



Review of the Overall Budget Strategy

Task and Finish Group

Final Report

January 2016

Members

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Summary

1. The Task and Finish Group was established to understand the key issues and financial pressures as part of the budget setting process in order to inform the work of the Panel and PCC. This included both the longer term financial planning process and the impact of the Government grant settlement. This settlement was announced in December during the timescale of the Group's work.
2. The Task and Finish Group met on 7 January 2016 to receive information about the Police and Crime Commissioner's overall budget strategy for 2016/17. Discussion took place about current funding assumptions, total funding projections, the precept, PCC priorities, well as taking recognition of local policing towards 2020.
3. The Group met with the Police and Crime Commissioner on 21 January 2016 to enable more consideration prior to the Police and Crime Panel meeting on 4 February when the precept will be set for 2016/17.
4. This report provides detail of the evidence considered and questions that were raised for discussion with the PCC.

Recommendation

5. The Task and Finish Group support the increase to the PCC precept of 1.99%.

DETAIL

2016/17 Funding/Planning Assumptions

6. The settlement from government was received just before Christmas 2015 and have been analyzed by the Chief Finance Officer of the PCC, the PCC's professional adviser on financial matters in order to understand what the implications are for this and future years.
7. When the government provided its information in relation to the grants for next year it had given all PCC's a 0.6% reduction in the grant they received from 2015/16 into 2016/17. At the same time they talked about real terms increases of flat cash increases to policing which meant that that would be the case providing that each PCC put their precept up by no more than 2% and that all the areas would see an underlying increase in their tax base of 0.5%. When the Chancellor made the announcement about funding for policing being protected it did not mean that more money would be received from the government. It was assumed that PCCs would receive less directly from government with a need to raise the rest from the local taxpayers from increases in precepts to get to the flat cash position.
8. The Office of the PCC has assumed, and it was the planned assumption prior to the announcement that the PCC would continue to increase the precept by 1.99%. The

PCC will receive a government grant reduction in 2016/17 of £500,000 (0.6%). Since 2010/11 government grants have reduced by £24.3m in cash terms.

Comprehensive Spending Review, Funding Formula and Future Funding/Planning Assumptions

9. The Office of the PCC has assumed that the funding and precept continues to increase by 1.99%. A 2.0% or greater increase would trigger a referendum.
10. There has only been one PCC that has triggered a referendum when Bedfordshire PCC asked council tax payers to support a £4.5m rise in their bills to fund 100 more officers, but voters rejected the plan. The government, set the question:

The Referendum Question:

- For the financial year beginning on 1st April 2015 the Bedfordshire Police and Crime Commissioner has set an increase of 15.8% in the amount it charges.
 - If most voters choose 'yes', the increase will be 15.8%.
 - If most voters choose 'no', the increase will be 2.0%.
 - Do you want the Bedfordshire Police and Crime Commissioner to increase the amount it charges by 15.8%?
11. The PCC has to pay for the referendum and all of its arrangements but also when they lost they had to pay for the rebilling of everybody in their area. The estimated cost of holding the referendum was £350,000 with £250,000 being spent by councils on the re-billing. The Group considered the way in which the question is asked and felt that the way that the legislation is written it would be almost impossible for the PCC to raise the precept by more than 2.0%. The Group also levelled criticism about the way in which legislation affects the timing of any referendum should that be the considered approach.
 12. The Group enquired whether it was the commitment to effectively agree a 2% increase year on year otherwise the forward projections will not be met? Members also enquired whether the police had been given a four-year settlement similar to that provided to local authorities. Members were informed that the decision will only be a one-year decision as there is only a one-year settlement arrangement but the PCC's planning assumes those increases continuing otherwise the financial gap will widen. 10 PCCs are being allowed to increase their precepts by £5 next year because they have the lowest Band D levels from a policing perspective.
 13. Additional flexibility will be given to the 10 PCCs in England with the lowest precept levels each year (the lower quartile), so that they can raise their precept by up to £5 per year per band D household. Other PCCs in England will face a 2.0% referendum threshold each year.

14. The PCCs to receive this £5 flexibility in 2016/17 are Northumbria, West Midlands, West Yorkshire, Sussex, Essex, Kent, Hertfordshire, South Yorkshire, Greater Manchester and Cheshire.
15. Cleveland PCC has assumed continuing government grant reductions of 0.6% and an increase in the Council Tax base of 0.5% per annum in line with government indications. There has been a review of the funding formula for policing that would have provided the Cleveland area with more funding than it currently gets to take account of deprivation and need but that has been put on hold and the whole of the funding formula is going to be revisited. It isn't known what that is going to mean for Cleveland but there is concern about the implications going forward.

Total Funding Projections

	Actual	Forecasts			
	2015/16	2016/17	2017/18	2018/19	2019/20
Funding	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>
Government Grant	(85,170)	(84,684)	(84,176)	(83,671)	(83,168)
Council Tax Precept	(30,590)	(31,642)	(31,705)	(32,526)	(33,287)
Council Tax Freeze Grant	(800)	(800)	(800)	(800)	(800)
Council Tax Support Grant	(6,868)	(6,868)	(6,868)	(6,868)	(6,868)
Funding for Net Budget Requirement	(123,428)	(123,994)	(123,549)	(123,865)	(124,123)
Specific Grants	(5,640)	(5,843)	(5,358)	(5,788)	(5,313)
Witness and Victims Funding	(599)	(599)	(599)	(599)	(599)
Partnership Income/Fees and Charges	(2,153)	(2,249)	(2,280)	(2,279)	(2,291)
Total Funding	(131,820)	(132,685)	(131,787)	(132,531)	(132,327)
%age change in Total Funding	-1.4%	0.7%	-0.7%	0.6%	-0.2%

16. Total funding projections for the next four years in comparison with what is currently being received shows what is expected to be a cash neutral position but this does not mean that there is more money. Although there has been an overall general improvement than previously forecast the force is having to deliver services with effectively the same level of finances. Any investment in priority areas will have to be found within current resources.
17. What will be incurred over the next four years is increasing costs. In 2016/17 changes to National Insurance (NI) contributions will increase the pay bill by 2%. Pay awards agreed nationally will increase the pay bill by an additional 1% so whilst receiving the same amount of money the costs in relation to pay, which is predominantly 80% of the money spent, is increasing so savings still have to be made to remain in the same financial position.

18. Members asked about the gap identified in the HMIC report and whether this would reduce as a result of the flat settlement although not everything is in the control of the PCC, and inflation although generally low might still impact as a result of wage increases and NI. The Police and Crime Commissioner (PCC) remarked on the timing of the HMIC inspection and the subsequent lack of engagement when challenging the conclusions that the inspection reached. Since then there have been Medium Term Financial Planning meetings in July 2015 and October 2015 which have shown that the financial position is on track with information due to be presented to the Police and Crime Panel in February 2016.
19. The aim of the PCC is to get to a stable position going forward and at the time of this review his office was still working through the detail. It was hoped to be able to put together a balanced plan for at least the next two years and better still four years based on the set of assumptions being used. The settlement was better than expected and being cash neutral assists the PCC to have a balanced budget which can be assessed against what the priorities are and how to move the organisation forward.
20. Due to the extreme weather conditions being faced Members enquired as to the cost of responding to floods and whether the police was able to apply for additional monies to deal with such issues? Members heard that there are monies that the Home Office hold which is special grants fund that has certain criteria set aside which if you exceed police forces can apply for. For any major incident a force would have to spend 1% of the budget before being allowed access to apply for those funds. In the Cleveland area it requires spending of £1.3m. That is why a certain level of reserves are held because it is expected that the force will spend an amount of the budget on a major issue.
21. The Group wanted to know if the spend on a major incident recorded and identifiable. Such spending has a major incident code so that all cost incurred are recorded allowing a claim to be made to the Home Office.
22. The Group asked about the impact of the living wage. It is not thought to have any impact. The PCC is committed to the national living wage and that has been implemented for a number of years so nobody within the organisation is paid less than that. The larger step increases that are expected have also been factored by the PCC. The PCC highlighted that it particularly applies in terms of external payments to contractors and this is enforced when employing external contractors.
23. Members asked about whether there was any resolution to the employment issue regarding the A19 police retirement rule and what impact this would have locally:

“Compulsory retirement on grounds of efficiency of the force

“(1) This Regulation shall apply to a regular policeman ... who if required to retire would be entitled to receive a pension of an amount not less than two thirds of his average pensionable pay...”

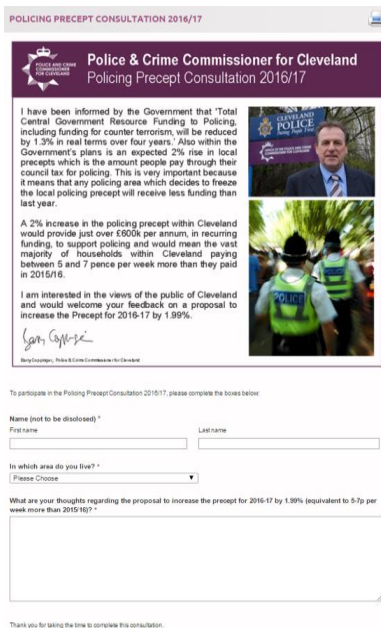
“(2) If a police authority determine that the retention in the force of a regular policeman to whom this Regulation applies would not be in the general interests of efficiency, he may be required to retire on such date as the police authority determine.”

Police Pensions Regulations 1987”

- 24. The Group was informed that this is not yet settled. An appeal has been lodged against the Employment Appeal Tribunal (EAT) ruling that requiring police officers to retire after 30 years’ service to cut costs was not age discrimination. The national settlement is thought to be in the region of £0.5b in relation to officers who had to retire after 30 years as a result of use of regulation A19. Regulations have changed for new officers as the time limit is now 35 years.
- 25. Cleveland Police no longer use A19. It is expected that forces facing multi-million pound settlements would seek monies from the Home Office as they would be unable to meet the financial needs.

Precept

- 26. The referendum precept limit is expected to remain at 2% until 2019/20. In previous years there have been grants available for organisations but there are none going forward. The underlying tax base in Cleveland has increased by 2.8%. This will provide greater financial assistance with a recurring £847,000 to spend on policing and crime as a result of an increased number of houses and higher charges levied at empty properties than in previous years.
- 27. There is continuing to be collection surpluses from local authorities for which the PCC receives a proportion from the precept estimated at £776,000 for 2016/17 although this is a non-recurring figure.



28. Members asked what the 1.99% precept increase would mean to individual households in 2016/17. For a Band D property it equates to £206.26 (57p/day) and a 1.99% increase adds a further 8p/week. The vast majority of properties in Cleveland are not Band D and this would mean increases of 5-7p/week. Funding of £0.6m per annum would be provided on a recurring basis across the financial plan.

29. Public consultation on the proposed 1.99% increase has been sought on the PCC’s web site. A verbal update would be provided the Police and Crime Panel in February 2016. The Group was informed that businesses would be specifically consulted at the Cleveland Retail

Crime Consultancy Group on 27 January 2016. The PCC had also had the opportunity to engage with those attending any of over 300 local meetings he spoke at.

PCC Priorities

30. The Group considered the priorities of the PCC which have remained the same throughout the current PCC's tenure.
31. The vast majority of PCC monies are provided to the Chief Constable to provide and deliver services in line with the PCC's priorities. The Chief Finance Officer provided the Group with the Chief Constable's vision for local policing that will focus on:
 - Protecting Vulnerable People
 - Incident Resolution Teams
 - Neighbourhood Policing
32. More resources will go into dealing with vulnerability which is an area of real concern not just within Cleveland but is a trend nationally. It's very much about where resources can be placed that will provide the best assessment and ability to deal with the threat and risk and harm of the individual.
33. The Group highlighted that there aren't the resources of five years ago and asked where should the resources now be focused? The force has proposed to the PCC reallocating 20 officers to support the PCC plans to protect vulnerable people leaving 132 neighbourhood police officers, which will be kept under review. PCSOs are being recruited to bring the numbers back up to 132. There will also be an increase in the number of sergeants overseeing neighbourhood policing based on the finances available and the numbers of police officers and PCSOs needed across the Cleveland area.
34. The PCC reflected on the breadth of measures other than police and PCSOs that can deliver safer communities. The Group enquired whether the projects were delivering what was expected and therefore provided value for money and a reduction in crime or the fear of crime. A range of projects are supported with PCC accountability built in to the process enabling monitoring of their effectiveness which has generally shown success in their delivery. Fear of crime is an especially difficult issue to address as the expectation of being a victim of crime can outweigh the actuality.
35. Members wanted to understand how the PCC would address the risks of child sexual exploitation or cybercrime which may absorb more and more resource, what would suffer as a consequence and on what scale? Extra resources have been targeted at these vulnerable groups partly by managing efficiencies and the police are more systematic by advising and assisting to support people whilst deploying fewer officers. Approximately 80 per cent of calls are now generating a police response and this is

being monitored to determine how it is working. This is now more in line with HMIC expectations.

Financial Summary

36. The Chief Finance Officer provided the Group with a draft Revenue Summary and draft Capital Budget (see appendices A and B).
37. Expenditure for the Office of the PCC is expected to be held at £850,000 (a reduction from £1.2m which was inherited from the Police Authority) which brings about savings as it does not increase for inflation or pay awards and therefore removes a further 7.5% in terms of savings over the next four years. The PCC highlighted that it also absorbs costs for additional responsibilities that have been added.
38. Corporate services highlights the PFI contracts, the asset management costs and the capital expenditure incurred. The majority relates to PFI costs for which the PCC receives separate grants as part of the funding arrangements.
39. The Chief Finance Officer drew attention to the Police Force Planned Expenditure remaining relatively constant over the four-year period which was as much as could be expected based on the financial settlement. As highlighted above the force is attempting to retain 1,292 officers and 132 PCSOs.
40. Reference was also made to the reserves held by the police. The Chief Finance Officer informed Members of a trend in recent years for PCCs/Police Forces to increase the level of reserves as a result of the amount of risks that had to be taken and the need to generate savings. Most areas have delivered savings quicker than expected so more money has been transferred to reserves. It is hoped that more certainty regarding risks is known which allows for a reduction in General Reserves from £9.6m to £4.1m over the next four years. The monies will be invested in the services. The reduced amount was considered a more appropriate amount by the Members.
41. Members enquired if this was the minimum amount of reserve required. The Chief Finance Officer stated that this would equate to 3% of the annual budget and it would not be recommended to go lower than this.
42. The Chief Finance Officer concluded the summary to the Long term Financial Plan Position at January 2016 as providing a stable budget, balanced for four years based on a stable number of police officers and PCSOs predicated on an investment of need for the organization. The position is better than previously expected a number of months ago and one that hopefully will provide an element of stability.
43. The Group questioned the rise in staff pay of over £1m and was informed that this needs to alter to ensure that changes in order to address police work requiring differently skilled staff no longer necessarily the skills possessed by warranted officers.

44. The Long Term Capital Plan Position shows that only a small Capital Grant is received (£720k projected annually) which is considered less than required to maintain the fleet of vehicles so thought is needed for other ways in which investment can be made to become more effective and efficient. Revenue funds, capital receipts, and borrowing are all required.
45. A large amount of expenditure in the coming years is for the new community safety hub which is funded from the sale of land at Ladgate Lane and the current headquarters. Members enquired whether consideration had been given to a cost benefit analysis of this and future working of a community safety hub to include the fire service. The PCC gave reassurance that collaborative work was constantly considered with all public services.
46. The Group identified that the new community safety hub might be able to assist the police response in future by providing video calls to a victims of crime as the physical reassurance that can be given by a uniformed officer could be greater than that provided by a telephone call. Comparison was made to the way new technology has changed consultations with health professionals and improved the patient experience. The PCC welcomed the suggestion as something that could be explored at the new control room when it is operational. The police has introduced appointments for victims of crime which has improved the relationship with the police
47. Investment in new technology is also a priority to allow staff to work more flexibly and in different locations as required.

Conclusion

48. The Task and Finish Group works on behalf of the full Police and Crime Panel to allow for in-depth scrutiny and analysis of the PCC's budget and the proposed precept for 2016/17 before consideration by the Panel.
49. Based on the evidence provided by the PCC and the PCC's Chief Finance Officer and the settlement from Government the Members of the Task and Finish Group agree that the increase to the precept proposed by the PCC should be 1.99%. This will enable investment where needed and ensure the financial stability of Cleveland Police until the results and impact of the review of police funding is known.

PCC Summary Long Term Financial Plan Position - January 2016 - APPENDIX A

	Budgets				2019/20
	Actual	Forecasts			
	2015/16	2016/17	2017/18	2018/19	
Funding	£000s	£000s	£000s	£000s	£000s
Government Grant	(85,170)	(84,684)	(84,176)	(83,671)	(83,169)
Council Tax Precept	(30,590)	(31,642)	(31,705)	(32,526)	(33,287)
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Funding for Net Budget Requirement	(123,428)	(123,994)	(123,549)	(123,865)	(124,124)
Specific Grants	(5,640)	(5,843)	(5,358)	(5,788)	(5,313)
Witness and Victims Funding	(599)	(599)	(599)	(599)	(599)
Partnership Income/Fees and Charges	(2,153)	(2,249)	(2,280)	(2,279)	(2,291)
Total Funding	(131,820)	(132,685)	(131,787)	(132,531)	(132,328)
%age Change in Funding	-1.8%	0.7%	-0.7%	0.6%	-0.2%
Office of the PCC Planned Expenditure	£000s	£000s	£000s	£000s	£000s
Total Planned Expenditure	850	850	850	850	850
%age Change in Expenditure	-4.0%	0.0%	0.0%	0.0%	-0.1%
Community Safety/Victims and Witness	£000s	£000s	£000s	£000s	£000s
Total Planned Expenditure	2,125	2,745	3,545	3,595	3,645
Corporate Services	£000s	£000s	£000s	£000s	£000s
Total Corporate Costs	8,990	8,850	9,050	9,595	9,692
Police Force Planned Expenditure	£000s	£000s	£000s	£000s	£000s
Pay					
Police Pay	67,133	66,794	67,498	67,178	67,373
Police Overtime	1,582	1,550	1,475	1,325	1,405
Police Community Support Officer Pay	3,770	4,077	4,131	4,185	4,240
Staff Pay	6,740	7,919	7,643	7,790	7,933
Pay Total	79,225	80,340	80,747	80,478	80,951
Major Contracts Total	22,095	21,825	21,225	21,575	21,925
Non-Pay Total	15,885	16,735	16,878	15,497	15,374
Total Planned Force Expenditure	117,205	118,900	118,850	117,550	118,250
%age Change in Expenditure	-3.5%	1.4%	0.0%	-1.1%	0.6%
(Surplus)/ Deficit	£000s	£000s	£000s	£000s	£000s
(2,650)	(1,340)	510	(940)	110	
Planned Transfers to/(from) General Fund	760	(1,550)	(2,550)	(200)	(1,150)
Contribution to Capital Programme	1,850	2,225	2,000	1,100	1,000
Planned Transfers to/(from) Earmarked Reserves	40	665	40	40	40
Net (Surplus)/ Deficit After Reserves	0	0	(0)	(0)	(0)
General Reserves	£000s	£000s	£000s	£000s	£000s
General Fund Balance b/f	8,844	9,604	8,054	5,504	5,304
General Fund Movements	760	(1,550)	(2,550)	(200)	(1,150)
General Fund Balance c/f	9,604	8,054	5,504	5,304	4,154
Employee Numbers (Average per year)	FTEs	FTEs	FTEs	FTEs	FTEs
Police Officers	1,327	1,292	1,292	1,292	1,292
PCSOs	125	132	132	132	132
Police Staff - Police Force	208	234	215	215	215
PCC/Corporate Staff	14	14	14	14	14
Assumptions					
Staff Pay Increases	0.0%	1.0%	1.0%	1.0%	1.0%
Police Pay Increases	1.0%	1.0%	1.0%	1.0%	1.0%
Non Pay Inflation	1.8%	1.1%	1.6%	1.8%	1.9%
RPI	2.3%	2.0%	2.5%	3.0%	3.0%
Precept Increases	2.0%	2.0%	2.0%	2.0%	2.0%
Government Grant Movements (Cash Basis)	-5.1%	-0.6%	-0.6%	-0.6%	-0.6%

PCC Summary Long Term Capital Plan Position - January 2016 - APPENDIX B							
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21	2021/22
Future Funding Levels	£000s	£000s	£000s	£000s	£000s	£000s	£000s
Earmarked Reserve/Funding b/f	1,235	2,022	931	137	33	313	181
Capital Grant	1,003	720	720	720	720	720	720
Contribution from Revenue	1,850	2,225	2,000	1,100	1,000	1,300	1,300
PIF Bids	425						
Capital Receipts	2,887	3,336	100	2,642	3,209	3,088	3,209
New Prudential Borrowing			11,500	-1,500	-2,500	-3,500	-4,000
Supported Capital Borrowing		760	760	760	760	760	760
Projected In-year funding Available	6,165	7,041	15,080	3,722	3,189	2,368	1,989
Carry Forward of Previous years schemes	1,933						
Community Safety Hub	951	2,390	12,250	542			
IT Replacement programme/Data Centre move		1,600	1,000	900			
Police Force New Capital Schemes	2,494	4,142	2,624	2,384	2,909	2,500	2,000
Total Capital Programme	5,378	8,132	15,874	3,826	2,909	2,500	2,000
Earmarked Capital Reserve/Funding c/f	2,022	931	137	33	313	181	170