

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

20th February 2019

Status: For Information

Long Term Financial Plan (LTFP) 2019/20 to 2022/23 and Capital Plans 2019/20 to 2022/23 including Reserves Strategy

1. Executive Summary

1.1 Purpose of the Report

This report asks the PCC to agree the Budget proposals for 2019/20 and the Long Term Financial Plan (LTFP) for 2019/20 – 2022/23 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 2019/20 and the indicative allocations for the period 2020/21 to 2022/23.

2. Recommendations

2.1 The PCC is requested to approve the allocation of the £145,365k of revenue funding, that is forecast to be received by the PCC in 2019/20, in the following areas:

- £880k to run the Office of the PCC
- £5,440k to support PCC Initiatives and Victims and Witnesses Services
- £9,920k for Corporate Services
- £128,215k to the Police Force
- £2,120k to the Capital Programme
- This will be supported by £260k from Earmarked Reserves and £950k from General Reserves

2.1 The PCC is asked to note that the 2019/20 budget is based on the approved £24 increase in the level of Band D precept for 2019/20.

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 LTFP forecast will be brought to the PCC in 2019/20 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 2019/20 budget will be brought to the PCC in 2019/20 to provide updates on performance against the 2019/20 budget.
- 2.5 The PCC is asked to approve borrowing of up to £1,200k can be taken out to fund the capital expenditure in 2019/20.
- 2.6 The PCC is asked to allocate £6,945k of Capital Budgets to the Chief Constable to deliver new schemes on behalf of the PCC.

3. Planning and Funding Assumptions

3.1 Police Funding Settlement 2019/20

The Final 2019-20 Police Settlement was announced in a written ministerial statement by the Minister for Policing and the Fire Service Nick Hurd MP on Thursday 24 January 2019 and no changes were made to the Provisional Settlement which was announced on the 13th December . Full details of the settlement can be found on the Home Office pages of the gov.uk website.

3.2 Headlines

The main points within the settlement are a headline of £970m additional funding for the service which includes:

- £161m additional formula funding,
 - £153m of pension grant,
 - £59m additional funding for Counter Terrorism,
 - £90m additional funding to tackle Serious and Organised Crime and
 - £509m as a result of additional council tax flexibilities.
- **Of the £970m approximately £813m is for local policing**
 - £509m precept
 - £143m pension grant
 - £161m additional Funding.
 - **Precept flexibility of up to £24** for all PCCs (or equivalents) in 2019-20. – this was only confirmed on the 29th January
 - **£161m additional grant funding** – made up of primarily £146m increase in core grant.
 - The settlement, including and assuming that each Police Force area increases the Police element of council tax by £24, and pension grant, represents an average cash increase (total funding) of 7.2% between 2018-19 and 2019-20.

- £160m additional Counter Terrorism funding (announced at the 2018 Autumn Budget) equivalent to an annual increase of £59m; an 8% increase on total CT funding.
- New Requirements - The minister's letter refers to the requirement to "drive efficiency, productivity and effectiveness".

3.3 It is important to reflect that this increase in funding does not reflect the significant increased Pension costs that have been passed to Forces to pay from 2019/20 onwards.

3.4 What is expected in return for this Flexibility and improved funding position?
The 2019-20 settlement provides more funding than had been previously expected. A letter to the Home Affairs Select Committee (HASC) outlines the Policing Minister's 4 priority areas to "drive efficiency, productivity and effectiveness next year":

- Continued efficiency savings in 2019-20 through collective procurement and shared services. There will be an expectation that every force contributes substantially to procurement savings and the Home Office will be working with the police to agree the "right force level objectives for 2019-20 and 2020-21".
- Major progress expected to resolve challenges in investigative resource identified by HMICFRS, including recruitment of more detectives to tackle the shortfall.
- Continue to improve productivity, including smarter use of data to deliver £50m of productivity gains in 2019-20.
- Maintain a Serious and Organised Crime response that spans identification and management of local threats as well as support for national priorities.

3.5 What does this mean for Cleveland in 2019/20 in terms of Funding and Costs?

- An increase in Police Grant of £1,753k or 2.1%
- A Pension's Grant of £1,324k

HOWEVER

- The impact of Police Pension changes to Cleveland is £3.3m

Therefore in overall cash terms, before Precept is considered, the organisation has less Cash than it had last year, from the Government, taking into account the additional Pensions Costs that have been passed from the Government to Local Forces.

3.6 In real terms therefore this is a further cut to Government Funding of circa £2.1m.

- 3.7 Based on the increase in precept being proposed then the overall impact on the Core funding for the organisation, taking into account the additional Pensions costs is set out in the table below:

| Funding the Net Budget Requirement | | | | |
|--|------------------|------------------|-----------------------------|----------------------------|
| | 2019/20 | 2018/19 | (Increase)/Reduction | Year on Year Change |
| | £000s | £000s | £000s | %age |
| Government Funding | | | | |
| Police Grant | (46,497) | (45,508) | (990) | 2.2% |
| RSG/National Non Domestic Rate | (38,756) | (37,992) | (764) | 2.0% |
| Council Tax Freeze Grant | (800) | (800) | 0 | |
| Council Tax Support Grant | (6,868) | (6,868) | 0 | |
| Total Government Funding | (92,921) | (91,168) | (1,753) | 1.9% |
| Additional Police Pensions Grant | (1,324) | 0 | (1,324) | |
| Additional Police Pension Contributions | 3,315 | 0 | 3,315 | |
| Actual Impact of Settlement changes | (90,930) | (91,168) | 237 | -0.3% |
| Impact of a £24 increase in Band D Precept - 10.6% increase | | | | |
| Net Surplus on Collection Funds | (349) | (327) | (22) | |
| Council Tax Requirement | (38,435) | (34,255) | (4,180) | |
| Total Local Funding | (38,784) | (34,583) | (4,202) | 12.1% |
| Total Government + Local Funding | (129,715) | (125,750) | (3,964) | 3.2% |

- 3.8 How does Cleveland compare to the National Picture
Setting aside the additional Pension Costs the government has stated that the settlement, including council tax and pension grant, represents an average cash increase (total funding) of 7.2% between 2018-19 and 2019-20.
- 3.9 **Cleveland has not however seen an average increase in Total Funding; it will only receive an increase of 5.77% which will be the lowest in the Country.**
- 3.10 Had Cleveland received an 'average' 7.2% increase in total funding (before significant additional Pension costs) then the PCC would have received a further £1.8m of additional recurring funding for 2019/20.
- 3.11 The highest increase in total funding, as a result of this settlement, within the country will be 8.48% (before additional Pension costs) and this will occur in Hertfordshire (assuming they increase their precept by £24). This would be 2.71% higher than the settlement for Cleveland. Had Cleveland achieved this settlement this would have equated to an additional £3.4m per annum more funding in 2019/20.

- 3.12 Precept
Less than 30% 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 and the ability to generate additional funding locally when Government Funding is constrained.
- 3.13 The Department for Communities and Local Government has published the council tax referendum principles for 2019/20 which provided the opportunity for PCCs to increase the Band D level of Police Precept by £24 without triggering a referendum.
- 3.14 Consultation was undertaken in relation to whether the public supports the option of increasing the Band D 'Police' precept by £24 per annum for 2019/20 and the response was that 68% of the 1,066 people who responded to the survey supported the option to increase the Band D precept by £24.
- 3.15 This increase was then proposed to the Police and Crime Panel who also supported this increase.
- 3.16 As stated elsewhere the LTFP is therefore based on a £24 increase in the Band D precept for 2019/20, this equates to a 10.6% increase.
- 3.17 For the purposes of planning, the balanced plan that is set out within this paper assumes the following:
- 2020/21– Band D Precept Increase of £12 per year (4.8%)
 - 2021/22 – Precept Increase of 1.99%
 - 2022/23 – Precept Increase of 1.99%
 - 2023/24 – Precept Increase of 1.99%
- 3.18 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 in 2019/20.
- 3.19 The number of Band D properties within Cleveland has increased by 2,198 (or 1.45%) to 153,409. This is in line with the average over the last 3 years. This plan assumes that the Tax Base increases by 1% per annum going forward, which is a prudent estimate based on forecasts from the Local Councils.
- 3.20 In addition to this the Collection Surplus for 2019/20 is £349,370 which is in line with our forecasts. This is factored into this LTFP along with an estimated Collection Surplus of £250k per annum going forward.
- 3.21 These assumptions will be kept under review as details for future years become available and projections amended accordingly.

3.22 Government Funding for 2020/21 and beyond

There was no further mention of future settlements other than to repeat “this is the last settlement before the next Spending Review, which will set long term police budgets and look at how resources are allocated fairly across police forces. The Home Office is grateful to the police for the good work they are doing to build the evidence base to support that work, and we will also want to see evidence that this year’s investment is being well spent.”

3.23 There are no plans to review the Police Allocation Formula until after the Spending Review. The reference to looking at “how resources are allocated fairly across police forces” is likely to refer to the ongoing work between the Home Office and the Police Sector to support the submission to the Spending Review. There are work streams investigating funding streams and funding models – i.e. regional/local arrangements but no plans yet to review the current police allocation formula.

3.24 Top-slices/Reallocations totalling £1,029m have been announced for 2019/20. This is £84m, or 9% higher than 2018/19. The areas this funding will now be spent on, instead of being allocated to PCC’s is as follows:

| Police Funding | 2017/18 (£m) | 2018/19 (£m) | 2019-20 (£m) |
|---|-------------------------|-------------------------|-------------------------|
| o/w Reallocations and adjustments | 812 | 945 | 1,029 |
| PFI | 73 | 73 | 73 |
| Police technology programmes | 417 | 495 | 495 |
| Arm’s length bodies | 54 | 63 | 63 |
| Top-ups to NCA and ROCUs | | | 56 |
| Strengthening the response to Organised Crime | 28 | 42 | 90 |
| Police transformation fund | 175 | 175 | 175 |
| Special Grant | 50 | 93 | 73 |
| Pre-charge bail | 15 | 4 | 4 |

3.25 Legacy Council Tax funding is still separately identifiable and has not changed from 2018/19.

3.26 Police Capital Grant that is to be allocated to PCC’s has been increased by £11k (or 2.2%) with the PCC only receiving £526k which won’t even be enough to pay for the replacement of Police vehicles during 2019/20.

3.27 Counter Terrorism (CT)

At the Autumn Budget the Chancellor announced an additional £160m for counter terrorism policing, which is a £59m increase (8%) on the 2018-19 CT funding. The Police settlement confirmed these figures saying this additional funding will bring the total CT funding to £816m, including a £24m uplift in armed policing from the Police Transformation Fund.

It is estimated that approximately £20m of this funding is likely to be capital funding but this is subject to an in-year review in consultation with the national counter terrorism policing headquarters.

3.28 Ministry of Justice (MoJ) Funding

3.29 The Ministry of Justice have confirmed the level of the Victims and Witnesses Grant for 2019/20, and while the overall amount allocated to PCC's has remained static at £67,855k, the grant is allocated based on population.

3.30 As the population of Cleveland is not growing as quickly as others areas of the country the amount that will be received by the PCC in 2019/20 will be £1,920 lower than the amount received in 2018/19, with the total grant being £654k.

3.31 Specific Grants, Other Income and Partnership Fees and Charges

These sources of income and funding are forecast to provide between £9.4m and £10.3m across the life of the plan. This is higher than in 2018/19 (£8.9m) as it reflects the additional funding that has been provided by the Government to the PCC to partially offset the significant increase in Police Pension costs that the Force will need to pay into the Police Pension Fund.

3.32 Police Pensions

3.33 On 6 September Her Majesty's Treasury (HMT) published their draft Directions on public service pension schemes for the 2016 Valuation which comes into effect in 2019/20. The Directions set both the financial assumptions (including changes to the Discount Rate) and demographic assumptions to be used by the Government Actuary's Department (GAD) to produce the valuation results for the Police pension scheme.

3.34 The most significant element of the Directions is that the Superannuation Contributions Adjusted for Past Experience (SCAPE) Discount Rate, which is used in unfunded pension schemes to convert future pension payments into a present value, will reduce from 3.0% to 2.4%.

3.35 This is due to a more pessimistic assessment by the OBR of the long-term forecast for growth in the economy. The Discount Rate reduction has the effect of increasing the cost of future benefits and therefore the required contribution rate. Payments to beneficiaries are unchanged by the Discount Rate changes and therefore the overall impact is a reduction in the amount paid by the Exchequer to meet the difference between contributions and payments via the Pension Top-Up Grant.

3.36 These changes have seen a sharp increase in costs. The costs, for the Police, are now estimated to be approximately £330m. With the cost to Cleveland estimates to be circa £3.3 per annum.

3.37 In 2019-20 the Treasury are providing PCC's with an additional £142.5m grant – of which Cleveland will receive £1.3m.

3.38 The current financial plans assume that this Pensions Grant of £1.3m will continue in future years, although there are no guarantees that this will happen. Clearly if the grant is not paid in the future then this will provide a significant gap in the current financial plan.

3.39 Special Grant

3.40 The PCC was successful in a Special Grant application to the Home Office in relation to costs for historical investigations in December 2017.

3.41 The continuation of this Grant is subject to annual review with the Home Office, with the Grant providing 85% of the costs of the work that is on-going in this area.

3.42 The Grant has been assumed (purely for financial planning purposes) to continue for the next 2 financial years, it is important to recognise that this Grant is planned to fund 85% of the costs of the following number of resources within the Force:

- 49 Police Officers
- 32 Police Staff

3.43 When these investigations come to an end and/or if the Special Grant is no longer available to the PCC then the Force will need to reflect this within both their Police Officer and Staff numbers. The Grant is estimated at £3.5m and therefore the overall impact will be significant. It is important however to recognise that this Grant is to provide additionality and therefore these resources should be above the core establishment of the Force.

3.44 The staffing numbers reflected in this LTFP align with the assumption that the Grant ends after 2 more year purely so that the organisation is aware of what the long term sustainable level of resources within the Force is. It is this level that should be looked at in terms of comparison with previous years.

3.45 LTFP Assumptions

When the 2018/19 budget was set in February 2018 the forecasts were underpinned by the following assumptions:

- Pay Awards: 2% increase per annum
- Precept: Increases of:
 - 2018/19 - £12 or 5.59%
 - 2019/20 - £12 or 5.29%
 - 2020/21 - £4.75 or 1.99%
 - 2021/22 - £4.84 or 1.99%
- Tax Base increases of 1.0% per annum
- Collection Surplus of £250k per annum
- Government Grants: Frozen until 2019/20 and the increases of 2% thereafter
- Impact of Funding Formula Review - Nil

3.46 In line with good planning our assumptions remain under review and are updated with the best information available and it is expected that the LTFP for 2019/20 and beyond will assume the following:

- Pay Awards: 2% increase p.a
- Precept: Increases of:

- 2019/20 - £24 or 10.59%
- 2020/21 - £12 or 4.8%
- 2021/22 - £5.23 or 1.99%
- 2022/23 - £5.33 or 1.99%
- Tax Base increases 1.0% per annum, Collection Surplus £250k p.a
- Government Grants: Frozen until 2020/21 and the increases of 2% thereafter
- Impact of Funding Formula review – Nil

3.47 Based on these revised assumptions, and the information received and forecast around other areas of funding, then the entire funding expected to be available to me for the next 4 years, in comparison to 2017/18 and 2018/19, is as follows:

| | Actual | | | | |
|---|------------------|------------------|------------------|------------------|------------------|
| | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
| Funding | £000s | £000s | £000s | £000s | £000s |
| Government Grant | (83,500) | (85,253) | (85,253) | (86,958) | (88,697) |
| Council Tax Precept | (34,583) | (38,784) | (40,928) | (42,144) | (43,400) |
| 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 | (125,751) | (131,706) | (133,850) | (136,770) | (139,766) |
| %age change in Net Budget Requirement | 1.6% | 4.7% | 1.6% | 2.2% | 2.2% |
| Specific Grants | (4,911) | (5,880) | (6,726) | (5,626) | (5,626) |
| Witness and Victims Funding | (1,246) | (1,411) | (654) | (667) | (680) |
| Partnership Income/Fees and Charges | (2,737) | (2,893) | (2,965) | (3,147) | (3,199) |
| Total Core Funding | (134,644) | (141,890) | (144,195) | (146,210) | (149,270) |
| %age change in Total Core Funding | 2.2% | 5.4% | 1.6% | 1.4% | 2.1% |
| Special Grant | 0 | (3,475) | (3,500) | 0 | 0 |
| Total Overall Funding | (134,644) | (145,365) | (147,695) | (146,210) | (149,270) |
| NBR Forecast - February 2018 | (125,751) | (127,805) | (130,576) | (133,380) | (136,315) |
| Changes to NBR Funding Forecast | 0 | (3,901) | (3,273) | (3,390) | (3,451) |

3.48 As a result of the Government Grant settlements being better than expected, and the flexibility to increase precept by more than previously forecast, then the funding, at a Net Budget Requirement level, available to the PCC is higher than projected in February 2018 by £3.9m.

3.49 This needs to be viewed in the context of the increased Police Pension contribution requirement that totals £2m per annum, after allowing for an additional pensions grant. In overall terms the PCC will therefore have around £1.9m more income, at the Net Budgetary Requirement level, in 2019/20 than was expected a year ago.

3.50 This should therefore provide some opportunity to invest in 2019/20 in priority areas.

4. Expenditure Plans

4.1 In setting the budget for 2019-20 the PCC is asked to make decisions on how the overall funding discussed in Section 3 is allocated. The PCC is asked to provide funding/budgets to the areas discussed in the following sections:

4.2 Office of the PCC

The PCC has reduced the budget that was inherited from the former Police Authority by around £350k in cash terms and significantly more in real terms.

4.3 It is however not possible to continue to absorb increases in Pay and Pension Contributions and therefore a small increase in the budget for 2019-20 of £20k (or 2.3%) to £880k has been necessary. The impact of both pay inflation and general inflation will make it more difficult each year to maintain the budget at a standstill level and therefore inflationary increases have been added to the LTFFP.

4.4 Further details are provided below:

| 2015/16 Budget | 2016/17 Budget | 2017/18 Budget | PCC Budget | 2018/19 Budget | Movement to 2019/20 Budget | 2019/20 Budget |
|----------------|----------------|----------------|--------------------------|----------------|----------------------------|----------------|
| £ | £ | £ | Category of Spend | £ | £ | £ |
| 585,000 | 620,000 | 645,000 | Staff Pay and Allowances | 680,200 | 62,800 | 743,000 |
| 5,300 | 5,300 | 5,100 | Other Pay and Training | 5,100 | 0 | 5,100 |
| 288,700 | 261,700 | 238,900 | Supplies and Services | 214,700 | (11,800) | 202,900 |
| 11,000 | 11,000 | 11,000 | Transport | 10,000 | 0 | 10,000 |
| (40,000) | (48,000) | (50,000) | Miscellaneous Income | (50,000) | (31,000) | (81,000) |
| 850,000 | 850,000 | 850,000 | Total Budget | 860,000 | 20,000 | 880,000 |

4.5 Community Safety and Victims and Witnesses Commissioning

The role and responsibilities of the PCC is wider than Policing and this has been acknowledged with the addition of responsibilities around Community Safety and Victims and Witnesses services.

4.6 The Ministry of Justice have confirmed the level of the Victims and Witnesses Grant for 2018/19, and while the overall amount allocated to PCC's has remained static at £63,150k, the grant is allocated based on population.

4.7 As the population of Cleveland is not growing as quickly as others areas of the country the amount that will be received by the PCC in 2019/20 will be £1,920 lower than the amount received in 2018/19, with the total grant being £654k.

4.8 The PCC has however been successful in a number of Grant bids over the last couple of years and a number of those will provide funding in 2019/20. These successful bids will see the following:

- A doubling of the amount provided to each of the 4 Local Authority Areas within Cleveland to £74k (or £296k in total) to provide OutReach Programmes.

- In addition to this a further £190k will be invested in additional Youth Intervention work in 2019/20 as part of a successful bid of over £500k by the PCC.
- The PCC was also successful in with a bid for £200k in relation to a Female Offender Project in 2018/19 with most of this funding, £156k available to spend in 2019/20.

4.9 2019/20 is also expected to see the 'Divert' project become a reality offering an alternative way to engage with first time and low-level offenders, instead of sending them to court and prosecuting them.

4.10 In addition to the above the current plans expect that a recurring budget of circa £2.0m per annum is provided in this area across the life of the plan which is as per 2018/19.

4.11 Beyond these commissioned services the PCC continues to prioritise and support neighbourhood policing and will continue to provide the Force an additional £1.5m to support the delivery of neighbourhood policing with the specific objective of making our communities safer; helping them to be stronger.

4.12 In addition to this there is scope for the Force to invest a further £1m on a recurring basis to close the gap between the 'minimum' and 'required' resourcing models that they have developed. Plans will be worked up before this money is released.

4.13 The indicative budget for these areas are set out in the table below:

| | Actual Budget | Actual Budget | | | | |
|---|---------------|---------------|--------------|--------------|--------------|--------------|
| | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
| Community Safety/Victims and Witness | <u>£000s</u> | <u>£000s</u> | <u>£000s</u> | <u>£000s</u> | <u>£000s</u> | <u>£000s</u> |
| Community Safety Initiatives | 986 | 982 | 1,146 | 1,002 | 1,002 | 1,003 |
| Service Improvement and Development | 1,250 | 1,450 | 2,430 | 2,900 | 3,050 | 3,200 |
| Victims and Witnesses Services | 1,009 | 1,508 | 1,864 | 1,164 | 1,172 | 1,178 |
| Total Planned Expenditure | 3,245 | 3,939 | 5,440 | 5,065 | 5,225 | 5,381 |

4.14 Corporate Services

Corporate Services include the costs of the PFI contracts, strategic contract management, asset management costs, treasury management and planning.

4.15 The areas of expenditure incorporated in this area and the forecasts for the life of the plan are included in the table below:

| | Actual | Actual | Forecasts | | | |
|------------------------------|--------------|--------------|--------------|--------------|--------------|--------------|
| | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
| Corporate Services | <u>£000s</u> | <u>£000s</u> | <u>£000s</u> | <u>£000s</u> | <u>£000s</u> | <u>£000s</u> |
| Staff Pay | 330 | 465 | 600 | 470 | 480 | 490 |
| Non Pay Expenditure | 100 | 95 | 115 | 100 | 100 | 100 |
| PFI Action Stations | 5,145 | 5,240 | 5,325 | 5,410 | 5,500 | 5,590 |
| PFI Uralay Nook | 1,770 | 1,820 | 1,830 | 1,870 | 1,910 | 1,950 |
| Asset Management | 1,605 | 1,855 | 2,050 | 1,935 | 1,550 | 1,450 |
| Total Corporate Costs | 8,950 | 9,475 | 9,920 | 9,785 | 9,540 | 9,580 |
| %age Change in Expenditure | 1.1% | 5.9% | 4.7% | -1.4% | -2.5% | 0.4% |

4.16 Over £500k of cashable savings was delivered from this area over the 5 years to 2017/18. This enabled the PCC to focus resources on front line services with the vast majority of the savings coming from the decision made by the PCC to change the way that Capital is financed within the organisation and also the conscious decision to reduce the amount of debt the organisation has.

4.17 The asset management costs have however increased over the last couple of years, primarily due to the timing of the loans taken out to deliver the Community Safety Hub and the receipts of the Capital Receipts from the sale of the former Police HQ at Ladgate Lane. In this intervening period the Force is however benefitting from the significantly lower costs of running the new building in comparison to the former one.

4.18 Further savings will be difficult to deliver from this area however if the current plans are delivered then the savings from the asset management budgets will be realised once again and there is the opportunity to increase these further.

5. Police Force

- 5.1 The vast majority of the funding available to the PCC will be provided to the Chief Constable, this provides the budgetary constraints in which the PCC expects the Force to work within, in delivering against the Police and Crime Plan.
- 5.2 The PCC tries to provide a stable financial platform for the Force to work to and within, despite the significant level of unknowns around various areas of future funding. The aim of this approach is to support and enable good strategic planning, decision making and ultimately service delivery by the Force.
- 5.3 Details of the Force's plans are provided on a separate report, which is also on today's agenda however a summary of the finances are included below:

| | Budget 2017/18 | Budget 2018/19 | Budget 2019/20 | Budget 2020/21 | Budget 2021/22 | Budget 2022/23 |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Police Force Planned Expenditure | £000s | £000s | £000s | £000s | £000s | £000s |
| Police Pay | 64,740 | 64,043 | 67,662 | 68,652 | 69,672 | 71,491 |
| Police Overtime | 1,375 | 1,402 | 1,468 | 1,538 | 1,668 | 1,589 |
| Police Community Support Officer Pay | 4,255 | 4,360 | 4,055 | 4,180 | 4,280 | 4,365 |
| Staff Pay | 9,755 | 10,525 | 14,550 | 14,670 | 13,993 | 14,381 |
| Pay Total | 80,125 | 80,330 | 87,735 | 89,040 | 89,613 | 91,826 |
| Major Contracts | | | | | | |
| Custody and Medical Contract | 2,523 | 2,466 | 2,491 | 2,541 | 2,591 | 2,641 |
| Outsourcing Contract | 17,139 | 17,900 | 18,490 | 17,500 | 16,500 | 16,850 |
| Major Contracts total | 19,662 | 20,366 | 20,981 | 20,041 | 19,091 | 19,491 |
| Non Pay Budgets | | | | | | |
| Other Pay and Training | 380 | 756 | 744 | 759 | 776 | 789 |
| Injury and Medical Police Pensions | 2,435 | 2,787 | 2,993 | 3,093 | 3,193 | 3,293 |
| Premises | 3,620 | 3,662 | 3,501 | 3,577 | 3,655 | 3,733 |
| Supplies and Services | 7,035 | 7,455 | 7,534 | 7,634 | 7,641 | 7,642 |
| Transport | 1,576 | 1,456 | 1,471 | 1,481 | 1,491 | 1,501 |
| External Support | 2,587 | 2,958 | 3,257 | 3,461 | 3,461 | 3,461 |
| Non Pay Total | 17,633 | 19,074 | 19,498 | 20,003 | 20,215 | 20,417 |
| Total Planned Expenditure | 117,420 | 119,770 | 128,215 | 129,085 | 128,920 | 131,735 |
| %age Change in Expenditure | 0.0% | 2.0% | 7.1% | 0.7% | -0.1% | 2.2% |

- 5.4 These plans are in line with the overall funding indications provided by the PCC to the Force and therefore enable the PCC to set out a stable, balanced financial plan for the next 4 years, based on the assumptions set out within this report.
- 5.5 The table in the section below shows the overall financial position and the forecast LTFP based on current assumptions and plans.

6. Overall Financial Summary

6.1 The table below shows the current projected position of the overall finances available to the PCC, however this is based on a significant number of assumptions, including that the Force can contain costs and deliver the level of services required within the financial constraints that were outlined above.

| | Actual Budget | Actual Budget | | | | |
|--|------------------|------------------|------------------|------------------|------------------|------------------|
| | 2017/18 | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
| Funding for Net Budget Requirement | (123,824) | (125,751) | (131,706) | (133,850) | (136,770) | (139,766) |
| %age Change in Net Budgetary Requirement | -0.1% | 1.6% | 4.7% | 1.6% | 2.2% | 2.2% |
| Specific Grants | (4,558) | (4,911) | (5,880) | (6,726) | (5,626) | (5,626) |
| Witness and Victims Funding | (659) | (1,246) | (1,411) | (654) | (667) | (680) |
| Partnership Income/Fees and Charges | (2,664) | (2,737) | (2,893) | (2,965) | (3,147) | (3,199) |
| Total Core Funding | (131,705) | (134,644) | (141,890) | (144,195) | (146,210) | (149,270) |
| Special Grant | | | (3,475) | (3,500) | 0 | 0 |
| Total Overall Funding | (131,705) | (134,644) | (145,365) | (147,695) | (146,210) | (149,270) |
| Office of the PCC Planned Expenditure | £000s | £000s | £000s | £000s | £000s | £000s |
| Total Planned Expenditure | 850 | 860 | 880 | 900 | 920 | 940 |
| Community Safety /Victims and Witness | £000s | £000s | £000s | £000s | £000s | £000s |
| Community Safety Initiatives | 986 | 982 | 1,146 | 1,002 | 1,002 | 1,003 |
| Service Improvement and Development | 1,250 | 1,450 | 2,430 | 2,900 | 3,050 | 3,200 |
| Victims and Witnesses Services | 1,009 | 1,508 | 1,864 | 1,164 | 1,172 | 1,178 |
| Total Planned Expenditure | 3,245 | 3,939 | 5,440 | 5,065 | 5,225 | 5,381 |
| Corporate Services | £000s | £000s | £000s | £000s | £000s | £000s |
| Staff Pay | 330 | 465 | 600 | 470 | 480 | 490 |
| Non Pay Expenditure | 100 | 95 | 115 | 100 | 100 | 100 |
| PFI Action Stations | 5,145 | 5,240 | 5,325 | 5,410 | 5,500 | 5,590 |
| PFI Urlay Nook | 1,770 | 1,820 | 1,830 | 1,870 | 1,910 | 1,950 |
| Asset Management | 1,605 | 1,855 | 2,050 | 1,935 | 1,550 | 1,450 |
| Total Corporate Costs | 8,950 | 9,475 | 9,920 | 9,785 | 9,540 | 9,580 |
| Police Force Planned Expenditure | £000s | £000s | £000s | £000s | £000s | £000s |
| Pay | | | | | | |
| Police Pay | 66,740 | 64,043 | 67,662 | 68,652 | 69,672 | 71,491 |
| Police Overtime | 1,375 | 1,402 | 1,468 | 1,538 | 1,668 | 1,589 |
| Police Community Support Officer Pay | 4,255 | 4,360 | 4,055 | 4,180 | 4,280 | 4,365 |
| Staff Pay | 9,755 | 10,525 | 14,550 | 14,670 | 13,993 | 14,381 |
| Pay Total | 82,125 | 80,330 | 87,735 | 89,040 | 89,613 | 91,826 |
| Major Contracts Total | 19,662 | 20,366 | 20,981 | 20,041 | 19,091 | 19,491 |
| Non-Pay Budgets | | | | | | |
| Other Pay and Training | 380 | 756 | 744 | 759 | 776 | 789 |
| Injury and Medical Police Pensions | 2,435 | 2,787 | 2,993 | 3,093 | 3,193 | 3,293 |
| Premises | 3,620 | 3,662 | 3,501 | 3,577 | 3,655 | 3,733 |
| Supplies and Services | 7,035 | 7,455 | 7,534 | 7,634 | 7,641 | 7,642 |
| Transport | 1,576 | 1,456 | 1,471 | 1,481 | 1,491 | 1,501 |
| External Support | 2,587 | 2,958 | 3,257 | 3,461 | 3,461 | 3,461 |
| Non-Pay Total | 17,633 | 19,074 | 19,498 | 20,003 | 20,215 | 20,417 |
| Total Planned Force Expenditure | 119,420 | 119,770 | 128,215 | 129,085 | 128,920 | 131,735 |
| %age Change in Expenditure | 0.0% | 0.3% | 7.1% | 0.7% | -0.1% | 2.2% |
| (Surplus)/ Deficit | £000s | £000s | £000s | £000s | £000s | £000s |
| (Surplus)/ Deficit | 760 | (600) | (910) | (2,860) | (1,605) | (1,635) |
| Planned Transfers to/(from) General Fund | (2,000) | (950) | (950) | 0 | 0 | |
| Contribution to Capital Programme | 1,165 | 1,400 | 2,120 | 2,710 | 1,455 | 1,485 |
| Planned Transfers to/(from) Earmarked Reserves | 75 | 150 | (260) | 150 | 150 | 150 |
| Net (Surplus)/Deficit After Reserves | (0) | (0) | (0) | 0 | (0) | (0) |
| General Reserves | £000s | £000s | £000s | £000s | £000s | £000s |
| General Fund Balance b/f | 8,016 | 6,074 | 5,974 | 5,024 | 5,024 | 5,024 |
| General Fund Movements | (2,000) | (950) | (950) | 0 | 0 | 0 |
| In Year General Fund movements | 58 | 850 | 0 | 0 | 0 | 0 |
| General Fund Balance c/f | 6,074 | 5,974 | 5,024 | 5,024 | 5,024 | 5,024 |
| Employee Numbers (Average per year) | FTEs | FTEs | FTEs | FTEs | FTEs | FTEs |
| Police Officers | 1,280 | 1,236 | 1,239 | 1,239 | 1,231 | 1,231 |
| PCSOs | 148 | 147 | 131 | 131 | 131 | 131 |
| Police Staff - Police Force | 285 | 309 | 426 | 426 | 395 | 395 |
| OPCC Staff | 11 | 11 | 14 | 14 | 14 | 14 |
| Corporate/Commisioning Staff | 9 | 11 | 12 | 10 | 10 | 10 |

- 6.2 Based on the plans and assumption outlined within this report and some use of reserves, that are discussed later in the report and in more detail in the Robustness of Estimates and Adequacy of Reserves Report, then the organisation can demonstrate a balanced budget for the next 4 years.
- 6.3 It is however vital to keep in mind that there will be challenges to this balanced plan, there are a number of risks that could impact significantly on the currently forecasted balanced position and there are undoubtedly many things that the organisation will have to deal with, that are currently unknown. Therefore the constant search for savings and efficiencies will need to continue to provide future flexibility from a financial perspective.
- 6.4 As a result of the financial flexibility that the PCC has been afforded, around Precept, then the organisation is in a stronger financial position than was previously expected. This provides some initial scope to invest in replacing some of the previous reduced service capacity.
- 6.5 Significant Gap to 'Required' Staffing Model
The Force have modelled, and set out, what they believe to be both the 'Minimum' and the 'Required' Staffing Model for the Force.
- 6.6 The additional precept flexibility has provided the finances to be able to attain this 'Minimum' model and this is factored into the Force's budget of £128.2m and assumes that a further £1.5m will continue to be provided by the PCC to invest in Neighbourhood Policing Resources.
- 6.7 The financial gap between this 'Minimum' and 'Required' model has been calculated to be £5m.
- 6.8 The decision by the PCC, on the back of the Business Case produced by the Force, to return the services currently provided by SopraSteria to the Force, in October 2020, provides the opportunity to close this gap.
- 6.9 The PCC can make a further £1m available to the Force in 2019/20 and beyond to further close this gap and the Force have been asked for plans to set out what the gap looks like from a resourcing perspective and then to develop a plan of how this should be best spent, what this will deliver in terms of improved outcomes and how this can be delivered.
- 6.10 The funding will be released as the additional resources are recruited.

7. Capital Financing and Expenditure

- 7.1 The assets owned by the PCC are a vital platform for the delivery of the Police and Crime Plan, with the overall purpose of the capital plan to provide sufficient funding to renew the asset base of the organisation, informed by condition deficiency surveys, 'fit for purpose' reviews, equipment replacement programmes, business continuity requirements and invest to save expenditure. Plans have been drawn up and are being developed for capital investment which would aid the organisation in delivering against the Police and Crime Plan.
- 7.2 The most significant area of development and work over the planning period will be delivery against the Digital Strategy that has been developed between the Force and SopraSteria. This will inform a significant area of work from a local perspective but also linking in to the significant work that is on-going on a National basis in this area.
- 7.3 The current plans see very little need for additional borrowing to fund the proposed capital programme however this should be seen against the back ground of significant loans that have been taken out over the last 2 years. The current level of borrowing that the PCC has is just over £31m and therefore the capacity to borrow significantly more should be avoided otherwise the planned reductions in Asset Management costs will not be delivered.
- 7.4 The borrowing that is indicated within the plan relates to a potential opportunity, with the current Estate, to release an expensive but relatively valuable building and replace it. Further details on this opportunity will be provided to the PCC.
- 7.5 Over the next 5/6 years over £16m of the loans that the PCC currently has will be due for repayment. Plans are in place to enable this to happen and this will return the overall level of borrowing to a more reasonable level and also help reduce the asset management costs in line with the revenue budget.
- 7.6 The PCC will have sufficient funds available to support the current plans of the Police Force over the current year and the next 4 years provided that resources can continue to be provided to the Capital programme from the revenue budget.
- 7.7 The required contributions to the Capital Plan are factored into the balanced revenue position and therefore the PCC has a fully balanced Capital Plan and Revenue Budget for the next 4 years based on current plans and assumptions.
- 7.8 It is important to recognise that there is no scope within the current plans for additional schemes that are currently not known about, including investment based on developments at a National Level. It will therefore be important to generate savings elsewhere to be able to invest further otherwise the need/want to invest further in this area will need to be at the expense of current plans.

7.9 The current Capital Plans, which will continue to be subject to review, development and refinement over the coming years, are set out below:

| | 2018/19 | 2019/20 | 2020/21 | 2021/22 | 2022/23 |
|--|--------------|--------------|--------------|--------------|--------------|
| Future Funding Levels | £000s | £000s | £000s | £000s | £000s |
| Earmarked Reserve/Funding b/f | 2,656 | 3,164 | 164 | 1,806 | 982 |
| Capital Grant | 515 | 526 | 535 | 545 | 555 |
| Contribution to/from Revenue | 2,007 | 2,120 | 2,710 | 1,455 | 1,485 |
| Capital Receipts (from Vehicle sales) | 100 | 100 | 100 | 100 | 100 |
| Capital Receipts (from Property sales) | 2,542 | 0 | 5,259 | 2,988 | 3,109 |
| New Prudential Borrowing | 3,000 | 1,200 | -3,109 | -2,988 | -3,109 |
| Projected In-year funding Available | 8,163 | 3,946 | 5,495 | 2,100 | 2,140 |
| Schemes Carried Forward from previous year | | 811 | | | |
| Digital Strategy | | 3,239 | 3,162 | 2,060 | 2,000 |
| Estates Strategy | | 1,855 | 25 | 25 | 50 |
| Fleet Replacement Programme | | 633 | 496 | 757 | 662 |
| Other Schemes | | 407 | 171 | 82 | 25 |
| Total Capital Programme | 7,656 | 6,945 | 3,854 | 2,924 | 2,737 |
| Earmarked Capital Reserve/Funding c/f | 3,164 | 164 | 1,806 | 982 | 384 |

8. Reserves

8.1 As at the end of 2017/18 the PCC had Usable Reserves of £14.5m. The main reserves held at that point were for the following reasons:

- General Reserves - £6.1m
- Capital Reserves - £2.7m
- Pay Reserve - £1.7m
- Collaboration Reserve - £0.9m

8.2 The PCC has a separate Reserves Strategy, which is include elsewhere on today's agenda, in line with the requirement of the Government, which sets out the details of all reserves, what they are held for and how they will be used in the future

8.3 The expected movements on all reserves held by the PCC will be kept under review in line with the development of the LTFP, current projections are included within the table below:

| | Balance at 31 March 2018 £000 | Tranfers In 2018/19 £000 | Tranfers Out 2018/19 £000 | Balance at 31 March 2019 £000 | Tranfers In 2019/20 £000 | Tranfers Out 2019/20 £000 | Balance at 31 March 2020 £000 | Tranfers In 2020/21 £000 | Tranfers Out 2020/21 £000 | Balance at 31 March 2021 £000 | Tranfers In 2021/22 £000 | Tranfers Out 2021/22 £000 | Balance at 31 March 2022 £000 |
|--|--|-----------------------------------|------------------------------------|--|-----------------------------------|------------------------------------|--|-----------------------------------|------------------------------------|--|-----------------------------------|------------------------------------|--|
| Funding for projects & programmes over the period of the current MTFP | | | | | | | | | | | | | |
| Direct Revenue Funding of Capital | (1,669) | (2,007) | 2,030 | (1,646) | (2,120) | 3,766 | (0) | (2,710) | 1,604 | (1,106) | (1,455) | 2,561 | (0) |
| Community Safety Initiatives Fund | (322) | | 150 | (172) | | 150 | (22) | | 22 | 0 | | 0 | 0 |
| PCC Change Reserve | (50) | | | (50) | | 50 | 0 | | | 0 | | | 0 |
| Commissioning Reserves | (366) | | 28 | (339) | | 260 | (79) | | | (79) | | | (79) |
| Road Safety Initiatives Fund | (658) | | 150 | (508) | | 150 | (358) | | 150 | (208) | | 30 | (179) |
| Sub Total | (3,065) | (2,007) | 2,358 | (2,714) | (2,120) | 4,376 | (458) | (2,710) | 1,776 | (1,392) | (1,455) | 2,591 | (257) |
| Funding for projects & programmes beyond the current MTFP | | | | | | | | | | | | | |
| PFI Sinking Fund | (213) | (75) | | (288) | (75) | | (363) | (75) | | (438) | (75) | | (513) |
| Incentivisation Grant | (412) | (80) | 80 | (412) | (80) | 80 | (412) | (80) | 80 | (412) | (80) | 80 | (412) |
| Police Property Act Fund | (40) | | | (40) | | | (40) | | | (40) | | | (40) |
| Sub Total | (665) | (155) | 80 | (740) | (155) | 80 | (815) | (155) | 80 | (890) | (155) | 80 | (965) |
| General Contingency | | | | | | | | | | | | | |
| Legal/Insurance Fund | (500) | (633) | | (1,133) | (75) | | (1,208) | (75) | | (1,283) | (75) | | (1,358) |
| Injury Pension Reserve | (245) | | | (245) | | | (245) | | | (245) | | | (245) |
| Urly Nook TTC | (81) | | | (81) | | | (81) | | | (81) | | | (81) |
| NERSOU | (45) | | | (45) | | | (45) | | | (45) | | | (45) |
| Collaboration Reserve | (942) | | | (942) | | | (942) | | | (942) | | | (942) |
| Pay Reserve | (1,700) | | 700 | (1,000) | | | (1,000) | | | (1,000) | | | (1,000) |
| Revenue Grants Unapplied | (137) | | 109 | (28) | | 28 | (0) | | | (0) | | | (0) |
| Sub Total | (3,649) | (633) | 809 | (3,473) | (75) | 28 | (3,520) | (75) | 0 | (3,595) | (75) | 0 | (3,670) |
| | | | | 0 | | | 0 | | | 0 | | | 0 |
| Total Earmarked Reserves | (7,379) | (2,795) | 3,247 | (6,928) | (2,350) | 4,484 | (4,794) | (2,940) | 1,856 | (5,878) | (1,685) | 2,671 | (4,892) |
| General Reserves | (6,073) | (850) | 950 | (5,973) | 0 | 950 | (5,023) | 0 | 0 | (5,023) | 0 | 0 | (5,023) |
| Unapplied Capital Grants | (1,003) | (515) | | (1,518) | (526) | 1,879 | (164) | (535) | | (700) | (545) | 263 | (982) |
| Total Usable Reserves | (14,455) | | | (14,418) | | | (9,981) | | | (11,600) | | | (10,897) |

8.4 A full review of adequacy of reserves and the robustness of the assumptions within the LTFFP is included within the Robustness of Estimates and Adequacy of Financial Reserves Report that is also on today's agenda.

9. Risks

9.1 The major risks and unknowns surrounding the figures presented here and discussed further in the Robustness of Estimates and Adequacy of Financial Reserves report, are:

- Pay Awards are higher than the assumptions within the plan
- Any differences between the future years' actual Government Grant settlements, including Legacy Council Tax Grant and the estimated figures.
- Variations in future years between the estimated tax base used and the actual declared tax base.
- That the public does not support the precept increases that are factored into the current plans
- Increasing costs of the employers Pension Contribution into the Police Pension Fund.
- Increasing costs of the employers Pension Contributions into the Local Government Pension Scheme when the scheme is actuarially reviewed in a years' time.
- Sensitivity of assumptions, including inflation and borrowing costs.
- The ability of the Force to manage within its allocated budget
- The ability and capacity to either absorb growth/cost pressures and/or deliver savings to enable expenditure in essential areas to continue.
- Ability to deliver the savings included within the plans within the timeframes set and also to the level needed whilst delivering the required levels of service.
- The significant gap between the 'Minimum' Resource requirement identified by the Force and the 'Required' Resource requirement and how this gap can be closed with the current financial constraints.