

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

28th February 2018

Status: For Information

Long Term Financial Plan (MTFP) 2018/19 to 2021/22 and Capital Plans 2018/19 to 2021/22

1. Executive Summary

1.1 Purpose of the Report

This report asks the PCC to agree the Budget proposals for 2017/18 and the Long Term Financial Plan (LTFP) for 2018/19 – 2021/22 in line with the legal requirement to set a budget prior to the 1st March each year for the following financial year. It also asks the PCC to agree the funding for the Capital Programme for 2018/19 and the indicative allocations for the period 2019/20 to 2021/22.

2. Recommendations

The PCC is asked to note:

2.1 The PCC is requested to approve the allocation of the £134,644k of revenue funding, that is forecast to be received by the PCC in 2018/19, in the following areas:

- £860k to run the Office of the PCC
- £3,939k to support PCC Initiatives and Victims and Witnesses Services
- £9,475k for Corporate Services
- £119,770k to the Police Force
- £1,400k to the Capital Programme
- £150k to Earmarked Reserves
- This will be supported by £950k from General Reserves

2.1 The PCC is asked to note that the 2018/19 budget is based on the approved £12 increase in the level of Band D precept for 2018/19.

- 2.2 The PCC is asked to take cognisance of the Robustness of Estimates and Adequacy of Financial Reserves Report of the PCCs CFO that was discussed prior to this report.
- 2.3 The PCC is asked to agree that quarterly updates to the LTFFP forecast will be brought to the PCC in 2018/19 to provide an update on the progress of the work to develop the future plans.
- 2.4 The PCC is asked to agree that quarterly updates on the 2018/19 budget will be brought to the PCC in 2018/19 to provide updates on performance against the 2018/19 budget.
- 2.5 The PCC is asked to approve borrowing of up to £3,000k can be taken out to fund the capital expenditure in 2018/19.
- 2.6 The PCC is asked to allocate £6,554k of Capital Budgets to the Chief Constable to deliver new schemes on behalf of the PCC.

3. Planning and Funding Assumptions

3.1 National Budget

On 22 November the Chancellor of the Exchequer, Philip Hammond, made his Autumn Budget 2017 announcement in the House of Commons. This was the Chancellor's first Autumn Budget. A briefing was provided to the PCC in November.

- 3.2 In relation to Policing and Crime there was no specific reference to these areas, from a Budgeting/Finance perspective, that related to England.
- 3.3 The Budget contained the same Departmental Expenditure Limits for the Home Office for the next 2 years for both Revenue and Capital and therefore there is no overall additional funding for Policing.

3.4 Provision Police Funding Settlement 2018/19

The Provisional 2018-19 Police Finance Settlement was announced in an oral statement by the Minister for Policing and the Fire Service Nick Hurd MP on Tuesday 19 December. This was followed by a written ministerial statement shortly after. Full details of the settlement can be found on the Home Office pages of the gov.uk website.

3.5 Headlines

The main points within the provisional settlement are as follows:

- Precept flexibility to increase the level of Band D precept by up to £12 for all PCCs (or equivalents) in 2018-19
- Flat cash grant funding (i.e. the same allocations as in 2017-18 for Home Office Core Police Settlement)

- Updated assumptions around tax base growth – now using OBR figures of 1.34% in England and 0.8% in Wales
- Including these assumptions on council tax and based on the 1.5% GDP deflator, the resulting settlement, including council tax, represents a “real terms” increase for all between 2017-18 and 2018-19
- £450m additional funding for the service – includes £130m additional reallocation and approximately £147m as a result of additional council tax flexibilities.
- £50m additional counter Terrorism funding and the remaining £123m can be considered as “new money”.
- The minister’s letter to PCCs refers to this additional funding in addition to identified efficiency savings of up to £100m (procurement) to enable “appropriate provision for likely cost increases next year”.

3.6 Government Funding for 2018/19 and beyond

Nick Hurd’s letter and statement both state the Home Office’s intention to offer greater certainty on plans for 2019-20. Their intention is to maintain a broadly flat Government Grant settlement with the same precept flexibility but this is dependent on progress against a number of efficiency milestones to be agreed in the New Year.

3.7 The Police Formula review is unlikely to be revisited until the next spending review and therefore the organisation continues not to include any impact from a revision to the Funding Formula in the LTFP forecasts.

3.8 This new information has been factored into the revised Government Grant assumptions as per the following table:

Assumed Government Grant Reductions			
	Feb 2017 LTFP	Nov 2017 LTFP	Feb 2018 LTFP
	%	%	%
2018/19	-1.4%	-0.9%	0.0%
2019/20	-1.4%	-0.9%	0.0%
2020/21	1.0%	2.0%	2.0%
2021/22	N/A	2.0%	2.0%

3.9 It is important to recognise that these are assumptions and as such could easily change. It is also important to recognise that the forecast for 2019/20 and the precept flexibility proposed for 2019/20 have certain conditions attached as set out in the correspondence from Nick Hurd:

3.10 The increase in 2018/19 funding to PCCs must be matched by a serious commitment from PCCs and chief constables to reform by improving productivity

and efficiency to deliver a better, more transparent service to the public. Following my discussions with forces and Her Majesty's Inspectorate of Constabulary and Fire & Rescue Services (HMICFRS), I have three clear priorities:

- Seek and deliver further cost efficiencies. I welcome the progress forces have made against the £350m procurement savings target set at Spending Review 2015. However, there is a lot more to do. We have helped to identify £100m of potential savings in areas such as fleet, professional services and construction. Forces will need to make greater use of national procurement through lead forces to make these savings. We are providing support through the Police Transformation Fund and we will also help establish a force-led National Centre of Excellence to drive down back-office costs, and make best use of estates.
- A modern digitally enabled workforce that allows frontline officers to spend less time dealing with bureaucracy and more time preventing and fighting crime and protecting the public. If all forces could deliver the same one hour per officer per day of productivity benefits from mobile working as the best in a recent sample with eight forces, this has the potential to free up the equivalent of 11,000 extra officers nationally to provide the proactive policing that committed police officers want to deliver. We will work with policing to set up a specialist team to make sure all police forces have access to, and make use of, the best mobile working apps to enable forces to free up extra hours to spend at the frontline.
- Greater transparency in how public money is used locally. It is necessary for police to hold financial reserves, including primarily for contingencies, emergencies and major change costs. As at March 2017 police forces held usable resource reserves of over £1.6bn. This compares to £1.4bn in 2011. Current reserves held represent 15% of annual police funding to PCCs. There are wide variations between forces with Gwent for example holding 42% and Northumbria holding 6%. This is public money and the public are entitled to more information around police plans for reserves and how those plans will support more effective policing. So we will be improving transparency around reserves in the new year through enhanced guidance and through national publication of comparable reserves data. HMICFRS are also consulting on plans for Force Management Statements, which could make more information on police forces available to the public.

3.11 Discussions will be held with police leadership to agree milestones against these priorities that need to be achieved over 2018.

3.12 "I have listened to the views of PCCs and Chief Constables, who have requested greater certainty about future funding to help more efficient financial planning. If the police deliver clear and substantial progress against the agreed milestones on productivity and efficiency in 2018, then the Government intends to maintain the protection of a broadly flat police grant in 2019/20 and repeat the same flexibility of

the precept, i.e. allowing PCCs to increase their Band D precept by a further up to £12 in 2019/20.”

- 3.13 The above correspondence has since been followed up with further details, from Nick Hurd, which is set out below:
- 3.14 “We will seek to maintain the protection of a broadly flat police grant in 2019-20 – alongside a repeat of the same flexibility of the precept (allowing PCCs to increase their Band D precept by up to a further £12 in 2019-20) - if the police deliver clear and substantial progress on productivity and efficiency.
- 3.15 There are 3 areas we suggest form the core of a plan:
- Procurement and shared services;
 - Mobile working and digital;
 - Transparency about the effective use of reserves.
- 3.16 On procurement and shared services, I would like to see a delivery plan with clear milestones between now and September 2018 for achieving the National Commercial Board’s ambition of reducing procurement and shared service costs by £120m and £20m respectively. It is important that this plan (and delivery against it) demonstrates how progress will be tracked at force level as well as nationally.
- 3.17 This National Plan will need to be submitted 9 March 2018.
- 3.18 Precept
Only 27.5% of the Net Budget Requirement within Cleveland is funded by the local precept and therefore this provides less of a cushion to cuts in government grants, than in most Police Force areas.
- 3.19 The Department for Communities and Local Government has published the draft council tax referendum principles. In 2018-19 all PCCs will be allowed to increase band D bills by as much as £12. This represents increases of between 5.34% (Surrey) and 12.2% (Northumbria).
- 3.20 Consultation was undertaken in relation to whether the public supports the option of increasing the Band D ‘Police’ precept by £12 per annum for 2018/19 and the response was that 80% of the 284 people who responded to the survey supported the option to increase the Band D precept by £12.
- 3.21 As stated elsewhere the LTFP is therefore based on a £12 increase in the Band D precept for 2018/19, this equates to a 5.59% increase.
- 3.22 For the purposes of planning, the balanced plan that is set out within this paper assumes the following:
- 2019/20 – Precept Increase of £12 per annum (5.3%)
 - 2020/21 – Precept Increase of 1.99%
 - 2021/22 – Precept Increase of 1.99%

- 3.23 Over the last 5 years there have been significant increases in both the number of calculated Band D properties within Cleveland and also significant 'Collection Surplus' to which the PCC has benefited from. This has continued, but to a lesser extent, in 2018/19.
- 3.24 The number of Band D properties within Cleveland has increased by 2,135 (or 1.43%) to 151,211. This is the lowest increase in the last 5 years. This plan assumes that the Tax Base increases by 1% per annum going forward, which is lower than the increases that the OBR is forecasting for England as a whole at 1.34%, but in line with forecasts from the Local Councils.
- 3.25 In addition to this the Collection Surplus for 2018/19 is £327,279, which is the lowest it has been in the last 5 years. This is factored into this LTFP along with an estimated Collection Surplus of £250k per annum going forward.
- 3.26 These assumptions will be kept under review as details for future years become available and projections amended accordingly.
- 3.27 The flexibility to increase the Precept by £12 per annum for the next 2 years has had a significant impact on the projected funding that could be available to the PCC should these increases become a reality.
- 3.28 Specific Grants, Other Income and Partnership Fees and Charges
These sources of income and funding are forecast to provide between £8.0m and £9.0m across the life of the plan. This is higher than in 2017/18 as it reflects the additional funding that has been awarded to the PCC for work on Violence Against Women and Girls, £164k to be received in 2018/19 and £426k for work on Domestic Violence.
- 3.29 The entire funding therefore expected to be available to the PCC for the next 4 years, in comparison to 2017/18, is as follows:

	Actual	Forecasts			
	2017/18	2018/19	2019/20	2020/21	2021/22
Funding	£000s	£000s	£000s	£000s	£000s
Government Grant	(83,500)	(83,500)	(83,500)	(85,170)	(86,873)
Council Tax Precept	(32,656)	(34,582)	(36,637)	(37,738)	(38,839)
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	(123,824)	(125,750)	(127,805)	(130,576)	(133,380)
%age change in Net Budget Requirement	-0.1%	1.6%	1.6%	2.2%	2.1%
Specific Grants	(4,558)	(4,911)	(4,436)	(5,436)	(4,336)
Witness and Victims Funding	(659)	(1,246)	(820)	(669)	(682)
Partnership Income/Fees and Charges	(2,664)	(2,737)	(2,869)	(2,923)	(2,942)
Total Funding	(131,705)	(134,644)	(135,930)	(139,604)	(141,340)
%age change in Total Funding	-1.2%	2.2%	1.0%	2.7%	1.2%
NBR Forecast - February 2017	(123,824)	(123,244)	(123,081)	(124,918)	(127,430)
Changes to NBR Funding Forecast	0	(2,506)	(4,724)	(5,658)	(5,950)

4.4 Reserves

The 2017/18 budget was to be supported by £1,925k from Reserves. This is made up of the following transactions:

- £75k to the PFI Reserve.
- £2,000k from the General Fund.

4.5 In addition to this £750k was to be used to support the Capital Programme during 2017/18.

4.6 In 2016/17 £2,635k was set aside to fund provisions as referred to in the Force's outturn report. To be able to fund these provisions it was not possible to transfer the budgeted £2,225k into the Capital Programme in 2016/17. It has therefore been agreed that the savings from the revised Custody Contract will re-imburse the Capital Programme over the coming years. The first tranche of this will be in 2017/18 and the Force's budget has therefore been reduced by £415k to reflect this. This £415k will be transferred into the capital programme to support the initial plans.

4.7 These transactions will occur as a matter of course during the 2017/18 financial year. Current forecast for movements on Earmarked and General Reserves to the end of 2017/18 are included within the table below:

	Balance at 31 March 2017 £000	Tranfers In 2017/18 £000	Tranfers Out 2017/18 £000	Balance at 31 March 2018 £000
Insurance Fund	0			0
Direct Revenue Funding of Capital	(3,241)	(1,165)	3,820	(586)
Injury Pension Reserve	(320)		320	0
PFI Sinking Fund	(138)	(75)		(213)
Incentivisation Grant	(271)	(80)	173	(178)
Uray Nook TTC	(81)			(81)
NERSOU	(153)			(153)
Job Evaluation Reserve	(550)			(550)
Police Property Act Fund	(43)			(43)
Community Safety Initiatives Fund	(450)		150	(300)
Road Safety Initiatives Fund	(629)		150	(479)
Collaboration Reserve	(389)			(389)
Revenue Grants Unapplied	(137)		137	(0)
Total Earmarked Reserves	(6,401)	(1,320)	4,750	(2,971)
General Reserves	(8,015)	0	2,000	(6,015)
Total Usable Reserves	(14,416)			(8,986)

5. Overall Budget Summary

5.1 At the end of January 2018 the follow table summarises the finances of the PCC, including forecasts of the expected outturn in each area.

	Original 2017/18 Budget	Revised 2017/18 Budget	Forecast Spend in 2017/18	2017/18 Forecast (Under)/ Overspend
Funding	£000s	£000s	£000s	£000s
Government Grant	(83,500)	(83,500)	(83,500)	0
Council Tax Precept	(32,656)	(32,656)	(32,656)	0
Council Tax Freeze Grant	(800)	(800)	(800)	0
Council Tax Support Grant	(6,868)	(6,868)	(6,868)	0
Funding for Net Budget Requirement	(123,824)	(123,824)	(123,824)	0
Specific Grants	(5,217)	(5,217)	(5,347)	(130)
Partnership Income/Fees and Charges	(2,664)	(2,962)	(3,172)	(210)
Total Funding	(131,705)	(132,003)	(132,343)	(340)
Office of the PCC Planned Expenditure	£000s	£000s	£000s	£000s
Staff Pay	645	645	645	0
Non Pay Expenditure	205	200	201	0
Total Planned Expenditure	850	845	846	0
PCC Initiatives/Victims and Witness	£000s	£000s	£000s	£000s
PCC Initiatives	2,406	2,406	2,053	(354)
Victims and Witnesses Services	839	839	792	(46)
Total Planned Expenditure	3,245	3,245	2,845	(400)
Corporate Costs	£000s	£000s	£000s	£000s
Staff Pay	330	330	330	0
Non Pay Expenditure	100	100	98	(2)
PFI's	6,915	6,915	6,907	(8)
Asset Management	1,605	1,584	1,509	(75)
Total Corporate Costs	8,950	8,929	8,844	(85)
Police Force Planned Expenditure	£000s	£000s	£000s	£000s
Police Pay	66,740	66,687	66,807	120
Police Overtime	1,375	1,599	1,859	260
Staff Pay	9,755	9,780	9,600	(180)
Police Community Support Officer Pay	4,255	4,142	4,107	(35)
Pay Total	82,125	82,208	82,373	165
Major Contracts Total	20,077	19,685	19,810	125
Non-Pay Budgets				
Other Pay and Training	380	839	914	75
Injury and Medical Police Pensions	2,435	2,433	2,523	90
Premises	3,620	3,531	3,456	(75)
Supplies and Services	7,035	6,841	6,967	126
Transport	1,576	1,504	1,389	(115)
External Support	2,587	2,662	2,621	(41)
Non-Pay	17,633	17,811	17,871	60
Total Planned Force Expenditure	119,835	119,704	120,054	350
(Surplus)/Deficit	£000s	£000s	£000s	£000s
Planned Transfers to/(from) General Fund	1,175	720	246	(475)
Planned Transfers to/(from) General Fund	(2,000)	(2,000)	(2,000)	0
Contribution to Capital Programme	750	1,205	1,205	0
Planned Transfers to/(from) Earmarked Reserves	75	75	75	0
Net (Surplus)/Deficit After Reserves	0	0	(475)	(475)

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

At this stage of the financial year budgets are very tight and are being actively managed to deliver against the priorities and plans whilst staying within budget. The capacity to absorb unexpected costs and pressures is therefore very limited.

7. Conclusion

7.1 The proposed 2017/18 budget underpins the PCC's objectives of:

- 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

As you would hope and expect the finances of the organisation are very tight, with the best service possible trying to be delivered within the budgetary constraints.

At this stage of the financial year a small under spend position is projected for the organisation overall, however there are a number of areas which are already under pressure and these will need to be closely monitored as the year progresses. In addition to these the Staff Pay award has not yet been concluded and is expected to result in an additional pressure for the organisation. The current proposal from the Employer's side, if agreed, is expected to create a pressure of £150k in 2017/18 and a further £110k in 2018/19.

Michael Porter
PCC Chief Finance Officer