JOINT INDEPENDENT AUDIT COMMITTEE

POLICE AND CRIME COMMISSIONER FOR NORTH YORKSHIRE AND NORTH YORKSHIRE POLICE

1PM MONDAY 13 DECEMBER 2016 CONFERENCE ROOM ONE, POLICE HEADQUARTERS, NEWBY WISKE, DL7 9HA

AUTUMN STATEMENT AND FUNDING FORMULA REPORT

INTRODUCTION

1. There are a number of key pieces of work that are on-going nationally and/or have recently been announced that have, or have the potential to have, an impact on the finances of the PCC. This report is to provide Members of the Committee with an update on 2 of these areas, these being the Autumn Statement and the Funding Formula.

AUTUMN STATEMENT

2. The Autumn Statement took place on the 23rd November 2016. There were however no specific references within the statements to PCC's, Policing or the Home Office and no changes proposed to the Departmental Expenditure limits that were set out in the March 2016 budget. As a result, the Medium Term Financial Plan will assume no changes to the previous forecast changes to Government Grant from those set out in previous financial plans. These are set out below for information:

Assumed Government Grant Reductions		
	Feb 2016 MTFP	Sept 2016 MTFP
	%	%
2017/18	-0.6%	-0.6%
2018/19	-0.6%	-0.6%
2019/20	-0.6%	-0.6%
2020/21	N/A	2.0%

3. A summary of the major points of interest from the statement are included at Appendix A.

FUNDING FORMULA

4. The Government has been clear that existing arrangements for distributing core grant funding to police force areas in England and Wales need to be reformed. These arrangements are complex, outdated and reflect a picture of policing risk and demand which has moved on and – fundamentally – are born out of the

interaction between separate Home Office and DCLG funding formulae which can no longer be updated.

5. The Minister of State for Policing and the Fire Service wrote to all Police and Crime Commissioners on 14 September setting out plans for continuing work to review these arrangements, focussed on developing a new Police Core Grant Distribution Formula. The first stage of this work will be a period of detailed engagement with the policing sector and relevant experts. Any final decisions on implementation of a new formula will follow a period of public consultation.

6. The Review will take place between October 2016 and February 2017 and comprise a period of detailed engagement with the policing sector and relevant independent experts, which will make recommendations to the Home Office on a new formula for distributing Police Core Grant funding to PCCs (and their London equivalents) in England and Wales.

7. Specifically, the Review will have the following objectives:
    - To agree a set of core principles that a future formula should be based on (using fairness; transparency; stability; alignment with expected relative risk and demands; and, appropriately incentivising efficiency and effectiveness as the starting point, and the balance that a new formula should strike between them;
    - To develop proposals on a new police core grant distribution formula which aligns with these principles and takes account of the significant drivers of risk and demands for policing services;
    - To consider whether and how to take into account regional cost variations in a new formula;
    - To consider whether and how a new formula should take into account forces' local council tax base;
    - To advise the Home Office on the options for transition to a new formula.

8. The formula will be based on 5 key principles:
    - Stability
    - Fairness
    - Transparency
    - Incentivising efficiency & effectiveness, and
    - Alignment with risk.

9. These are complemented by 6 policy objectives:
    - Encourages efficiency
    - Recognises local circumstances including ability to raise council tax
    - Avoids prolonged transition
    - Stable and predictable
    - Enables transformation and future proofing, and
    - Encourages upstream crime prevention.

10. There are 3 building blocks:
    - Relative needs and demands (likely to be based around population, socio-economic factors, geography & environmental)
    - Relative costs and needs
    - Variation in local tax raising powers

11. While this is a new process, with a new minister, many of the key principles, objectives and building blocks are not that dissimilar to those previously looked at during the last Funding Formula Review. That review, prior to the discovery of an error in the formula by the OPCC in Devon and Cornwall, was forecast to result in a reduction in Funding for North Yorkshire of around £3.5m to £4.0m per annum.

12. The results from this original formula, across all Policing areas, was presumably acceptable to the Home Office and therefore it is likely to be prudent to plan for a formula that results in a similar impact on the Government Grant allocations for North Yorkshire.

13. The impact of any new Formula is likely to take place from 1st April 2018, with any changes phased.

CONCLUSIONS

14. As with most organisations, one of the key risks to sustainable and successful service delivery is the surety of income streams, to be able to plan effectively over the medium to long term. The risk and reality of reduced funding is one that the organisation has been managing for the past 6 years and one that is likely to continue for the next 3 years as a minimum. It continues to be incorporated into the financial plans and planning discussions within the organisation so as to mitigate the need for reactive and short term actions

Appendix A
Autumn Statement 2016
Updated 23 November 2016

INTRODUCTION
On 23 November 2016 the Chancellor of the Exchequer, Phillip Hammond MP, announced the Autumn Statement 2016. This was the first Autumn Statement by Phillip Hammond who replaced George Osborne in July of this year, following the government reshuffle. This was the first economic statement given by the Government since the vote to leave the European Union.

The Office for Budget Responsibility (OBR) also published their Economic and Fiscal Outlook (EFO), setting out forecasts for the economy and the public finances, and an assessment of whether the Government is likely to achieve its fiscal mandate and supplementary target.

Phillip Hammond suggested that Britain, despite the vote to leave the EU, will be outward looking and capable of captivating the global market. He also stated that his main priorities were the 'housing challenge', 'productivity gap' and 'inequality'.

In response, the Shadow Chancellor John McDonnell said that the Autumn Statement highlighted the Government's "Abject failure of the past six years". He stated that it offers "no hope for the future" and that "the figures speak for themselves".

The Shadow Chancellor went on to say "We now face Brexit, the greatest economic challenge for a generation, and we face it unprepared."

This briefing outlines the key announcements in the Autumn Statement. References to the relevant paragraphs in the Autumn Statement report for each announcement are included in square brackets.

CHANGES TO THE FINANCIAL STATEMENTS
To promote certainty and simplicity within the tax system, the government intends to move towards having a single major fiscal event each year.

In 2017 two budgets will be delivered in Spring and Autumn.

From 2018 onwards only one Budget will be delivered in Autumn. The OBR will continue to produce a Spring forecast and the government will make a Spring Statement responding to that forecast. However, the government will retain the option to make changes to fiscal policy at the Spring Statement if the economic circumstances require it.

The Government states that this will improve both external and Parliamentary scrutiny of proposed tax measures. [4.1, 4.2]

PUBLIC FINANCES

Borrowing

The Government has scrapped its target to be in budget surplus by 2019-20, as measured by the Public Sector Net Borrowing figure.

The Charter for Budget Responsibility has been updated and is based on three targets.

- "*a mandate to reduce cyclically-adjusted PSNB below 2% of GDP by 2020-21"* [1.42]
- *"a supplementary target for PSND as a percentage of GDP to be falling in 2020-21"* [1.42]
- *"a supplementary target to ensure that expenditure on welfare in 2021-22 is contained within a predetermined cap and margin set by the Treasury at Autumn Statement 2016"* [1.42]

The OBR's forecast for the public finances has deteriorated since the 2016 budget with a few reasons cited

- Disappointing tax revenues over the first half of the year [2016]
- A poorer economic outlook which has adversely affected receipts from income taxes
- Higher spending by local authorities, welfare benefits and public corporations than previously expected [1.34]

The deficit has been cut by almost two-thirds from its 2009-10 post war high of 10.1% of GDP to 4.0% last year. Despite this, borrowing and debt remain high and the OBR has passed a judgment that the economic and fiscal outlook for the UK has deteriorated since the EU referendum. The connotation of this means that public finances will no longer reach a surplus by 2019-20.

- Public Sector net borrowing is higher than forecast in the 2016 budget for each year since and £32bn in 2020-21.
- Tax Receipts will be £15bn lower by 2020-21. This, in part, is due to lower National Insurance contributions (NICs) and Lower Income Tax

ECONOMY

Inflation

- Inflation (measured by CPI, consumer price index) has been falling since its peak of 5.2% in September 2011
- CPI averaged 0.0% percent in 2015.
- Inflation has been rising in recent months. This has been, in part, due to higher fuel costs coupled with the depreciation of the pound against the dollar.

CPI Inflation

Year	March Budget 2016	Autumn Statement 2016	Change
2015-16	0.0%	0.0%	-
2016-17	0.7%	0.7%	↑
2017-18	1.6%	2.3%	↑
2018-19	2.0%	2.5%	↑
2019-20	2.1%	2.1%	-
2020-21	2.0%	2.0%	-

GDP

The UK is forecast to be the fastest growing country in the G7 in 2016 with economic activity growing by 2.3% in the year to Q3 2016.

The UK will likely face uncertainty because of the recent Brexit vote. This has caused the OBR to reduce its growth prediction to 1.4% in 2017. However, it is expected to recover in the following years.

Real Gross Domestic Product (GDP)

	Summer Budget 2015	Autumn Statement 2015	March Budget 2016	Autumn Statement 2016	Change
2016-17	2.5%	2.5%	2.0%	2.1%	↑
2017-18	2.4%	2.4%	2.2%	1.4%	↓
2018-19	2.4%	2.4%	2.1%	1.7%	↓
2019-20	2.4%	2.3%	2.1%	2.1	-
2020-21	2.4%	2.3%	2.1%	2.1	↓
2021-22	N/A	N/A	N/A	2.0	N/A

Productivity

National Productivity Investment Fund - A new fund targeted at 4 areas that are critical for improving productivity: housing, transport, digital communications, and research and development (R&D). [3.4]

The NPIF will take total spending in these areas to £170bn over the period from 2017-18 to 2021-22, reaching 1.7% of GDP in 2021-22. The new spending includes:

- £7.2bn to support the construction of new homes, including spending by Housing Associations
- £4.7bn on science and innovation
- £2.6bn to tackle congestion and improve transport networks
- £0.7bn to support the roll out full-fibre connections and future 5G communications [3.5]

National Insurance and Wages
National Living Wage – Following the recommendations of the independent Low Pay Commission, the National Living Wage (NLW) will increase by 4.2% from £7.20 to £7.50 from April 2017. [3.46]

National Minimum Wage - The government will also accept the Low Pay Commissions recommendations for the other NMW rates to apply from April 2017, including:

- increase the rate for 21 to 24 year olds from £6.95 to £7.05 per hour
- increase the rate for 18 to 20 year olds from £5.55 to £5.60 per hour
- increase the rate for 16 to 17 year olds from £4.00 to £4.05 per hour
- increase the rate for apprentices from £3.40 to £3.50 per hour [3.47]

National Insurance thresholds - The National Insurance secondary (employer) threshold and the National Insurance primary (employee) threshold will be aligned from April 2017, meaning that both employees and employers will start paying National Insurance on weekly earnings above £157. This compares to a 2016-17 threshold of £156 for employers and £155 for employees. [4.7]

Personal Allowance - The Chancellor recommitted the government's intention to raise the Personal Allowance to £12,500 and to raise the higher rate threshold to £50,000 by 2020-21. Once the Personal Allowance reaches £12,500, it will increase in line with inflation.

Salary Sacrifice schemes will be subject to the same tax as cash income. However, this will exclude pensions, pensions advice, childcare, Cycle to Work and ultra-low carbon emissions.

Public Spending
Given that the deficit remains so high, and the outlook for the public finances has deteriorated since Budget 2016, the government has remained committed to delivering overall spending plans that were set at Spending Review 2015. All new announcements in the Autumn Statement, apart from the NPIF, are fully funded.

Nonetheless spending is £4bn higher by 2020-21. The three main contributing factors here are:

- Not going ahead with the changes to the Personal Independence Payment (PIP)
- Changes to the Universal credit roll out Schedule
- Higher inflation

Prisons
Prison safety and wider reforms to the justice system – The government will provide up to £500m of additional funding across the period to the Ministry of Justice. As announced by the Lord Chancellor and Secretary of State for Justice, as part of the Prison Safety and Reform white paper, this will enable the recruitment of 2,500 extra prison officers to improve prison safety. It will also fund wider reforms to the justice system. [5.17]

Transport
Fuel duty – The fuel duty rate will remain frozen for the seventh successive year, saving motorists around £130 a year compared to the pre-2010 escalator.

English devolution
Devolution Deals – The Government will continue to work towards a second devolution deal with the West Midlands Combined Authority and will begin talks on future transport funding with Greater Manchester. [3.5]

Transfer of Work and Health Programme budget - The government will transfer to London, and to Greater Manchester, the budget for the Work and Health Programme, subject to the two areas meeting certain conditions, including on co-funding. [3.5]

London - The government has also confirmed the GLA's affordable housing settlement, under which the GLA will receive £3.15bn to deliver over 90,000 housing starts by 2020-21, and will devolve the adult education budget to London from 2019-20 (subject to readiness conditions). The government will continue to work with London to explore further devolution of powers over the coming months. [3.5]

Local Infrastructure
Local Growth Fund – Allocation of £1.8bn to Local Enterprise Partnerships (LEPs) across England through a third round of Growth Deals including £556m to the North of England, £392m to the midlands, £151m to the east of England, £492m to London and the south east, and £191m to the south west. Awards to individual LEPs will be announced in the coming months. [3.49]

Mayoral combined authorities - The government will give mayoral combined authorities powers to borrow for their new functions, which will allow them to invest in economically productive infrastructure, subject to agreeing a borrowing cap with HM Treasury. [3.49]

Infrastructure project lending - The government will consult on lending local authorities up to £1bn at a new local infrastructure rate of gilts + 60 basis points for three years to support infrastructure projects that are high value for money. [3.49]

Business Rates
Full fibre infrastructure relief - A new 100% business rates relief for new full-fibre infrastructure for a 5 year period from 1 April 2017 [3.20]

Rural rate relief – To remove the inconsistency between rural rate relief and small business rate relief the government will double rural rate relief to 100% from 1 April 2017 [4.33]

Revaluation – The Chancellor announced that DCLG "Will lower the transitional relief cap from 45% next year to 43%, and from 50% to 32% the year after". This discretionary relief is fully funded through Section 31 grants.