



Reference No: 18 - 2016

THE POLICE & CRIME COMMISSIONER FOR CLEVELAND

DECISION RECORD FORM

REQUEST:

For Approval

Title:

Long Term Financial Plan (LTFP) 2016/17 to 2019/20 and Capital Plans 2016/17 to 2019/20 and associated papers

Executive Summary:

This is a Decision Record Form outlining the PCC's Budget and Capital Plans for 2016/17 and the Long Term Financial Plans to 2019/20.

There is a legal requirement for the PCC to set a budget prior to the 1st March each year for the following financial year. Approving this Decision will ensure that the PCC's obligations in this area are met for 2016/17.

The Revenue Budget for 2016/17 is based on the approved 1.99% increase in precept for 2016/17 and sets out how the £133,260k of revenue funding to be received by the PCC in 2016/17 will be spent. The decision also sets out a capital programme of just over £8m for 2016/17 and provides details of how this will be spent.

To support this decision are the following attached papers:

- Report on the Robustness of Estimates and Adequacy of Financial Reserves
- LTFP 2016/17 to 2019/20 and Capital Plans 2016/17 to 2019/20
- Cleveland Police LTFP 2016/17 to 2019/20
- Treasury Management and Prudential Indicators 2016/20
- Minimum Revenue Provision Strategy

Decision:

It is recommended, by the PCC's Chief Finance Officer, that the PCC approves the Budget and Capital Plans for 2016/17 as attached to this Decision along with the Long Term Financial Plans to 2019/20. In approving this decision the Commissioner is agreeing to the allocation of resources set out within this decision and the associated appendices, and also the detailed recommendations contained within all of the attached papers.

OPCC Lead Officer:

Michael Porter PCC CFO

Contractor Details (if applicable):			
Implications:			
Has consideration been taken of the following:	Yes	No	
Financial	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
Legal	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
Equality & Diversity	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
Human Rights	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
Sustainability	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
Risk	<input checked="" type="checkbox"/>	<input type="checkbox"/>	
(If yes please provide further details below)			

Decision Required – Supporting Information

Financial Implications: (Must include comments of the PCC's CFO where the decision has financial implications)

The financial implications are set out within the reports. The Robustness of Estimates and Adequacy of Financial Reserves report provides the PCC with a full overview of the proposed budget from the PCC's CFO and in line with the recommendation within the Decision the post holder supports the budget and financial plans that the PCC is being asked to approve.

Legal Implications: (Must include comments of the Monitoring Officer where the decision has legal implication)

Equality and Diversity Implications

Please see attached reports

Human Rights Implications

Please see attached reports

Sustainability Implications

These reports are part of the process to establish sustainable annual and medium term financial plans and maintain prudent financial management within both the PCC and the Police Force.

Risk Management Implications


There is a legal requirement to set a budget prior to the 1st March each year, for the following financial year, failure to do so would result in an illegal budget and significant reputational risks for the organisation.

OFFICER APPROVAL

Chief Executive

I have been consulted about the decision and confirm that financial, legal, and equalities advice has been taken into account. I am satisfied that this is an appropriate request to be submitted to the Police and Crime Commissioner.

Signed:



Date:

24/2/16

Police and Crime Commissioner:

The above request HAS my approval.

Signed: 

Date: 24/2/16

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

24th February 2016

**Executive Officer: Michael Porter, CFO
Status: For Approval**

Robustness of Estimates and Adequacy of Financial Reserves

1. Purpose of the Report

- 1.1 The Local Government Act 2003 requires the Chief Financial Officer (CFO) of the Police and Crime Commissioner (PCC) to report formally on the robustness of the budget for consideration immediately prior to setting the Budget. This report aims to ensure that the PCC is aware of the opinion of the CFO of the PCC regarding the robustness of the budget as proposed, including the longer term revenue and capital plans, the affordability of the capital programme when determining prudential indicators and the adequacy of general balances and reserves. The PCC is required to take account of this report when determining its budget.

2. Recommendations

The PCC is asked to:

- 2.1 Note the contents of this report and take them into account when setting the 2016/17 Revenue and Capital Budgets, and when considering the Long Term Financial and Capital Plans.
- 2.2 Approve the policy on reserves as set out in Appendix A.

3. Background

- 3.1 There is a requirement for the PCC's CFO to report formally and specifically on the robustness of estimates and the adequacy of the level of reserves contained within any budget proposals being considered by the PCC.

4. Robustness of Estimates

4.1 Financial Strategy

- 4.2 The PCC has established a framework, whereby the Long Term Financial Plan (LTFP) regime seeks to provide stability and confidence in supporting the achievement of the PCC's priorities and objectives. These are set out in the Police and Crime Plan. The LTFP looks in detail at the forthcoming year and projects forward over the following three years.

4.1.1 Available Funding

The £133,260k of funding forecast to be available to the PCC in 2016-17 to support expenditure is expected from the following sources:

	2015/16	2016/17	Movement on Year
Funding	<u>£000s</u>	<u>£000s</u>	<u>£000s</u>
Government Grant	(85,170)	(84,684)	486
Council Tax Precept	(30,590)	(31,642)	(1,052)
Council Tax Freeze Grant	(800)	(800)	0
Council Tax Support Grant	(6,868)	(6,868)	0
Funding for Net Budget Requirement	(123,428)	(123,994)	(566)
Specific Grants	(5,640)	(5,843)	(203)
Witness and Victims Funding	(599)	(663)	(64)
Partnership Income/Fees and Charges	(2,153)	(2,760)	(607)
Total Funding	(131,820)	(133,260)	(1,440)
%age change in Total Funding	-1.4%	1.1%	

- 4.1.2 The Government Grant, Council Tax Freeze Grants, Council Tax Support Grant and Specific Grants are based predominantly on national settlement figures and therefore the risks to these sources of funding are minimal. There are a number of specific grants for which allocations have yet to be announced, such as the Counter Terrorism grant and therefore this could be less than assumed.
- 4.1.3 As a precepting Authority the PCC receives a proportion of the Council Tax paid within Cleveland based on the Band levels that were proposed and agreed with the Police and Crime Panel. These receipts have generally been a very secure source of income and this shouldn't change for 2016/17. Any shortfall due to lower than expected collection rates or from reductions in the number of properties within Cleveland would not impact on the finances for 2016-17 but would have to be taken into account in 2017-18.

- 4.1.4 Over the last 11 years there have been no instances where Council Tax receipts over the 4 councils collectively have been less than forecast. Now that the changes resulting from the Localisation of Council Tax support have been embedded it is unlikely that any issues will arise that change this position.
- 4.1.5 The £2,760k of income that is factored into the 2016-17 budget for Partnership Income and Fees and Charges, is £0.6m higher than 2015-16 which is predominantly due to a change in how the income from Officers seconded to the National Police Air Service has been treated. This area also includes secondment income, special services income and interest received on cash invested. While there are likely to be variances against the budgeted amounts at a specific level, the risk that the income received by the PCC in total from these and other sources being lower than budgeted is low.
- 4.1.6 The total funding that the 2016/17 budget is based upon can therefore be described as very secure and the PCC can take a high level of assurance that the budget is based on robust income assumptions.
- 4.1.7 Government Funding for 2017/18 and beyond
- 4.1.8 Beyond 2016-17 there is more information about future levels of government grant settlements than there was in previous years. While allocations have not been provided for individual PCC's a reasonable amount of information has been provided to allow reasonable grant forecasts.
- 4.1.9 In announcing the final settlement figures for 2016/17 the government also provided indicative figures for future years. The information is contained within the table below:

	2016-17	2017-18	2018-19	2019-20	Change between 2016-17 and 2019-20
Central Government Funding	8,356	8,461	8,583	8,725	4.40%
ESN Top-slice	80	175	160	55	-31.30%
Transformation Fund and other Reallocations	492	545	725	1,017	106.80%
of which... Transformation Fund	76.4				
of which... Direct Entry	4.6				
of which... IPCC	32				
of which... Innovation Fund	55				
of which... major programmes (HOB and NPDP)	21.8				
of which... Special Grant	25				
of which... Police PFI	73				
of which... Airwave	204				
Direct Funding	7,784	7,741	7,698	7,653	-1.70%
of which NICC	178				
of which Formula Funding	7,061				
of which Legacy Council Tax Grants	545				
Precept	3,194	3,286	3,379	3,474	8.80%
TOTAL (Direct Funding plus Precept)	10,978	11,027	11,077	11,127	1.40%

- 4.1.10 The 'Direct Funding' line, included within the table above, which is the amount that is directly allocated to PCC's as part of the overall Government Grant, is showing overall reductions of 0.6% per annum, which is in line with the forecast reductions within the LTFP.
- 4.1.11 Given this, there is a clearer indication on the level of future grant reductions than there has been in the last 6 years and therefore in theory the future grant forecasts should be less variable than in previous years.
- 4.1.12 This being said without a clearer indication of what is likely to happen to any review of the funding formula, and the impact that this may have on the funding provided to Cleveland, there is still some element of uncertainty to the level of grant funding to be received by the PCC from 2017/18.
- 4.1.13 In terms of assessing the likely risk from a revised funding formula, the 'Simplified Funding Formula' that was initially proposed for implementation in 2016/17 would have seen the government grant available to Cleveland increase by approximately £2m on a recurring basis.
- 4.1.14 There is currently no allowance for any financial impact from a revised funding formula within the LTFP.
- 4.1.15 Precept
Despite the difficult economic situation, and the changes to the levels of Council Tax Support given to individuals, the Councils have collectively managed to collect more Council tax than they had assumed for at least the last 11 years.
- 4.1.16 The average collection surplus payable to the 'Police' in relation to the amounts that the 4 councils managed to collect in excess of their forecasts has been £350k over the last 11 years. The LTFP has assumed that this collection surplus will be £320k each year. As such this is a reasonable estimate given that the average is inflated by very higher surpluses experienced in the last 3 years.
- 4.1.17 In addition to incorporating an annual collection surplus the precept plans also incorporate annual growth in the underlying tax base of 0.5% per annum. This is in line with government assumptions. While average tax base growth over the last 11 years has been 1% this has, in a similar way to the collection surplus information, been inflated by significant growth in the last 3 years in particular. The 0.5% growth per annum is therefore a reasonable assumption although likely to be a prudent estimate if housebuilding continues to develop at its current pace.
- 4.1.18 Future Precept Plans
The government has given a very clear steer in relation to precept covering the period to 2020, in that they have informed PCC's that **'You should plan on the basis that the overall referendum limit for police precept will be maintained at 2% over the Spending review period for Police and Crime Commissioners in England'**
- 4.1.19 The PCC has also been informed by the Government that **'Total central Government resource funding to policing, including funding for counter**

terrorism, will be reduced by 1.3% in real terms over four years. Taking into account the scope that you have to raise local council tax, this means a flat real settlement for policing as a whole.'

- 4.1.20 The planning assumption within the LTFP is based on an assumption that the level of precept charged to each household will increase by 1.99% per annum. This is however an annual decision for the PCC.
- 4.1.21 Based on the current projections it is unlikely that there will be any external factors that will impact on the achievement of the forecast levels of precept income contained with the LTFP.
- 4.1.22 Expenditure Plans
Preparation of the budget, including decisions on key assumptions, while based on the most up to date information and forecasts will always have a degree of uncertainty and risk. This risk is managed by having a robust budget process and having balances and reserves that are set to take into account the financial and operational uncertainty that exists.
- 4.1.23 There are a number of key estimates within the 2016/17 budget and LTFP, these are set out below along with the potential risks where applicable:
- 4.1.24 Police Pay Awards and Levels of Police Officers
The LTFP assumes that Police Pay will increase by 1% in September 2016 and each September thereafter. This is in line with current government proposals to limit pay awards within the public sector to 1% and therefore the budget is built on the best information available. There is a risk that it may not be possible for national negotiations to contain Police Officer pay within these limits, this was previously the case when the Police Staff pay award was settled at an increase of 2.2%, over what was in effect a 2 year period. Each 0.1% increase over the 1% budgeted within 2016/17 is expected to cost around £35k during 2016/17 and £60k per annum thereafter.
- 4.1.25 The Force have a stable resource requirement based on demand analysis factored into their financial plans, and while this will change over time the current expectation is that there will be a requirement for 1,292 FTE Police Officers to deliver against the Police and Crime Plan objectives. Previous years have seen significant underspends develop against Police Pay budgets as a result of planned reductions in Police Officer numbers, to meet budget cuts, but these reductions have been in excess of those required due to the inability to recruit enough officers to replace those who have retired or left the organisation.
- 4.1.26 This continues to be an area of risk and it will continue to be a significant challenge for the Police Force to maintain Police Officer numbers at the required level as this will require the recruitment of around 300 Police Officers over the next 4 years.
- 4.1.27 There are a significant number of variables, many of which are not within the control of the Force, as to whether these plans will be achieved and this will need to be closely monitored over the coming year in particular, otherwise underspends are

likely to develop and the ability to deliver against the Police and Crime Plan could be impacted.

4.1.28 The final area to consider in relation to Police Pay is the average pay costs that are factored into the MTFP, these are currently projected to be:

- 2016/17 - £51,511
- 2017/18 - £52,088
- 2018/19 - £51,855
- 2019/20 - £51,996

4.1.29 It would be reasonable to assume that given 1% pay awards that average pay would increase by around £500 per annum. However as mentioned previously the organisation is forecasting to recruit around 300 FTE Police Officers over the next 4 years, the majority of which will be taken on initially as student Police Officers and whose initial pay costs are around £20k per annum lower than the average. This is currently projected to keep the average pay costs lower than would otherwise be expected.

4.1.30 The assumptions that underpin these calculations are reasonable but will need to be kept under review. Should the organisation recruit less student police officers, due to fewer leavers than expected and/or take on more transferees than planned then this could have an impact on the average pay levels and ultimately the overall pay costs.

4.1.31 For example taking 20 more transferees than planned could cost the organisation around £400k per annum, in the short term, more than currently budgeted.

4.1.32 PCSO and Staff Pay Awards and FTE's

The number of staff and PCSO's factored into the financial plans are as per the table below.

	Actual	Forecasts			
	2015/16	2016/17	2017/18	2018/19	2019/20
Employee Numbers (Average per year)	FTEs	FTEs	FTEs	FTEs	FTEs
PCSOs	125	132	132	132	132
Police Staff - Police Force	208	230	212	212	212
PCC/Corporate Staff	14	14	14	14	14

4.1.33 As at January 2016 there were 124 FTE PCSOs employed by the Force and therefore reaching 132 FTEs is likely to require only one in-take. However experience would suggest that a number of PCSO's are likely to apply to become Police Officers which may in turn lead to the need to recruit more PCSOs. In addition to the actual recruitment there is also the training capacity required to facilitate more recruits, whether this be to maintain or increase overall numbers. This may therefore lead to vacancies and potential underspends, although any underspends are unlikely to be significant.

4.1.34 The assumptions in relation to the Pay Award for staff and PCSOs are the same as for Police Officers, in that there is an assumption that there will be an annual increase of 1% each year in September. The risk is the same as for Police Officer

pay in that national negotiations may settle at a higher level which is something that the PCC and CC have little to no control over and should this occur then the current budgets will come under some pressure. Each 0.1% increase in pay beyond the 1% factored into Staff and PCSO budgets would cost the organisation around £7k in 2016/17 and £12k per annum thereafter.

4.1.35 Inflation

The 2016/17 budget allows for specific allocations of inflation where necessary in line with either contractual arrangements or estimates and therefore it is unlikely that any significant financial pressures will arise as a result of the assumptions made. There is the potential, given forecast reductions in wholesale gas prices and the falling fuel prices, that under spends might develop in year in these areas.

4.1.36 In terms of planning assumptions, at this stage inflation has been provided on non pay budgets each year from 2017/18 onwards at 1.2%

4.1.37 From an income perspective inflation has been applied on fees and receivables for 2016/17 onwards, subject to known variances. Specific grants have no inflation assumed unless notified by the payer, while any anticipated reductions have been accounted for.

4.1.38 With current levels of inflation running much lower than historic averages, CPI was 0.3% in January 2016 whereas RPI was 1.3%, there might be an opportunity to further reduce the assumed inflationary increases factored into the LTFP. These levels of inflation may also ease any pressures around wage negotiations.

4.1.39 Savings Requirements

The plans and savings proposals included in the budget for 2016/17 and the LTFP in general seem robust. The savings plans included with the LTFP are summarised below:

PCC Savings Summary included with the LTFP	2016-17	2017-18	2018-19	2019-20	Savings over the 4 years
	£k	£k	£k	£k	£k
Savings Summary PCC and Corporate Costs					
Office of PCC	15	5	5	10	35
Corporate Costs					
Minimum Revenue Provision	373	0	152	0	525
	373	0	152	0	525
PCC Initiatives	65	0	0	0	65
Total PCC and Corporate Savings	453	5	157	10	625
Savings Summary - Police Force					
Police Pay					
Implementation of Revised Operating Model	1,750				1,750
	1,750	0	0	0	1,750
Non-Pay Savings					
Steria Contract Savings	1,000	1,000	0	0	2,000
National Police Air Support	530	150	0	0	680
Estates Rationalisation	49	70	422	0	541
ICT Savings	246	44	500	0	790
Vehicles, Petrol and Fleet	185	0	140		325
Other non-pay saving	259	10			269
	2,269	1,274	1,062	0	4,605
Police Force Overall Savings	4,019	1,274	1,062	0	6,355
Total Savings	4,472	1,279	1,219	10	6,980

4.1.40 The 2016/17 budget requires the delivery of £4,472k of savings, £15k from the Office of the PCC, £438k from the Corporate Budgets and PCC Initiatives budgets and £4,019k from the Police Force.

4.1.41 The vast majority of the savings proposals for 2016/17 seem robust and there is little risk of them not being delivered.

4.1.42 The savings proposals for the Steria Contract are under consultation at this stage but working to a timeframe of August 2016 for delivery. The savings have therefore been phased to deliver 50% in 2016/17 and the remainder in 2017/18. As the stage I have highlighted this as Amber simply because it hasn't all been agreed but the risks are deemed relatively low of non-delivery.

4.1.43 Beyond 2016/17 a few of the savings plans will need some further work. The 'estates' savings in 2018/19 is Amber as a significant part of these savings relates to the reduced running costs for the new Community Safety Hub. While this project is