

Essex Police and Crime Panel	<b>EPCP/049b/14</b>
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## PCC Budget Issues

Report by the Treasurer of the PCC to the Panel

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### 1. Purpose of report

- 1.1 This paper is a discussion paper. It provides the panel with a summary of risks, issues and local / national financial context to inform early discussions on the 2015/16 budget and precept.
- 1.2 A detailed finance paper and precept proposal will be presented to the next meeting of this Panel on 29 January 2015.

### 2. Recommendation

- The Panel is asked to consider the issues and risks set out in this report, alongside the local and national context. This will be used to inform the development of the finance report and precept proposal to be presented to the Panel at their January meeting.

### 3. Summary of issues:

- **The combined impact of a reduction in government grant and unavoidable cost of inflation means that Essex Police would be required to make annual recurring savings of a further £46m will be required by the end of the next 3 years** (£13m in 2015/16, additional £18m in 2016/17 and a further additional £15m in 2017/18)
- This is on top of the Blueprint and Evolve change programmes which will have delivered annual recurring savings of £47.3m over the 4 year period ending 2014/15.
- The most recent HMIC VFM report indicates that Essex Police performs well but is underfunded. The average precept level for the most similar group of forces is £172 for a Band D property. If Essex had a precept at the average level for 2014/15 there would be additional annual income of £16.4m.
- Essex Police has an ageing police estate and under-invested IT infrastructure. Significant long-term investment is urgently needed to ensure

Essex Police is fit for purpose. This investment cannot be delivered through Police Reserves.

- At year end 2013/14, Essex Police underspent by £3.3m. This financial year it is anticipated that Essex Police will have an overspend in the region of £2m.
- Whilst further efficiencies can still be delivered within current structures, nevertheless it must be acknowledged that these will not be sufficient to deliver the levels of savings required over the next CSR period.

#### **4. HMIC Value for Money Profile**

4.1 HMIC have recently published its VFM profile of all forces across England and Wales. <http://www.justiceinspectorates.gov.uk/hmic/publication/value-for-money-profiles-2014/>

4.2 It shows the following features for Essex Police:

- Above average number of recorded crimes
- Below average funding from Government grant and precept per head of population
- Second lowest cost per head of population
- Below average number of police officers
- Above average spending on front line services
- Below average spending on business support

4.3 This demonstrates that Essex Police is already a very lean and efficient Force albeit significantly underfunded.

#### **5. Capital Investment**

5.1 The Essex Police estate is ageing, over-sized, fragmented and not fit for purpose. An external review of the Estate has shown that is highly inefficient and increasingly unaffordable, with annual running costs of £8.5 million.

5.2 Independent property specialists have been commissioned to inform the development of a new Police Estates strategy. They have developed a range of strategic options, which are currently being considered and costed. This work is directly linked to a strategic review of IT and transport, to ensure that together they can provide the best possible model for policing services going forward.

5.3 Estates and IT will require significant levels of upfront investment in order to deliver savings into the future. Further detail on this will be provided in the finance report at the January panel meeting. However, it is clear that it will not be possible to fund this through reserves alone.

#### **6. The National Context**

- 6.1 There are two main sources of income for Essex Police - The Government grant and the council tax (precept). Together these need to support the £266.9m net expenditure required by Essex Police in 2015/16. The availability of funds from each source is crucial for the delivery of services.
- 6.2 There is a continued downward spiral in the level of Government grant in order to meet national public sector spending targets.
- 6.3 The table below sets out a range of assumptions in relation to Medium Term Budget Planning, both in relation to government grant reductions and precept levels.

**Table 1: Key assumptions underpinning Essex PCC medium term budget planning**

<b>Key assumption:</b>	<b>2015/16</b>	<b>2016/17</b>	<b>2017/18</b>
Precept increase	0%/2%	0%/2%/Higher	0%/2%/Higher
Government Grant Reduction ( <i>Note: HMIC's view is that a yearly average reduction of 5% should be used</i> )	-4.7%	-3.5%	-2.0%

- 6.4 The planning assumption for the level of Government grant for 2015/16 is based on a 3.2% reduction announced by the Government earlier this year. However, this is before any 'top-slicing' for national initiatives. The assumed level of top slicing is 1.5% hence an overall reduction for 2015/16 of 4.7%.
  - 6.5 Government 'top-slicing' for 2015/16 is estimated to be £180m for a variety of national purposes such as ICT and Innovation Funds. Many PCC's would prefer that this sum was distributed to all Forces rather than be subject to a separate bidding round. To place this into context, Essex Police's share of the Governments aggregate amount for police purposes for England & Wales is approximately 2.26%. This share of the £180m 'top-slicing' would amount to over £4m, equivalent to a 4.7% precept increase.
  - 6.6 If the reduction in Government grant is closer to HMIC's figure of 5%, the Essex grant would reduce by £8.5m from £182.3m to £172.8m. To place this into context, there would need to be a 10% precept rise needed to replace this loss of grant.
- 7. Precept**
- 7.1 The other key assumption is the level of precept. Out of 35 English and Welsh Shire Forces for 2014/15, Essex has the **second lowest precept at £144.27** for a Band D property. Only Sussex has a lower precept.
  - 7.2 The additional income produced by a 1% precept rise amounts to around £845k.

- 7.3 The Government will determine the level of precept that they deem to be excessive ('capping level'). It is expected that they will announce this alongside the Provisional Grant Settlement on 17<sup>th</sup> December. For planning purposes a maximum of 2% is assumed for 2015/16.
- 7.4 For future precept increases, a higher than 'capping level' increase could be considered to match a desired level of policing service. It is acknowledged that such an increase would require a public referendum at a cost of as much as £2m. Nevertheless, the possibility of moving into the territory of above capping levels of precept cannot be discounted for 2016/17 or beyond.
- 7.5 It should be noted that some Police and Crime Commissioners, notably those in Surrey and Sussex, are now actively consulting the public for their views on potential precept increases.

## **8. Police officer/PCSO/Staff numbers**

- 8.1 On the use of resources available, there has been a reduction of 932 employees from 6,184 to 5,252 since 2010.

**Table 2: Police Officer/PCSO/Staff at 1 April**

	<b>2010</b>	<b>2011</b>	<b>2012</b>	<b>2013</b>	<b>2014</b>
<b>Officer</b>	3,594	3,557	3,379	3,287	3,184
<b>PCSO</b>	445	404	380	332	297
<b>Staff</b>	2,145	1,987	1,753	1,776	1,771
<b>Total</b>	6,184	5,948	5,512	5,395	5,252

- 8.2 The impact of having to achieve a further budget reduction of £46m by 2017/18 would, for illustrative purposes, equate to the following reduction in officers, PCSOs and staff:
- 557 less police officers
  - 77 less PCSOs
  - 516 less police staff
- 8.3 Officer/PCSO/Staff reductions of this magnitude would fundamentally affect policing in Essex. With these reductions there would need to be a programme of de-civilianization where police officers would be required to undertake business support work.
- 8.4 A 2% precept rise bringing an extra £1,690k would fund 33 police officers and mitigate the reduction on an ongoing basis.
- 8.5 The impact of this level of reduction and the pressure on the service with the continuing reduction in funding will be a central feature in discussing this item.

## 9. Medium term financial planning

- 9.1 Working on the basis of assumptions in table 1 the medium term financial prospects are shown below.

**Table 3: Additional Target Savings over the next three years**

<b>Savings Required</b>	<b>2015/16 £m</b>	<b>2016/17 £m</b>	<b>2017/18 £m</b>
2015/16 Savings	13.0	13.0	13.0
2016/17 Savings		18.0	18.0
2017/18 Savings			15.0
<b>Total</b>	<b>13.0</b>	<b>31.0</b>	<b>46.0</b>

- 9.2 Over the next two months the budget and forecast figures will be refined, particularly following Government announcements. The EVOLVE team have been working on a programme of business cases needed to meet the savings targets and these will be presented in the forthcoming budget report.

## 10. Reserves

- 10.1 The General Reserve forecast position for 31<sup>st</sup> March 2015 is **£15.8m** (5.9% of net revenue expenditure) and can be compared with the 'most similar' force grouping below:

**Table 4: Reserves held by Essex and most similar Forces**

	<b>Revenue</b>		<b>Capital</b>	<b>Total</b>
	<b>General</b>	<b>Earmarked</b>		
	£m	£m	£m	£m
Essex	18.0	7.4	12.1	37.5
Kent	5.6	25.5	30.3	61.5
Herts	4.9	31.7	16.7	53.4
Avon & Som	14.4	31.3	4.1	49.8
Hampshire	16.0	56.4	2.0	74.4
Staffs	6.3	13.9	0	20.1
Leics	6.0	21.5	3	27.6
Sussex	9.8	63.5	5.9	79.3
Derbyshire	3.3	39.7	8.6	51.6

- 10.2 Some caution should be exercised in interpreting the above figures as not all reserves are 'cash-backed'. Nevertheless, the relatively high general reserve and

relatively low earmarked reserve will be considered further in the budget report presented to this Panel in January.

## **11. Managing Risk**

11.1 The pressure placed on the Force to deliver in the face of very significant funding reductions are immense. The following risks should be considered:

- The risks associated with addressing the savings required for 2015/16 and the medium term (see para 10)
- The risks associated with on-going reductions in investment in professional policing services
- The risks associated with failing to invest in a long term strategy for areas such as Estates and IT

11.2 The Panel may wish to consider the following questions in assessing the risks associated with reduced funding:

- i) In the view of the Panel the extent to which the reductions in funding become unacceptable?
  - ii) What action should be taken locally and nationally to mitigate the risks?
  - iii) What lessons can be learned from the budget savings from the 2010 Comprehensive Spending Review that can be taken into account in delivering future savings?
  - iv) What investment now will be essential in optimising the use of reducing resources in the future?
  - v) What is the potential for collaboration with other authorities and third parties to realise further benefits of sharing?
  - vi) "What support can the Panel provide to assist the PCC in the challenges ahead? In setting strategic priorities what policing services should the PCC cut or indeed not cut in order to meet the anticipated budget reductions?
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