

ANNEX 1

Preparing for the 2016-17 Proposed Precept

1. HMIC Value for Money Profile

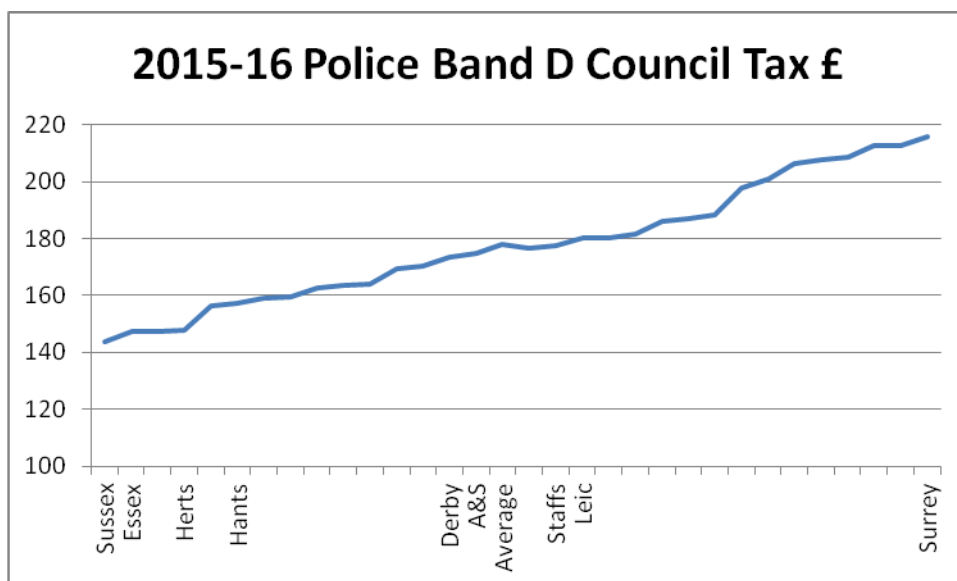
1.1 HMIC's Value for Money Profile 2015¹ highlights how the Essex Police compares with all forces in England and Wales and also the most similar group (MSG) of forces to Essex². They highlight the following features that demonstrate that Essex is a lean Force:

- Lowest total cost of policing to the taxpayer per head of population
- Below average number and cost of police officers, PCSOs and staff
- Above average spending on the operational front line
- Second lowest non staff costs as a proportion of workforce costs
- Support service costs in the lowest quartile

1.2 Some comparisons, however, indicate that there is scope for improvement and these are also worth highlighting:

- Police overtime is above average
- Local policing costs are below average and this is referred to within this paper
- Local policing command team are above average

1.3 HMIC shows that the 2015-16 Band D Council Tax of £147.15 for policing services for Essex is £27.90 less than the all force average of £175.10 and £15.60 less than that of the MSG average of £162.77. A comparison with thirty other English forces is shown in the graph below:



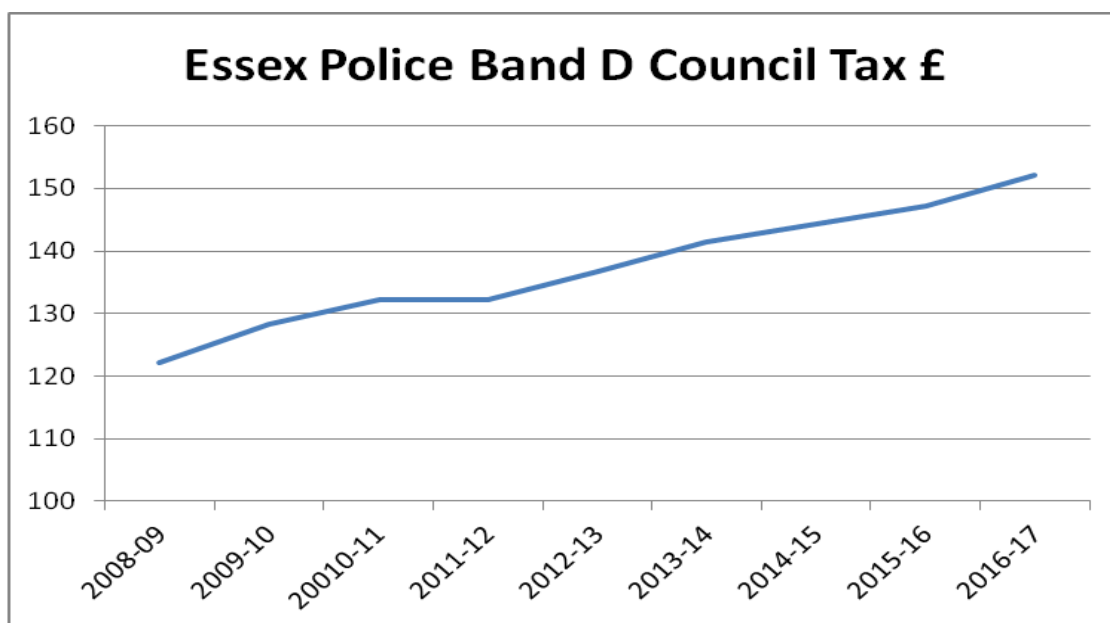
¹ <https://www.justiceinspectorates.gov.uk/hmic/publications/essex-2015-value-for-money-profile/>

² The most similar group of forces to Essex are Derbyshire, Sussex, Leicestershire, Staffordshire, Hampshire, Avon & Somerset and Hertfordshire.

- 1.4 The amount of council tax yielded by Essex would have been approximately £16.7m more if set at the average level for all forces and £9.3m at the average level for the MSG.
- 1.5 The anticipated yield from council tax position of Essex in 2016-17 is unlikely to change in comparison with other forces. Early indications are that the majority of PCCs are likely to set a maximum council tax of 1.9% and of the 10 forces in the lowest precept quartile most will be proposing the maximum £5 increase.

2. Council Tax Options 2016-17

- 2.1 The Government has officially recognised the PCC for Essex as a low precepting authority. Locally, the recognition of this status goes back many years and the more recent precept increases have reflected an attempt to address this position.



- 2.2 There are many council tax increase options that could be highlighted and the obvious ones are 0%, 2% and 3.36%. The 2% increase being the level that the Government has determined is the maximum increase in council tax that the majority of PCCs can set before the increase becomes 'excessive'. For low precepting PCCs, including Essex, the £5 per year applies. A £4.95 increase on the Band D council tax for police results in a 2016-17 level of £152.10, which for administrative convenience for the billing authorities is divisible by 9.
- 2.3 The additional cash yield from the three council tax options is shown below. The additional £1.5m arising from a 0% increase in council tax arises from the increased taxbase of 10,521 (1.75%) properties from 598,581 to 609,102 in the last year.

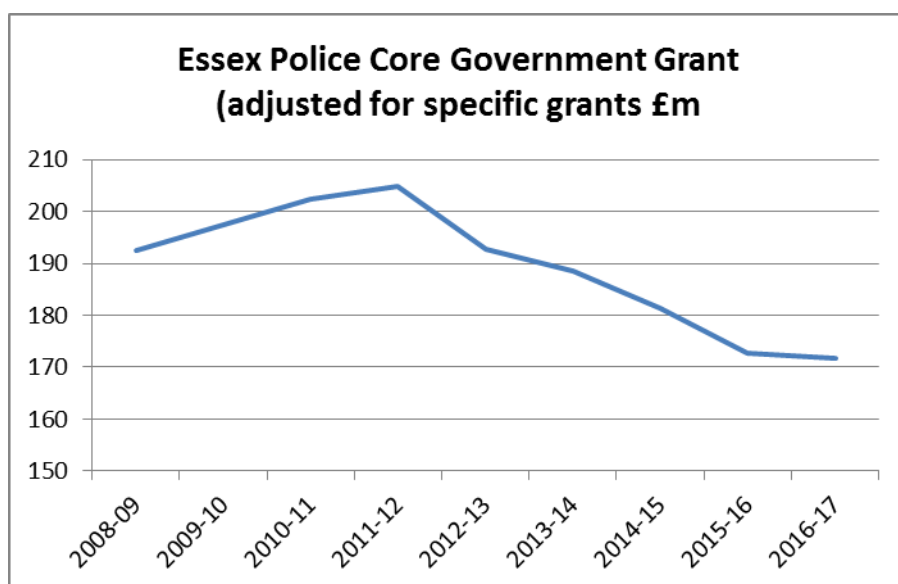
2016/17 Band D Police Council Tax Options

| 2015/16 Police Council Tax | 2016/17 Increase | 2016/17 Increase | 2016/17 Police Council Tax | Additional Cash |
|---------------------------------------|-----------------------------|-----------------------------|---------------------------------------|----------------------------|
| £/pa | % | £/pa | £/pa | £m/pa |
| £147.15 | nil | nil | £147.15 | £1.5 |
| £147.15 | 2.0 | £2.88 | £150.03 | £3.3 |
| £147.15 | 3.36 | £4.95 | £152.10 | £4.5 |

- 2.4 The additional £4.5m cash yielded from a 3.36% council tax increase plus the additional £0.2m surplus on the collection fund offsets the £0.9m loss of grant to enable the total base budget to increase by £3.8m. With a one-off cost amounting to £1m in 2015-16 that is not needed in 2016-17 the affordable base budget increase is £4.8m.

3. Government Grant

- 3.1 The PCC has received a provisional Government grant allocation for 2016-17 of £171.8m, a £0.9m reduction from 2015-16. The headline from the Home Office is that no PCC will face a cash reduction in formula funding³ plus legacy council tax grants plus precept income (as long as they maximise their precept)⁴.
- 3.2 The downward trend for Government grant support started in 2011-12 in order to achieve the Government's target of a small surplus of tax receipts over public service spending by 2019/20, ideally earlier. The Government's core grant (consisting of Police Grant + DCLG Grant + Legacy Grants⁴) for Essex Police is shown below adjusted for specific grants to provide a meaningful year on year comparison.



³ Police Grant plus DCLG Grant is referred to as 'formula' funding

⁴ Legacy Grants consist of Council Tax Freeze Grant and Council Tax Support Grant)

- 3.3 Government grant in 2013-14 was subject to two significant changes; neighbourhood policing and community safety grants were no longer provided as a specific grant and included in the core grant whilst the council tax benefit support grant was paid directly to precepting bodies and the tax base reduced in compensation.

Review of Government Grant Formula

- 3.4 'Formula grant' is determined by a formula based on the local authority 4 block model, itself consisting of sub-formula based on the policing needs of the area, the council tax resources available, a standard amount and 'damping'. The formula has, in effect, being frozen since 2013-14 with the base formula amount overridden by use of the 'damping' mechanism to ensure that all PCCs receive approximately the same percentage reduction in formula grant.
- 3.5 The Government intend to replace the formula with effect from 2017-18 after the problematic attempt for 2016-17. At the time of writing the approach to be taken by the Government to ensure delivery of an agreed formula had not been established.
- 3.6 During 2015 the work undertaken by the Home Office showed that Essex would gain additional grant with the introduction of a new formula and this has some resonance with earlier extrapolations which indicated that 'damping' cost Essex several million pounds. Nevertheless, there is much work to be undertaken during 2016 on the new formula and it is wise at this stage not to assume any gain in forward MTFS projections.

Gearing

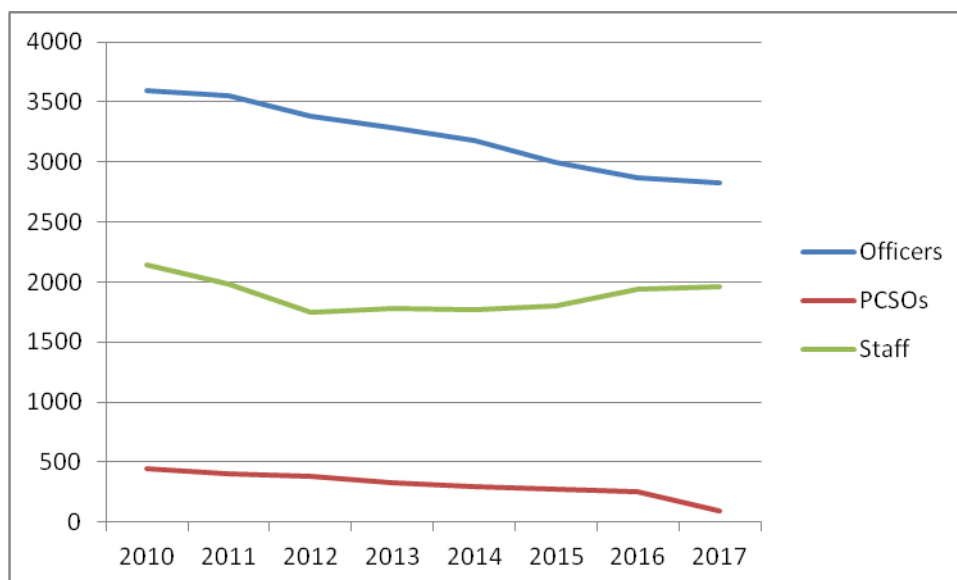
- 3.7 Gearing refers to the proportion of total income received from Government grant and council tax. The implications are that if Government grant represents a major proportion of total income, this highly geared position results in a small change in Government grant having a significantly higher impact on council tax.
- 3.8 The most highly geared Force is Northumbria with Government grant accounting for 85% of its income whereas Surrey has the lowest proportion at 46%. The Essex proportion is 62%, around two thirds of total income with council tax being one third.
- 3.9 For 2016-17 a loss of £0.9m Government grant represents a 0.5% reduction on a total grant of £172.7m but a 1% increase in council tax is needed. Essex is therefore fairly highly geared and it's financing sensitive to changes in Government grant.

'Double Whammy'

- 3.10 A colloquial term but fairly reflects the combined impact of 'damping' and 'gearing'. With the uncertainty of future grant and the consequential impact on council tax an increase in council tax up to the permissible level of £5 per year would, particularly with the buoyancy of the taxbase, provide a more secure funding base.

4. Police Officers/PCSOs/Staff

- 4.1 Since 2010 and up to 31 March 2017 the number of Police Officers will reduced by 750 (20%), PCSOs by 355 (80%) and staff by 182 (8%).



- 4.2 The changes proposed by Essex Police in 2016-17, and in the longer term, rebalance available resources shifting people and money towards those areas posing the greatest level of harm to communities. The Police Objective Analysis (POA) shows the 2016-17 budgets based on the three potential council tax options in Appendix C.
- 4.3 The following table sets out the impact of the 2016-17 budget proposals on budgeted FTE during the year. The reason for the overall increase in police staff posts is largely down to a significant investment in public protection.

| | Police Officers | PCSOs | Staff |
|-----------------------------|-----------------|-------|-------|
| 1 st April 2016 | 2,865 | 250 | 1,941 |
| Net reduction | (42) | (160) | 22 |
| 31 st March 2017 | 2,823 | 90 | 1,963 |

Future Officer/PCSO/Staff numbers

- 4.4 Beyond the 2016-17 civilianisation plans already identified there are no further plans envisaged. Attention is then drawn to the number of Police Officers and the intention of both the PCC and Chief Constable is that Police Officer numbers should not fall below 2,800.

5. 2016-17 Budget Variations

- 5.1 The 2016-17 variations are shown in Appendix A and consist of:
- i) Unavoidable cost pressures
 - ii) Service changes needed to address the challenges
 - iii) Changes required to release savings
 - iv) Costs of change

Unavoidable Cost Pressures

- 5.2 The 2016/17 Budget Summary, Appendix A, shows that a budget £12.4m has been set aside to cover unavoidable cost pressures including contractual and pay inflation, increments, pension changes and national insurance (NI) provision.

Service changes needed to address the challenges

- 5.3 The further investment of 100 FTE officers and staff in the Public Protection Unit provides additional strength to the police service facing a new crime challenge. Police have continued to respond to acquisitive crime but are now dealing with significant increases in cases of child and adult safeguarding and domestic abuse as two examples of the complexity that the service must respond to. Hidden harm and associated crimes are complex in nature, staff intensive and police officers dealing with them are rightly subject to high levels of personal accountability and public scrutiny.

- 5.4 As the public carries out more and more daily business online, the threat from cybercrime grows. Whether this is fraud, data theft, grooming and exploitation of children or stalking and harassment. While more traditional or recognisable crimes continue to require a police response, policing has to focus on protecting people from serious harm through the development of new tactics and capabilities. The investment of 20 staff in digital crime investigation will allow Essex Police to better deal with the significant increase in demand and provide a better, faster and more informed response to on-line crime.

- 5.5 The 2016-17 budget includes £4.5m to address the above challenges.

Changes required to release savings

- 5.6 Changes to neighbourhood policing will be required and will save £7.44m. This change involves a reduction of 160 PCSO posts and is made in the recognition of emerging crime and harm patterns that necessitate other skills in Essex Police. There will also be a reduction in front counter provision across Essex, which will be supported by better online access and will save £1.87m.
- 5.7 There will be a review of structures, supervision, working arrangements and partnership funding which will save £1.9m. The review will maintain the current levels of firearms capability in line with the renewed focus following the recent Paris attacks.

5.8 There will be other savings arising from costs such as fuel and forensic analysis, and the national police air service which come to £2.9m, as well as back office efficiencies in the Support Services Directorate at £1.13m. A restructure in the Serious Crime Directorate will save £500k, and savings from a restructure within the Criminal Justice function will come to £1.3m. Finally, there will be other operational reviews and in-year savings of £56k.

5.9 The savings released by these changes will total £17.6m.

Costs of change

5.10 Redundancy costs along with excess mileage payable to staff following departmental restructures are estimated to cost £1.9m.

5.11 There are a series of one-off costs associated with the unavoidable cost pressures and service improvements amounting to £3.6m.

6. Community Safety Grants

6.1 The PCC proposes to maintain the 2016-17 budgets for community safety grants at the same level as 2015-16.

| Community safety funds | 2015/16 Budget £k | 2016/17 Budget £k |
|-----------------------------------|------------------------------|------------------------------|
| Community Safety Fund | 2,199 | 2,199 |
| Community Safety Development Fund | 300 | 300 |
| Victims/restorative commissioning | 1,871 | Awaiting Figure from MoJ |
| Total | 4,370 | TBD |
| Specific Government Grant | -1,871 | TBD |
| Net PCC Grant Budget | 2,499 | TBD |

6.2 The Victims/restorative Commissioning grant from the Ministry of Justice has not yet been received.

6.3 Community safety grants are included in Appendix C as part of the £4.65m budget shown for the PCC consisting of £1.3m for the OPCC, £0.6m for the council tax sharing agreement with local authorities in Essex and community safety grants of £2.75m.

7. Transformation Programme

7.1 By 2020 The Essex Police Transformation Programme recognises the need for long term investment in estate, IT and public contact to continue to provide effective policing for communities in the modern world. The core components of the programme are:

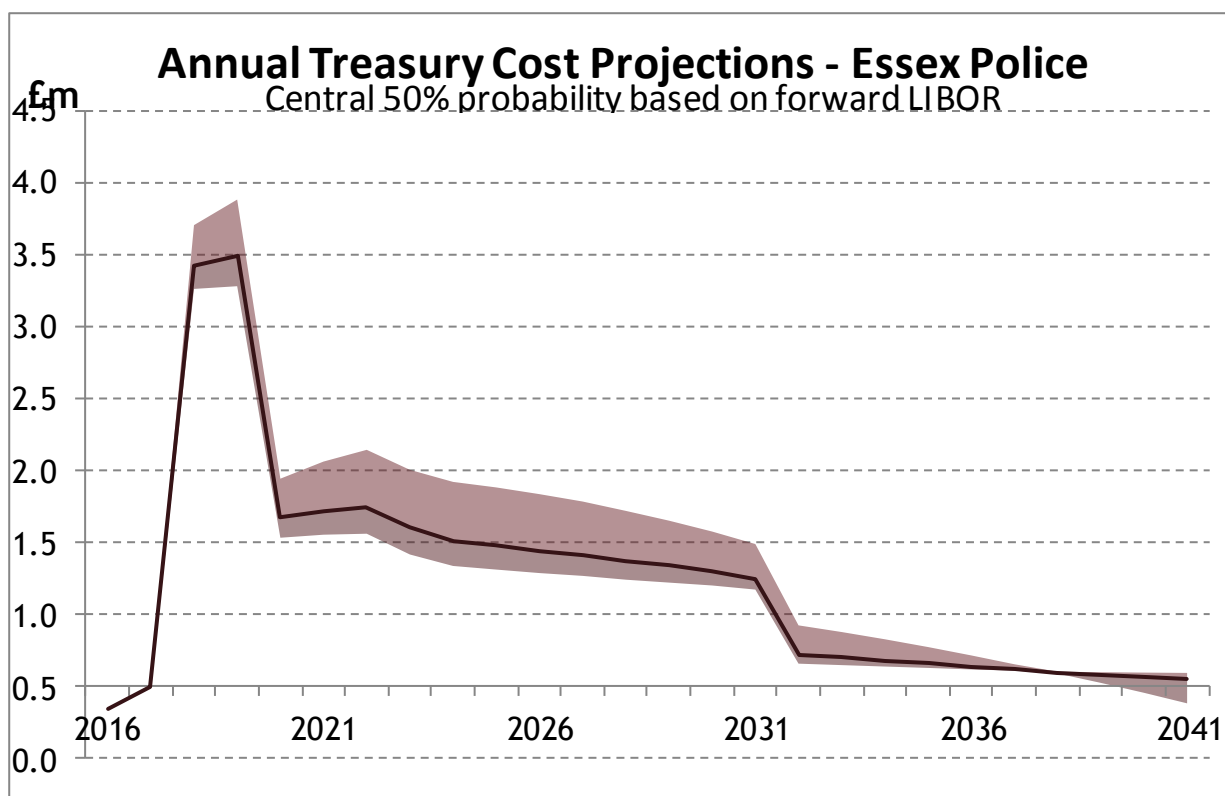
- i) **Estates** – the force plans to rationalise the number of buildings reducing from 80 to nearer 30. This ambition includes a desire to build a new efficient HQ enabling the rationalisation of a significant number of outdated and expensive buildings. Although the overall estate investment requires a significant amount of capital borrowing over the next 3 to 5 years the subsequent sale of assets allows much of the debt to be repaid toward the end of that period.
- ii) **IT and mobile policing** – the force needs to make significant investment in mobile technology and the wider IT infrastructure to allow officers and staff the freedom and agility to provide services to the public at the point of contact. The current model of officers returning to the police station to update systems and submit paperwork is slow and highly inefficient. The force is behind a number of other forces and most private sector service providers in adopting this technology. A detailed business case will be presented to the PCC in 2016 setting out the case for this investment.
- iii) **Public contact** – In April 2016 the force will introduce on-line crime reporting and develop a range of other virtual services. This will provide greater choice to the public, offer faster and more professional services and enable significant efficiencies and opportunities for collaboration with other forces and service providers across a range of functions including control room and non-emergency call handling functions.

Capital Investment Programme

- 7.2 The individual projects that constitute the capital programme and funding is shown in Appendix D and E, summarised below:

| | 2016-17 £m | 2017-18 £m | 2018-19 £m | 2019-20 £m | 2020-21 £m | Total £m |
|--|---------------|---------------|---------------|---------------|---------------|-------------|
| Capital Expenditure | 35.2 | 29.2 | 18.9 | 15.5 | 6.7 | 105.5 |
| Funded from capital grant and capital receipts | 9.2 | 6.2 | 37.5 | 14.3 | 3.6 | 70.8 |
| Forecast borrowing/(repayment) each year | 26 | 23 | (18.6) | 1.2 | 3.1 | 34.7 |

- 7.3 The forecast cost of borrowing over the next twenty five years is shown below. The Transformation Board have plans in place to meet the cost of borrowing from revenue savings generated through a streamlined estate.



8. Medium Term Financial Strategy (MTFS)

- 8.1 The updated MTFS based on a £5 per year maximum council tax increase for the current parliament to 2019-20 is as follows:

| | 2016-17 £m | 2017-18 £m | 2018-19 £m | 2019-20 £m | 2020-21 £m |
|--------------------------------|---------------|---------------|---------------|---------------|---------------|
| Annual growth/(savings) target | (17.6) | (6.2) | 1.6 | 1.3 | (2.5) |
| Cumulative | (17.6) | (23.8) | 22.2 | 20.9 | (23.4) |

- 8.2 The financial benefit of delivering savings in the earlier years reduces the forecast need for savings in later years.

9. Use of Reserves

- 9.1 At 9% of net revenue expenditure Essex had the lowest reported revenue reserves (general plus earmarked) of all forces in England & Wales in 2013-14. This was highlighted by the National Audit Office in June 2015.
- 9.2 Appendix F shows that total revenue reserves at the end of 2016-17 are forecast to be £14.4m, equivalent to 5.4% of net revenue expenditure. This level of reserves must be maintained in future years in order to ensure that working capital requirements are met and a minimal contingency is available for unforeseen events.

10. Robustness of Estimates

- 10.1 Section 25 of the Local Government Act 2003 requires that the Treasurer reports to the PCC when he is considering his budget and council tax. The report must deal with the robustness of the estimates and the adequacy of the reserves allowed for in the budget proposals, so that the PCC will have authoritative advice available to him when he makes his decision. Section 25 also requires the PCC to have regard to the report in making his decisions.
- 10.2 The decision on the level of the council tax precept is taken before the year begins and cannot be changed during the year, so allowance for risks and uncertainties that might increase spending above that planned, must be made by:
- i) Making prudent allowance in the estimates for each area of spend
 - ii) Ensuring that there are adequate reserves to draw on if the estimates turn out to be insufficient
- 10.3 These matters are more critical each year as the scale of transformation and budget reductions present a challenge.
- 10.4 The following matters are taken into account when assessing the adequacy of reserves:
- Assumptions about inflation / deflation
 - Estimates of the level and timing of capital receipts
 - Treatment of demand led pressures and savings
 - Financial risks inherent in any significant new development
 - Financial standing (level of borrowing and debt)
 - Track record on budget management
 - Capacity to manage in-year budget pressures
 - Year-end procedures in relation to over and underspends
 - Strength of financial information and reporting arrangements
 - Adequacy of insurance arrangements
- 10.5 The level of general reserve as at 31 March 2017 will represent 4.9% of net revenue expenditure. This level of reserves is at the absolute minimum. As a consequence any authorised overspending of the total budget during the financial year will require additional savings to be generated in subsequent years in order to ensure an adequate level of general reserves is maintained. The PCC's Treasury Management Strategy 2016-17, to be published before 1st April 2016, will address this matter in detail.
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