

Medium term financial plan update 6 October 2014

Executive board 6 October 2014

Report of the Police and Crime Commissioner's Chief Finance Officer

Medium Term Financial Plan Update

Report Purpose

1.1 Purpose of the Report

This report is to provide the PCC and Executive Board with an update on the delivery of the Medium Term Revenue Plan of the organisation following on from the plans agreed by the PCC in February 2014 and any significant changes that have taken place since February.

1.2 The report incorporates the financial impact of:

- The implications of approved Decision Notices and Reports
- PCC or Command Team decisions
- Changes to funding and inflation assumptions

1.3 The next steps in the budget development process are as follows:

- An updated MTFP including Capital plan will be brought to the Executive Board on the 25th November.
- Details of anticipated future tax base levels from districts and City of York will be requested (expected December)
- 2015/16 Police Grant funding award (expected late December)
- Agreement of strategic priorities by Executive Board
- Detailed discussions with budget holders
- Inclusion of further decision notices as they are approved
- PCC decision on precept to propose to Police and Crime Panel (January 2015)

Key Information

2.1 Government Funding for 2015/16

It was announced in June 2013 that the overall funding available to policing would reduce by £272m or 3.2% in 2015/16. Since then the Autumn Statement in December 2013 indicated that the Home Office budget would reduce by a further £113m in 2015/16.

2.2 While no announcements have been made in relation to how much of this additional £113m will result in cuts in funding available to PCC's it is prudent to assume that some will. This combined with further expectations of 'top-slicing' in 2015/16 would suggest that the Government Grant available to PCC's in 2015/16 will fall by around 5% in cash terms in comparison to the amounts received in 2014/15. Based on this the updated MTFP assumes a further £3.6m cut in government grant will occur in 2015/16 in comparison to that received in 2014/15.

2.3 Government Funding for 2016/17 and beyond

There is currently no clear indication of what will happen to the levels of Government Funding for 2016/17 and beyond. It is also unlikely that any clear indications will be given before the next General Election which is due in 2015. What is however reasonable to assume is that reductions in government funding will not end in 2015/16. It is therefore prudent to plan for further cuts.

2.4 As the final settlement for 2014/15 showed it is however very difficult to project what the level of reductions will be. For planning purposes it has therefore been assumed that Government Grants will reduce by 2.5% per annum in each year thereafter.

2.5 The current forecasts for Government Funding across the next 4 years, in comparison to the amounts received for 2013/14 and 2014/15, are therefore:

	Actual	Actual	Forecasts			
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Funding	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>
Police Grant	(46,286)	(44,654)	(42,422)	(41,361)	(40,327)	(39,319)
Community Safety Funding	(630)	0	0	0	0	
RSG/National Non Domestic Rate	(29,567)	(28,185)	(26,775)	(26,106)	(25,453)	(24,817)
Government Grant Funding	(76,483)	(72,839)	(69,197)	(67,467)	(65,780)	(64,136)

2.6 Precept

There are now 3 elements that make up what would have previously been the amount of funding received in relation to precept.

2.7 There continues to be the amount raised locally via the 'police' element of the Council Tax bill. However this has been reduced significantly given the government decision to localise the council tax benefits system. The assumption throughout this updated plan, and for planning purposes only, is that this element will be frozen at the 2014-15 level, with the 2015-16 precept level subject to decision by the PCC later in the financial year and annually thereafter.

2.8 There have been reports that levels of precept increases in 2015/16 will be limited to 'inflation' before a referendum is triggered, however no firm indications of this have been provided nor what is meant by inflation for these purposes. There has also been discussion that, as in previous years, if the PCC was to choose to freeze the 'police' precept that a grant equivalent a 1% precept increase would be given to PCC's instead. While this updated paper models precept freezes any grant that results from this has not been factored in. This area will be reviewed further and will inform the proposals put to the PCC in relation to the options for Precept in 2015/16.

2.9 As a precepting authority the PCC will receive a grant of £5,746k in 2014/15 in recognition that a proportion of Council Tax Benefits that were previously paid by the Government to the Local Councils were ultimately due to the PCC as part of the 'police' precept.

2.10 Despite a small increase in this grant in 2014/15 of £18k (or 0.3%) the current plan assumes that the current level of grant remains unchanged throughout the plan.

2.11 There remains a risk that this element of funding to the PCC becomes part of the overall Police Grant and therefore subject to reductions in future years and/or gets allocated by the formula that distributes funding within policing as a whole instead of based on local need.

2.12 The final area of 'precept' funding is in the form of the Council Tax Freeze grant. The PCC is currently in receipt of 2 grants as a result of decisions to freeze precept in previous years.

2.13 A grant of £1,532k per annum is as a result of the decision of the then Police Authority to freeze council tax levels in 2011/12. Originally this grant, for £1,532k per annum, was for 4 years but it has been extended into a 5th year. Based on current information this grant will not be available for the 2016/17 financial year.

2.14 The other Council Tax Freeze Grant is for £620k per annum and results from the decision of the PCC to freeze council tax levels in 2013/14. It is also expected that this grant will not be available in 2016/17 and beyond.

2.15 The current forecasts around the funding for precept and precept related items over the next 4 years, in comparison to 2013/14 and 2014/15, are as follows:

	Actual	Actual	Forecasts			
	2013/14	2014/15	2015/16	2016/17	2017/18	2018/19
Precept Related Funding	£000s	£000s	£000s	£000s	£000s	£000s
Precept (Freeze Assumed from 15-16)	(56,136)	(58,342)	(58,056)	(58,212)	(58,386)	(58,561)
Council Tax Freeze Grants	(2,150)	(2,152)	(2,152)	0	0	0
Council Tax Support Grant	(5,728)	(5,746)	(5,746)	(5,746)	(5,746)	(5,746)
Precept Funding Total	(64,013)	(66,240)	(65,954)	(63,958)	(64,132)	(64,307)

2.16 If the PCC was to decide to increase Precept, in 2015/16 and beyond, at the previously modelled rate of increase, of 1.99% per annum then this would increase the funding available to the PCC by the following amounts:

Forecasts			
2015/16	2016/17	2017/18	2018/19
£000s	£000s	£000s	£000s
(1,155)	(2,340)	(3,555)	(4,802)

2.17 This would aid in reducing the current gaps that are shown within the financial plans.

2.18 Specific Grants, Other Income and Victims and Witnesses Grants

While the main government grant and money related to precept provide the PCC with the majority of its funding there are other areas from which the PCC will receive income.

2.19 In terms of Specific Grants the PCC is forecast to receive between £1.5m and £1.8m per annum for the life of this plan. They are called specific grants as there is a requirement to spend them on the areas for which they are granted for. The vast majority of this funding relates to Victim and Witnesses grant from the Ministry of Justice and National Security funding.

2.20 Other funding is generated from a variety of sources such as secondments, interest on balances held and invested, collaboration contributions, special services income and speed awareness income.

2.21 These sources of income and funding are forecast to provide between £5.5m and £5.8m across the life of the plan.

2.22 The entire funding therefore expected to be available to the PCC for the next 4 years in comparison to 2014/15 is as follows:

	Actual	Forecasts			
	2014/15	2015/16	2016/17	2017/18	2018/19
Funding	£000s	£000s	£000s	£000s	£000s
Government Grant	(72,839)	(69,197)	(67,467)	(65,780)	(64,136)
Council Tax Precept	(58,342)	(58,056)	(58,212)	(58,386)	(58,561)
Council Tax Freeze Grant	(2,152)	(2,152)	0	0	0
Council Tax Support Grant	(5,746)	(5,746)	(5,746)	(5,746)	(5,746)
Funding for Net Budget Requirement	(139,079)	(135,151)	(131,425)	(129,912)	(128,443)
Specific Grants	(2,490)	(2,605)	(2,466)	(2,200)	(2,200)
Partnership Income/Fees and Charges	(4,589)	(5,828)	(5,709)	(5,584)	(5,618)
Total Funding	(146,158)	(143,584)	(139,600)	(137,696)	(136,261)
%age change in Total Funding	-1.5%	-1.8%	-2.8%	-1.4%	-1.0%

2.23 As can be seen from the table above, based on the current assumptions, the amount of funding available to the PCC is expected to continue to reduce across the life of the current plan. If the PCC was to decide to increase the precept by 1.99% per annum, as per the previous planning assumption then the total income available to the PCC is expected to plateau at circa £140m per annum.

2.24 To therefore help balance the budget in the future requires the careful management of inflation on all areas of expenditure, both in terms of what actually happens but also forecasting what will happen.

2.25 There are 2 areas of income that have not been incorporated into these figures yet. In terms of driver training income the income figures included are sufficient to balance the additional costs. Any surplus

income, which is expected to be circa £900k from 2016-17 onwards, could be utilised to reduce the deficit if required. The other area is that nothing has yet been factored in for an increase in firearms licence fees from 2015/16. Both areas will be kept under review as the year progresses.

Expenditure Plans

3.1 When setting the budget for 2015-16 the PCC will need to make decisions on how the overall funding discussed in Section 2 is allocated. The PCC will need to provide funding/budgets to the areas discussed in the following sections:

3.2 Office of the PCC

The PCC set a budget of £912k for 2014-15 which was £168k (or 15.6%) less than the budget inherited from the former Police Authority. The current planning assumption is that this budget remains static throughout the life of the plan. Further details will be provided in future versions of the MTFP.

3.3 Commissioning and Partnerships

The role and responsibilities of the PCC is wider than Policing and this has been acknowledged with the addition of responsibilities around Community Safety and Victims and Witnesses services. These additional responsibilities have also attracted some additional funding. The Community Safety grant was provided in 2013-14 before being absorbed into the main Police Grant, while the provision of grant funding from the Ministry of Justice for the commissioning of services in relation to Victims and Witnesses services continues into 2015-16 and will increase as the PCC's responsibilities in this area increase.

3.4 In line with the changing and evolving responsibilities in this area the current plans are all under review to ensure that the budgets are aligned between the Office of the PCC and the Police Force to ensure the budgets are held in the most appropriate place. The details around this area will be firmed up over the coming weeks and then reflected in the MTFP going forward. The current plans expect that around £1.9m will be spent in this area in 2015/16.

3.5 Corporate Services

In line with the agreement of the Home Secretary, and as per the requirements of the Police Reform and Social Responsibility Act 2011, there was a statutory transfer of staff from the employment of the PCC to the employment of the Chief Constable from the 1st April 2014. As part of this transition and the changes to governance that occurred from the 1st April 2014 there were certain budgets and responsibilities that either needed to sit with the PCC or which were agreed to sit with the PCC. These areas have been grouped under the heading of Corporate Services.

3.6 While not specifically identified within the budget reports that were used to set the 2014-15 financial plan it is important that there is a distinction between those areas of expenditure that remain under the PCC, along with the staff employed by the PCC to deliver these areas, and those that were transferred to the Chief Constable. To ensure that both organisations can ensure appropriate governance and financial

control it will be important that it is explicit where responsibility lies and that budgets are set and reported against based on these splits.

3.7 The table below sets out those areas and budgets that remained with the PCC post the 'Stage 2' transfer in relation to Corporate Services. The forecasts for the next 4 years are based on decisions made to date and an allowance for expected levels of inflation.

	Actual	Forecasts			
	2014/15	2015/16	2016/17	2017/18	2018/19
Corporate Services	£000s	£000s	£000s	£000s	£000s
Staff Pay	6,899	6,969	6,954	7,092	7,233
Other Non Salary	354	405	286	177	180
Premises	5,056	4,983	5,183	5,522	5,619
Supplies and Services	8,561	8,826	9,197	9,076	9,367
Transport	861	883	903	924	960
Asset Management	265	173	90	34	588
Total Corporate Costs	21,995	22,238	22,613	22,825	23,946
%age Change in Expenditure		1.1%	1.7%	0.9%	4.9%

3.8 Further work will be done over the coming months to split out the assumptions around staffing levels between the PCC and CC so that these can be reported separately going forward.

3.9 Police Force

As expected the vast majority of the funding received by the PCC is provided to the Chief Constable. The Chief Constable is accountable to the law for the exercise of police powers, and to the Commissioner for the delivery of efficient and effective policing, management of resources and expenditure by the police force

3.10 Based on the current split of resources and responsibilities between the PCC and CC the CC has modelled a budget for 2015-16 and beyond based on maintaining 1,392 FTE Police Officers and 183 FTE PCSOs. The current position is outlined in the table below:

	Actual	Forecasts			
	2014/15	2015/16	2016/17	2017/18	2018/19
Police Force Planned Expenditure	£000s	£000s	£000s	£000s	£000s
Pay					
Police Pay	70,818	71,663	75,708	77,844	79,766
Police Overtime	1,631	1,321	967	1,267	1,101
Police Community Support Officer Pay	6,068	6,130	6,394	6,524	6,653
Staff Pay	25,904	26,717	27,272	27,693	28,123
Pay Total	104,420	105,830	110,340	113,328	115,642
Non-Pay Budgets					
Other Pay and Training	1,590	938	952	971	991
Injury and Medical Police Pensions	2,958	2,988	3,035	3,096	3,158
Premises	59	87	89	91	93
Supplies and Services	8,904	9,006	9,099	9,205	9,403
External Support	0	0	0	0	
Non-Pay Total	15,865	15,739	16,006	16,305	16,714
Total Planned Force Expenditure	120,285	121,569	126,346	129,633	132,357
%age Change in Expenditure		1.1%	3.9%	2.6%	2.1%
Employee Numbers (Average per year)	FTEs	FTEs	FTEs	FTEs	FTEs
Police Officers	1,392	1,392	1,392	1,392	1,392
PCSOs	183	183	183	183	183

3.11 The figures incorporated in the above table, and elsewhere within the document, are based on decisions approved up to September 2014. They do not include any costs associated with the Corporate Communications review.

3.12 Reserves and Capital

The current position assumes the following transfers in and out of reserves and also contributions to the capital programme.

	Actual	Forecasts			
	2014/15	2015/16	2016/17	2017/18	2018/19
Reserves	£000s	£000s	£000s	£000s	£000s
Planned Transfers to/(from) General Fund	0	0	0	0	0
Contribution to Capital Programme	3,420	1,994	4,872	4,931	4,931
Planned Transfers to/(from) Earmarked Reserves	(2,553)	(550)	(312)	(136)	(129)
Total Transfer to Reserves	867	1,444	4,560	4,795	4,802

3.13 The plans and assumptions around these will be reviewed and amended as required over the coming months in line with the financial challenges that the organisation faces.

3.14 It is unlikely that the currently modelled contributions to support the capital programme can be sustained at the levels previously planned. This area will require a full review of all of the plans expected to be funded via the Capital and Revenue Development Programme over the coming years. It is also an

opportune time to consider whether the funding of long term asset purchases could provide better value for money via a different funding method.

Overall Financial Summary

4.1 Taking into account the forecasts around income outlined in section 2 and of expenditure outlined in section 3, the table below pulls together the overall financial summary of the organisation:

	Actual Budget	Forecasts			
	2014/ 15	2015/ 16	2016/17	2017/ 18	2018/ 19
Funding	£000s	£000s	£000s	£000s	£000s
Government Grant	(72,839)	(69,197)	(67,467)	(65,780)	(64,136)
Council Tax Precept	(58,342)	(58,056)	(58,212)	(58,386)	(58,561)
Council Tax Freeze Grant	(2,152)	(2,152)	0	0	0
Council Tax Support Grant	(5,746)	(5,746)	(5,746)	(5,746)	(5,746)
Funding for Net Budget Requirement	(139,079)	(135,151)	(131,425)	(129,912)	(128,443)
Specific Grants	(2,490)	(2,605)	(2,466)	(2,200)	(2,200)
Partnership Income/Fees and Charges	(4,589)	(5,828)	(5,709)	(5,584)	(5,618)
Total Funding	(146,158)	(143,584)	(139,600)	(137,696)	(136,261)
Office of the PCC Planned Expenditure	£000s	£000s	£000s	£000s	£000s
Total Planned Expenditure	912	911	911	911	911
Victims and Witness and Commissioning	£000s	£000s	£000s	£000s	£000s
Total Planned Expenditure	2,099	1,917	1,736	1,736	1,736
Corporate Costs	£000s	£000s	£000s	£000s	£000s
Staff Pay	6,899	6,969	6,954	7,092	7,233
Other Non Salary	354	405	286	177	180
Premises	5,056	4,983	5,183	5,522	5,619
Supplies and Services	8,561	8,826	9,197	9,076	9,367
Transport	861	883	903	924	960
Asset Management	265	173	90	34	588
Total Corporate Costs	21,995	22,238	22,613	22,825	23,946
Police Force Planned Expenditure	£000s	£000s	£000s	£000s	£000s
Police Pay	70,818	71,663	75,708	77,844	79,766
Police Overtime	1,631	1,321	967	1,267	1,101
PCSO Pay (incl Overtime)	6,068	6,130	6,394	6,524	6,653
Staff Pay (incl Overtime)	25,904	26,717	27,272	27,693	28,123
Pay Total	104,420	105,830	110,340	113,328	115,642
Other Non Salary	1,590	938	952	971	991
Injury and Medical Police Pensions	2,958	2,988	3,035	3,096	3,158
Premises	59	87	89	91	93
Supplies and Services	8,904	9,006	9,099	9,205	9,403
Transport	2,354	2,721	2,831	2,942	3,070
Non-Pay Total	15,865	15,739	16,006	16,305	16,714
Total Planned Force Expenditure	120,285	121,569	126,346	129,633	132,357
(Surplus)/Deficit	£000s	£000s	£000s	£000s	£000s
(867)	3,052	12,007	17,410	22,690	
Contribution to Capital Programme	3,420	1,994	4,872	4,931	4,931
Planned Transfers to/(from) Earmarked Reserves	(2,553)	(550)	(312)	(136)	(129)
Net (Surplus)/ Deficit After Reserves	(0)	4,496	16,566	22,205	27,492
General Reserves	£000s	£000s	£000s	£000s	£000s
General Fund Balance b/f	9,700	9,700	9,700	9,700	9,700
General Fund Balance c/f	9,700	9,700	9,700	9,700	9,700
Employee Numbers (Average per year)	FTEs	FTEs	FTEs	FTEs	FTEs
Police Officers	1,392	1,392	1,392	1,392	1,392
PCSOs	183	183	183	183	183
Assumptions					
Pay Increases	1.0%	1.0%	2.0%	2.0%	2.0%
Precept Increases	2.0%	0.0%	0.0%	0.0%	0.0%
Government Grant Reductions (Cash Basis)	-4.8%	-5.0%	-2.5%	-2.5%	-2.5%

Eliminating the 2015/16 and later years budget gaps

Options which can be expected to reduce the gap

The Delivery Board workstreams are now indicating that they may not achieve the full £9m of savings initially indicated by 2016/17. A summary of the expected savings will be developed and incorporated into future versions of the updated MTFP.

£426k has already been removed from the budgets (during the 2014/15 budget round).

Delivery Board Target	Target £'000	Removed from budgets to date £'000	Forecast £'000
Operational Policing	1,400.0	-	1,400.0
Partnerships/Collaboration	3,000.0	-	3,000.0
People	1,800.0	-	1,800.0
Fit for the Future	3,083.0	426.0	2,750.0
Total	9,283.0	426.0	8,950.0

Additional options which could be taken

- Reduce the arrears payments to the Local Government Pension Scheme (LGPS)
- Repay the LGPS deficit from reserves, and eliminate future years deficit payments completely.
Further work will be undertaken in this area and brought forward to a future Executive Board for consideration and discussion.
- Reduce the Revenue Contributions to the Capital Development Programme and either borrow more in the future or significantly reduce the on going capital expenditure programme.
 - Budgeted Revenue contributions are approximately £2m in 2015/16, rising to £4.8m in 2016/17 and £4.9m thereafter.
 - Borrowing £2m over 25 years would cost approximately £140k pa.
 - Borrowing £4.8m over 25 years would cost approximately £340k pa.
 - Revenue Contributions are utilised to fund the short term assets in the capital rolling programmes, which could more appropriately be funded via leasing. Costs for a £2m lease over 36 months are estimated as roughly £900k pa.
- The level of the General Reserve will be reviewed as part of the Robustness of Estimates and Adequacy of Financial Reserves that will be undertaken before the 2015/16 budget is set.
- Consideration could be given to reducing the level of the Insurance Reserve and utilise some of the Insurance Reserve to fund short term revenue budget gaps.
- The levels of resources throughout the organisation will need to be reviewed and given the challenges faced will in all likelihood need to reduce.

- It is also very important that the assumption in relation to future level of increases for pay and non-pay inflation and increments, for example, are as accurately modelled as possible to ensure decisions are made on the best information possible.
- The organisation will need to be very robust about any proposals for either growth or cost increases otherwise it will only add to the difficult financial challenge.

Risks

6.1 The major risks and unknowns surrounding the figures presented here are:

- There is little clarity in relation to the expected level of grant that the PCC will receive in either 2015/16 or in future years. Planning a key public service with this level of uncertainty is therefore inherently risky. However to mitigate this risk the PCC holds sufficient reserves to ensure that in the short term any reduction in funding beyond those planned for could be accommodated for the first year.
- Any formula review in future years, which might impact on the funding floor and/or impact on the amount of the current National Funding for Policing is allocated to North Yorkshire.
- Variations in future years between the estimated tax base used and the actual declared tax base.
- Changes in the level at which the PCC must seek a referendum when setting the 'police' element of the precept. If the PCC were to breach the level at which a referendum is triggered then the costs associated with it would fall to the PCC to pay for and it is therefore not likely to prove financially feasible.
- Any adjustment to the Police Pension Grant regime and/or any top slicing of funding to contribute to the increasing cost of the Police Pension Fund Top up Grants.
- The impact of changes to the Police Pension fund that are expected to take effect from the 1st April 2015.
- Changes in the model of service delivery as a result of commissioning, changes in demand and/or alternative resource provision that may result in an amendment to the current structures.
- Impact of Winsor recommendations in respect of Police Staff. These are subject to further discussion at national level.
- Sensitivity of assumptions, including inflation.
- Any re-prioritisation of projects as a result of the Delivery Board workstreams
- Any additional investments required in order to facilitate the Delivery Board workstreams and for the elimination of the 2015/16 and 2016/17 budget gaps:
- Ability of the Delivery Board workstreams to deliver the savings predicted, to the required timescales.

Report Information

Author(s): Michael Porter, PCC Chief Finance Officer.

Date: 30 September 2014

Background Information and Related Documents

MTFP Report (v44) and associated documents dated 30th September 2014.