



Review of the Overall Budget Strategy

Task and Finish Group

Final Report

January 2017

Members

Councillor Charles Rooney (Chair) (Middlesbrough Council)

Councillor Dave Hunter.....(Hartlepool Council)

Councillor Alec Brown.....(Redcar and Cleveland Council)

Councillor David Wilburn.....(Stockton Borough Council)

The Group would like to thank the following for contributing to its work:

Michael Porter, Chief Finance Officer, Office of PCC

Contact

Graham Birtle
Scrutiny Team
Stockton-on-Tees Borough Council

graham.birtle@stockton.gov.uk
01642 526187

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 5 January 2017 to receive information about the Police and Crime Commissioner's overall budget strategy for 2017/18. Discussion took place about current funding assumptions, total funding projections, the precept, PCC priorities, well as taking recognition of local policing towards 2020.
3. This report provides detail of the evidence considered and questions that were raised for discussion with the PCC at the Police and Crime Panel Meeting on 2 February 2017.

Recommendation

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

DETAIL

2017/18 Funding/Planning Assumptions

5. The settlement from Government was received just before Christmas 2016 and has been analyzed by the Chief Finance Officer (CFO) of the PCC, the PCC's professional adviser on financial matters in order to understand what the implications are for this and future years.
6. In terms of financial planning, assumptions were undertaken in the same way as in previous years to increase the precept by 1.99%. Information provided just before Christmas was for a larger grant reduction than was expected so Cleveland's budget received a 1.4% reduction equal to £1.2m.
7. Members were informed that the Government had slightly changed its calculations in terms of the reduction in the grant for Cleveland. Last year there was a 0.6% reduction in grant and a confirmation of a flat cash settlement over the next 3 or 4 years so the expectations were to continue with the 0.6% reduction. The Government has since looked at the fact that across the country there has been an increase in the underlying tax bases. As a result it is suggested that as more funding is coming from precepts as a result of the tax base increase there is now capacity to reduce the amount of funding from the Government. Flat cash is still given but the local tax base is supporting that now. Higher reductions have resulted and the capital grant has been reduced by a further

15% this time. Cleveland subsequently will receive £600,000 this year but in recent years it used to receive several million pounds.

8. The revenue grants have reduced by £25.5m in cash terms since 2010/11 which has created significant strains on how services are delivered.

Future Funding/Planning Assumptions

9. There is planned continuation for a 1.99% increase. An increase of 2.0% or above would trigger a referendum so the increase is in line with Government assumptions. It is expected that to have flat cash across the life of the PCC plan then it is necessary to maximise the amount the precept is raised.
10. Previously review discussions informed Members that if the precept is frozen there was access to freeze grants but these are now no longer available. Cleveland continue to get the freeze grants for previous decisions but there will be no additional freeze grants for decisions made from 2016/7 onwards.
11. One of the benefits Cleveland has is the underlying tax base with the contingency to increase it. The CFO was working to a 1.4% estimate but was waiting for information from all of the local authorities so this might increase slightly.
12. The four local authorities' (Hartlepool, Middlesbrough, Redcar and Cleveland, and Stockton) Council Tax collection rate continues to be good and the non-recurring surplus from 2016/17, due to PCC, is estimated at £362k.
13. Cleveland also has recurring grant reductions of 1.3% per annum based on the information provided to the CFO which is also included, and this is an increase from previous years, a recurring 1.0% increase in the overall tax base within Cleveland. That is supported from previous intelligence of the past three years and is also supported by information from local councils for what their financial planning assumptions are.

Funding Formula

14. The Government has been clear that current funding formula needs to be reformed. The CFO highlighted to Members this comes with potential risks as well as possible benefits for forthcoming years.
15. The funding formula review was taking place between October 2016 and February 2017 and contains five key principles and three building blocks. These are:
16. 5 Key Principles –
 - Stability,
 - Fairness,
 - Transparency,
 - Incentivizing Efficiency and Effectiveness, and

- Alignment with Risk

17. 3 building blocks:

- Relative needs and demands
- Relative costs and needs
- Variation in local tax raising powers

18. Members were informed that the Government started to look at the funding formula 2-3 years ago but ran into problems when it was realised that there was a miscalculation in the original formula.

19. The principles and building blocks in the current review are similar to the previous review and if that funding formula had been put in place the funding in Cleveland to the PCC would have increased by between 3 and 5 million pounds. However there was a significant lobby from those forces that would have lost monies based on changed formula. The rural areas would have been particularly hard hit and the Metropolitan Police would have lost more than the entire Cleveland budget.

20. PCC plans assume that there would be no change to the budget from the current review.

Total Funding Projections

	Actual	Actual	Forecasts			
	2015/16	2016/17	2017/18	2018/19	2019/20	2020/21
Funding	£000s	£000s	£000s	£000s	£000s	£000s
Government Grant	(85,170)	(84,684)	(83,500)	(82,331)	(81,178)	(82,802)
Council Tax Precept	(30,590)	(31,642)	(32,294)	(33,150)	(34,150)	(35,150)
Council Tax Freeze Grant	(800)	(800)	(800)	(800)	(800)	(800)
Council Tax Support Grant	(6,868)	(6,868)	(6,868)	(6,868)	(6,868)	(6,868)
Funding for Net Budget Requirement	(123,428)	(123,994)	(123,462)	(123,149)	(122,996)	(125,620)
%age change in Net Budget Requirement	-1.8%	0.5%	-0.4%	-0.3%	-0.1%	2.1%
Specific Grants	(5,640)	(5,843)	(4,578)	(4,761)	(4,286)	(5,286)
Witness and Victims Funding	(599)	(663)	(663)	(663)	(663)	(676)
Partnership Income/Fees and Charges	(2,153)	(2,760)	(2,797)	(2,812)	(2,885)	(2,907)
Total Funding	(131,820)	(133,260)	(131,500)	(131,385)	(130,830)	(134,489)
%age change in Total Funding	-1.4%	1.1%	-1.3%	-0.1%	-0.4%	2.8%

21. There is an expectation for the funding for net budget requirement to remain fairly static in the next 4 or 5 years. Any change would be due to variations in the collection surplus.

22. If Cleveland does end up with flat cash then some significant cuts are expected with resulting additional pressures. Costs are increasing with pay nationally set and

increasing by 1% per annum. There is an apprentice levy which will cost £400,000. Changes to national insurance are to be absorbed which the CFO showed that costs are rising but the budget isn't being increased.

Precept Increase for 2017/18

23. In terms of the current precept level Band D is £214.54 which equates to £4.11 per week or 59 pence per day. The impact of an increase of a 1.99% in 2017/18 would equate to approximately 8 pence per week for a Band D property.
24. The vast majority of houses in Cleveland do not achieve a Band D level as the majority of properties are within the lower A to C bands. The vast majority of households would therefore pay 5-7 pence per week more.
25. The Cleveland Police force area doesn't have a significantly large overall tax base in comparison to some areas and the proportion of funding from council tax is one of the lowest in the country. Approximately 75% of police funding comes from the government and 25% from local council tax payers. As a result a 2% increase to the council tax precept would provide funding of £623k per annum on a recurring basis across the financial plan.
26. The CFO informed Members that he performs a similar role within North Yorkshire and their tax base is such that they get 45% of funding from the local precept and 55% from government. Of the 55% it is reducing by 1.4% whereas Cleveland lose 1.4% of 75%. 45% of North Yorkshire's budget is increasing by 3.5% when taking into account the increase in tax base and precept rise. Cleveland has 25% which can increase as shown above. It puts a significant strain on Cleveland's finances although it is not the worst as Northumberland has an 80:20 split between government grant and precept. Surrey are the 'best' with more money coming from the precept than the government. The CFO emphasized the disproportionate impact that generally occurs on those more reliant on government grants which it might be argued are more in need of funding.

PCC Priorities

27. The Group considered the priorities of the PCC who was re-elected in 2016 which are as follows:
 - Investing in Our Police
 - A Better Deal for Victims and Witnesses
 - Tackling Re-Offending
 - Working Together to make Cleveland Safer
 - Securing the Future of Our Communities
28. The CFO gave assurances that the budget supports the PCC's objectives to the best of its ability.

Financial Summary

29. The Chief Finance Officer provided the Group with a draft Revenue Summary and draft Capital Budget (see appendices A and B).
30. The CFO also provided Members with a summary of financial reserves which showed that General Reserves are to reduce from £7.7m to £3.2m over next 4 years whilst Earmarked Reserves are to reduce from £6.6m to £1.7m over the same period. £3.2m is equal to 3% of total budget in terms of reserves.
31. The CFO recognizes the additional benefit should it arise from changes to the funding formula and the exceptional difficulty to try to absorb any further reductions if the PCC didn't get the increase in the precept that is proposed. Without the additional £600,000 further cuts would be inevitable.
32. Members asked the CFO whether there was a minimum amount to be held in reserve and were told that there isn't, as it is a judgement the CFO makes with the PCC taking into account the risks to the organization and the potential for future litigation, any types of major incidents, and if the organisation was not able to deliver some of the savings plans. He stressed that for an organisation with a £125m budget, £3.2m of reserves is not a significant cushion to which Members concurred expressing a level of concern.
33. Further enquiry was made as to whether the costs of recent litigation have any effects on front line service delivery? Members were told that ultimately any payments that have to be made have an impact on the amount held in reserves and as has been shown the reserves are being reduced.
34. The vast majority of capital expenditure will be regarding the sale of the Ladgate Lane site and the new Community Safety Hub build at Hemlington. The purchase of the land and the contract for the builder has recently been signed and it is expected that the programme of work would start early in 2017.
35. Members enquired whether the new headquarters would save money on energy costs and was that factored anywhere? They were told that there would be a £250,000 saving by moving which includes all costs but more will be known when the move has been made. The current Ladgate Lane building costs almost £1m to run so a conservative estimate of what savings will result has been applied. Further discussions will take place with the builders to determine what future savings can be achieved. The expected savings have been factored into the financial plans.
36. Members asked if there was any income generation possible as a community safety hub, and if the community would also be able to use it? The CFO informed them that the PCC was keen not to charge for using the hub. There will be a locally owned/run café that will provide services to the people in the building but it could provide an outlet for people in the community. The PCC is keen to get as many partners to use the building as possible.

37. They enquired whether any more land was available to the police that could possibly be sold to assist the PCC budget but very little beyond Ladgate Lane is held.
38. Members presumed that there was some payback on the shared service arrangements that have been entered into (i.e. loss of helicopter, dogs, horses, motorbikes). The CFO responded by giving the example of the helicopter, when it was a standalone service the running costs were in the region of £1.8m to £2.1m per annum. It is expected that the bill for 2017/18 now that it is a national service shared with all northern forces to be approximately £6-700k. Another example was West Yorkshire Police which have retained a horse section so they can be called in when required and forces pay for the service provided.

Conclusion

39. 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 2017/18 before consideration by the Panel.
40. 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 - December 2016

	Actual	Forecasts			
	2016/17	2017/18	2018/19	2019/20	2020/21
Funding	£000s	£000s	£000s	£000s	£000s
Total Funding	(133,260)	(131,500)	(131,385)	(130,830)	(134,489)
%age Change in Funding	1.1%	-1.3%	-0.1%	-0.4%	2.8%
Office of the PCC Planned Expenditure	£000s	£000s	£000s	£000s	£000s
Total Planned Expenditure	850	850	850	850	870
%age Change in Expenditure	0.0%	0.0%	0.0%	0.0%	2.3%
Community Safety/Victims and Witness	£000s	£000s	£000s	£000s	£000s
Community Safety Initiatives	1,345	978	978	978	978
Service Improvement and Development	750	1,260	1,300	1,350	1,420
Victims and Witnesses Services	715	1,072	1,072	1,072	1,072
Total Planned Expenditure	2,810	3,310	3,350	3,400	3,470
Corporate Services	£000s	£000s	£000s	£000s	£000s
Staff Pay	295	315	320	325	330
Non Pay Expenditure	40	40	40	40	40
PFI Action Stations	5,120	5,130	5,190	5,275	5,360
PFI Uraly Nook	1,770	1,750	1,795	1,850	1,905
Asset Management	1,625	1,625	1,850	2,150	1,625
Total Corporate Costs	8,850	8,860	9,195	9,640	9,260
Police Force Planned Expenditure	£000s	£000s	£000s	£000s	£000s
Pay					
Police Pay	66,552	66,323	66,012	66,168	66,527
Police Overtime	1,792	1,125	1,045	1,125	1,125
Police Community Support Officer Pay	4,077	3,967	4,054	4,143	4,218
Staff Pay	7,949	10,236	10,479	10,741	10,964
Pay Total	80,370	81,651	81,590	82,177	82,834
Major Contracts Total	21,585	19,910	20,212	20,586	19,936
Non-Pay Budgets					
Other Pay and Training	287	381	375	375	375
Injury and Medical Police Pensions	2,775	2,273	1,633	1,633	1,633
Premises	3,740	3,743	3,653	3,481	3,504
Supplies and Services	6,423	7,841	7,034	6,943	8,163
Transport	1,635	1,683	1,683	1,683	1,683
External Support	2,595	2,317	2,319	2,321	2,321
Non-Pay Total	17,455	18,239	16,698	16,437	17,680
Total Planned Force Expenditure	119,410	119,800	118,500	119,200	120,450
%age Change in Expenditure	1.9%	0.3%	-1.1%	0.6%	1.0%
(Surplus)/ Deficit	£000s	£000s	£000s	£000s	£000s
(1,340)	1,320	510	2,260	(440)	
Planned Transfers to/(from) General Fund	(1,550)	(2,160)	(550)	(2,300)	0
Contribution to Capital Programme	2,225	800	0	0	400
Planned Transfers to/(from) Earmarked Reserves	665	40	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	8,627	7,702	6,042	5,492	3,192
General Fund Movements	(1,550)	(2,160)	(550)	(2,300)	0
In Year General Fund movements	625	500	0	0	0
General Fund Balance c/f	7,702	6,042	5,492	3,192	3,192
Assumptions					
Staff Pay Increases	1.0%	1.0%	1.0%	1.0%	2.0%
Police Pay Increases	1.0%	1.0%	1.0%	1.0%	2.0%
Non Pay Inflation	1.1%	1.6%	1.8%	1.9%	2.0%
RPI	2.0%	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)	-0.6%	-1.4%	-1.4%	-1.4%	2.0%

PCC Summary Long Term Capital Plan Position - December 2016					
	2016/17	2017/18	2018/19	2019/20	2020/21
Future Funding Levels	£000s	£000s	£000s	£000s	£000s
Earmarked Reserve/Funding b/f	3,598	1,753	513	593	114
Capital Grant	606	515	500	500	500
ESMCP Grant	274	280	0	0	
Contribution from Revenue	2,104	800	0	0	400
PIF Bids	38				
Capital Receipts (from Vehicle sales)	100	100	100	100	100
Capital Receipts (from Property sales)	3,236		2,542		3,109
Apply Capital Receipts to reduce Debt					
New Prudential Borrowing		11,000	3,500		-3,272
Supported Capital Borrowing	760	760	760	760	760
Projected In-year funding Available	7,118	13,455	7,402	1,360	1,597
Carry Forwards from previous years	1,005				
Community Safety Hub	2,303	10,000	2,956		
Collaboration		1,000			
IT Replacement programme/Data Centre move	1,179				
Police Force New Capital Schemes	4,477	3,694	4,366	1,839	1,081
Total Capital Programme	8,963	14,694	7,321	1,839	1,081
Earmarked Capital Reserve/Funding c/f	1,753	513	593	114	631