finance Officer, Force's Director of Finance and Chief Constable.
Interest rates on deposits lower than anticipated	Unlikely	Low	Prudential assumptions on likely interest rates are incorporated into the MTFS and regular review, monitoring and reporting of interest takes place.
Capital programme is understated and funding not available to deliver plans	Unlikely	Low	Capital monitoring updates are taken to the Commissioner quarterly to provide assurance in the accuracy of forecast and monthly monitoring undertaken by the Chief Finance Officer, Director of Finance and Chief Constable.

Risk	Likelihood	Impact	Risk Management
Capital financial charges being higher than forecast	Unlikely	Low	Revenue implications are considered as part of capital planning. 100% of current borrowing has fixed term rates and is not impacted by changes in interest rates. No further borrowing is planned to finance the capital programme in 2017/18 or beyond.
Not all risks identified	Unlikely	Medium	Comprehensive insurance arrangements are in place alongside robust risk management arrangements. Reserves policy includes the Insurance Reserve, a General Reserve maintained at 4% of budget and an Operational Reserve maintained at 1% of budget.

17 Conclusion

- 17.1 The overall financial context for Sussex Police remains challenging.
- 17.2 The approach set out in this MTFS will deliver a balanced budget. It sets out how all four years will be financed and the general reserve will be maintained at approximately £10m in line with the reserve strategy. The management of this position is achieved through the rationalisation of estates, workforce reduction plans, new operating model efficiencies and non-pay savings.
- 17.3 The MTFS does indicate that a sustainable financial position can be achieved over the period 2017/18 to 2020/21 and the Commissioner and Chief Constable are fully committed to taking the necessary decisions to achieve this outcome.

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RESERVES POLICY

General Reserve		Level or Target
Provides a working balance to cover day to day cash flow requirements and to cover exceptional unforeseen financial and operational risks. The target level of the reserve is reviewed and as part of the annual budget setting process.		4% of Net Revenue Expenditure Budget as at 31 March each year.
Contingency and Risk		
Insurance Reserve	<p>Provides for the self-funding of certain uninsurable risks, such as payments of compensation or damages. This Reserve is funded from revenue or transfers from other reserves and adjusted annually, following an independent actuarial review, to reflect inflation and risk up to date management information.</p> <p>To improve consistency in funding claims, there is a need to split claims between a provision on the balance sheet for the cost of claims received and outstanding; and funds held in the reserve to cover claims incurred but not received or quantified. Claims that have been reported and assessed as more likely to be settled are carried as a financial provision whilst known incidents where no claim has yet been made, are covered by the insurance reserve. The revenue account is used to meet any in-year liabilities if they arise. Any year-end variance in the revenue claims budget will not normally be met from or transferred to the general force budget, but transferred to/from the insurance Reserve. The level of the reserve is reviewed annually.</p>	Assessed as part of the annual insurance actuarial review.
Operational Reserve	The Operational Reserve provides support for funding the cost of major policing operations and events. Where exceptional and unforeseen circumstances result in the Force incurring additional expenditure, the Home Office may pay special grant under Section 48 of the Police Act. However any grant will normally relate to additional costs above 1% of the net revenue budget. It should be noted that the General Reserve may also be used to provide support for Operational use in exceptional circumstances.	In line with Special Grant conditions, maximum of 1% of net revenue expenditure as at 31 March each year.
Investment		
Capital and Investment Reserve	To support planned one-off and non-recurring investments of a capital and revenue nature. Change management initiatives providing support for implementing cost-saving initiatives. Financing asset replacement plans and commitments over 5-10 years.	<p>In line with investment and replacement plans included within MTFF and dependant on financing requirements of the Capital Strategy.</p> <p>Funded from: approved in year revenue budget surplus; transfers from other reserves; specific approved contributions.</p>
Capital Receipts Reserve	This reserve holds the proceeds from the sale of assets, and can only be used for financing capital expenditure in accordance with regulations.	Receipts from the sale of assets are taken to this reserve.
Capital Grants & Contributions	This reserve holds unused elements of grant and other external funding to be spent in the following financial year in line with the conditions of the grant or external funding.	As determined by the closure of accounts process

APPENDIX A (continued)

Single Use		
PFI Reserve	<p>Exists to meet future contractual contributions to be paid towards the end of the custody PFI scheme. This balances contributions over the life of the contract and in accordance with the agreed PFI scheme financial model and specific grant funding.</p> <p>As the PFI reserve will not be required until the latter years of the contract, the reserve can be used for other purposes as set out for other reserves, e.g capital and investment purposes; managing any temporary shortfalls in other reserves or capital receipts, this is on the basis that plans are put in place as part of the Financial Strategy to build up the PFI reserve to its appropriate level when required.</p> <p>This reserve will be discontinued once exhausted.</p>	<p>Inflows and outflows are in line with the PFI Financial Model.</p> <p>Under-spends on the PFI Contract revenue budget as approved by the PCC as part of the final outturn.</p> <p>As a review of the PFI contract is currently underway, the opportunity will be taken to review the PFI reserve during 2017/18.</p>
Asset Seizure Reserve	Balance of Proceeds of Crime Act (POCA) income received but not spent during the year to be used in accordance with Home Office guidance.	Target level of 12 months costs of financial investigations.
Delegated Budget Holder Reserve	Under and overspendings on the PCC's and Chief Constable's revenue budgets are managed via this reserve in accordance with the PCC's carry-forward policy.	Agreed annually by the PCC as part of the final outturn.
Sussex Safer Road Partnership (SSRP)	Balance of funding for the Sussex Safer Roads Partnership. This reserve can be used to finance capital or revenue expenditure. The level of this reserve may fluctuate year on year as under-spends are transferred in. However £1.2m is ring-fenced so that in the event that the Partnership is dissolved, there are sufficient funds to cover one year of running and decommissioning costs. This reserve belongs to the SSRP Partnership and any funds remaining will be returned to the contributing partners on a pro rata basis.	Transfer of any SSRP under-spend to reserves at year.

FINANCIAL RISK ANALYSIS

Issue	Assumption	Comment
Maintaining & improving service performance levels	Resources sufficient to meet targets and priorities in the Local Policing Plan and Strategic Policing Requirement	The Chief Constable believes that there are sufficient resources to deliver future Police and Crime Plan priorities and Strategic Policing Requirement. However there remains risk from the cost of major operations including counter-terrorism, particularly if these are not fully funded nationally.
Pay and price budgets and establishment control	Provision for national pay awards ceiling of 1%. Staff turnover and increments based on detailed analysis of current staff profile and trends. General price inflation of 2%	Whilst the number of police officer leavers is difficult to predict, recruitment and promotions are managed during the year across the Force to match staffing need and resources to budget. Close corporate monitoring of the overall budget and management action to maintain financial discipline is particularly important given the Force faces reductions in staffing through budget changes, as well as the PCC's approved investment in Police and Crime Plan and Force priorities. As such a new approach has been introduced to oversee these changes through a workforce planning board chaired by the DCC. There is also a requirement from the PCC's CFO to improve transparency of workforce commitments to be included in the monthly reporting. Pay and price contingency is available to meet unexpected increases in year. The risk that prices may rise is mitigated by budget monitoring arrangements and actively managing spend pressures.
Limits to Precept Increases	Future precept planning assumption of a 0% increase.	The Localism Act 2011 gives a statutory obligation for council tax referendums to be held should a precept higher than prescribed be considered by the Police and Crime Commissioner (PCC). The Secretary of State for Communities and Local Government set the level above which a referendum would be required at 2%. Decisions on any increase to the precept are made by the PCC annually. Compared to other police areas across the country, Sussex has a low level of precept.
Grant Levels	Overall revenue grant reduction of 1.4% in 2017/18. Capital grant reduction of 48.7% in 2017/18 to £0.906m.	2017/18 was a one year only settlement. Changes to the grant formula may further reduce the level of grant payable but no adjustment is necessary in 2017/18.
Council Tax	Collection rates advised by individual billing authorities	The risk of council tax collection rates being lower than expected could impact on the collection fund balances and any surpluses payable to the PCC. Billing authorities' factor in prudent collection rates to mitigate this risk.
Budget Estimates (Expenditure)	Provision for specific on-going cost pressures	The budget estimates including all identified additional costs for 2017/18, supported by input and review by the Chief Financial Officers. Risks of budget overspend are mitigated by the monthly budget monitoring process and formal monitoring reports to the PCC.
National IT Systems	Move to full cost charging without transfer of funding from Home Office.	Further potential costs related to the national changes to training and the creation of the national police college could continue in 2017/18 and beyond.

Issue	Assumption	Comment
Budget and financial reporting	<p>Savings requirement of £35.7m to 2020/21 with planned savings of £16.6m (required £11.3m) in 2017/18.</p> <p>Monthly budget monitoring</p>	<p>Action plans to deliver savings from April 2017 continue to be reviewed by Chief Officers and regular monitoring will be undertaken to track achievement of savings and ensure any additional action required is undertaken during the year.</p> <p>The achievement of savings in 2017/18 and beyond heavily depends on the delivery of savings from the Local Policing Programme and the Policing Together Programme (joint vision and services with Surrey Police). Wider blue light collaboration will contribute to the delivery of savings over the medium term.</p> <p>The Force Director of Finance has raised at the Joint Chief Officer meeting, Force Executive Board and the Change Programme Board, the issue of translating purple savings earlier than was achieved in previous years.</p> <p>Necessary improvements to financial monitoring have been identified during 2016/17. These improvements are being put in place and a more rigorous process of monthly review will be carried out throughout 2017/18, including closer scrutiny by the Forces Director of Finance and the PCC's Chief Finance Officer.</p>
Levels of Reserves	<p>Forecast to reduce over the term of the MTFF</p>	<p>Currently used to finance the capital and investment programme and major change initiatives. It remains a risk that the level of reserves is adequate to meet unplanned demand.</p> <p>To mitigate this risk, the General Reserve is kept at a minimum of 4% of revenue expenditure and the Operational Reserve is kept at a minimum of 1% of revenue expenditure.</p>
Interest rates, investment and borrowing	<p>Interest rates assumptions of 0.40%</p> <p>Borrowing at fixed rates.</p>	<p>Forecasts of investment income for 2017/18 onwards are based on estimated cash balances and interest rate forecasts as set out in the treasury management strategy. A prudent position has been adopted with regard to anticipating future increases in interest rates, to address the risk of interest rates being lower than expected.</p> <p>The risk of investment fund loss due to collapse of the financial institution with whom the deposit is placed, is limited by controls within the Treasury Management Strategy focus on security rather than returns. Potential impact is mitigated by a diverse portfolio with top credit rated institutions.</p> <p>At this stage, no borrowing has been planned to finance the capital programme in 2017/18 or beyond.</p>
Income Assumptions	<p>Income budgets reduced for specific items.</p>	<p>Some risk of achieving on-going level of income targets included in Divisional and Department budgets. This will be monitored during the year and appropriate action or mitigation agreed as necessary. Additional income may be received in-year due to unforeseen events. Budget adjustments will be requested where appropriate. The increase in firearms licence costs will provide additional income.</p>
Policing of Gatwick Airport	<p>Funding of £12.9m in 2017/18.</p>	<p>The existing public Services agreement for Policing Gatwick Airport expires on 31 March 2017. Negotiations are underway to renew this agreement for a further three years to 31 March 2020.</p>
Reductions in security grants	<p>Potential reductions in Airport and other security grants.</p>	<p>MTFF assumes that grants will continue at current level. If subsequently reduced, savings will be made to cover the reduction outside of core savings targets.</p>
Operation Otter	<p>Costs in excess of government grant to be met from Reserves or central reimbursement</p>	<p>The 2017 Labour Party Autumn Conference being held in Brighton is planned for. The scale of the operation is expected to be relatively low key and additional costs are not expected to be significant.</p>

Issue	Assumption	Comment
Public disorder	Additional cost of overtime and associated costs	Whilst action will be taken to mitigate the overtime and other additional costs relating to policing public order operations, significant costs may be incurred on anticipated events in 2017/18. It is proposed that in-year over-achieved savings will be used as a first source for funding, otherwise the public order contingency, other revenue budget and operational reserve provides potential sources of funding if necessary.
Operational Demands	Public Protection and Digital Forensics.	Key operational pressures include continuing increase in demand and complexity of public protection cases (domestic abuse and vulnerable children/adults) plus changes in nature/type of evidence collection (more digitally based); requiring additional time/resource and cost to process.
Capital Programme	Latest plans	There is a risk of the capital programme being understated, or that over spending occurs, resulting in insufficient funding being available as planned. This is mitigated by regular review of all major projects including the Estates strategy, focus on key priorities agreed in advance, together with monthly budget monitoring and regular monitoring reports to the PCC.
Capital Financing	MRP is calculated on an asset by asset basis	This Capital Financing risk is of charges being greater than budgeted. This is mitigated by considering revenue and capital implications of major project spend within the capital and investment planning process and inclusion within the MTFF. The MRP debt repayment provision is calculated on individual assets and 100% of borrowing has fixed term rates, thus will not be impacted by changes in interest rates.
National ICT Programmes	Latest plans	There is a risk that delays to the implementation of national ICT schemes including ESMCP, NLEDP, HOB & DPP present significant risk. These risks will be managed by regular review of all these major projects.
Risk Management		Financial consequences could result if all major risks have not been identified when the budget has been set. This is mitigated by robust risk management arrangements in place with formal reporting to the Joint Audit Committee; comprehensive insurance arrangements in place; and an adequate reserves policy and reserves (including the insurance reserve, general reserve and operational reserve balances).