

Report of the Chief Finance Officer of the PCC to the Police and Crime Commissioner for Cleveland

12th August 2014

Status: For Information

Budget 2014/15 and Long Term Financial Plan 2015/16 to 2017/18 and Capital Plans 2014/15 to 2017/18 Update

1. Executive Summary

1.1 Purpose of the Report

This report is to provide the PCC with an update on the delivery of the Long Term Revenue and Capital plans of the organisation based on the plans agreed by the PCC in February 2014 and any significant changes that have taken place since February.

2. Recommendations

The PCC is requested to note:

- 2.1 The savings set out within the LTFP for 2014/15 have all been delivered.
- 2.2 The savings required for balancing the budget for 2015/16 are well developed and making good progress. There is a risk around the delivery of contractual savings that are factored into the planning assumptions and these will need to be given significant focus over the coming months.
- 2.3 There are currently no communicated savings plans for 2016/17 and beyond and options will need to be worked up for consideration as part of the on-going challenge to deliver a sustainable organisation, with a balanced budget, during a time of year on year funding reductions.
- 2.4 A further update on the LTFP will be brought to the next meeting of this panel which is currently planned for October.

3. Planning and Funding Assumptions

3.1 The assumptions in relation to funding remain the same for this update as were the case when the PCC approved the LTFP in February and are set out in the sections below.

3.2 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.

3.3 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. Based on this the LTFP assumes a further £4.5m cut in government grant will occur in 2015/16.

3.4 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.

3.5 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 both 2016/17 and 2017/18. A 2.5% reduction will continue to be modelled into 2018/19 as the LTFP is developed throughout this financial year.

3.6 The current forecasts for Government Funding across the next 4 years, in comparison to the amount for 2013/14, are therefore:

	Actual	Actual	Forecasts		
	2013/14	2014/15	2015/16	2016/17	2017/18
Funding	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>
Police Grant	(50,249)	(49,443)	(46,971)	(45,797)	(44,652)
Community Safety Funding	(1,698)	0	0	0	0
RSG/National Non Domestic Rates	(42,300)	(40,313)	(38,297)	(37,340)	(36,406)
Government Grant Funding	(94,247)	(89,756)	(85,268)	(83,137)	(81,058)

3.7 Precept

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

3.8 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 plan for planning purposes is that this element will continue to increase at a rate of 2% per annum.**

3.9 There have been reports that levels of increases in 2015/16 will be limited to 'inflation' before a referendum is triggered, however no firm indications of this have been provided or what is meant by inflation for these purposes. The assumptions therefore remain as they were in February 2014.

3.10 As a precepting authority the PCC will receive a grant of £6,868k 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.

3.11 Despite a small increase in this grant in 2014/15 of £24k (or 0.3%) the current plan assumes that the current level of grant remains unchanged throughout the plan.

3.12 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.

3.13 The final area of 'precept' funding is in the form of the Council Tax Freeze grant. The PCC is currently in receipt of £800k per annum as a result of the decision of the then Police Authority to freeze council tax levels in 2011/12. The 4 year grant for £800k per annum has been extended into a 5th year. Based on current information this grant will not be available for the 2016/17 financial year.

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

	Actual	Actual	Forecasts		
	2013/14	2014/15	2015/16	2016/17	2017/18
Funding	£000s	£000s	£000s	£000s	£000s
Precept (Assumed 2.0% increase p.a.)	(27,608)	(28,797)	(28,802)	(29,378)	(29,966)
2011/12 Council Tax Freeze Grant	(800)	(800)	(800)	0	0
Council Tax Support Grant	(6,848)	(6,868)	(6,868)	(6,868)	(6,868)
Government Grant Funding	(35,256)	(36,465)	(36,471)	(36,247)	(36,834)

3.15 Specific Grants, Other Income and Community Safety Grant

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. The assumptions in relation to this area remain unchanged since the approval of the plan in February.

3.16 In terms of Specific Grants the PCC is forecast to receive £5,619k 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, £4,110k relates to grants that support our PFI schemes.

3.17 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.

3.18 These sources of income and funding are forecast to provide between £2.2m and £2.5m across the life of the plan.

3.19 For the first time in 2014/15 the PCC will receive funding to commission Victims and Witnesses Services. The Ministry of Justice have provided PCC's with expected funding levels and these are set out in the table below along with a summary of the entire funding expected to be available to the PCC in 2014/15 and projections for the next 3 years:

	Actual	Actual	Forecasts		
	2013/14	2014/15	2015/16	2016/17	2017/18
Funding	£000s	£000s	£000s	£000s	£000s
Government Grant	(94,247)	(89,756)	(85,268)	(83,137)	(81,058)
Council Tax Precept	(27,608)	(28,797)	(28,802)	(29,378)	(29,966)
Council Tax Freeze Grant	(800)	(800)	(800)	0	0
Council Tax Support Grant	(6,848)	(6,868)	(6,868)	(6,868)	(6,868)
Funding for Net Budget Requirement	(129,503)	(126,221)	(121,739)	(119,383)	(117,892)
Specific Grants	(5,594)	(5,619)	(5,619)	(5,619)	(5,619)
Witness and Victims Funding	0	(180)	(599)	(599)	(599)
Partnership Income/Fees and Charges	(2,362)	(2,233)	(2,441)	(2,336)	(2,367)
Total Funding	(137,459)	(134,253)	(130,397)	(127,937)	(126,477)
%age change in Total Funding	0.6%	-2.3%	-2.9%	-1.9%	-1.1%

3.20 The above funding levels should be seen in the context that in 2010/11 £147.3m was provided to the former Police Authority to deliver 'just' Policing.

4. Overall Financial Summary

4.1 Given no significant changes have been provided in relation to the LTFP the overall financial summary remains as it was in February and as per the table below.

	Actual	Actual	Forecasts		
	2013/14	2014/15	2015/16	2016/17	2017/18
Funding	£000s	£000s	£000s	£000s	£000s
Government Grant	(94,247)	(89,756)	(85,268)	(83,137)	(81,058)
Council Tax Precept	(27,608)	(28,797)	(28,802)	(29,378)	(29,966)
Council Tax Freeze Grant	(800)	(800)	(800)	0	0
Council Tax Support Grant	(6,847)	(6,868)	(6,868)	(6,868)	(6,868)
Funding for Net Budget Requirement	(129,502)	(126,221)	(121,739)	(119,383)	(117,892)
Specific Grants	(5,594)	(5,619)	(5,619)	(5,619)	(5,619)
Witness and Victims Funding	0	(180)	(599)	(599)	(599)
Partnership Income/Fees and Charges	(2,362)	(2,233)	(2,441)	(2,336)	(2,367)
Total Funding	(137,458)	(134,253)	(130,397)	(127,937)	(126,477)
Office of the PCC Planned Expenditure	£000s	£000s	£000s	£000s	£000s
Staff Pay	590	585	591	600	612
Non Pay Expenditure	340	300	264	250	238
Total Planned Expenditure	930	885	855	850	850
PCC Initiatives/Victims and Witness	£000s	£000s	£000s	£000s	£000s
PCC Initiatives	1,698	1,510	1,022	1,521	1,392
Victims and Witnesses Services	0	258	616	616	616
Total Planned Expenditure	1,698	1,768	1,638	2,137	2,008
Corporate Costs	£000s	£000s	£000s	£000s	£000s
Total Corporate Costs	9,387	9,160	9,030	9,120	9,215
Police Force Planned Expenditure	£000s	£000s	£000s	£000s	£000s
Pay					
Police Pay	72,819	70,558	70,290	73,292	75,585
Police Overtime	1,234	1,354	1,624	1,354	1,444
Police Community Support Officer Pay	4,885	4,416	4,084	4,263	4,362
Staff Pay	7,419	6,441	5,937	6,263	6,450
Pay Total	86,358	82,769	81,935	85,172	87,841
Major Contracts Total	22,174	22,426	20,895	21,339	21,868
Non-Pay Budgets					
Other Pay and Training	277	276	285	285	285
Injury and Medical Police Pensions	1,700	2,360	1,955	1,990	2,050
Premises	3,939	3,811	3,855	3,520	3,590
Supplies and Services	5,937	5,645	5,470	5,270	5,602
Transport	1,753	1,762	1,815	1,845	1,900
External Support	2,265	2,356	2,170	2,210	2,265
Non-Pay Total	15,871	16,210	15,550	15,119	15,691
Total Planned Force Expenditure	124,402	121,405	118,380	121,630	125,400
(Surplus)/ Deficit	£000s	£000s	£000s	£000s	£000s
(1,040)	(1,035)	(495)	5,800	10,995	
Planned Transfers to/(from) General Fund	0	(680)	0	0	0
Contribution to Capital Programme	0	800	455	460	465
Planned Transfers to Earmarked Reserves	1,040	915	40	40	40
Net (Surplus)/ Deficit After Reserves	0	0	0	6,300	11,500

4.2 The balanced plan for both 2014/15 and 2015/16 were predicated on the delivery of significant levels of savings from across the organisation. An update on the delivery of these savings is provided in the table below:

	2014-15	2015-16	Totals over the 2 years
Savings Summary PCC and Corporate Costs	£k	£k	£k
Office of PCC	45	30	75
Corporate Costs			
Minimum Revenue Provision	180	35	215
Interest Payable	100	65	165
Printer Lease	45		45
Corporate Costs Total	325	100	425
Arrest Referral Services/PCC Initiatives	400	375	775
Total PCC and Corporate Savings	770	505	1,275
Savings Summary - Police Force			
Police Pay			
Reduction in Police Officer Numbers - Orbis	3,150	1,450	4,600
National Changes to Police Officer T&Cs	350	340	690
PCSO's Pay			
PCSO vacancies deleted and ER/VRs	390	390	780
Lower Employer pension contribution rates	60		60
Staff Pay			
Staff vacancies deleted and ER/VRs	1,085	630	1,715
Lower Employer pension contribution rates	80		80
Pay Savings Total	5,115	2,810	7,925
Non-Pay Savings			
Contract and Procurement Savings	800	1,900	2,700
Estates Rationalisation	120	70	190
Professional Fees	300		300
Other non-pay savings	135	100	235
Collaboration	75	230	305
Mounted non pay	40		40
Non-Pay Savings Total	1,470	2,300	3,770
Total Savings	7,355	5,615	12,970

- Those in Green have been delivered and/or there are no risks to the delivery of the savings.
- Those in Amber are not yet fully delivered and/or there is some further work to do but are expected to be delivered in the coming months.
- Those in Red provide a risk to the delivery of a balanced plan as there is currently no agreed savings plan and timeframe in place.

4.3 As is evident from the report on the current year's financial position and the forecast outturn for 2014-15 all of the savings expected within 2014-15 have been delivered and in many areas exceeded leading to the forecast

underspend. This underspend has not yet been factored into the current LTFP but will be for future updates.

- 4.4 In terms of the savings needed to balance the 2015-16 budget, both the PCSO and Staff structures are moving towards those that the plan is based upon. These have not yet been achieved but neither area is seen as a particular risk and both areas are expected to be delivered, over time, through either the continued voluntary exit programme or through normal leaving processes.
- 4.5 The 'Collaboration' saving currently marked as Amber in the above table relates to expected savings from the charge from the National Police Air Service through a combination of a reduced need for flying hours and a more equitable cost allocation model. Proposals have been put forward, from NPAS, that would deliver savings in line with the planning assumptions from the 1st April 2015 but these are subject to national agreement.
- 4.6 The area of real risk in relation to the delivery of the 2015-16 savings plans is that the plans are based on the delivery of £1.9m of savings from Contracts and Procurement savings, the vast majority of which, £1.8m, was planned to be delivered from a reduction in the price of the services delivered by Steria. While work is on-going in this area no agreements have yet been made and no timeframes have been agreed for the delivery of these savings.
- 4.7 These savings will need to be the focus of significant attention over the coming months.
- 4.8 Savings and Expenditure Plans Beyond 2015/16
While there are some risks to the plans for the delivery of a balanced budget for 2015/16, the picture beyond this is much more risky. Currently there are no communicated plans for the delivery of the savings expected to be needed for 2016/17 and beyond.
- 4.9 In the approved LTFP in February 2014, it was highlighted that unidentified savings of £6.3m were needed in 2016-17 (as per the table in 4.1). Of this, £6.13m was to be delivered by the Force. While work is developing around collaboration in relation to both the Cleveland and Durham Specialist Operations Unit and now with North Yorkshire it is essential that these areas are transferred into revised operating models and that savings plans are developed and then delivered.
- 4.10 It is recommended that plans and proposals for the delivery of savings for 2016-17 are incorporated into an update report from the Force for the meeting of this group in October.
- 4.11 Reserves
A full review of the adequacy of reserves will be provided for the PCC to consider prior to setting the budget for 2015/16.

5. Capital Financing and Expenditure

- 5.1 As a result of the changes approved during 2013/14 and being implemented during 2014/15 to the way that Capital Expenditure is to be funded and financed, the PCC has sufficient funds available to support the current plans of the Police Force over the current year and the next 3 years. In addition to this there is some small capacity to either invest further or reduce the level of supported capital borrowing that is used in future years.
- 5.2 As a result of these changes over £500k (or 23%) will be removed from the Interest Payable and Minimum Revenue Provision budgets between 2013/14 and 2017/18 to help meet the savings required to balance the overall budget and therefore reduce the need to make these savings from front line services.
- 5.3 The capital plans will be developed as part of the budget setting process and updates will be provided during the year, however at this stage there is not expected to be any issues in relation to funding the current plans of the organisation.

6. Implications

- 6.1 Finance
There are no financial implications other than those mentioned above.
- 6.2 Diversity & Equal Opportunities
There are no issues arising from this report to bring to the attention of the PCC.
- 6.3 Human Rights Act
There are no Human Rights Act implications arising from this report.
- 6.4 Sustainability
This report is part of the process to establish sustainable annual and medium term financial plans and maintain prudent financial management.
- 6.5 Risk
As highlighted within the report there are risks currently to the delivery of the savings expected to be needed to deliver a balanced budget for 2015-16 and these will need to be managed closely over the coming months to ensure that they are either delivered in line with initial planning or are replaced by savings from elsewhere.

The more significant risks are that there are, as yet, no communicated plans for the delivery of savings for 2016/17 and beyond. Options need to be developed for discussion as part of the planning process and for incorporation into future financial plans.

7. Conclusion

- 7.1 The savings set out within the LTFP which needed to be delivered within 2014/15 have all been delivered and in many areas exceeded. This puts the organisation on course to deliver the additional savings needed for 2015/16. Some work is still needed, as you would expect at this stage of the financial year, in relation to the delivery of all of the savings needed to balance the budget for 2015/16 and these areas will need to be given significant focus over the coming months to ensure they can be delivered in time for setting the 2015/16 budget.
- 7.2 Given the significant financial challenges that the budgets within Policing continue to experience, the need to making significant savings year on year continues. The organisation therefore needs to focus on the development of options for the delivery of savings for 2016/17 to meet the currently forecast £6.3m funding gap that is currently modelled for that financial year.

Michael Porter
PCC Chief Finance Officer